



WORLD BANK GROUP
Climate Change

Managing incentives and results-based payments in jurisdictional REDD+ programs

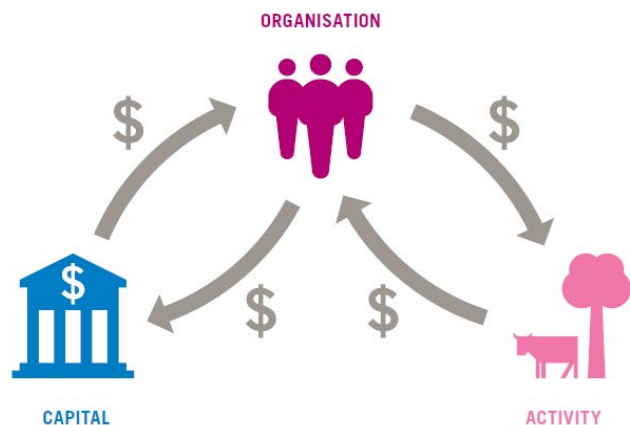
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World Bank

Creating the right incentives

- Climate finance is part of a bigger financial package that needs to provide the right incentives to make the transition to low-carbon sustainable land use systems
- What are the types of incentives required for different actors and different activities
 - Some actors might be doing the right things but need incentives to do more, others might need an incentive to actually change their behavior
 - Some activities have high upfront costs but might be self sustaining once implemented, for example because it creates more income for the actor
 - Other activities might need continued incentives because they mainly have a cost without creating new income (for example certain types of protected areas)
- Thinking through the incentives for different actor allows for estimating the finance flows that are required over time to help the transition to a low-carbon sustainable land use systems

Risks related to results-based climate finance

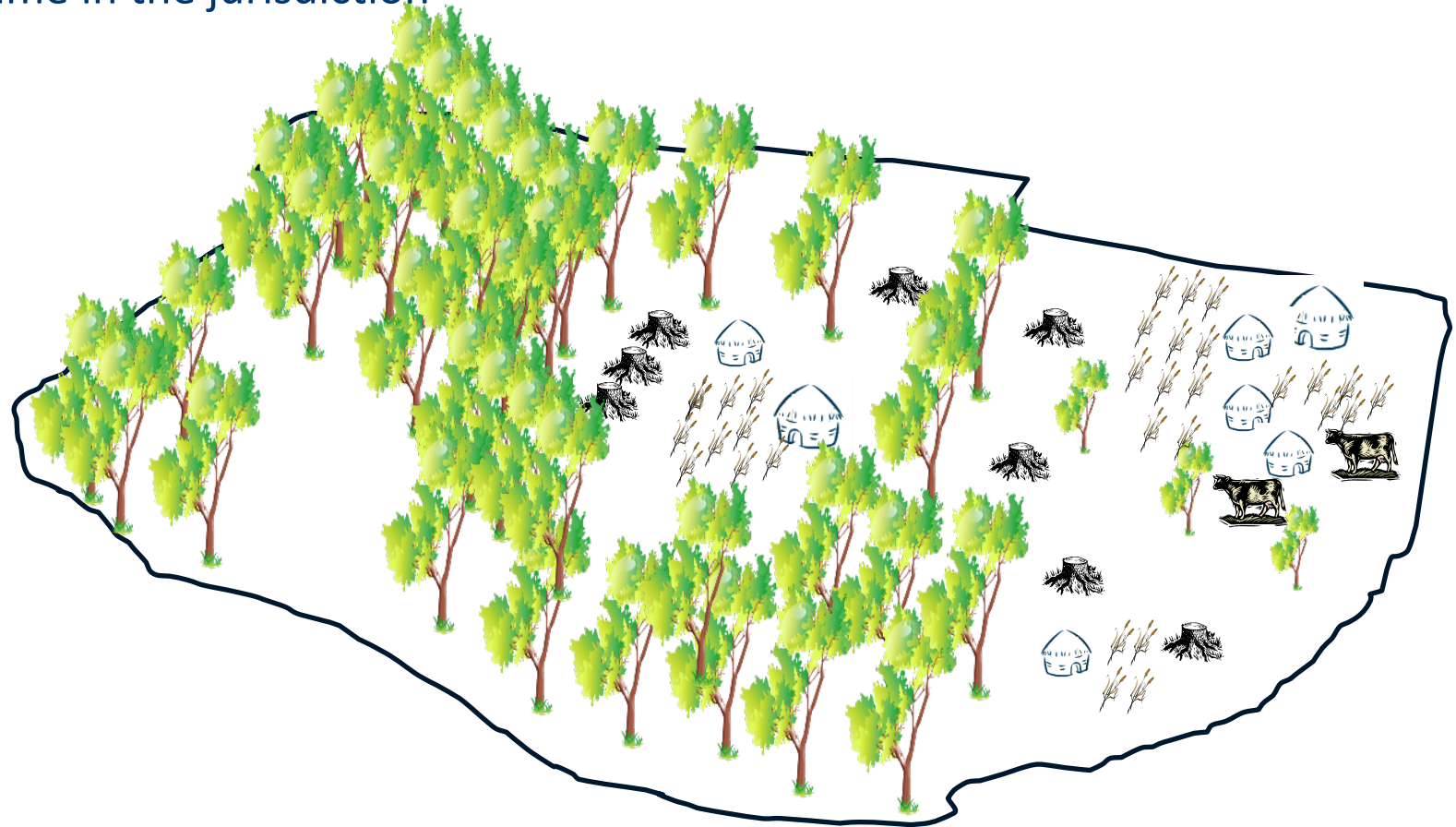
Result-based ER Payments



- Result-based climate finance is significant component of the available climate finance
- Results-based climate finance means that payments are made when a program can show performance
- Performance can mean different things but in the case of the World Bank carbon funds, performance means measured and verified emission reductions (**ER payments**)
- Results-based finance comes with certain risks since the performance can vary and therefore also the finance generated
- If results-based finance is used to incentivize actors in a program, these risks will need to be managed

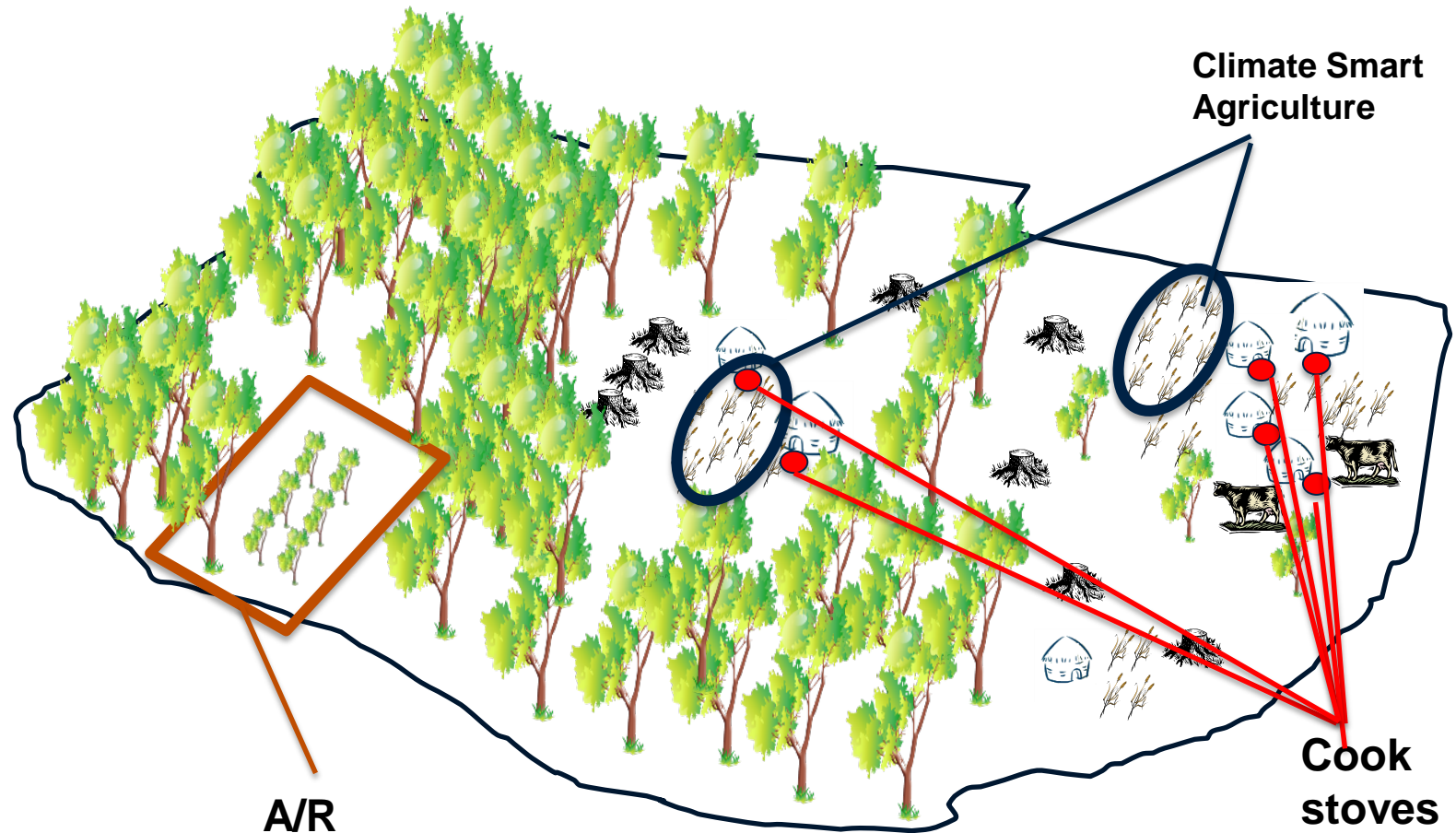
Illustration on how performance is determined in a jurisdictional program

Results (and therefore payments) are based on the emission reductions achieved over time in the jurisdiction



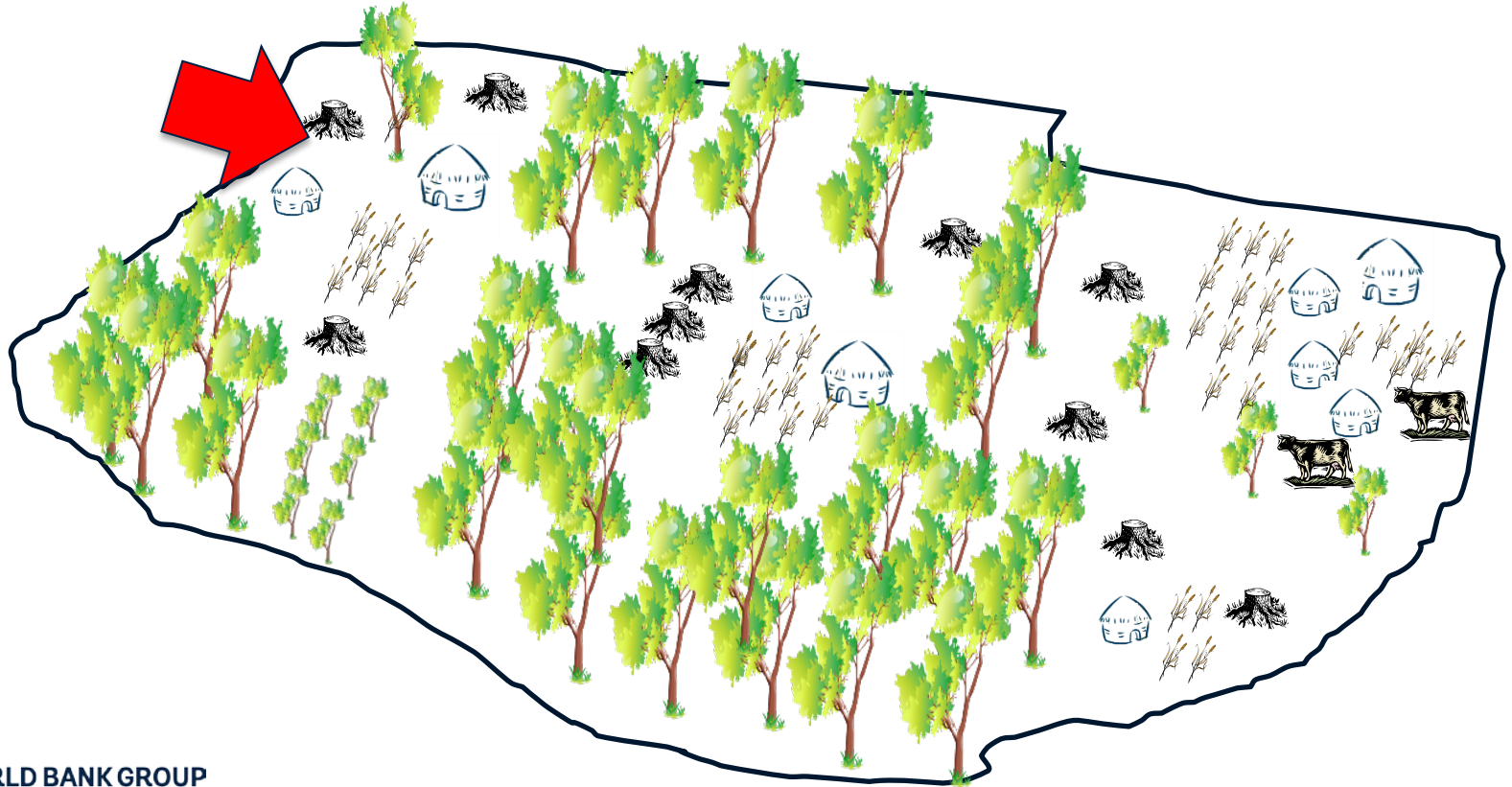
Different actors can contribute to results

There can be different partners doing activities that might contribute to the emission reductions including NGOs, private sector and development partners



Obtaining results on the program scale

There can only be net emission reductions if all partners work together and make sure emissions don't go up in the other parts of the jurisdiction



Managing risk

- So performance (and the resulting payments) is determined on the level of the whole jurisdiction
- However there are many factors that can influence the performance of a large scale program and the amount of emission reductions might vary
- This means that also the payments from the emission reductions might vary
- It is important how the risks associated with these variations will be managed

How to manage the relation between the incentives and the ER payments in a large program?

In most cases the program would consist of different activities or projects combined with policy incentives/changes implemented by a group of actors.

- The whole program will need to access the sources of climate finance (and other sources).
- For integrated programs (and the UNFCCC REDD thinking) this usually involves a central program entity
- However there are different ways in which this program entity can manage the incentive mechanisms for the different organizations in the program

Source(s) of ER payments



Program Entity

?

Organization A project

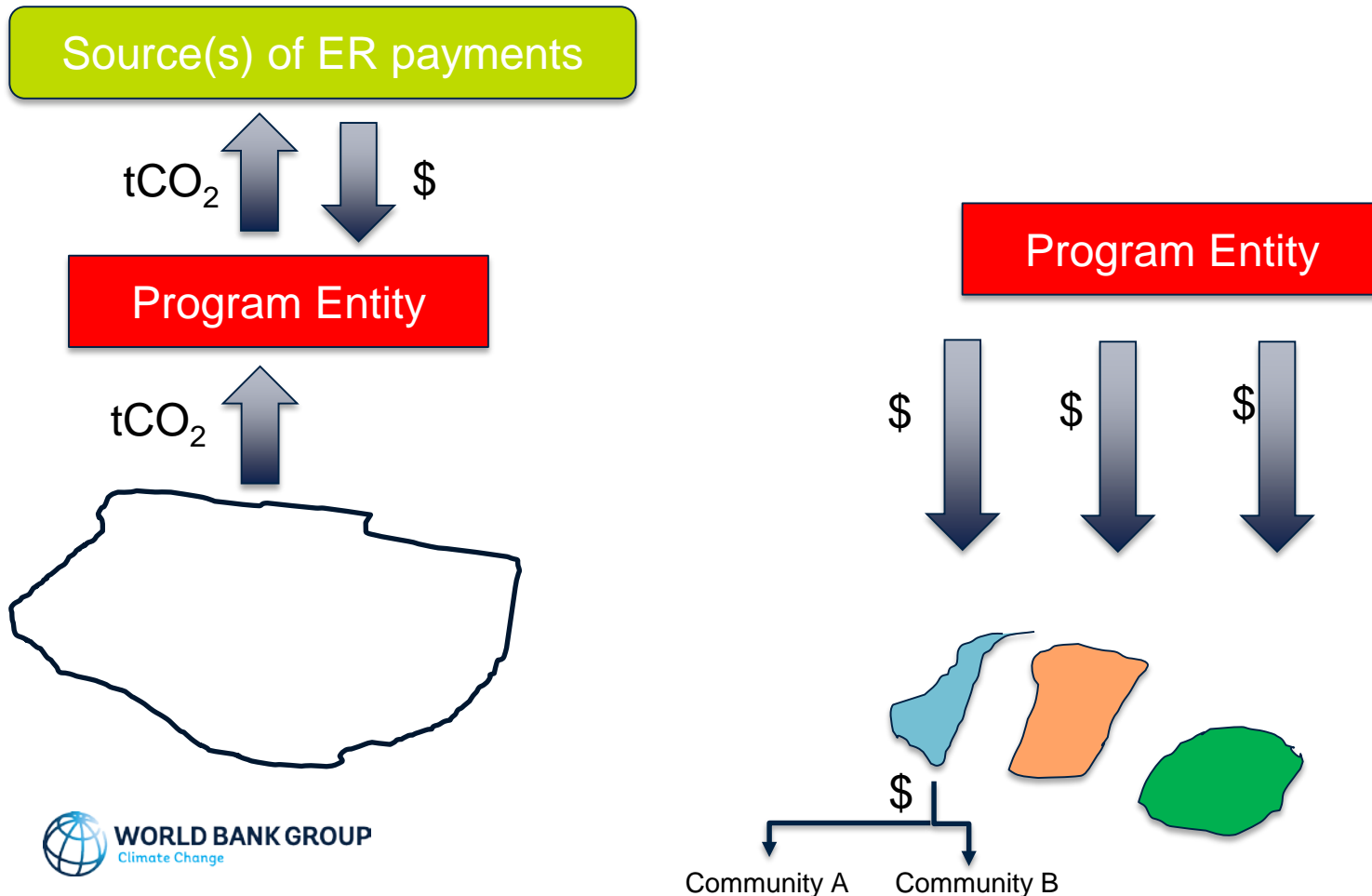
Government policy

Organization B project

Organization C project

Option 1: Payment for Services

In this option the program entity receives the results based payment for the monitored ERs for the jurisdiction, but different organizations are paid for services delivered using a different more commonly understood performance indicator (for example #ha protected). Organizations receive this payment regardless of amount of ER Payment received (or not) by the program entity.



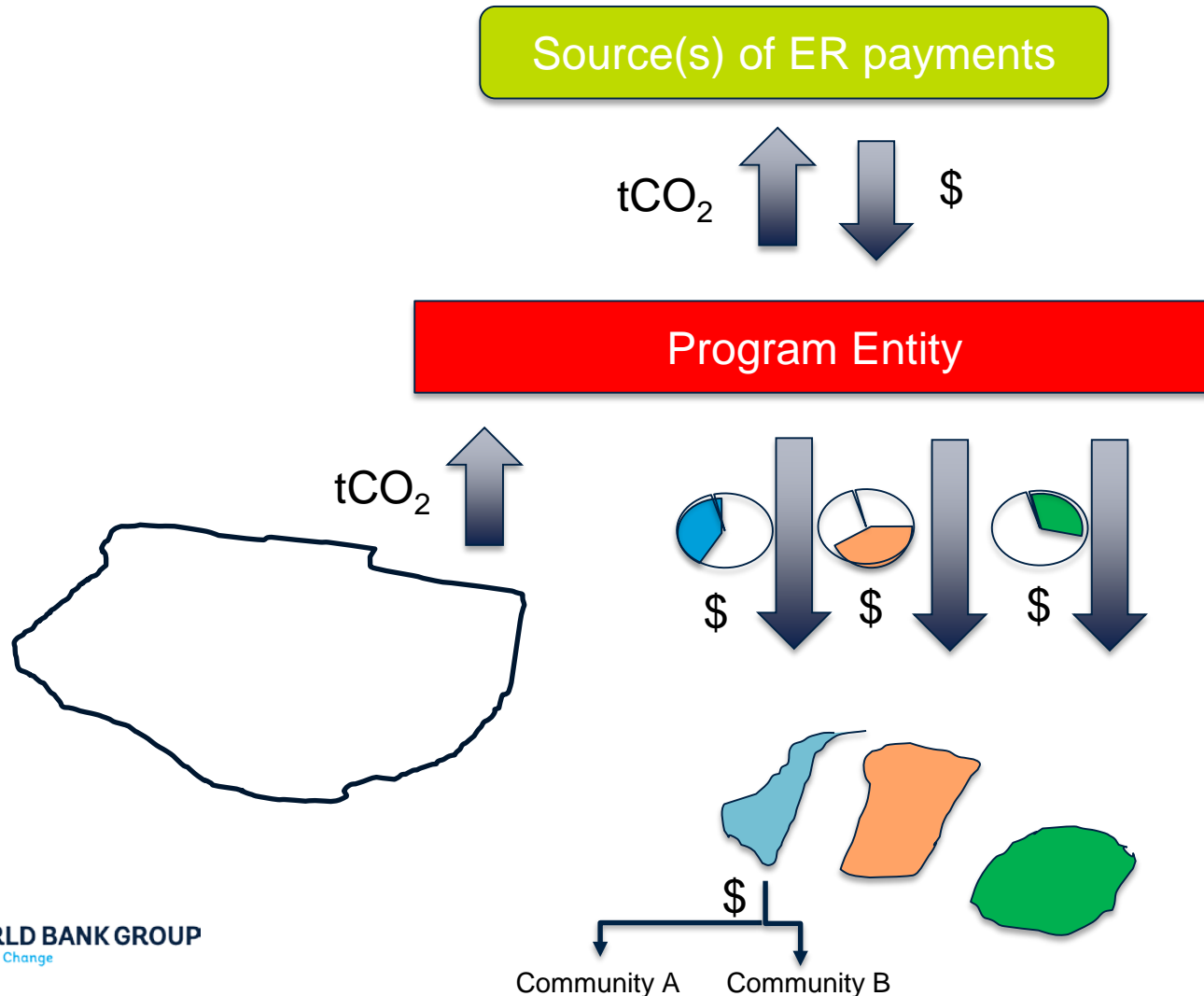
Option 1: pros and cons

- Pro: Very predictable for organizations implementing activities. Through contracts with the program entity they know how much money they receive if they perform the activity
- Pro: calculation of emission reductions and related MRV system is relatively simple → only needs to produce one number for the whole jurisdiction
- Con: Risk for the Program Entity that the amount of money received from the emission reductions can be less than what they have to pay to the different organizations for providing the services (as discussed before there are many factors that can influence the number of emission reduction and the associated payments)
- Therefore this is an option that Program Entity should consider when Results based finance can be complemented with other sources of finance , when it is possible to create a financial buffer or when the risk of other activities in the jurisdiction resulting in non-performance is low

Option 2: Fixed share of the emission reduction payments

payments

In this option the different organizations all get a fixed (negotiated) share (e.g %) of the payments from the net emission reductions generated at the level of the jurisdiction

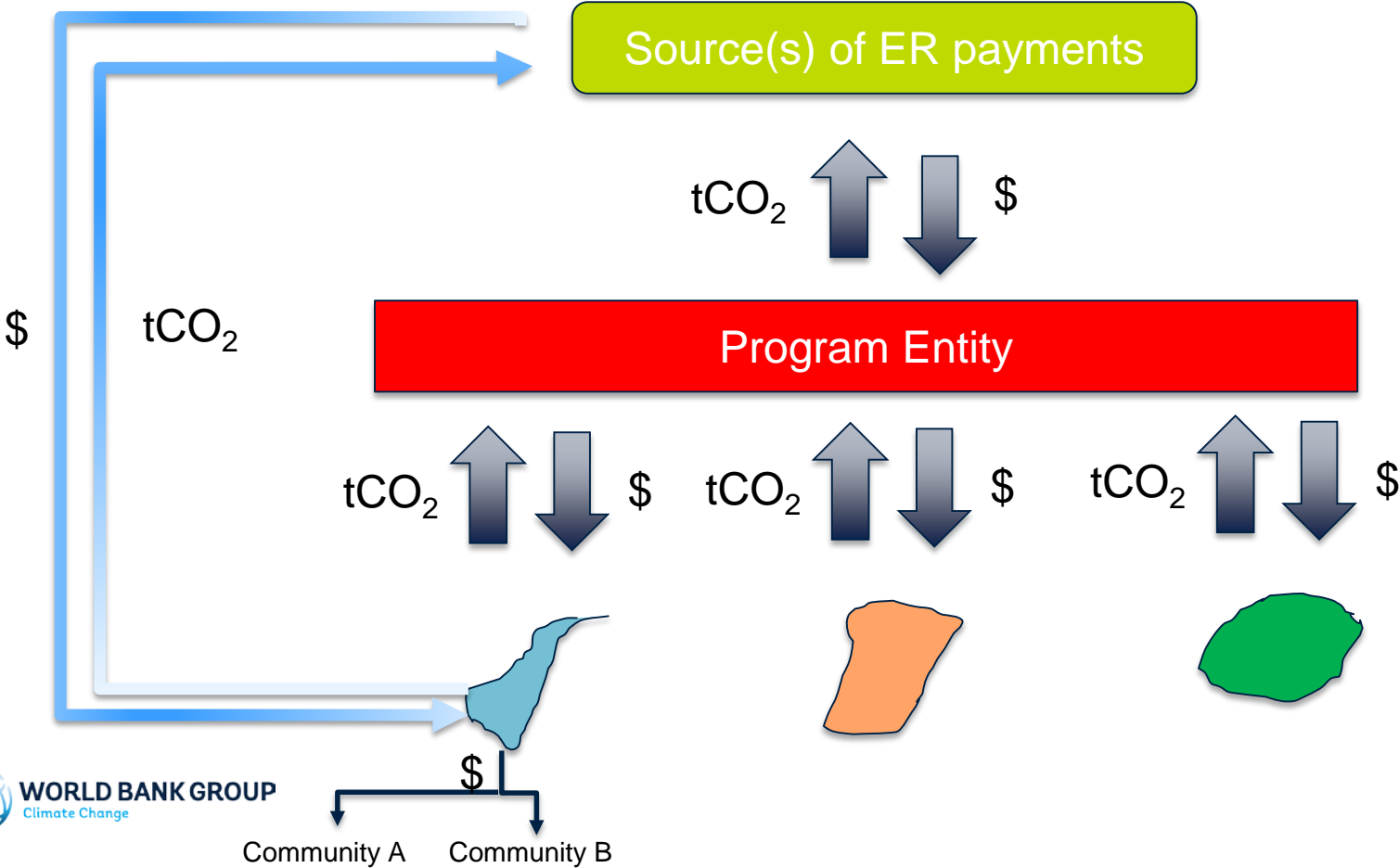


Option 2: pros and cons

- Pro / con: Low risk for the program entity but high risk for organization/s implementing the activities because the payments from the emission reductions (and therefore their share) can vary depending on the success of a program as a whole. (If there are other non-performers in the jurisdiction, organizations that may have delivered their share of ERs may still loose out)
- Pro: calculation of emission reductions and related MRV system is relatively simple → only needs to produce one number for the whole jurisdiction

Option 3: Every organization in the program is responsible for its own emission reductions (nesting projects)

In this option, the different organizations all get paid based on their actual emission reductions. In its most advanced form, organizations can also access sources of ER payments directly if they meet certain criteria



Option 3: pros and cons

- Pro: Lower risk for the program entity because the performance of the program equals the performance of all the sub-activities. This only works if the whole accounting area is covered by projects. If there are significant area gaps where nested projects are not operating within the jurisdiction, the program entity would still need to take responsibility for the remaining area
- Pro: Lower risk for organization implementing the activities because their performance is not depending on others within the program
- Pro: ability to mobilize and access new sources of finance and capacity
- Con: less flexibility in creating financial incentives for the different actors. Projects might 'cherry-pick' the easier areas
- Con: more complicated calculation of emission reductions and more detailed MRV system required to be able to spatially determine performance for projects (keeping in mind that performance would still be based on the net ER number for the jurisdiction which would take into account the activities in area not covered by nested projects)

Using the options

- Other options not mentioned here are also possible and programs can be creative in designing their approach
- Possible to mix different options as well
- If option 3 is selected, this means smaller REDD or carbon projects are created within the bigger program. This is referred to as “nesting”
- As already mentioned, “nesting” requires a more complicated approach when it comes to the accounting of the emission reductions
- First step for countries is to decide if they wish to pursue a nested approach or not.
 - Will project level activities be allowed
 - Will projects continue to function after the program or later the national accounting framework have been established

Follow up steps if nesting is allowed

- If nesting is allowed, a methodological and programmatic approach for harmonizing or integrating REDD+ / carbon projects needs to be designed
- On the accounting side, this methodological and programmatic approach needs to ensure:
 - there is consistency in how emissions and emissions reductions are measured within projects and within the program as a whole,
 - double counting of emission reduction can be avoided between the projects and the program,
 - payments based on performance can be fairly allocated to those who have achieved them, and
 - economies of scale can be achieved through shared use of measuring, monitoring and reporting systems.
- The approach will also need to cover other aspects such as safeguards and benefit sharing arrangement



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