THE KIGALI PRINCIPLES

ON CARBON FINANCE

INTRODUCTION

THE GLOBAL CARBON MARKET REPRESENTS A GROWING SOURCE OF FUNDING FOR CLIMATE CHANGE INITIATIVES AND THERE IS POTENTIAL FOR THE VULNERABLE COMMONWEALTH MEMBER STATES TO TAKE UP THIS OPPORTUNITY.

TO DO SO, HOWEVER, COUNTRIES MUST PUT IN PLACE THE LAWS, POLICIES, AND INSTITUTIONAL CAPACITY TO NAVIGATE THE SOPHISTICATED NATURE OF THE CARBON CREDIT CERTIFICATION AND VERIFICATION SYSTEM AND ENSURE ENVIRONMENTAL AND SOCIETAL BENEFITS.

An increasing number of corporations and other organisations are making emission reduction commitments and are turning to carbon credits to achieve this.

To meet this growing demand, the supply of carbon credits will need to scale commensurately.

The creation of carbon credits has grown by more than 30% each year since 2018, reaching 352 million tCO2e issued as credits in 2021 for a total value exceeding USD 1.4 billion in the first quarter of 2022.

By the end of this decade, the continuous use of carbon credits may lead to demand between 1 to 2 billion tCO2e by 2030, with a tenfold increase in financing flows compared to today.

This creates a unique opportunity for many developing countries, which typically have significant potential for natural-capital-based carbon sequestration (e.g., reforestation) and/or community-based carbon avoidance (e.g., clean cooking) projects that often also create significant societal co-benefits such as job creation and health improvements.

More specifically, many developing Commonwealth nations harbour the significant potential for a range of carbon credits projects.

There are, however, a number of barriers that would need to be overcome in order to capitalize on this potential, including insufficient domestic technical and financial capacity to develop and verify carbon credit projects, an enabling environment, market access, and the need for international buyers to place a higher value on 'societal' co-benefits alongside the cost and integrity of carbon credits.

In order to address these issues and scale carbon finance in developing Commonwealth countries, Rwanda is proposing:

- The development and proposition of the "Kigali Principles on Carbon Finance" to evolve the emerging carbon credit standards to place more emphasis on ensuring transparency on the in-country social benefits of carbon credits, so buyers can adjust their purchasing behaviour accordingly - leading to price increases for these societally beneficial credits and thus more money being channelled into these projects.
- The creation of a technical and financial assistance Facility to help Commonwealth countries foster carbon credit project development capacity and to ensure a supportive enabling environment as well as facilitate market offtake.

OBJECTIVE

The overarching objective of this initiative is to build project development capabilities across developing Commonwealth countries and help unlock external finance to accelerate mitigation activities that deliver socially beneficial carbon credits, with the ultimate goal of reducing global greenhouse gas emissions while advancing inclusive sustainable growth in developing countries.

APPROACH

i. The Government of Rwanda, through the Rwanda Green Fund - FONERWA, will establish a Taskforce Secretariat and deliver initial conceptual and administrative support.

ii. Establish a task force composed of a range of commonwealth countries (developing and developed countries) to develop the Kigali Principles on Carbon Finance which will aim to ensure greater prominence and recognition of societal co-benefits created by carbon credits in developing countries.

iii. Develop the means of implementation of the Kigali Principles on Carbon Finance

iv. Establish a Technical Assistance Facility to help Commonwealth countries to strengthen capacities for developing, financing, and selling carbon credit projects

The Secretariat will convene interested Commonwealth countries for the development of the Taskforce Action Plan and its implementation, including the mobilisation of the necessary resources.

The Taskforce will lead the development of the Kigali Principles on Carbon Finance, the process to follow for the drafting, review, and adoption of the principles will be defined by the Secretariat.

As an initial task, the Secretariat will commission a stocktake analysis of how existing international standards address and assess the social benefits of carbon projects, whether carbon markets assign them a value in terms of credits' price differentiator, and whether carbon finance applies differentiated conditions on the basis of co-benefits. The analysis will seek to obtain views from carbon market participants, including buyers of carbon credits, independent standards, market intermediaries, or financial institutions investing in carbon projects.

The Taskforce will use the gathered inputs to draft the Principles, with the aim of having the Principles adopted a year from the formation of the Taskforce.

Once the Kigali Principles are ready, the Taskforce Secretariat, with the support of its members, will enroll in a dissemination stage where Commonwealth countries endorsing the principles are keen and able to present them in international fora.

The Taskforce Secretariat will identify and engage champion countries that will work together to implement the principles and demonstrate opportunities for developing countries, and support this external engagement campaign through a comprehensive stakeholder mapping and communication/ engagement strategy design.

The Taskforce will set forth an aspirational goal of helping Commonwealth countries with capacity building and project development leading to the issuance of 1 GtCO2e of socially beneficial carbon credits by 2025, mobilising at least 15 bn USD in climate finance flows into these countries.

WAY FORWARD

Establishment of the Taskforce

Development and adoption of the Kigali Principles on Carbon Finance

Development of a roadmap of the Kigali Principles on Carbon Finance and means of implementation.

MORE INFORMATION

Contact the Rwanda Green Fund - FONERWA team at **info@fonerwa.org** for more information.