Emission Reduction Program for EAP

Helping developing countries in East Asia & Pacific understand and access global emission reduction credit markets
Growing numbers of commitments & pressure to act

- 21% of the world's 2,000 largest companies representing sales of >US$14 trillion have committed to net-zero targets
- Investors are increasingly incorporating ESG metrics into decision-making: 33% of global assets under management in funds that consider ESG metrics during investment process

Momentum is spread across buyers & sectors

- MNCs purchase 50% of all offset volumes; domestic companies/SMEs accounting for another 35%
- Fortune 500s in 17 of 19 sectors had made a sustainability commitment
- 2000+ organizations from 80+ industries in 78 countries have supported the Task Force on Climate-related Disclosures as of March 2021

Long-term trend expected to hold despite delays by Covid-19

- 87% of the public want corporations to integrate environmental considerations into products/services & operations
- 40% of millennials state that sustainability is a consideration in their job choice
Compliance markets: Governments establishing emissions reduction programs and placing obligations on emitters in their jurisdiction

Financial size of the virtual carbon market should be about $167 billion/year in 2030, increasing to $347 billion/year in 2050 and reaching $1.2 trillion/year in 2100.

Offset limits
Most compliance markets allow only small portion of targets to be allocated to offsets

Fragmented initiatives
Compliance markets exist on provincial, national & regional levels with different standards; i.e., 31 ETS systems globally, each with their own requirements

More difficult to enter & innovate
Compliance markets tend to have high entry requirements & lower appetite for new methodologies

Source: IETA and CPLC, The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges September 2019
Voluntary Market
To meet Net Zero commitments of a Company
Different standards, priorities and processes

Compliance/Regulatory Markets
(26 and counting)
To meet legal obligations under home country
carbon tax or emissions allocations

Buyer

Intermediaries
Exchanges
TFs/Donors
Buyers

Seller

Legal/Regulatory Framework
Certainty, transparency, sustainability

MRV
To ensure standards, registry to avoid double counting

ERC w/No Corresponding Adjustment
Will count against Seller country NDC, not
Buyer country NDC aka claiming, retention

ERC w/Corresponding Adjustment (Approved)
Offset against Buyer country NDCs aka ITMO, offset, counting, transfer

Institutional Framework/Processes
Clarity, coordination, capacity

Reason for buying ERCs

Who can help sell/buy

Which ERCs to export

How to generate quality ERCs

Evolving with NDCs

Some more aggressive/opportunistic than others

Higher prices

NDC – Nationally Defined Contribution under the Paris Agreement; ETS – Emissions Trading System; ITMO – Internationally Transferred Mitigation Outcome that counts against the buyer’s NDCs; MRV – Monitoring, Reporting, Verification;
Key Decisions for Governments...

- **Authorization Body**
  - Governance structure
  - MRV system and certification standard

- **National registry**
  - Define/adopt an ERC definition
  - Develop an NDC strategy

- **Ownership and benefit sharing principles**
  - Legal, accounting and taxation rules
  - Identify the role of ERCs

- **Corresponding adjustment and VCM**
  - Mobilize Finance

- **Criteria for global trading**

**Corresponding**

- **Adjustment and VCM**

**Mobilize**

- **Finance**

**Governance structure**
Emissions Reduction Program (ERP) will support developing countries in East Asia Pacific to engage strategically with evolving global Emissions Reduction Credit (ERC) markets, prepare transactions to generate ERCs and mobilize finance for such transactions.

Francis Ghesquiere (PM SURR)
AJ Glauber (PM Env)
Jeff Delmon (IPG, TTL)
Zhuo Cheng (Climate Change, Co-TTL)
After consulting more than 100 stakeholders across the ecosystem

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<td>Wildlife Works</td>
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<td>Temasek</td>
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| NGOs | Innovators | Asset Managers | Social Impact Funds | Trading Intermediaries | Exchanges | |
|------|------------|----------------|---------------------|-----------------------|-----------|
| World Wild Fund (WWF) | Sylvera | Temasek | Livelihood Funds | | Air Carbon Exchange |
| Forest Trends | Carbon Base | | | | Carbon Trade Exchange |
| Clean Cooking Alliance | Allied Offset | | | | Climate Impact X |
| Save the Children, Australia | BeZero Carbon | | | | Xpansiv |

| Trading Intermediaries | Exchanges | |
|------------------------|-----------|
| Air Carbon Exchange |        |
| Carbon Trade Exchange |       |
| Climate Impact X |      |
| Xpansiv |     |

Already interviewed, To be interviewed
Key themes from ERP consultations

LEGAL & INSTITUTIONAL FRAMEWORK

- Definition of a credit (credit + sustainable development)
- Legal and accounting framework
- Future of the voluntary carbon market, corresponding adjustments, interim policy till Article 6 crystalizes
- Clear and robust certification, MRV policy, MRV systems

CARBON MARKET GOVERNANCE MODEL

- Coordination of Government agencies with clear mandates for carbon markets, clear approval matrix and model for engagement with local communities
- Single point of engagement for private investors/purchasers, to ensure consistency

FINANCIAL MARKETS AND INSTRUMENTS

- Legal/regulatory framework for carbon credits as an asset and how financial instruments can interface with those assets
- Risk implication of ERCs for financial sector
- Financing models: debt, minimum price guarantee, first loss, options/derivative instruments, result based financing, insurance,

KNOWLEDGE & CENTER OF EXCELLENCE

- Curated knowledge: technological innovations, global policy development, World Bank and other carbon market initiatives, market trends (article 6, project sectors, demand)
- Training programs for Government and private players
- Ideation between market stakeholders, Governments, and multi-lateral institutions, brain-storming workshops, voice of customer surveys and summits

LINK TO GLOBAL MARKETS

- Standardization of certification requirements
- Standardized pricing vs project-based pricing
- Exchanges vs over the counter trading
- Match of supply and demand
Design of ERP evolved based on voice of the market

**ERP pillars**

- **Access to Knowledge**
  - Knowledge of global CCM and VCM standards and requirements to generate high value ERCs
  - Knowledge of concessional and commercial sources of funding and financing for ERC programs
  - Access to training programs, on-line and in person and global best practices
  - Capacity building of Government and private stakeholders

- **Technical Assistance**
  - Guidance for country assessments, to improve legal, regulatory and institutional framework and processes
  - Assistance to undertake country assessments, design and implement reforms to link better with global ERC markets
  - Guidance for project selection and preparation to deliver high quality ERCs and mobilize additional capital
  - Assistance implementing project guidance and delivering ERC programs

- **Access to Capital**
  - Mobilize financing against future flow of credits
  - Options/derivative instruments, credit enhancement, blended financing and other mechanisms as needed

**Market Needs**

- **Stakeholders**
  - Governments
  - Project Developers
  - Buyers
  - Financiers
  - Trading Intermediaries
  - Certification Organizations
  - Implementation Partners
  - Other Key Players