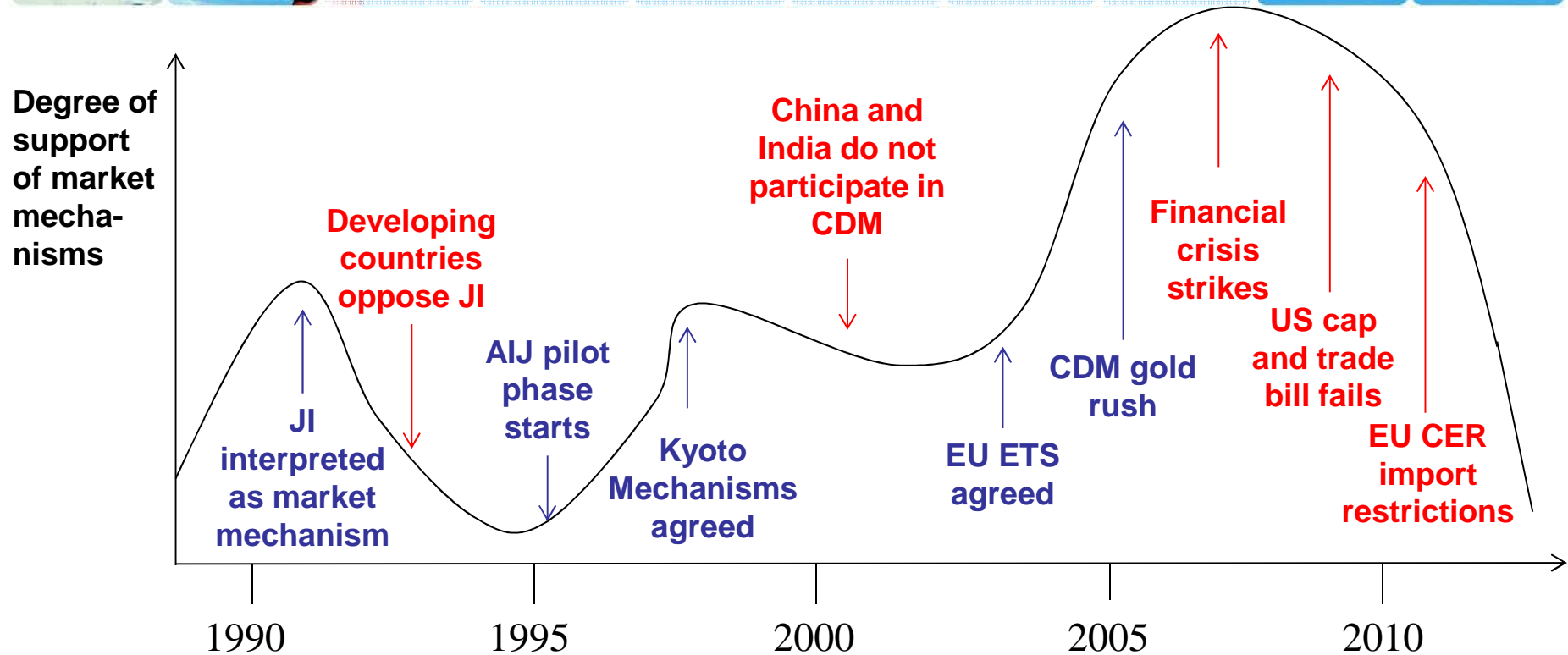


# New market mechanisms for NAMA finance

**MRV Summer School  
Hanoi, 23 August 2013**

**Axel Michaelowa  
michaelowa@perspectives.cc**

# Mechanisms fashion cycles



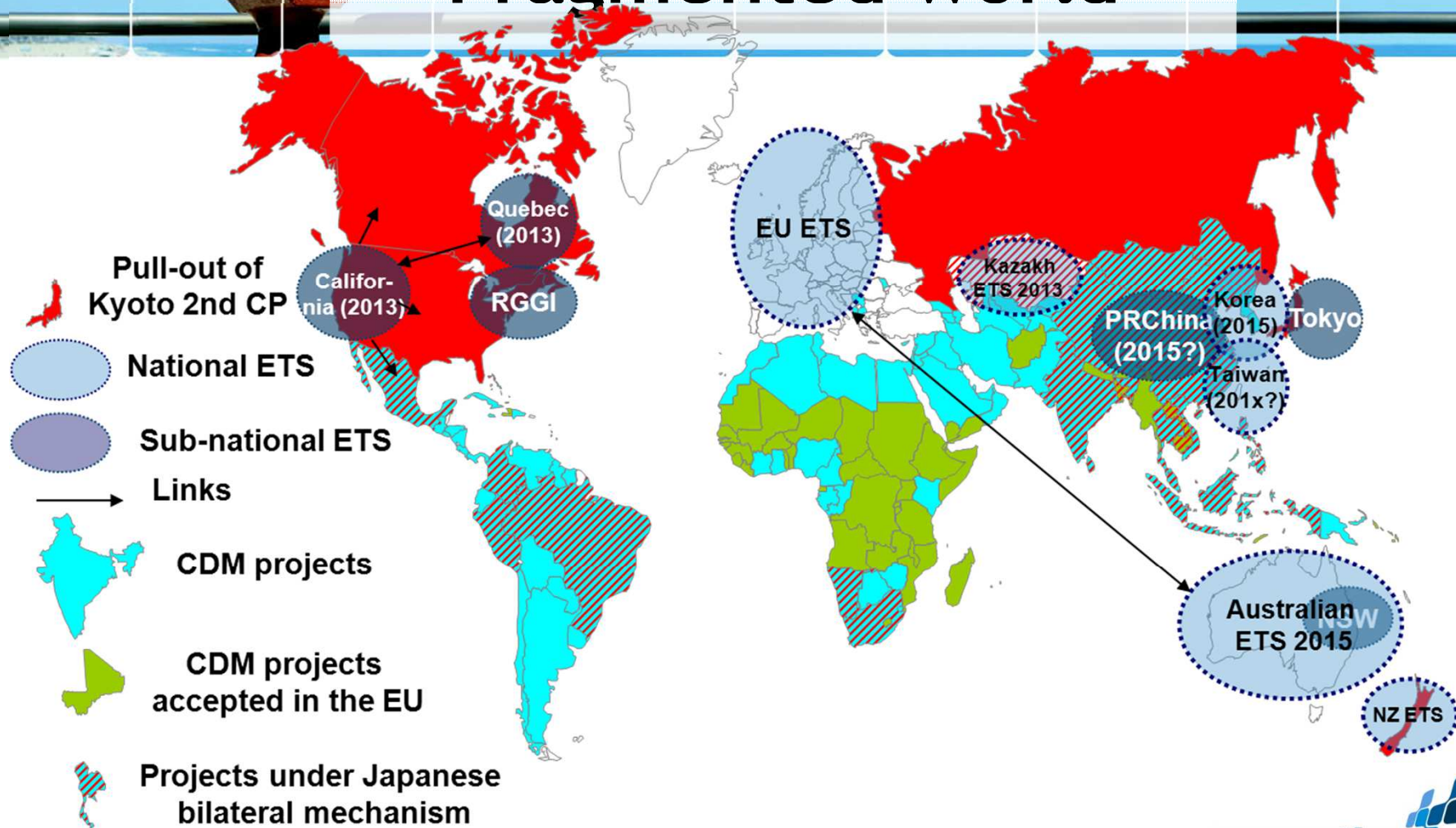
- **Market mechanisms have seen strong shifts of fortune**
- **Loss of lustre since financial crisis**

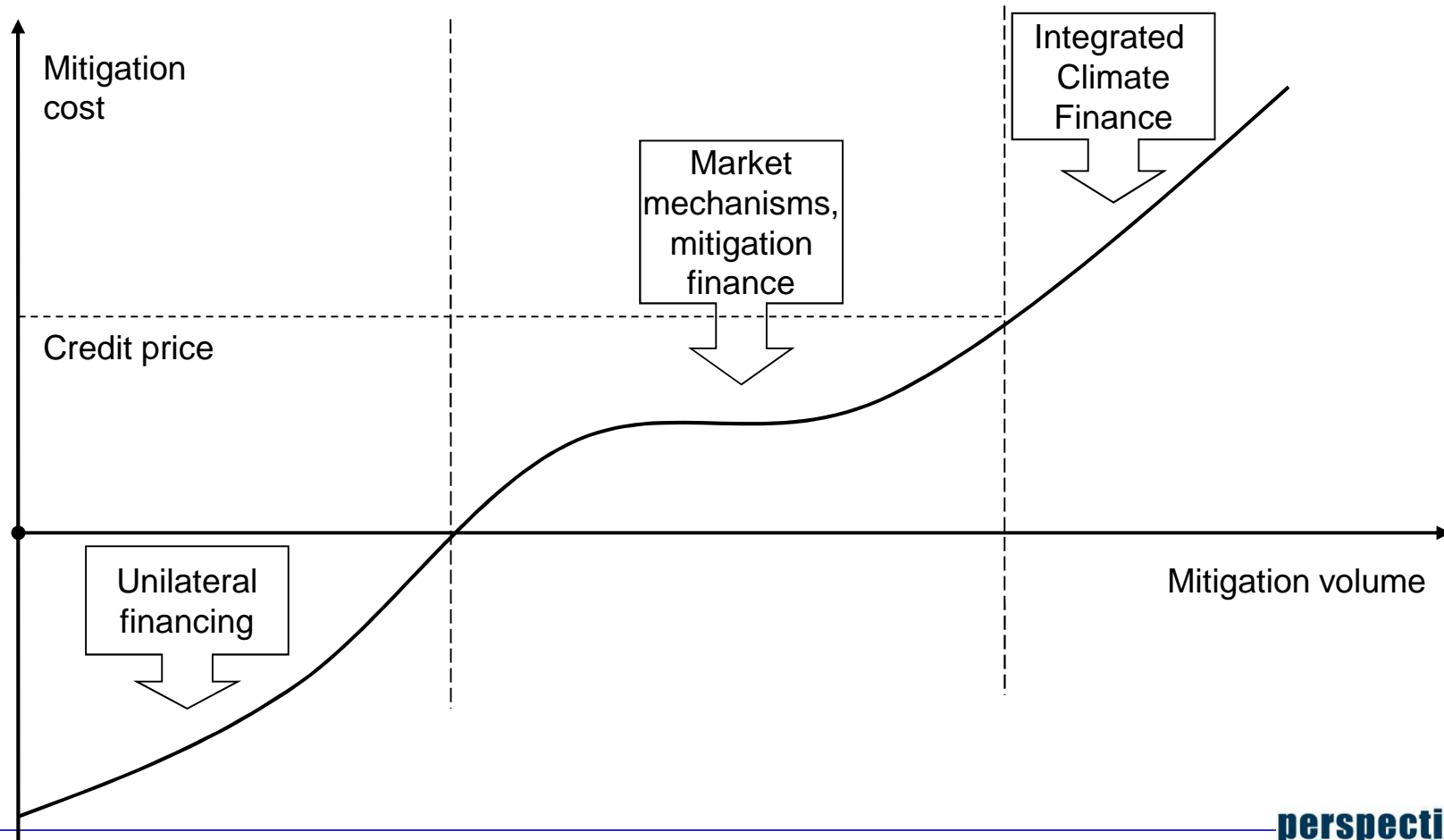
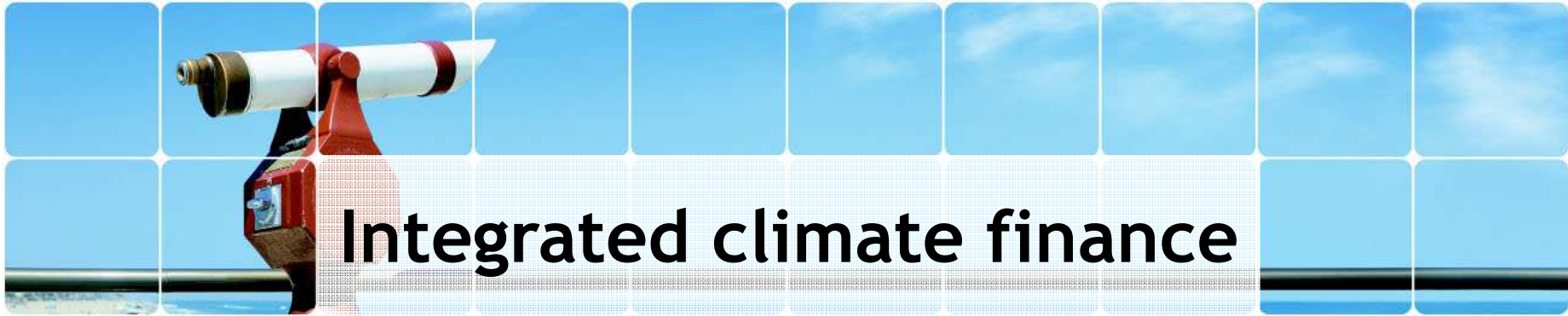


## Experience from the Kyoto Mechanisms

1. **CDM overwhelming numerical success – 10,000 projects, billions of CERs, but some sectors sidelined**
  2. **International Emissions Trading stalled due to mistrust of buyers in government sellers. First transactions tainted with corruption**
  3. **JI latecomer due to late institutional decisionmaking and lack of trust in governmental ERU transfers**
- **Reason: Clear incentives for the private sector and limited government interference determine market mechanism success**

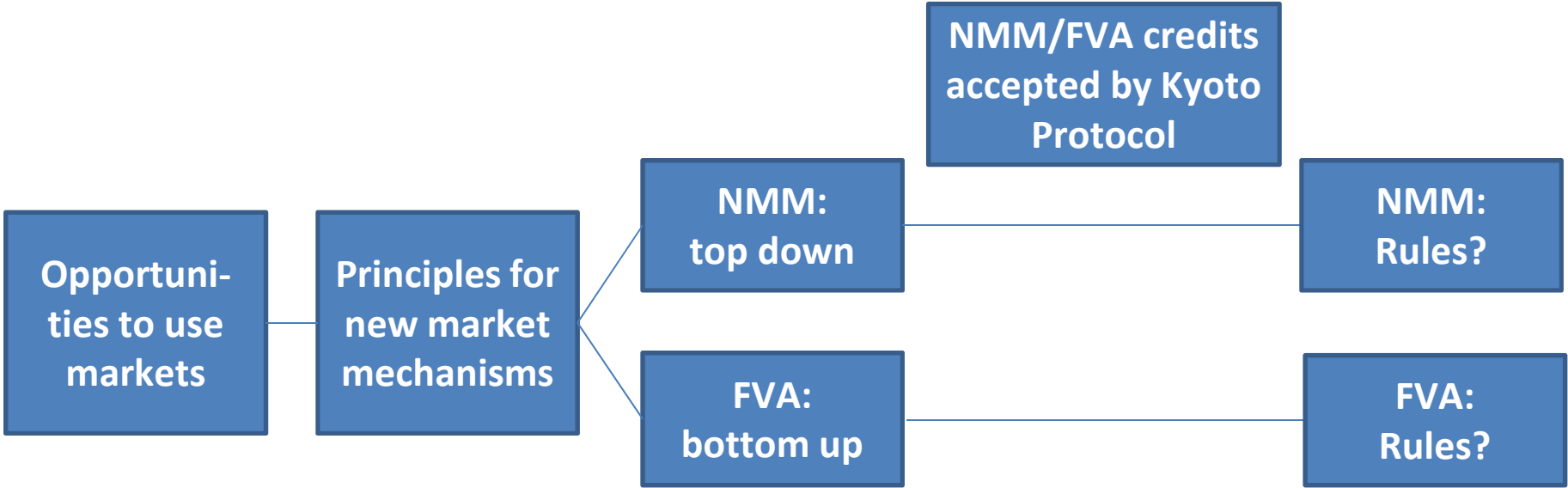
# Fragmented world

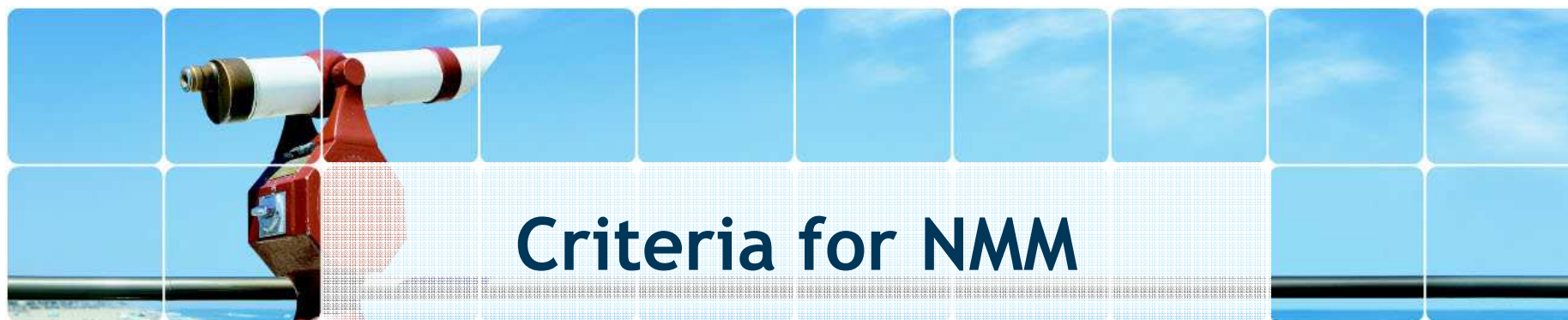






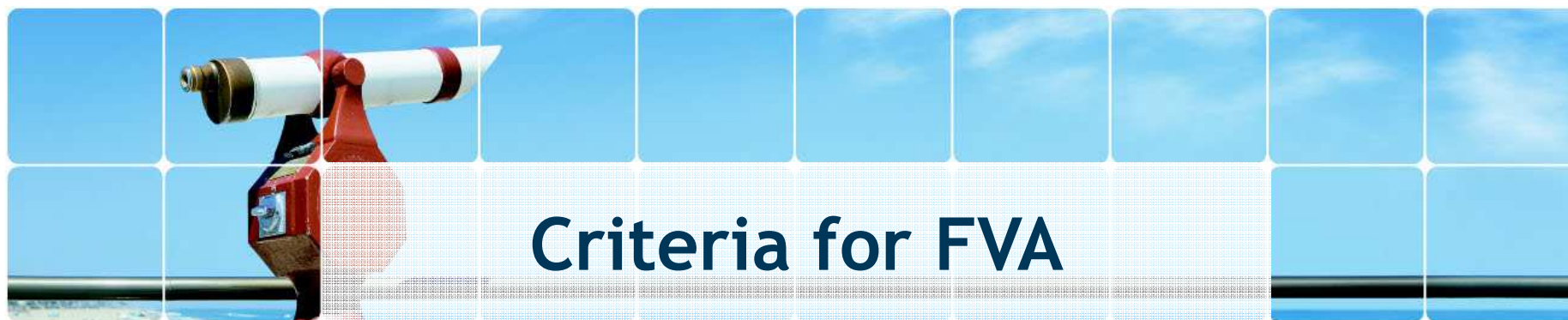
# NMM negotiations





## Criteria for NMM

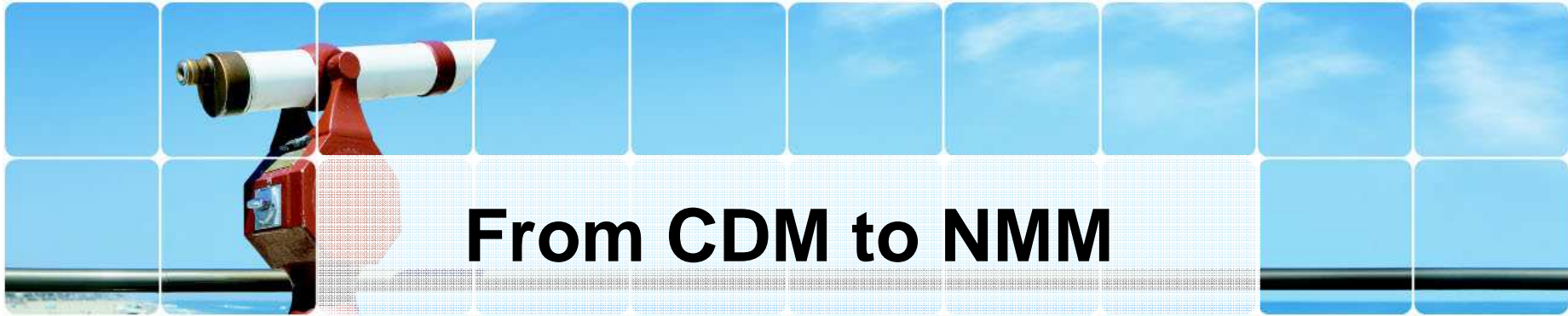
- **Voluntary participation**
- **Fair and equitable access for all Parties**
- **Complementing other means of support for NAMAs**
- **Stimulating mitigation across broad segments of the economy**
- **Environmental integrity**
- **Net decrease and/or avoidance of global greenhouse gas emissions;**
- **Use supplemental to domestic mitigation efforts**
- **Good governance and robust market functioning and regulation**



## Criteria for FVA

- **Real, permanent, additional and verified mitigation**
- **No double counting of effort**
- **Net decrease and/or avoidance of greenhouse gas emissions**





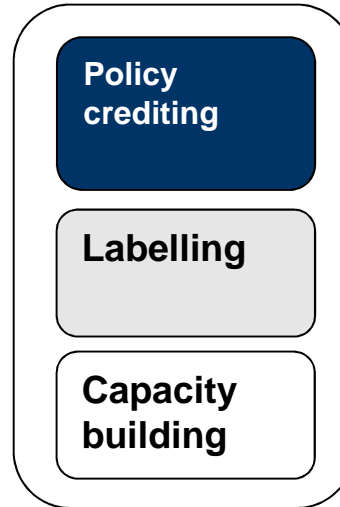
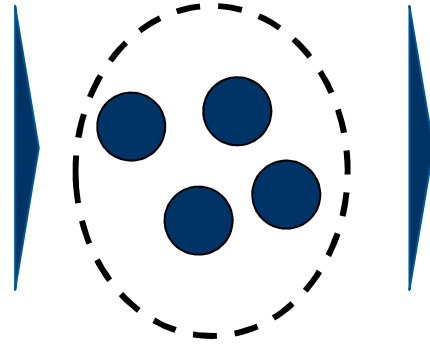
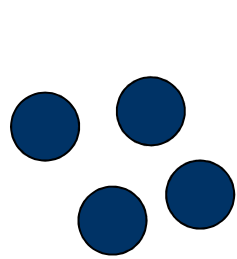
# From CDM to NMM

**Single CDM projects**

**CDM Programme of Activities**

**Nationally Appropriate Mitigation Action crediting**

**Sectoral Mechanism**



Source of Funds:



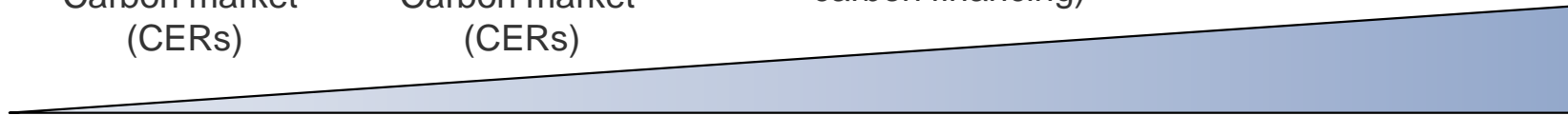
Carbon market (CERs)



Carbon market (CERs)

Potential mix of funds (domestic, donor and carbon financing)

Regional/global carbon market?

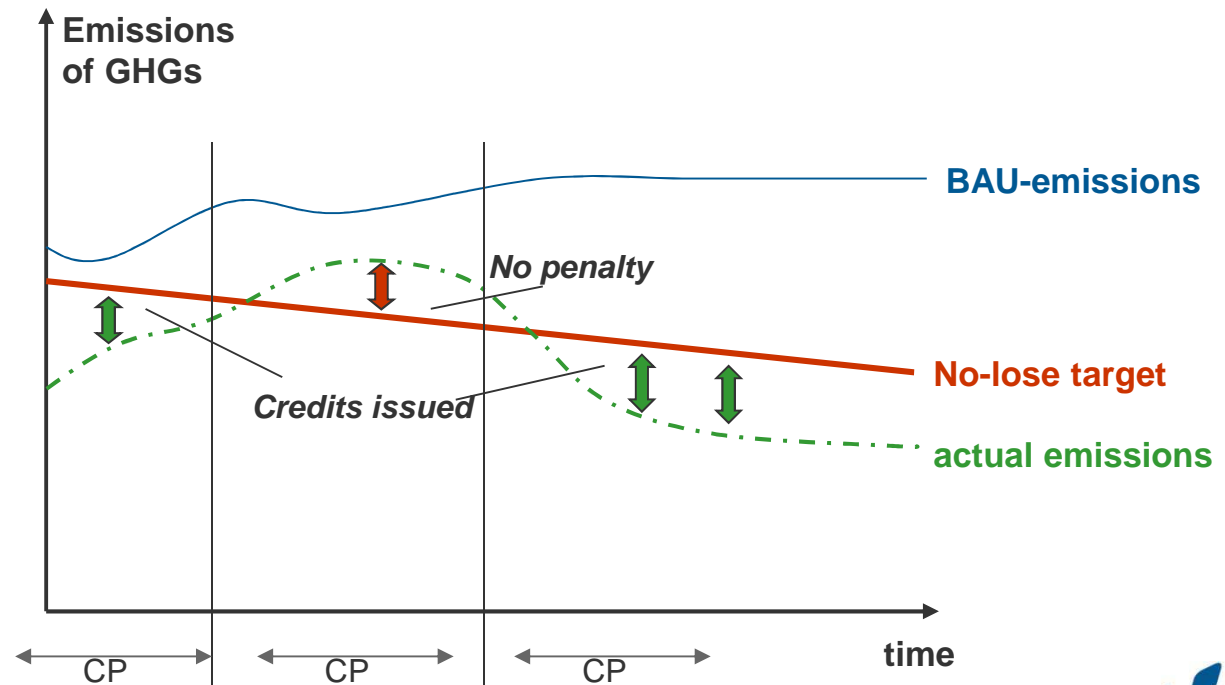


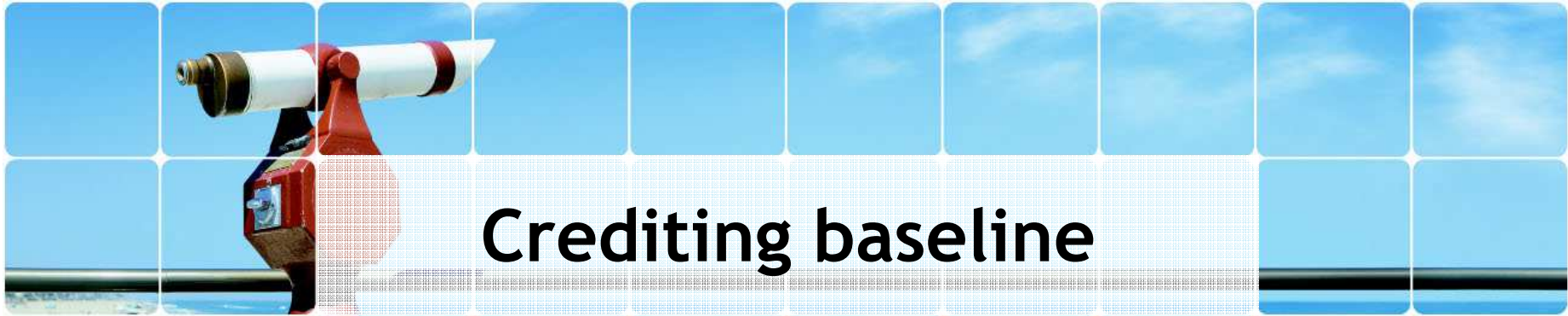
**Scale of mitigation financing**

# Sectoral mechanism

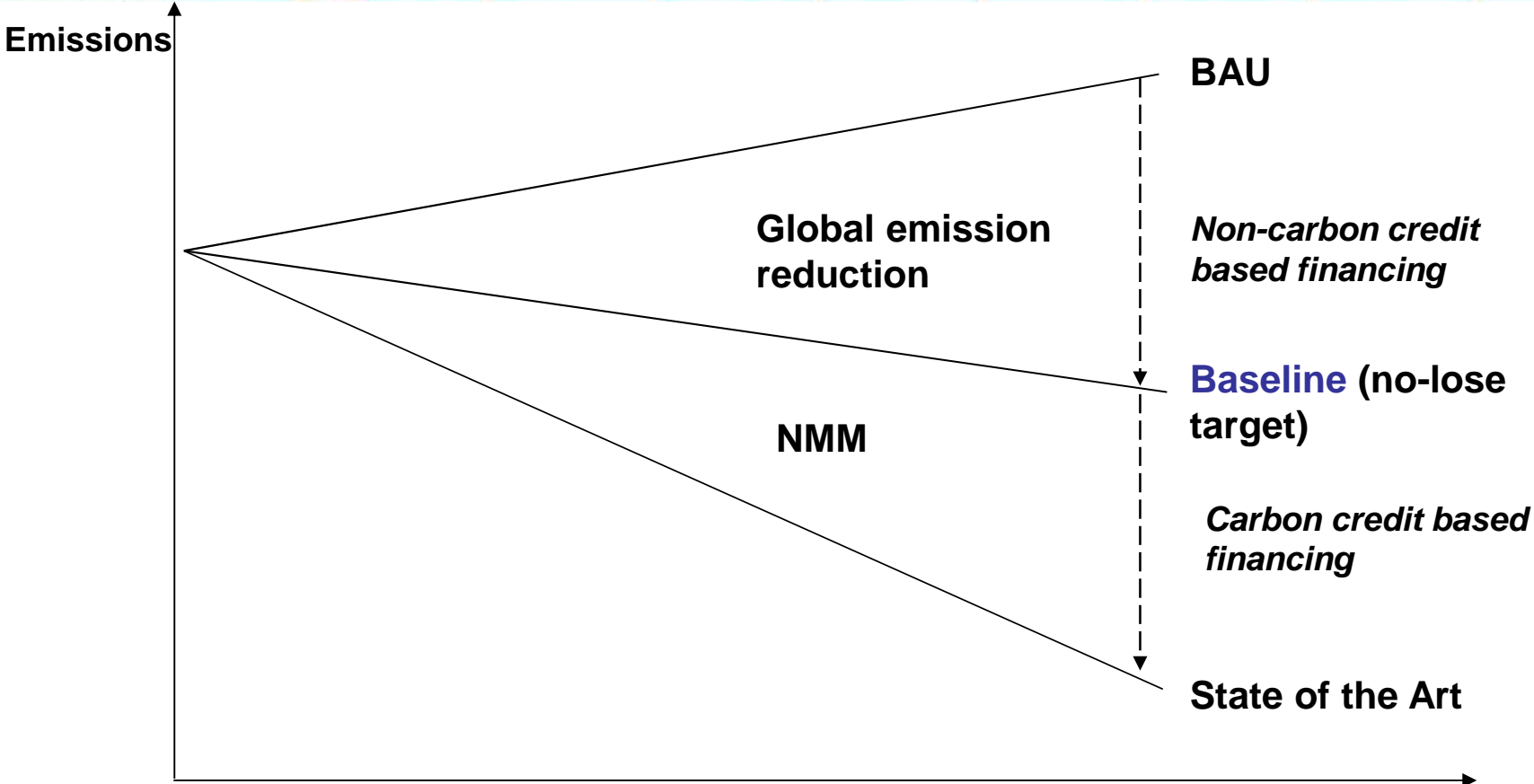
## Sectoral mechanism with **no-lose** target:

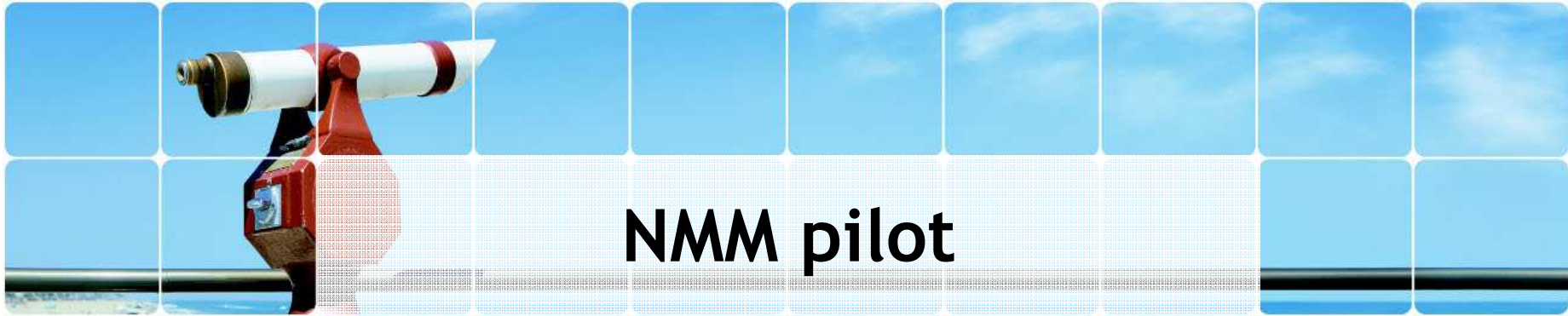
- **No penalty** in case the target is missed in given crediting period (CP)
- **Issuance of credits** in case target is exceeded





# Crediting baseline

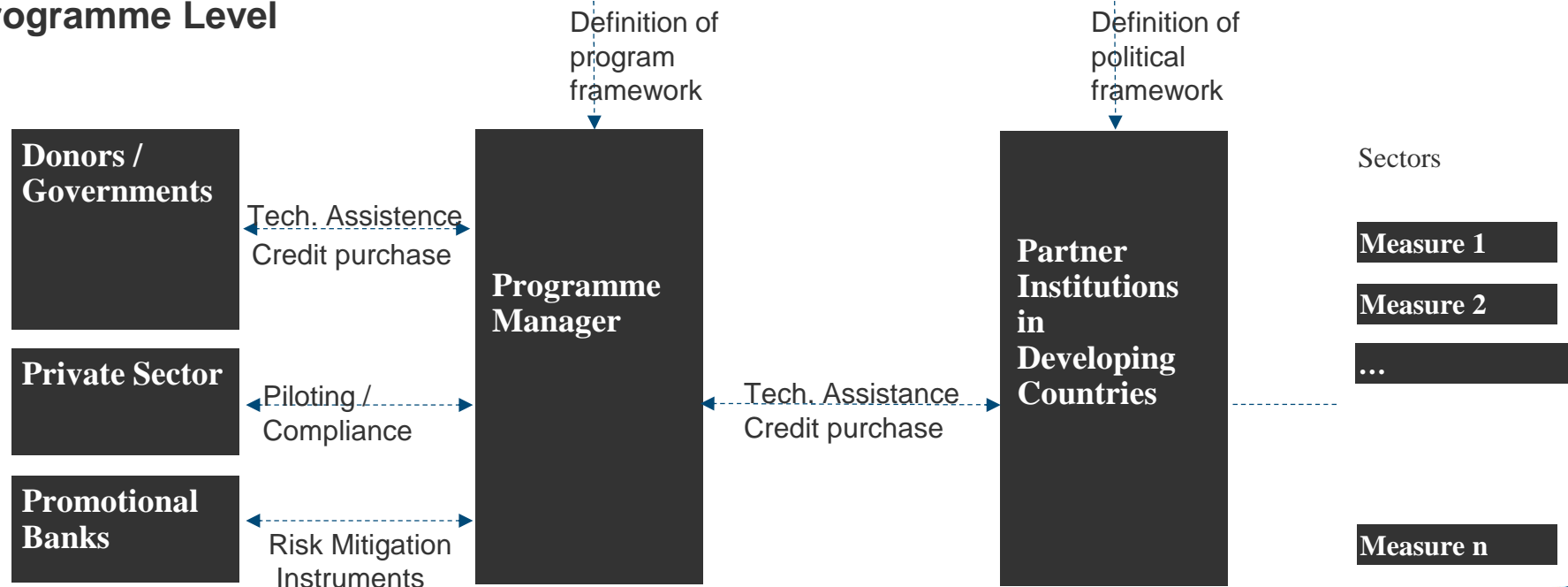




**Policy Level**



**Programme Level**

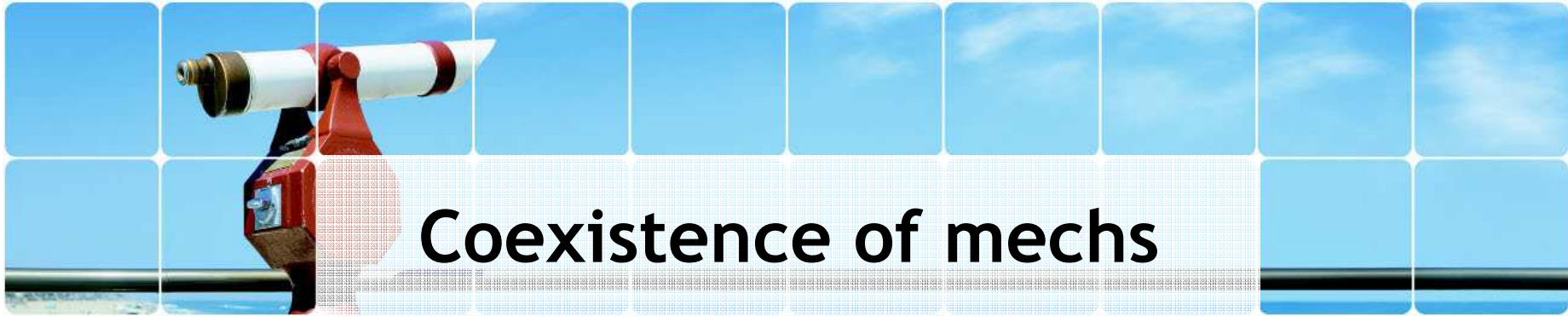


Source: KfW 2012



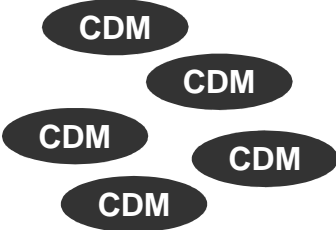
## Incentive problems of sectoral mechanisms

- **Dilution of incentives through no-lose targets**
  - Emissions increase without negative consequences
  - Such emission increase reduces the credit volume for those who actually reduced emissions → Free riding and no mitigation action
- **Indirect accrual of revenues**
  - Governments can **sell credits**, but will they pass through the revenues? → Incentive depends on **trust in government**
- **How to maintain incentives?**
  - **Direct allocation of credits and government guarantee**
  - **Revenue split and government guarantee**
  - **Mandatory sectoral trading with sanctions**

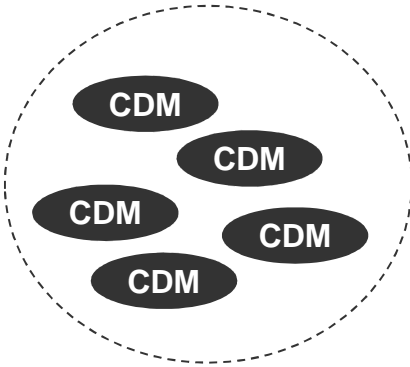


# Coexistence of mechs

Cement production



Power sector



**Feed-in tariff policy crediting**

Household sector

**Buildings efficiency standards policy crediting**

**Appliance efficiency standards policy crediting**

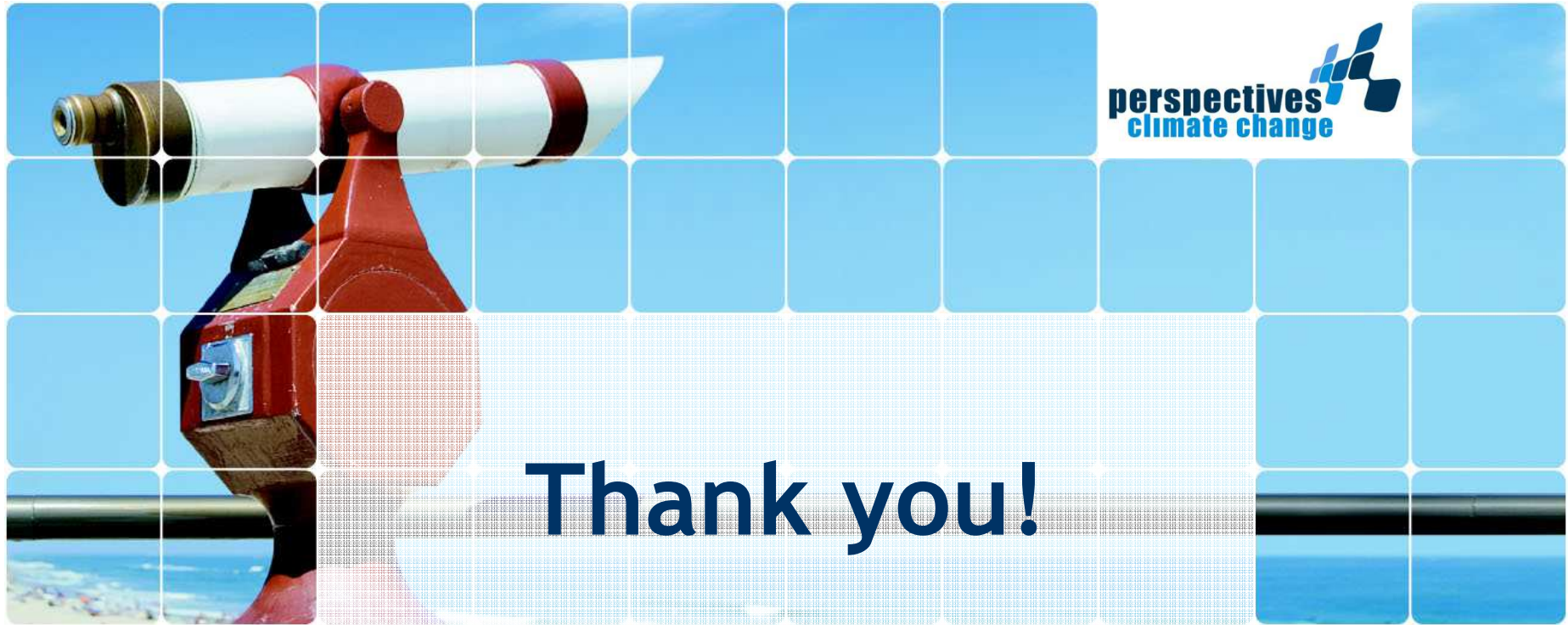
Waste sector

**Landfill gas collection regulation policy crediting**

**Waste-water methane collection regulation policy crediting**

Transport sector

**Fuel efficiency standards sectoral crediting**



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