

Methodological Note 3

The Standardized Crediting Framework and options to move from programmatic to sectoral crediting¹

2019

Overview of the SCF

The Standardized Crediting Framework (SCF) is an initiative by Ci-Dev to support the transition of its project pipeline under the Clean Development Mechanism (CDM) to the new regulatory framework of the Paris Agreement as well as provide relevant inputs and lessons learned into the ongoing negotiations of Article 6. The SCF provides for a host country governed approach to crediting that simplifies scaling-up and replication of project activities within defined sectors of the economy, as well as a potential transition to sectoral or sub-sectoral approaches to crediting emission reductions that go beyond the current CDM Programme of Activities (PoA) model. Importantly, it gives a role to host country governments and institutions in overseeing and implementing the crediting approach, recognizing the link between crediting and the implementation of NDCs and the relevance of host countries to be able to define crediting modalities suitable to national and sectoral circumstances. Furthermore, the SCF implements a more simplified approach to the project cycle, baselines and monitoring of a PoA, which lowers transaction costs and increases flexibility.

Starting from CDM methodologies, the SCF makes use of positive lists of technologies and standardized

emission factors endorsed by host country institutions based on national expertise. While this does not translate to host countries necessarily having sole discretion to decide on their crediting approach, it fosters greater host country ownership.

In implementing the national governance and administrative functions, the SCF establishes an efficient structure to minimize the administrative and financial burdens on national governments, while ensuring transparent decision-making. This is done by building on existing national structures experienced with climate change projects and policies.

The rules and detailed guidance on eligible activities for Article 6 under the Paris Agreement have yet to be developed. The SCF is designed to be instrument neutral, which means that the concept itself could fit under Article 6.2 and/or Article 6.4. Under Article 6.2, the transferring and acquiring countries ultimately agree on a cooperative approach consistent with the guidance available under the Paris Agreement, whereas under the Article 6.4 mechanism, the Supervisory Body would need to approve the SCF components as part of the crediting mechanism rules.

¹ Prepared by a Climate Focus team of authors in collaboration with Klaus Oppermann and Harikumar Gadde from the World Bank's Ci-Dev team. Vital contributions were made by Randall Spalding-Fecher from Carbon Limits. The Climate Focus team consisted of Sandra Greiner, Nicole Krämer and Thiago Chagas. Sandra Greiner is also participating for Gambia in the UNFCCC Article 6 negotiations.

Experiences in Senegal and Rwanda

To test the potential of the approach and build practical experience, the SCF is currently being piloted in two Ci-Dev host countries, Senegal and Rwanda. The SCF pilots are simulations that build on current CDM activities in the Ci-Dev portfolio. During the pilot phase, these contracted PoAs will continue to operate under the CDM in parallel to the SCF, which reduces transaction costs and allows for a direct comparison between the two models. Furthermore, because the CDM rules are still operational up to 2020, these pilots do not involve any actual transfers of emission reductions or monetary transactions beyond the existing emission reduction purchase agreements (ERPAs) between Ci-Dev and project participants. This may change once the Paris Agreement commitments come into effect in 2020.

The SCF pilot in Senegal

Ci-Dev established the first SCF pilot in Senegal, focusing on the national electrification program led by the Senegalese Rural Electrification Agency (Agence Sénégalaise d'Électrification Rurale - ASER). The pilot is conducted in parallel to the program's CDM validation and registration to enable a comparison of the two processes, timelines, governance structure, stakeholder engagement as well as transaction costs. The monitoring period for the SCF pilot has recently ended, monitoring data collection and analysis is currently completed and verification is expected to start soon.

In terms of national governance, the SCF pilot in Senegal takes a three tier approach as shown below:

Governing Board (Ministries of Environment, Energy & Finance)	<ul style="list-style-type: none">• Oversees the implementation of the SCF in the country• Approves recommendations from technical committee (e.g. list of suitable technologies and emission factors)• Certifies emission reductions• Decides on international transfers of mitigation outcomes• Decides on future development of SCF
Technical Committee (from COMNACC)	<ul style="list-style-type: none">• Develops or evaluates SCF program documents and templates (e.g. methodologies, monitoring, verification)• Makes recommendations on the rules and operational guidelines of the SCF for approval by the Governing Board• Supports evaluating the role of the SCF for NDC implementation
Administrator (DEEC, same department as CDM DNA and GCF NDA)	<ul style="list-style-type: none">• Undertakes completeness checks of project documentation (during listing and certification) and lists projects and• Approves eligible auditors• Maintains a registry of emission reductions• Convenes meetings of the Technical Committee and Governing Board

Based on their positive long-term vision and commitment to this concept, Senegal is currently preparing an Arrêté (ministerial order) to give the SCF formal standing. The SCF pilot has been presented at several international events and climate conferences, and has also attracted the attention of other countries, both regionally and internationally, that are actively engaged in the Article 6 negotiations. The SCF pilot in Senegal is set to finish by the end of June 2019, at which point all stakeholders involved,

including the Senegalese government, must decide whether and how to continue with the SCF.

The SCF pilot in Senegal already provides important lessons for the possible expansion of the SCF to other sectors and countries. These lessons include: the relevance of national ownership and engagement of national stakeholders, the importance of ensuring appropriate long-term capacities and financial stability, and the relevance of local stakeholders and technical expertise.

The emerging lessons learned from the Senegal pilot are as below:

1. Significant time and cost savings are possible, even considering the set-up phase
2. With the identification of appropriate 'existing' institutions and strong commitment from the government along with needed capacity building activities, a framework that embeds simplified processes and streamlined and flexible requirements for project developers can be developed and the same can be efficiently managed with the decentralized governance arrangements. However, any additional host country institutional requirements mean that stakeholder engagement and capacity building are even more important than for the CDM.
3. Host countries will also need additional technical expertise, and this could lead to further cost savings in set-up and verification phases
4. Maintaining the balance between ensuring robustness of methodological approaches and reducing transaction costs is key and the innovation occurred within the SCF framework to achieve such balance is a testament to that rule.
5. Aligning design requirements with country systems and integrating the results with national policy targets is of paramount importance for scaling up such approaches.
6. Instrument, technology and business model neutral frameworks such as SCF, when supported by flexible and balanced methodological approaches have a potential to support transition from project level to sectoral or sub-sectoral approaches to crediting emission reductions.
7. Transparency and dissemination of results can support development of cooperative approaches and discussions on Article 6 rules
8. Additional pilots are needed to understand implications of different technologies, roles of private sector, and different types of NDC goals

The SCF pilot in Rwanda

In expanding the SCF, the Ci-Dev has already started the second pilot in Rwanda, which builds on the Inyenyeri improved cookstove program. Rwanda also considered a similar governance structure but building on specific local institutions engaged with international climate policy and

crediting. The Governing Board includes the Rwandan Environmental Management Authority (REMA) as the chair, members from the Ministry of Environment (Director General for Climate Change), the Ministry of Infrastructure (Division Manager, Energy), the Office of Private Sector Federation and a civil society representative.

Though the Rwandan SCF pilot also builds on the experiences in Senegal one of the key differences is the technology area as well as the level of private sector involvement. The SCF pilot in Rwanda will therefore provide an opportunity to see how the SCF functions with different national actors and sub-sectors.

Key Messages

The two key building blocks of the SCF - host country governance and technical/operational reforms to the PoA model - are flexible enough to serve different purposes and can pave the way for different parts of Article 6.

The SCF could pilot voluntary cooperative approaches for countries willing to engage with ITMOs. Countries could designate the SCF as their pilot cooperative approach so the resulting mitigation outcomes could eventually be transferred internationally (i.e. when the applicable guidance on reporting and accounting of ITMOs is met). Building on the CDM project cycle and methodologies, and adjusted to reflect the host country's NDC, the SCF is likely to meet any possible requirements on environmental integrity and robustness for cooperative approaches.

The SCF could help low income countries with the implementation of a dual system under Article 6.4. While the SCF could be developed in a first step as a cooperative approach, it could also become recognized under Article 6.4 as a host country-led system for crediting that is approved by the Article 6.4 Supervisory Body. This could increase the credibility of the SCF and its certification approach, result in internationally recognized transferrable units, and provide countries with access to the international registry and transaction log infrastructure developed for Article 6.4. The informal note on Article 6.4 from SBSTA 48 and discussions during recent COP24 considers a dual system that combines central guidance with bottom-up decision-making and contextualization.

The SCF allows for transitioning from programmatic crediting to sectoral crediting.

Programmatic crediting still relies on bottom-up data aggregation from a large number of individual project activities joining a pre-defined crediting framework. In that context the SCF functions as a generalized PoA using more standardized rules. Such a programmatic SCF could potentially evolve into a “sectoral SCF”, based on a sectoral emissions

reduction target and crediting only emission reductions achieved beyond that target. This could allow for further simplification of tracking and monitoring requirements, if aggregate indicators can be defined and observed on a sectoral level. Transitioning from programmatic to sectoral crediting could also support host countries in setting NDC targets in sectors that do not yet have targets and in increasing ambition over time.

