



WORLD BANK GROUP



# 101: Climate Finance for Natural Climate Solutions

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# Climate Finance for NCS

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FCPF and ISFL Private Sector Workshop  
March 2021



## **Vivid is a leading strategic economic consultancy**

### **Emphasis on putting economics to good use**

- founded in 2006
- a team of over 100 consultants
- headquarters in London, with local offices in the United States and the Netherlands
- now part of McKinsey and company

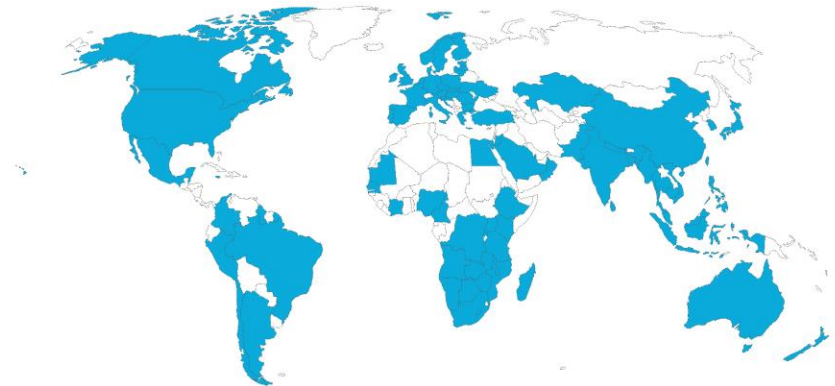
### **Broad experience across sectors and themes**

- energy, infrastructure, industry, resources and finance
- themes of climate change, sustainability, growth, competition, innovation and infrastructure planning
- industry leaders in applying economic models and tools

### **Ability to deploy deep expertise**

- world-leading models and methodologies
- first-of-a-kind solutions grounded in robust economics
- strong network of leading academics

### **Consultancy with global reach**



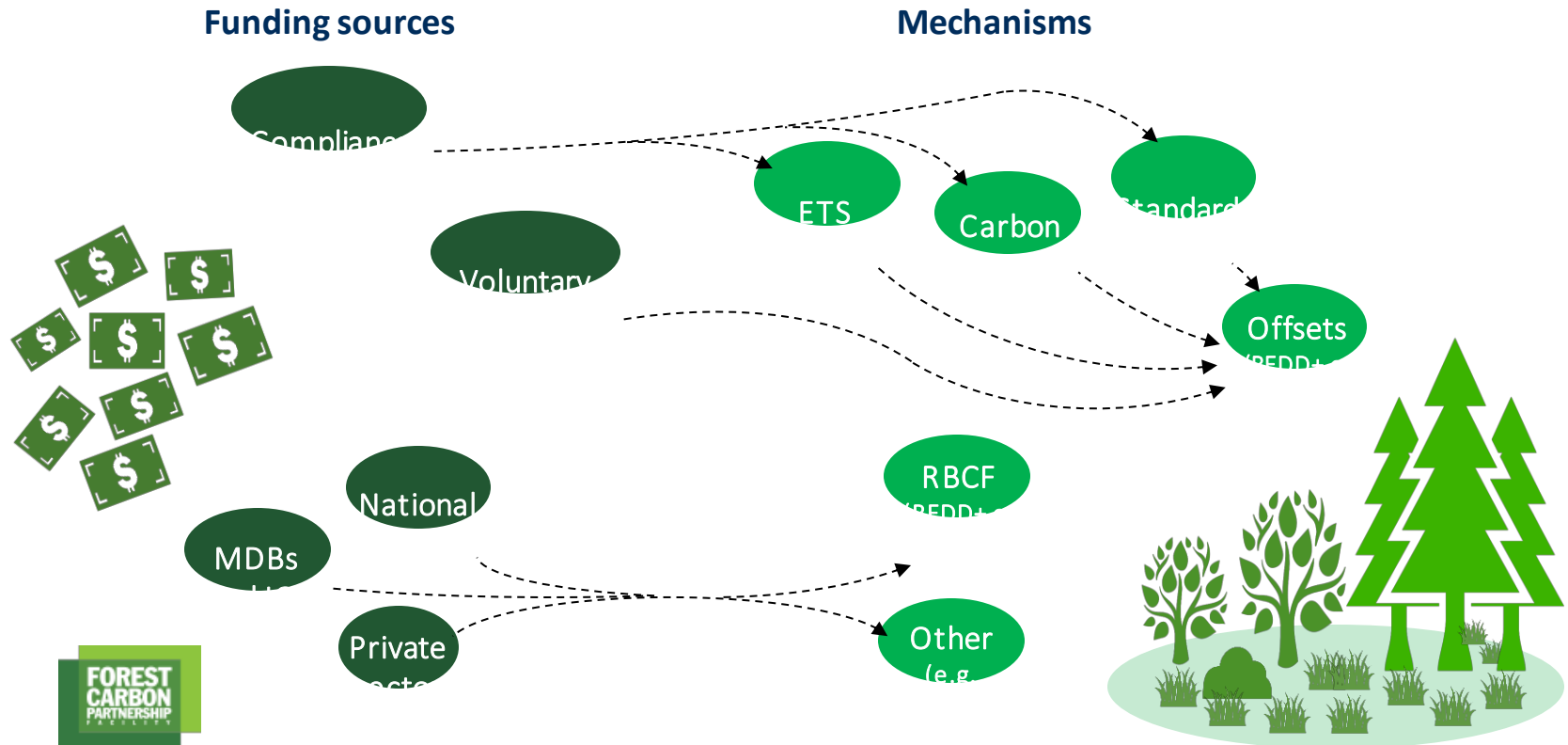
Work in more than 60 countries,  
spanning 6 continents

**:vivid**economics  
McKinsey&Company

**:vivid**economics

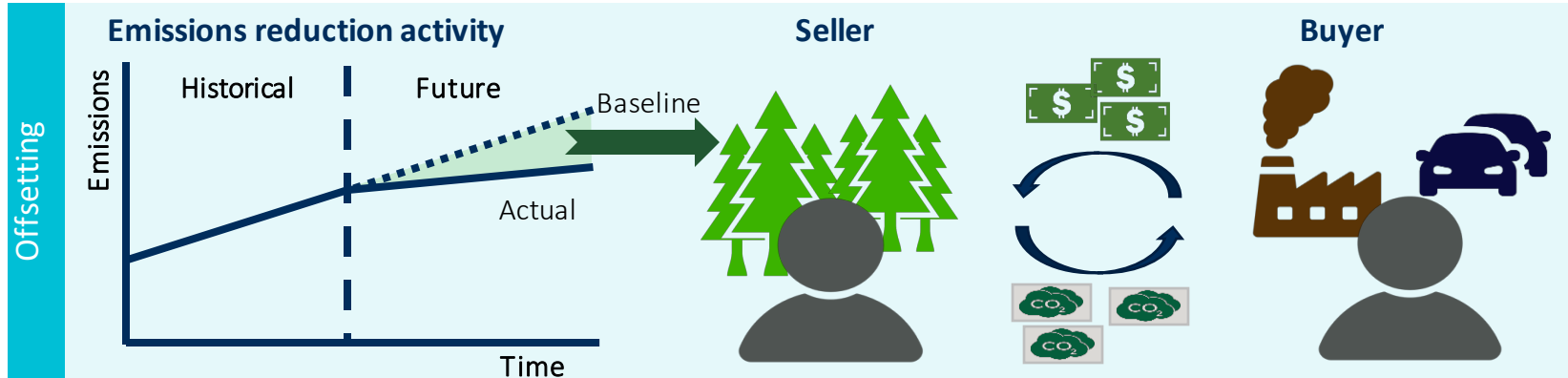


# Funding for natural climate solutions can come from a range of public and private sources





# Offsetting 101: approach and key challenges



**Key challenges**

**Additionality** +

Baseline → Likely

**Permanence** ⌚

2021 → 2050

**Leakage** 🏠

Inside → Outside

**Accuracy** 🛰️

Measured ≠ Actual

**Social safeguards** 🛡️

- Informed consent
- Benefit sharing

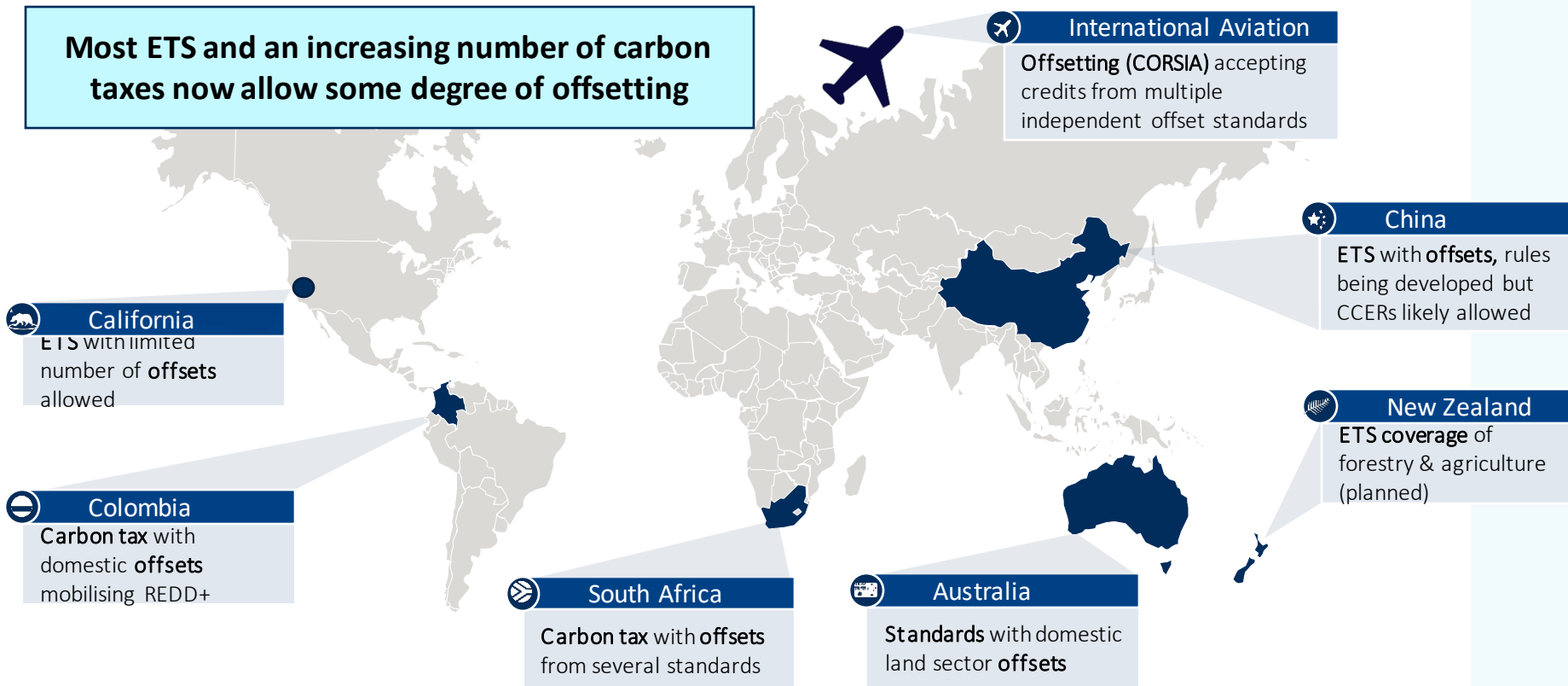
**SUSTAINABLE DEVELOPMENT GOALS**  
17 GOALS TO TRANSFORM OUR WORLD

Standards and methodologies create rules and processes to overcome these challenges...



# Compliance markets for natural climate solutions are expanding globally

Most ETS and an increasing number of carbon taxes now allow some degree of offsetting





# Voluntary markets transactions are currently dominated by NCS projects

## Standards (Supply side)

**VCS** | VERIFIED CARBON STANDARD  
A Global Benchmark for Carbon  
**Gold Standard**

Plan Vivo  
CLIMATE ACTION RESERVE  
American Carbon Registry

## Voluntary buyers (Demand side)

- > 1,100 net zero company commitments to date
- > 200 firms committed to Science Based Targets

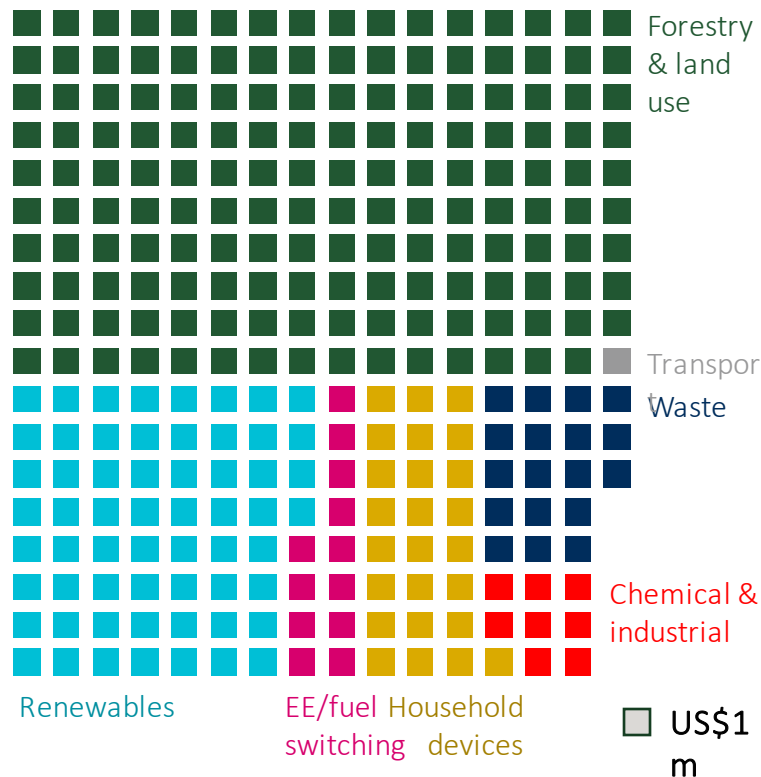
But concerns inhibit market growth

- Quality and reputational risks
- Market liquidity and depth
- Complexity for new participants



Source: Ecosystem Marketplace 2020

## 2019 VCM transaction value



# • Contact us

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putting economics to good use



CANADA'S FIRST CLIMATE AND ENERGY BOUTIQUE LAW FIRM

# NCS: Results-Based Payments and Financial Instruments

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# : Resilient LLP

- **Resilient LLP** is Canada's first (and only) climate change and clean energy boutique law firm
- Serving domestic, international and indigenous clients on all aspects of **energy and carbon** transactions, investments, governance, disclosure, and regulatory and constitutional litigation

# • REDD+ Results based payments

- Article 5 of the Paris Agreement:
  - *“Parties are encouraged to take action to implement and support, including through **results-based payments** ... policy approaches and positive incentives for activities relating to reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries...”*
- Results-based payments (**RBP**s) are mechanisms whereby funding and/or payments are paid by a project’s funder once pre-defined results are achieved. In the context of the Paris Agreement, the results that trigger RBPs are verified CO<sub>2</sub>e emissions reductions over a specified period of time.
- REDD+ projects may become eligible for RBPs after United Nations Framework Convention on Climate Change (UNFCCC) verification of emission reductions and technical evaluation of avoided deforestation based on forest reference emission levels and/or forest emission levels (FRELs)..
- Green Climate Fund
  - GCF approved USD \$103.8 million in RBPs for Indonesia’s REDD+ emissions reductions from 2014 to 2016
  - \$28.2 million RBP for Colombia's REDD+ results for 2015-2016 of emission reductions of 5.5 MtCO<sub>2</sub>e
  - \$50 million RBP to Paraguay REDD+ results for the years 2015-2017.
- RBPs paid through the Green Climate Fund have been re-invested in REDD+ activities under the receiving country’s NDC

# • Markets for NCS

- Markets for NCS is an IETA-led initiative to maximise business investment in NCS and ensure it plays the fullest role possible in delivering the goals of the Paris Agreement
- Supported by BP, Shell, Radicle, Chevron, BHP
- Mission
  - *To maximise business investment in natural climate solutions to ensure it plays the fullest role possible in delivering the goals of the Paris Agreement...*
- Developed several actionable ideas:
  - Article 6 NCS Pilot Projects
  - Public-Private NCS Fund
  - Carbon Tax or Market Evolution
  - Carbon Market Portal

# Market Compatible NCS

- The IETA *Greenhouse Gas Market Report 2020* predicts an \$800B carbon market by 2050, highlighting how integral NCS will be in achieving the necessary 23 GT of CO<sub>2</sub> reductions and removals that are required to meet the targets and commitments under the Paris Agreement.
- The Task Force on Scaling the Voluntary Markets suggests that the voluntary market must increase by at least 15 times to meet the 1.5°C target from the Paris Agreement.
- Market compatible NCS (**MC-NCS**) are based on approaches to NCS that provide direct investment in natural capital assets linked to forests, peatlands and grasslands, wetlands, and agriculture.
- Sustainable finance for MC-NCS may take the following forms:
  - Market-based approaches to valuing nature
  - Land based trusts
  - Investments in parcels of lands, with subsequent quantification of carbon benefits, bundles with other co-benefits
  - Sustainability-linked loans from financial institutions
  - Farm trusts and sustainable farm financing
  - Land based financing
  - Paris Agreement Mechanism: Arts. 5 and 6, and the Local Communities and Indigenous Peoples Platform (LCIPP)
- REDD+ and jurisdictional landscape REDD
- Forest Carbon Partnership Facility (FCPF) Carbon Fund
- Payment for Ecosystem Services (PES)
- Mitigation or species banking
- Blue Carbon Resilience Credits
- Climate Bonds



Thank you.



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