

LEVERAGING GLOBAL CARBON MARKETS FOR LOW CARBON TRANSITION AND BEYOND:

The first results and lessons learned from
the iCRAFT project
In the Republic of Uzbekistan



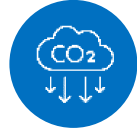
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Zurich, April 29, 2024

Policy crediting programs: An overview



Policy crediting programmes use **policy to create more sustainable energy systems**, thereby reducing carbon emissions.



Policy implementation will be monitored ex-post to quantify ER. monetization will help fill the policy implementation gap



These also help address some of the world's biggest challenges:



Energy security



Climate action



Sustainable development



Energy subsidy/tariff reform



Rational use of energy



Reduction of carbon emissions



Result-based credits under the Project



Development and testing of necessary infrastructure, systems, processes, documents for policy-based carbon transactions

Uzbekistan is one of the most energy and carbon-intensive economies in the world



GDP energy intensity is **50% higher than that of Kazakhstan**, and around **3 times that of Turkey**.

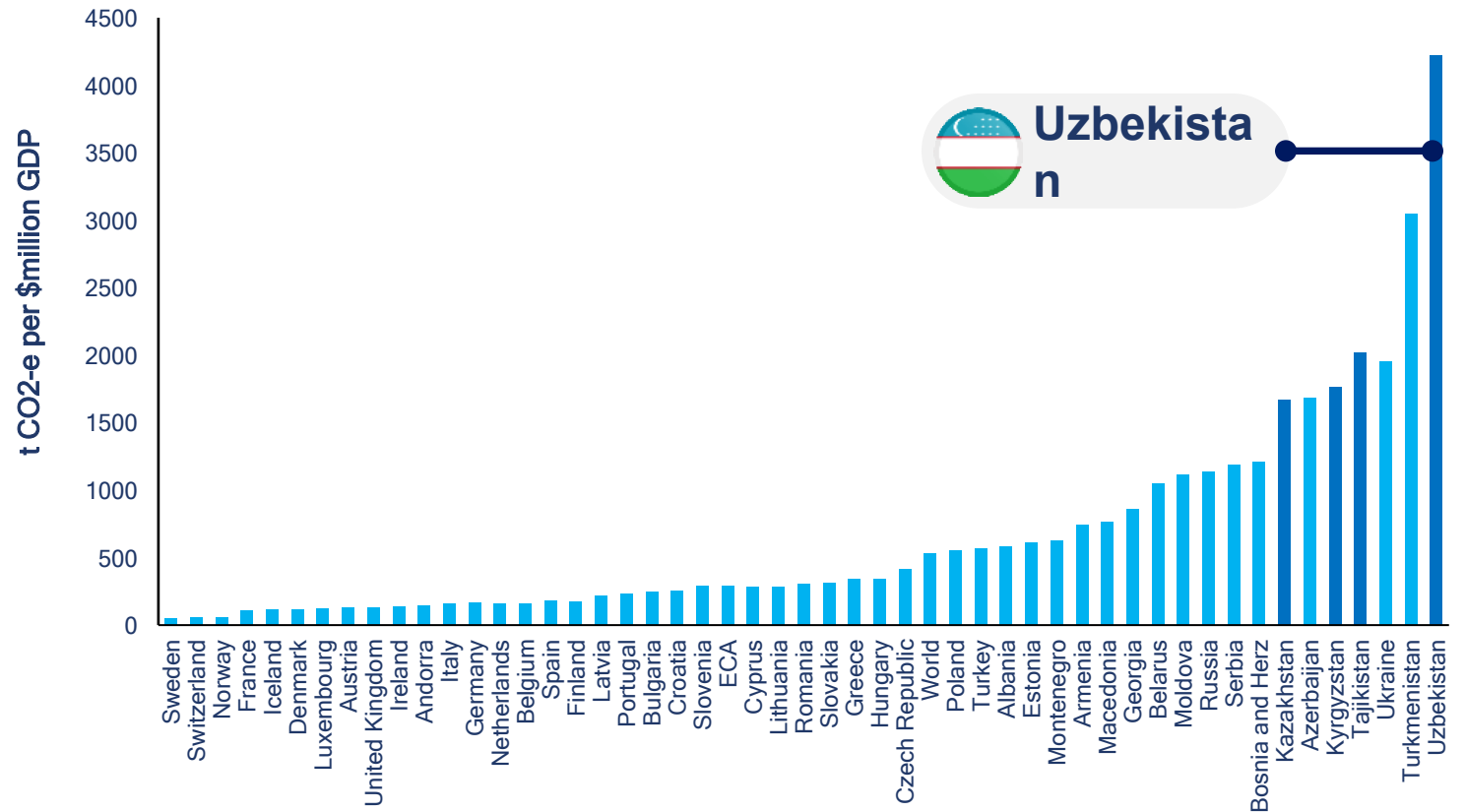


The national energy system accounts for **74% of total greenhouse gas (GHG) emissions** in the country.



Uzbekistan's economy is **highly dependent on fossil fuels**. These are estimated to run out in the next 20 years.

Emissions intensity of ECA economies



Source: CAIT, 2018

High energy-intensity is primarily driven by subsidies and artificially low tariffs, leading to wasteful energy use.



Uzbekistan is one of the **top 25 countries in the world with the largest energy subsidies**, which accounted for 6.6% of GDP in 2020.

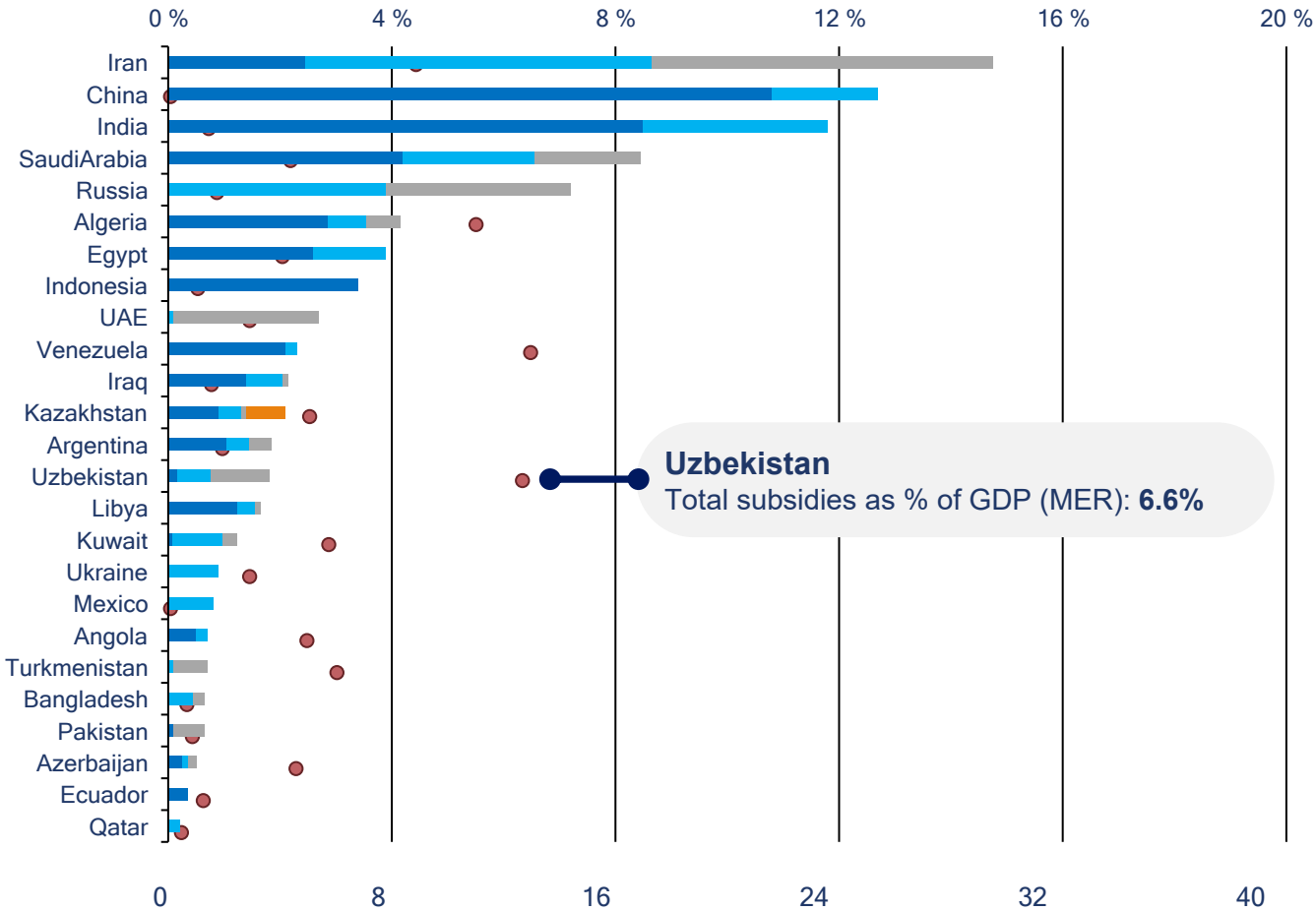


These subsidies have led to **wasteful and inefficient use of energy resources**.



These subsidies are **highly regressive** in Uzbekistan, with about one-third (1/3) benefiting high-income consumers and **only about 13 percent reaching low-income households**.

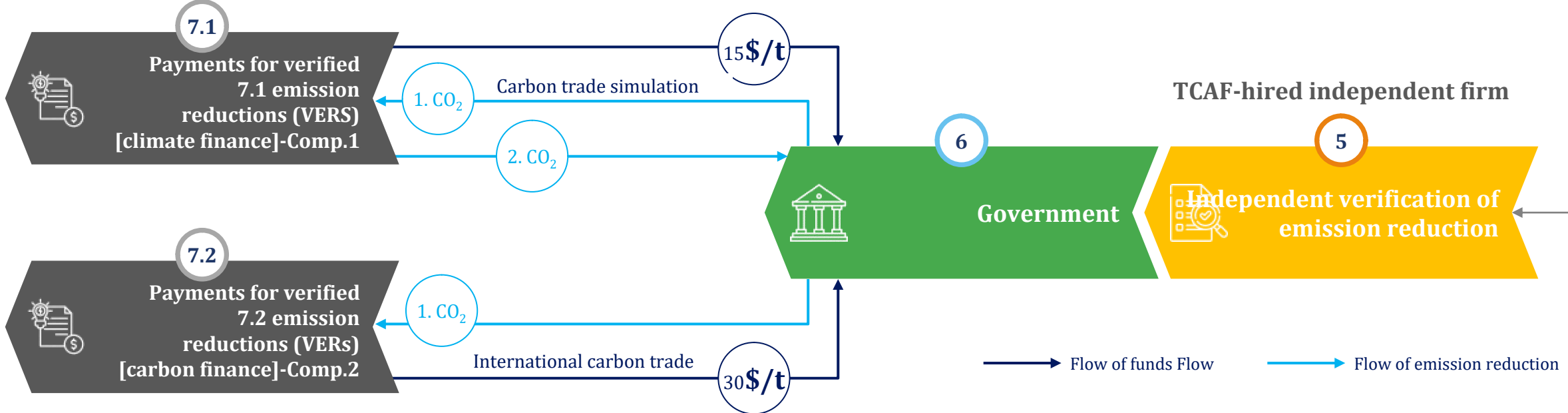
Countries with largest energy subsidies, 2020



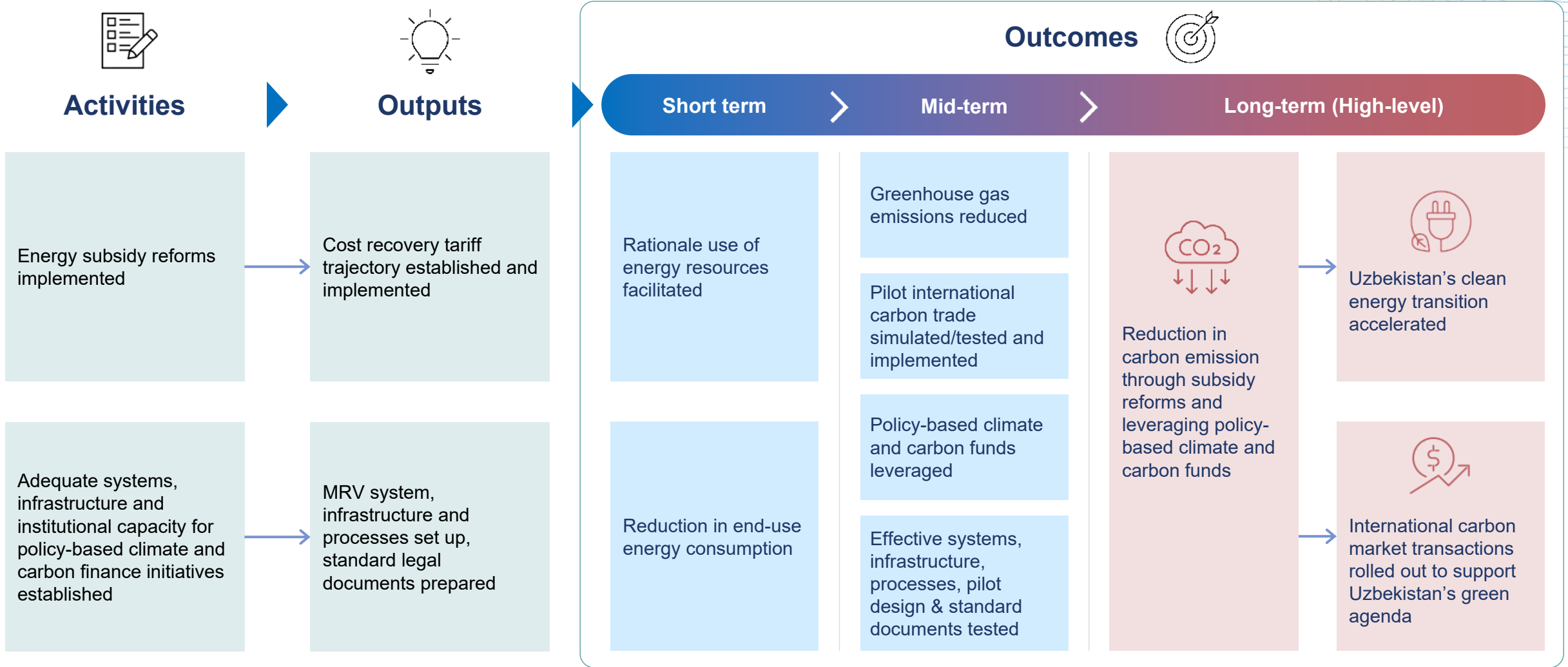
Policy reform Incentivizes efficient and sustainable energy use as a result of energy subsidy/tariff reform



World Bank/TCAF



Policy crediting helps Uzbekistan to reduce its own emissions intensity while also generating new income through carbon markets



Intended use of TCAF payment

Social assistance activities



- ✓ Strengthening social safety net system and single registry
- ✓ Annual surveys of distributional impacts, including public consultations
- ✓ Identifying new vulnerable social groups which might be negatively impacted
- ✓ Tariff reform educational communication campaigns

Energy sector reform



- ✓ Establishment of independent energy regulator
- ✓ To implement reforms for transition to competitive electricity and gas markets
- ✓ To develop and implement effective tariff policy and pricing

Renewable energy promotion



- ✓ Resources mapping
- ✓ Prepare the renewable investment program

Drive progress towards the Sustainable Development Goals



Climate action

Climate change is an existential yet preventable risk to the world.

iCRAFT delivers:

- Reduced GHG emissions
- Contributing to Nationally Determined Contributions (NDCs) under the Paris Agreement



Energy security

People & businesses need a reliable, sustainable, and affordable supply of energy over the long term.

iCRAFT delivers:

- More sustainable/efficient use of energy
- Reduced strain on energy systems (reducing blackouts)
- Mitigating risks of running out of fossil fuels

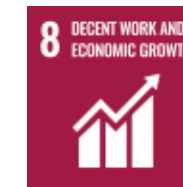


Sustainable development

With the right support, developing countries can grow their economies, develop economically, and mitigate emissions at the same time.

iCRAFT delivers:

- Savings from eliminating subsidies can be channeled to other anti-poverty initiatives and social protections
- Increased financing from carbon credits towards needed infrastructure and initiatives



Laying the foundation to roll out further policy crediting programs in either other sectors or countries.

How to...



build broader public support of policy reform by strengthening social assistance program and implementing public awareness campaign



Access international carbon markets via carbon transactions



Develop, establish and test adequate infrastructure, policies, MRV systems, processes, standard technical and legal documents



Disseminate knowledge and collaborate with development partners

Applying lessons from UZB pilot creates the possibility for further scale in other countries or sectors.



Innovation comes with cost and pain – but the reward pays off!



No standard designs from previous projects to benefit from.



Seek co-financing (IDA/IBRD) wherever is possible



Need for upstream work and TA to identify and prepare reforms and prepare the clients – plan and budget in advance



Need for multi-stakeholder engagement – get all relevant people in the room (WG, Steering Committee). Identify a champion!



Establish close collaboration and communication to effectively manage the expectations and uncertainties

Positive impacts and moving forward

01.



Growing attentions and support on policy crediting

- ✓ **Strong recognition from the developing countries** on the policy actions' contribution to global mitigation
- ✓ World Bank management support and **strong momentum of replicating this modal within the World Bank**, as evidenced by the submission of Nepal Clean Air Policy crediting program pre-PIN
- ✓ UNFCCC mitigation team reached out to **organize some** technical workstream on policy crediting under 6.4

02.



It take **great vision, patience, and strong partnership** to make it happen

- ✓ Taking calculated risk is important as this new concept has not been tested before
- ✓ Preparation and implementation of this concept is also a trust-building process

03.



The ITMO buyers are encouraged to consider policy crediting into their ITMO sourcing strategy **due to**

- ✓ The scaleup impact
- ✓ Significant contributions to global decarbonation pathway
- ✓ Short lead time to generate emission reductions

Thank you!