**TCAF Program Information Note (PIN) Template**

Revised 10/2021

The Transformative Carbon Asset Facility (TCAF or “the Facility”) supports countries to implement market-based carbon pricing and sectoral/policy mitigation measures, and in the process, pilots new and innovative greenhouse gas (GHG) emission reduction crediting mechanisms,[[1]](#footnote-2) providing blueprints for efficient and low-cost mitigation globally and at scale. The Facility provides a financial incentive in the form of payments for emission reductions verified by third-parties. As its name indicates, TCAF seeks to support programs that will achieve lasting impact and lead to transformational change. To meet this objective, priority will be given to programs that are close to completion of the readiness and design phases and can soon move to implementation.

TCAF has a total capitalization of approximately $210 million with contributions from both climate finance providers and carbon market buyers. The different types of contributions have different requirements on ER transfer with implications on meeting NDC commitments by host countries. TCAF plans to sign Emission Reductions Payment Agreements (ERPAs) for 4-5 programs, with each program potentially receiving $30-50 million in Results-Based Payments through two payment agreements with the Program Entity (PE) and two agreements with the host country government. These agreements will be signed sequentially in two phases:

Table 1: Proposed Sequential Signing of Agreements with PE and Host Country government

|  |  |  |
| --- | --- | --- |
|  | Agreement to be signed with the PE | Agreement to be signed with Host Government |
| Phase I | Emission Reductions Payment Agreement (ERPA) backed by climate finance funding. Verified Emission Reductions (VERs) paid by this agreement will stay in the host country and will not impact the NDC. | Host Country Agreement (HCA): HC agrees to undertake capacity building to develop the necessary readiness for Article 6 transaction authorization and to give TCAF the right of first refusal for Article 6 transaction based on the same crediting program. |
| Phase II | Mitigation Outcomes Purchase Agreement (MOPA) backed by carbon market buyers. ERs paid by carbon market funding will require ERs to be transferred out of the host country and require Corresponding Adjustment (CA) against the NDC. | Updated Host Country Agreement: HC approves the MOPA and agrees to authorize ITMO transfer and undertake the reporting according to the final Article 6 rulebook. |

As the first step for TCAF engagement, a Program Information Note (PIN) should be submitted by the program proponent to the TCAF Contributors for endorsement. The purpose of the PIN is to present the NDC strategy, technical design, implementation arrangements and financing for the proposed program, and explain how these can lead to sustainable GHG emission reductions and transformational change in the sector or country. The PIN should explain the program context in the national climate policy environment and Nationally Determined Contribution (NDC) goals of the implementing country. As TCAF will not rely on existing project- and program-based GHG accounting methodologies, the PIN should describe the key crediting design features that reflect the country’s unconditional NDC target. The crediting framework is addressed in more detail in the Program Design Document (PDD), which should be prepared in parallel to the PIN.

The template contains four annexes. Annex A gives guidance on how the program entity should propose indicators to monitor transformational change and assess transformative quality. The guidance on TCAF baseline approach can be found in Annex B. Annex C describes TCAF’s proposed payment structure and requirements for the capacity building plan. Annex D is the proposed process to determine the price for result-based climate finance - verified emission reductions (RBCF-VERs).

The complete PIN submitted by the PE is suggested to include four annexes: Annex A proposes the indicators to monitor ER, transformational change, and sustainable development co-benefit as well as plausibility indicator in the case of policy crediting program. Annex B describes the program-specific baseline approach and ex-ante ER estimates Annex C is the capacity building plan that the government agency in charge of climate change and NDC coordination will implement. The purpose of the plan is to allow the HC to be ready to make the decision on whether to enter into the MOPA under Article 6 transaction and to be ready for the reporting obligations according to the final Article 6 rulebook. Annex D is the price that the PE would like to propose for the VERs related to Climate Finance payment.

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Basic Program Information

|  |  |
| --- | --- |
| Name of the Program |  |
| Country  |  |
| Sector |  |
| Program Proponent |  |
| Document Prepared and Submitted by (name, organization) |  |
| Document Submission Date  |  |

*Note: in the template, the explanatory text in italics should be deleted prior to submission.*

# Program overview

## Development and country context

Explain the key development issues and challenges that the program seeks to address in the country or region. This includes a description of what the program is trying to achieve with the support of national/sector policies and government interventions.

## Climate policy context

Provide an overview of the country’s GHG emissions profile, mitigation policy and regulatory framework, and key strategies that relate to this program. Include a description of the country’s Nationally Determined Contribution (NDC) as it relates to this program, as well as the country’s participation in international carbon markets pre- and post-2020.

## Technical and sectoral overview

Describe the policy intervention and its progress in the country to date. A description of quantitative progress in achieving the policy targets is preferred to help the reviewer to evaluate the business as usual (BAU) scenario.

## Challenges/barriers and how they are addressed

Describe the major challenges, and how the program is designed to address these challenges.

## Lead institution

Present the lead institution, describe its role in the program, as well as its responsibilities in the sector.

Provide full contact details (telephone, address, website, key contacts)

# Transformational impact

Please describe the transformational impact this program intends to achieve from the aspects of size, sustainability, leverage, and supporting domestic carbon pricing. Please refer to the note of Core Parameters for TCAF Operations for details guidance[[2]](#footnote-3).

The TCAF framework defines four criteria for the transformative quality of TCAF operations: (i) size: TCAF operations are expected to show their transformational quality in achieving a large volume of emission reductions, i.e., at least 5 Mt over 5-7 years; (ii) sustainability: emission reductions have to be sustainable over time; (iii) leverage: TCAF operations are expected to enable the host country to increase its domestic ambition over time; (iv) carbon pricing: TCAF operations should contribute to the development and implementation of domestic carbon pricing policies and catalyze a new and scaled-up international carbon market building on Article 6 of the Paris Agreement through piloting of innovative approaches to scaled-up carbon crediting.

These criteria will both be used in the program selection process as well as in the monitoring and evaluation of the program performance over time. TCAF requires that the program propose indicators to monitor transformational change that are appropriate to the country/sector context. These indicators may be based on Annex A: Indicators for transformative quality of TCAF operations. Please list the proposed indicators, how they would be measured and what are the expected targets over the TCAF payment period and present them in Annex A in the final PIN.

In general, it will be important that a program does not only reflect a policy intent but that it is also substantiated through programed concrete implementation steps by the host country, including underlying program financing.

## Size

Describe the estimated total emission reductions achievable over the potential TCAF contracting period (5-7 years), referring to the baseline approach described later in the PIN. Please ensure this estimate is based on realistic assessment of implementation timeline and likelihood of securing financing, rather than technical potential.

Describe the total emission reductions achievable over the long-term (e.g., 15 to 20 years), where applicable, referring to the baseline approach described later in the PIN and taking into consideration the lifetime and/or replacement of equipment.[[3]](#footnote-4) This is based on the same sub-projects included into the crediting program but with ER extending over 15-20 years

## Sustainability

Sustainability has three dimensions: technology, policy, and financing. The host country has a responsibility to achieve this program sustainability and its commitment to this objective is an important criterion in the assessment TCAF will need to undertake. Each of these dimensions need to be assessed and appropriate indicators will need to be defined.

Technology sustainability: A technology sustainable program promotes the right technology at the right point in time that is consistent with a long-term de-carbonization pathway in the respective sector of the economy and in line with the global below two-degree target. In particular, a technology sustainable program avoids locking-in of technologies with short term mitigation benefits but insufficient long-term mitigation performance. Assessment of technology sustainability will be undertaken based on long-term de-carbonization pathways where available and feasible. Alternative such an assessment will be done based on a heuristic approach (see above).

Policy sustainability: TCAF operations will typically directly or indirectly be linked to domestic policies. For the operations to be sustainable it will therefore be important that underlying policies are sustainable. A key indicator for policy sustainability is broad political and social acceptance in the respective country and in particular within the group of affected stakeholders. This acceptance will largely depend on how potentially adverse effects on revenues/incomes of different stakeholders are affected and how these effects are managed or compensated. A further indicator for policy sustainability is policy implementation capacity, such as such as increases in relevant host country staff number, expanding the leading agency’s policy mandate, strengthening inter-ministerial coordination.

Financial sustainability: TCAF operations and the mitigation activities they support are expected to be financially sustainable in the long run. A key indicator for that will be existence of a long-term vision and strategy enabling exit of public funding through targeted market development, regulation such as passing-on of costs to producers and/or consumers or achievement of sufficient technology cost decrease.

## Leverage

Public financing: Describe how TCAF can leverage the additional public financing that supports the implementation of enhanced mitigation activities.

Private financing: Describe how sectoral and macroeconomic policies, which include the program design and incentives, will encourage the potential flow of additional private sector financing (domestic and international) into the sector or country.

Capacity: Describe how the program will strengthen domestic capacity in long-term policy planning and programming and required MRV capacity.

## Carbon Pricing

Describe how the proposed crediting program will directly or indirectly support explicit or implicit domestic carbon pricing, it will fall into one or two segments in the matrix below. Describe how the explicit or implicit carbon price signal will be received by the market participants and their likely response.

|  |  |  |
| --- | --- | --- |
|  | Implicit domestic carbon pricing | Explicit domestic carbon pricing |
| Direct TCAF support | 1. Crediting of emission reductions achieved through regulatory policy or non-carbon based pricing policies/reforms

Example: crediting of a renewable energy program supported by a feed-in tariff system  | 1. Crediting of emission reductions achieved through or above a carbon tax or ETS
* Example: Crediting of emission reductions achieved by a carbon tax above a defined threshold
 |
| Indirect TCAF support | 1. TCAF program builds infrastructure used for implicit domestic carbon pricing

Example: provision of benchmarks and MRV in a TCAF energy efficiency program that are used by the host country to implement a mandatory energy efficiency standard | 1. TCAF program builds infrastructure used for explicit domestic carbon pricing

Example: Facility level MRV developed for a TCAF energy sector program that is used by the host country to implement an ETS. |

## Innovation and spill-over effects [optional for program proponent]

Describe what components in the program plan to reach the target markets are new and innovative, and how this relates to current practices in the country and region.

Describe the impacts of the program outside the target area (either within or beyond the sector or country), where appropriate, and how it could be replicated.

## Opportunities for learning [optional for program proponent]

Describe how the program will create learning on key aspects of scaled-up crediting in the country.

## Sustainable development co-benefits

Each individual program should propose relevant indicators for the specific co-benefits that would be evaluated. For each indicator:

Describe the impact pathways linking program activities to relevant sustainable development impacts.

Describe the quantitative [and qualitative] program goals for this specific co-benefit.

# Crediting framework

## International accounting issues

### No double counting

TCAF’s results-based payments are disbursed through two payment agreements with the Program Entity (PE) and two agreements with the host country government. These agreements will be signed sequentially in two phases as explained below.

Phase I: Emission Reductions Payment Agreement (ERPA) together with a Host Country Agreement (HCA) signed with the PE and the host country government respectively. Each ERPA will amount to $15-25 million in terms of results-based payments, backed by the climate finance providers. The ERs will stay in the country with no impact on the country meeting its NDC commitment.

Phase II: Mitigation Outcomes Purchase Agreement (MOPA) and a new HCA. Upon the completion of capacity building and the host country government’s approval of the transaction for Internationally Transferred Mitigation Outcomes (ITMOs), the PE can sign a MOPA through which the PE will receive additional results-based payments of $15-25 million. Concurrently, the host country government will sign a new HCA in which it agrees to account (corresponding adjustment) for the transferred ITMOs in the target year against the NDC and undertake required reporting according to the Article 6 rulebook as well as receive a payment.

No commitment to CA needs to be made during Phase I since the transaction details of MOPA and HCA will be worked out during Phase II, However, at the PIN submission stage, the host government should explicitly state that it accepts the principle that CA is required for the Phase II transaction to safeguard environmental integrity and that it will adopt CA if it decides to authorize the MOPA, agreeing to undertake the necessary reporting according to the rulebook under Article 6 of Paris Agreement.

## Program crediting approach

### Baseline approach

Describe the relationship between baseline approach and the sectoral emissions levels and targets in the implementing country’s NDC, including how NDC targets at a higher level of aggregation (and in single years) were translated in an annual emissions trajectory for the relevant sector, over the TCAF payment period (2021-2027). Explain the key assumptions of the baseline approach.

Describe and justify the broad methodological approach to the BAU baseline scenario (i.e., reference technology, historical emissions, comparison group, performance benchmark, simulation modelling).

### Crediting period

Describe the proposed length of crediting for the TCAF program, based on program design and taking a conservative GHG accounting approach (bearing in mind that the crediting period would start at the submission of a PIN).

### Lifetime of the program and technologies

Describe the lifetime of the program (years), the lifetime of technologies involved, and the roll out plan, with a start date and end date. While the eligible mitigation policies/measures for crediting can be as early as the NDC submission date, the start date of the program should be no earlier than the start date of NDC implementation period.

### Ex-ante emission reduction estimate

Describe the ex-ante estimate of emission reductions from the program, considering the baseline approach discussed earlier, the key assumptions behind this estimate, and the expected implementation results.

## GHG MRV approach

Describe the overall monitoring protocol/approach for baseline, program and leakage emissions as well as the key parameters that should be measured ex-post.

Where national or sectoral data will be used, provide an overview of the sources, availability and reliability of this data. Explain how the program MRV is aligned with the host countries' national MRV systems (e.g., National GHG inventory methodology; monitoring of NDC implementation progress, computer systems; etc.).

## Other indicators to be monitored

The section should outline other indicators to be monitored related to sustainable development co-benefits, transformative quality (please refer to Annex A).

## Validation and verification approach

Describe the proposed process for validation of the crediting program and verification of emission reductions, including tentative costs.

# Financing

## Financing needs: public sector readiness

Describe the public-sector financing needs for preparation activities such as capacity building, staff recruitment and training, institutional development, consumer awareness raising and other technical assistance where applicable.

Describe the financing needs for implementation activities such as standards development, product testing, compliance, and inspection teams, MRV systems and ongoing training. For policy crediting programs, please specify the public spending on the social welfare programs to manage income distributional effects, if applicable.

## Financing secured: public sector readiness

Describe the currently available support to the public sector for program preparation and implementation, and the type of commitment made so far by each financing source, as well as remaining gaps

Suggest the PIN to map out other parallel initiatives such as accessing GCF PPF funding, NDC implementation facility, etc.

TCAF operations will support large scale transformative mitigation programs in host countries. Such programs might not exclusively be supported by TCAF but also by other providers of climate finance and users of market mechanisms. This raises the question how accounting and reporting of TCAF operations are affected by such third party support. TCAF propose an attribution analysis to map out the sources of concessional climate finance received by the crediting program and the ERs attributed to the concessional climate finance should not be eligible for TCAF payment. Please refer to Attribution of emission reductions to TCAF operations of Core Parameter Note for TCAF Operation[[4]](#footnote-5)

## Financing needs: incentives

Describe the public-sector financing needs for the incentives provided by the program, where appropriate

## Financing secured: incentives

Describe the currently available or planned fiscal budget to the public sector for providing program incentives.

## Capacity to manage flows of financing

Describe the fiduciary standards and financial management practices at the relevant national or sectoral public sector level.

## Actor/ agent level financing

Describe the high-level financing needs of the actors/agents in responding to sectoral policies, including for key activities and projects within the overall program, as well as previously announced sources of debt or equity finance for those actors.

Describe current actors in the sector, as well as new domestic or international actors, who could implement the investments, particularly private sector actors and the commercial lending environment (e.g., cost and availability of debt financing) that could support next investments.

Describe the incremental costs that may be incurred to comply with the policy intervention across the sector, who will bear those costs, and the access to financing of those actors.

# Implementation arrangements

## Enabling regulatory environment, governance and strategic context

### Integration of climate change policy in the sector

Describe the concrete actions to integrate climate change mitigation into policy planning, capacity building, budgeting, implementation, and accountability of policy outcome. This should also include the relevant authorities in charge of implementing policies and programs under the NDC, how these are coordinated, and how progress of mitigation policy is monitored and reported.

### Institutional capacity to implement and enforce

Describe the institutions that govern the relevant sector, their mandate, budgets and staff competencies and skills.

Describe capacity building and institutional development for crediting mechanism and low carbon development (e.g., under the PMR or similar programs) and the key institutions involved in the program. The program entity is suggested to prepare a capacity building plan as in the Annex C that identify capacity gap for implementing the crediting program and for NDC reporting.

## Program technical and financial arrangement

### Management and planning structure

Describe the governance structure of the program, including roles and responsibilities, management structures, and operational processes. Include both the lead institution and all of the other key institutions that are involved, as well as what national coordinating structures (e.g. inter-ministerial, cross-sectoral, central government-state-city) will be established or utilized by the program.

### Technological viability

Describe the technologies that will be used in the program, the commercialization and deployment status of these technologies in the implementing country and other similar countries, and whether any technology transfer is involved.

Describe the alternative/prevailing technologies that the program intends to replace/substitute and identify any barriers presented by the alternative/prevailing technologies that would undermine the proposed technology’s viability, and how the proposed crediting program will overcome these barriers.

### Financial viability[[5]](#footnote-6)

Describe the incremental cost of the proposed low-carbon technology compared with the baseline technology and the plan to pay for the incremental cost.

Describe how the pricing structure in the market covers the costs of supplier, and the returns available to suppliers and producers, as well as how this may evolve over time.

Describe the relationship between consumer purchasing power and the pricing of products/services, and the availability of credit facilities to assist consumers.

## Implementation schedule

Describe the implementation schedule, key milestones and proposed timelines including:

* World Bank lending project’s concept review, decision meeting
* Status of legislation, sectoral reform, implementation plan, staffing and budgeting approval
* For any specific investments directly linked to policy implementation: preparation, domestic approval, procurement, implementation, commissioning
* Timeline for developing PDD, signing MOU, Agreement with TCAF.

Describe any non-GHG program targets or success indicators

## Stakeholder engagement

Describe the multi-stakeholder engagement plan, how stakeholder have been identified, and consultations conducted so far in the development of the program.

Describe what partnerships are necessary for successful implementation of the program, and what steps have been taken so far.

## Safeguards and compliance

Describe which environmental and social safeguards will be applied, and how their application will be implemented, and compliance monitored and verified.

If the program is linked to a set of investments, describe the Environmental Impact Assessment (EIA) or other environmental management requirements and how these will be addressed.

# Implementing country capacity building and climate policy support

## Implementing country capacity building and climate policy support

Describe the internal consultation that has already taken place in the country to build consensus for engaging with TCAF transaction in two phases. Who are the main stakeholders and what are the coordination mechanisms?

Describe the plan of the host government to build capacity in the next two years to authorize the MOPA under Article 6 of the Paris Agreement, including but not limited to, developing crediting strategy in the context of NDC implementation, determining ER ownership, identifying the opportunity cost of achieving unconditional NDC target, tracking the progress of NDC implementation, and the various institutional arrangements for ITMO reporting according to the final Article 6 rulebook.

## Legal issues and ER ownership

Although the ERPA under Phase I will not require ER transfer out of the host country, the host government is suggested to develop national legal and regulatory frameworks that govern the domestic regulation/legislation to determine the ER ownership to build an enabling environment for Article 6 transaction(s). The national legal and regulatory framework should be part of the enabling environment to support host countries to mobilize funding from international carbon market to support its NDC implementation.

# Proposed results-based climate finance payment

Describe the total climate finance payment envelope that the program will request from TCAF for the Phase I transaction, considering that the TCAF’s total payment envelope for each crediting program is in the range of US$ 30-50 million, of which, US$15-25 million will be allocated to the ERPA in the Phase I transaction.

Describe the range of price of RBCF-VERs acceptable to the program entity and the host government respectively, and the basis for determining this range. Please refer to Annex D: Proposed process to determine the price of RBCF-VERs.

Describe the area/activities the RBCF will support. The proponents should articulate the RBCF payments’ relationship to other funding instruments and how the RBCF payments add value.

Annex A: Indicators for transformative quality of TCAF operations

The program entity needs to develop a set of indicators to monitor the transformative quality of the crediting program. Please fill in the table below with the indicators tailored to program situation.

|  |  |  |
| --- | --- | --- |
| **Criteria** | **Indicator** | **Metric** |
| **Size**  | * Volume of ERs
 | * tCO2e
 |
| **Sustainability*** Technology
* Policy
* Financing
 | * Pathway consistency using technology specific indicators
* Political/social acceptance
* Capacity
* Exit strategy
 | * Qualitative and quantitative (program specific)
* Qualitative
* Qualitative and quantitative (program-specific)
* Qualitative
 |
| **Leverage** | * Financial benefit
* Strengthened capacity
 | * USD
* Qualitative
 |
| **Carbon Pricing** | * Carbon price signal
* Recipients of price signal
* Support of domestic carbon pricing through capacity building and stakeholder engagement
* Replicability international carbon market
* Impact on Article 6 negotiations
 | * $/t
* Qualitative and quantitative (#)
* Qualitative
* Number of replicated programs
* Qualitative
 |

Annex B. TCAF approach to crediting baselines

Baseline setting for TCAF operations will be informed by host countries’ unconditional NDC targets and the business as usual (BAU) emissions trajectory from the sector. Clearly, emission reductions forming part of the unconditional targets cannot be credited and hence need to be considering in setting the crediting baselines. TCAF will credit against a crediting threshold or (“TCAF-baseline”) that is well below the BAU emissions trajectory and typically also well below the target emission trajectory. This is visualized in the figure below.

***Figure 1 BAU, target emission trajectory and crediting threshold***



The diversity of NDCs of TCAF host countries means it requires a flexible approach and tailored for each TCAF operation. Nonetheless operations will likely fall into one of the following general categories: (i) congruence – full congruence of the unconditional NDC target area with the TCAF operation’s boundary (e.g., the TCAF operation is about increasing renewable energy generation under a NDC that has an explicit unconditional target on renewables),[[6]](#footnote-7) (ii) inside target - TCAF operation falls under a broader (e.g. economy-wide target, and (iii) outside target - the TCAF operation is outside the NDC target area (e.g. in the waste sector of a country that has only an energy target – assuming for simplicity no energy components of waste sector mitigation activities).

Further complications arise from the fact that some countries distinguish “unconditional targets” from “conditional targets” (targets conditional to international support) – a distinction that is not reflected in the Paris Agreement -, and the widespread adoption of single year targets (generally 2030).

Besides reflecting unconditional NDC targets in baselines and defining crediting thresholds below baselines further differences to the Kyoto Protocol’s project-based mechanisms occur where TCAF operations are policy-based. In such cases, baseline determination will typically require economic modelling not undertaken within CDM or Joint Implementation (JI) methodologies. New approaches other than modelling and already existing methodological tools might be used as well to support baseline determination.

On baseline setting and environmental integrity the suggestion for TCAF is to build the required approaches, tools, and knowledge in a bottom-up process, i.e., in developing TCAF operation-specific methodologies starting from the following set of guiding principles:

* Baseline = Min (target emission trajectory, BAU emission trajectory);
* Crediting threshold below baseline;
* Unconditional NDC targets will be reflected 1:1 in baselines in case (i) and broken down to the baseline depending on NDC ambition and host country strategy in case (ii). In case (iii) BAU will be adjusted in line with unconditional targets set by the host country for areas covered by its NDC and depending on host country ambition and mitigation strategy.
* In cases where countries exclusively provide a conditional target the BAU emission trajectory will be the baseline by default. This baseline might be adjusted by the full or partial conditional target (if the latter is lower than BAU) depending on agreement between host country and TCAF.
* Single year targets will conservatively be broken down to crediting periods (default is linear break down);
* Modelling approaches to baseline setting and other new approaches will be used where required, and where possible existing methodological tools with relevant modifications will be used.

Annex C: TCAF’s proposed payment structure and requirement on capacity building plan

1. **Introduction**

The purpose of this note is to present an overview of the Transformative Carbon Asset Facility (TCAF) payment structure, outline the requirements for program selection and the two-phase process to access TCAF payments. The note is prepared to inform prospective host countries on how the payment structure functions and the various operational aspects of TCAF programs under this payment structure.

1. **Developing Countries’ NDC and the Need to Mobilize Climate Finance**

More than 190 countries have submitted Nationally Determined Contributions (NDCs) pledging ambitious mitigation actions in the broad framework of Paris Agreement. NDC implementation in developing countries faces a number of key challenges, including financing constraints and a lack of experience and capacity. To address these challenges, a variety of funding instruments may be considered to support large-scale, transformative mitigation programs in developing countries. TCAF is one such instrument, with a unique combination of capacity building, results-based climate finance, and carbon market funding, designed to mobilize climate finance for developing countries.

1. **TCAF - A Trust Fund with Hybrid Funding**

TCAF aims to assist countries with implementing their NDCs using policy-based and/or sectoral mitigation measures. TCAF operates under a hybrid funding structure, utilizing the different modalities envisioned in the Paris Agreement. Under this hybrid, both Climate Finance and Carbon Market funding are mobilized for payments against Verified Emission Reductions (VERs). The Climate Finance funding, under Article 9 of the Paris Agreement, is disbursed as a grant to support NDC implementation, with the VERs remaining in the host country. The Carbon Market financing, under Article 6 of the Paris Agreement, requires the VERs to be transferred out of the host country.

TCAF provides host countries with the unique opportunity of leveraging climate finance grants and capacity building engagements, to gain experience and pave the way for mobilizing carbon market resources in the future. The support provided by TCAF will enable the host country to monitor their NDC and policy progress, prepare robust MRV mechanisms and facilitate inter-agency cooperation. The flexibility provided by the hybrid TCAF payment structure is a true no-regret engagement for host countries.

1. **Summary of the TCAF Payment Structure**

TCAF has a total capitalization of approximately $215 million. In the coming months, TCAF plans to sign payment agreements for 4-5 programs, with each program potentially receiving $30-50 million in Results-Based Payments through two payment agreements with the Program Entity (PE) and two agreements with the host government. These agreements will be signed sequentially in two phases as explained below.

***Phase I: Emission Reductions Payment Agreement (ERPA) backed by Results-based Climate Finance (RBCF)***

**Step 1**: Signing of an ERPA and a Host Country Agreement (HCA). The ERPA, with a total value ranging between $15 and $25 million, will define the conditions for the transfer of ERs. In the HCA, TCAF plans to incorporate three key elements:

1. The Transfer-Retransfer Arrangement: The host country first allows RBCF-VERs to be transferred to TCAF, which TCAF will then retransfer back to host country without any impact on the NDC. This is aimed at supporting the host country’s domestic approval process and infrastructure to authorize such transfers.
2. Right of First Refusal: Once the host country starts considering proposals for Article 6 transactions, it must inform TCAF, and before deciding to sell mitigation outcomes (MOs) to a third party, it is required to consider the TCAF crediting program first and allow TCAF to either match the third-party proposal or refuse to do so.
3. Capacity Building: The host country undertakes and implements a capacity building plan with support from the World Bank, to build domestic capability and infrastructure for approving Article 6 transactions, monitor the progress of its NDC implementation and build a reporting system.

**Step 2:** Implementation and monitoring of ERs by the PE. Upon verification, issuance, and delivery of ERs, TCAF will disburse the RBCF-VER payments. Meanwhile, the host country government, with support from the World Bank, will implement a capacity building plan.

***Phase II: Mitigation Outcomes Purchase Agreement (MOPA) backed by Carbon Market funding***

* **Step 3**: Signing of a MOPA and a new HCA. Upon the completion of capacity building and the host government’s approval of the transaction for Internationally Transferred Mitigation Outcomes (ITMOs), the PE can sign a MOPA, the second $15-25 million payment agreement. In the meantime, the host government will sign a new HCA in which it agrees to account (corresponding adjustment) for the transferred ITMOs in the target year against the NDC, undertake reporting according to the Article 6 rulebook as well as receive a payment.
* **Step 4**: Ongoing program implementation and ER monitoring. Upon verification, delivery, and host country authorization of the transfer of ITMO-VERs, TCAF will disburse ITMO-VER payments to the PE and annual payments to the host country, for reporting. A final payment will be disbursed to the host country in the target year when it completes the corresponding adjustment.

The payment structure is summarized in the figure below:



1. **Selection Process and Timeline**

TCAF programs will be designed to generate ERs in the order of one million tCO2e per year. Each TCAF operation is based on a theory of change that includes, among other things, indicators for transformational change and sustainable development. Transformational change towards a decarbonized economy, therefore, constitutes the key selection criterion. Broadly, TCAF aims to support the following types of programs:

* **Policy-based**: Energy sector reforms, fiscal policy changes, pricing, and other regulatory measures
* **Sector-based:** Increasing energy efficiency, promoting the use of alternative fuels, and increasing the use of renewable electricity.
* **Jurisdictional**: Urban programs targeting efficient buildings, reductions in consumption of electricity, gas, and water and a decrease in waste generated beyond the baseline as well as sustainable mobility.

TCAF’s time window for generating ERs and disbursing payments is limited, with all payments to be disbursed by the end of 2028. Assuming at least two to three years for preparation and implementation of the mitigation activities to generate ERs, the time period for any crediting program to receive TCAF payments is a maximum of four to five years. The longer the host country government waits, the less impact that TCAF can bring to the host countries’ NDC implementation. It is therefore important for prospective host country governments and program entities to move quickly in the preparation of programs to secure TCAF’s first-come-first-serve funding.

Annex D: Proposed process to determine the price of RBCF-VERs

ERPA by nature is an grant agreement that disburses a climate finance grant against verified emission reductions. TCAF’s approach for determining the price of the RBCF-VER is based on an iterative negotiation process.

Step 1: The PIN submitted by the program entity should include an overall payment envelope requested. The PIN should also describe the volume and vintages of the available VERs that the PE would like to allocate to serve as the basis for receiving RBCF payment, as well as an asking price for RBCF-VER. The PE should undertake analysis to determine the asking price and carry out the consultation among the key ministries, including the ministry in charge of climate change and NDC implementation.

Step 2: In reviewing and approving the PIN, the TCAF contributors will respond to the pricing and ER volume proposed in the PIN and give the Trustee the mandate to negotiate the price.

Step 3: The Trustee will enter into the negotiation with the PE and host country on the ERPA and Host Country Agreement within the mandate given by the TCAF contributors and agree on the draft term sheet for both agreements.

Step 4: The Trustee will submit the draft term sheet to the TCAF contributors for approval. Once it is approved and upon the World Bank management approval of the crediting project, the ERPA and HCA can be signed between the Trustee and the PE/Host Country Government.

1. “Crediting mechanisms” or “crediting instruments” is used in this document, along with their intended scale and scope, to refer to the various instruments that include a crediting component. Crediting instruments will be piloted through the development and implementation of “scaled-up crediting programs.” [↑](#footnote-ref-2)
2. Core Parameters for TCAF Operations.<https://www.tcafwb.org/sites/tcaf/files/2021-03/TCAF_Core%20parameters%20public%20version_FINAL_09072018_UPDATE_November2020.pdf> [↑](#footnote-ref-3)
3. This should include the financial plan for replacing any equipment with an economic lifetime less than 15-20 years. [↑](#footnote-ref-4)
4. Available on the TCAF website: <https://tcafwb.org/sites/tcaf/files/2021-03/TCAF_Core%20parameters%20public%20version_FINAL_09072018_UPDATE_November2020.pdf> [↑](#footnote-ref-5)
5. Only applicable to low-carbon technology/services that replace prevailing practice (i.e. as opposed to policy crediting programs). [↑](#footnote-ref-6)
6. TCAF would then purchase emission reductions beyond those required by the target as per the suggested baseline approach. [↑](#footnote-ref-7)