Navigating Decisions on Carbon Markets

The Article 6 Implementation Partnership (A6IP), the Global Green Growth Institute (GGGI), the Integrity Council for the Voluntary Carbon Market (ICVCM), the United Nations Development Program (UNDP), the Voluntary Carbon Markets Integrity Initiative (VCMI), and the World Bank (WB) are coordinating technical assistance to help host countries design, implement and participate in high integrity carbon markets. Coordination of support will also address the fragmentation of technical assistance and provide a coherent framework to countries that will enable them to maximize their carbon market potential and achieve their climate goals.

Recognizing both the significant potential benefits these markets offer to developing countries and the challenges these countries face in realizing these benefits, this high-level guidance document offers structured questions to guide the development of a host country's carbon market strategy, and a clear entry point to the most relevant tools and resources provided by Technical Assistance partners for countries to engage in carbon markets. Detailed guidance notes will be developed to assist countries in addressing various strategic and operational issues around carbon markets, including the interplay between Article 6, voluntary and domestic crediting markets, and carbon pricing instruments. By coordinating capacity-building and technical initiatives, this effort aims to streamline countries' access to appropriate technical support and enable them to make informed decisions.

A6IP Paris Agreement Article 6 Implementation Partnership
GGGI
iC THE INTEGRITY COUNCIL FOR THE VOLUNTARY CARBON MARKET
UNDP
VCMI Voluntary Carbon Markets Integrity Initiative
WORLD BANK GROUP

Context

International carbon markets, especially crediting mechanisms,[i] offer significant potential for host countries. These markets can provide much-needed finance for climate action; deliver crucial development co-benefits such as jobs, ecosystem conservation, and clean air; and provide revenues that can be re-invested by and in local communities to advance sustainable development and improve livelihoods. Many developing countries have shown strong interest in hosting carbon market activities.

However, host countries must consider a range of factors relating to local circumstances and the envisioned role of international carbon markets. Figure 1 summarizes these factors while Figure 2 demonstrates the complexity of the carbon markets.

Without a coherent strategy, host countries may fail to realize the full potential of carbon markets. Alternatively, they may become overly dependent on carbon markets without complementary measures or use them inappropriately. This could prevent them from achieving their NDC targets, damage their reputation, and undermine the global framework for achieving emission reductions.

Approach for Developing a Carbon Markets Strategy

Countries participate in carbon markets for various reasons, such as meeting their NDCs, addressing financing needs, and facilitating technology transfer. Countries will have diverse starting points for involvement in carbon markets, depending on their previous experience and climate goals.

As a country considers engaging in carbon markets, it must evaluate several factors including potential revenue generation, co-benefits, and long-term advantages, while weighing these against risks such as failing to achieve NDC targets, socio-economic impacts, and reputational concerns. Countries must additionally decide whether to authorize credits for international sale and determine their intended purpose.

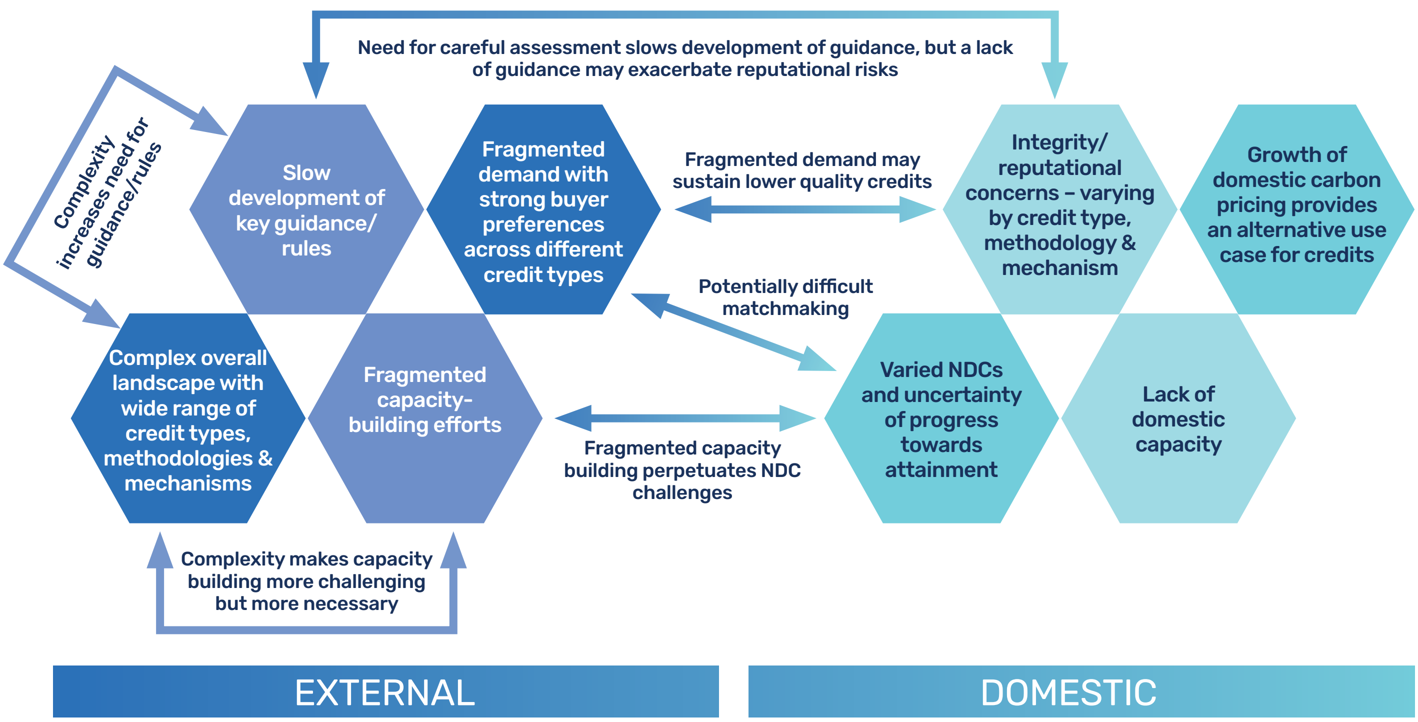

Figure 1
Considerations for host country participation in international carbon markets

i Carbon crediting mechanisms generate tradable credits, representing 1tCO2e of reduction or removal, according to protocols intended to ensure that credits accurately reflect the emissions reductions or removals being claimed.

Note: *NDC:* Nationally determined contributions

There are also several operational issues related to participation in international carbon markets that need to be considered. These include – how to organize credit-generating activities within the NDC, which crediting approaches to adopt (such as project-based, jurisdictional, or policy-based), the methodologies, market infrastructure to support engagement, and how to manage interactions with domestic carbon pricing instruments (CPI) (e.g., carbon taxes and emissions trading systems).

Other considerations include ensuring that benefits flow to indigenous peoples and local communities, evaluating the pros and cons of institutional design options, defining the legal status of credits, and determining the use of revenues generated. These decisions will be critical in determining the effectiveness of carbon markets in supporting access to international finance, and supporting long-term decarbonization and development goals.

These questions are complex and interrelated, and despite the increase in capacity-building programs in recent years, countries still lack clarity on how to engage in carbon markets. For this reason, capacity-building providers, including A6IP, GGGI, ICVCM, UNDP, VCMI, and the World Bank, have come together to draft an organizing framework, built around seven key questions, that can help countries navigate key carbon market decisions (Figure 3).

Over the coming year, this framework will be developed into detailed guidance, with tools to help answer these questions, along with case studies and examples. This collaborative effort as development partners providing technical support complements and builds on previous work, and aims to clarify linkages between Article 6, voluntary markets, and domestic carbon pricing instruments. The questions outlined in Figure 3 should be tailored to each country's unique context. This checklist approach serves as a valuable starting point for countries looking to engage in carbon markets, enabling them to identify gaps and highlight key considerations.

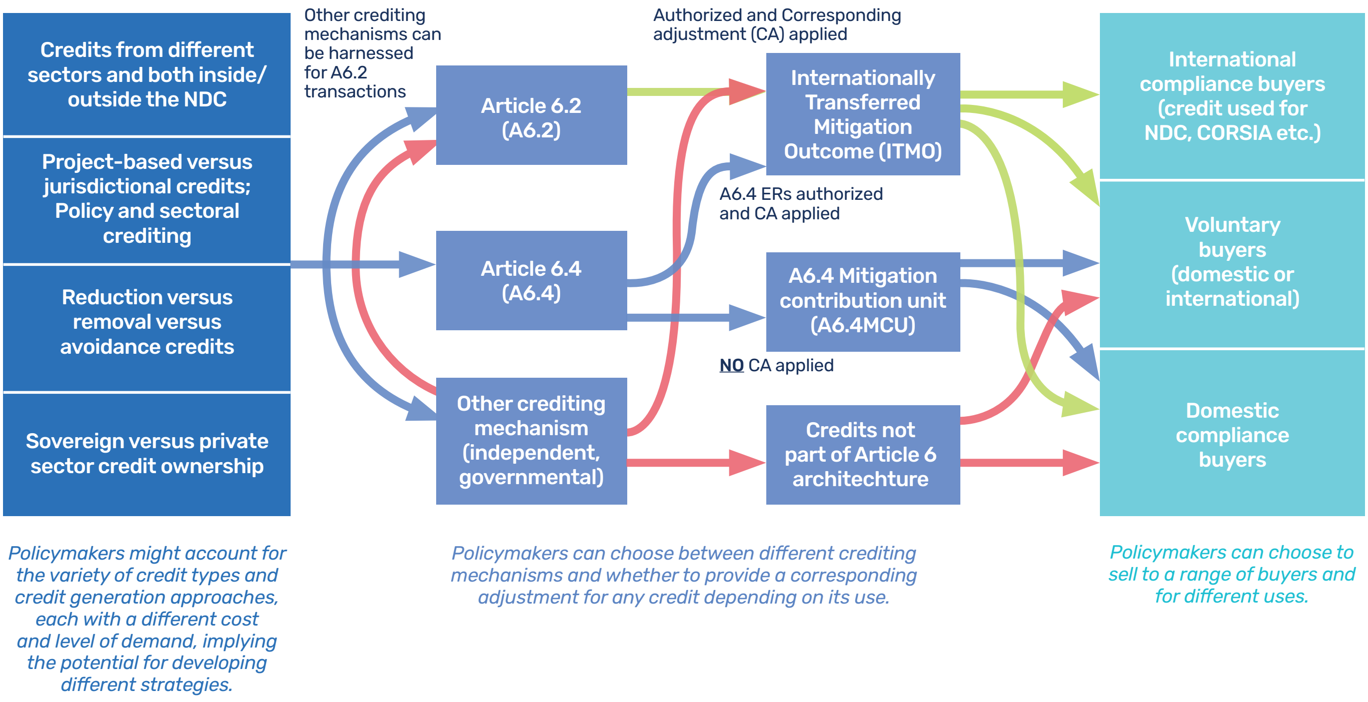

Figure 2
The complex landscape of international carbon market transactions

Note: *Project based credits:* credits generated from individual projects such as a renewable energy project, waste management project; *Jurisdictional based credits:* credits generated from interventions such as an energy efficiency standard or energy/carbon pricing policies
ER: Emission reduction/removal; *CA:* Corresponding adjustment; *CORSIA:* Carbon Offsetting and Reduction Scheme for International Aviation

Decision tree for navigating carbon markets

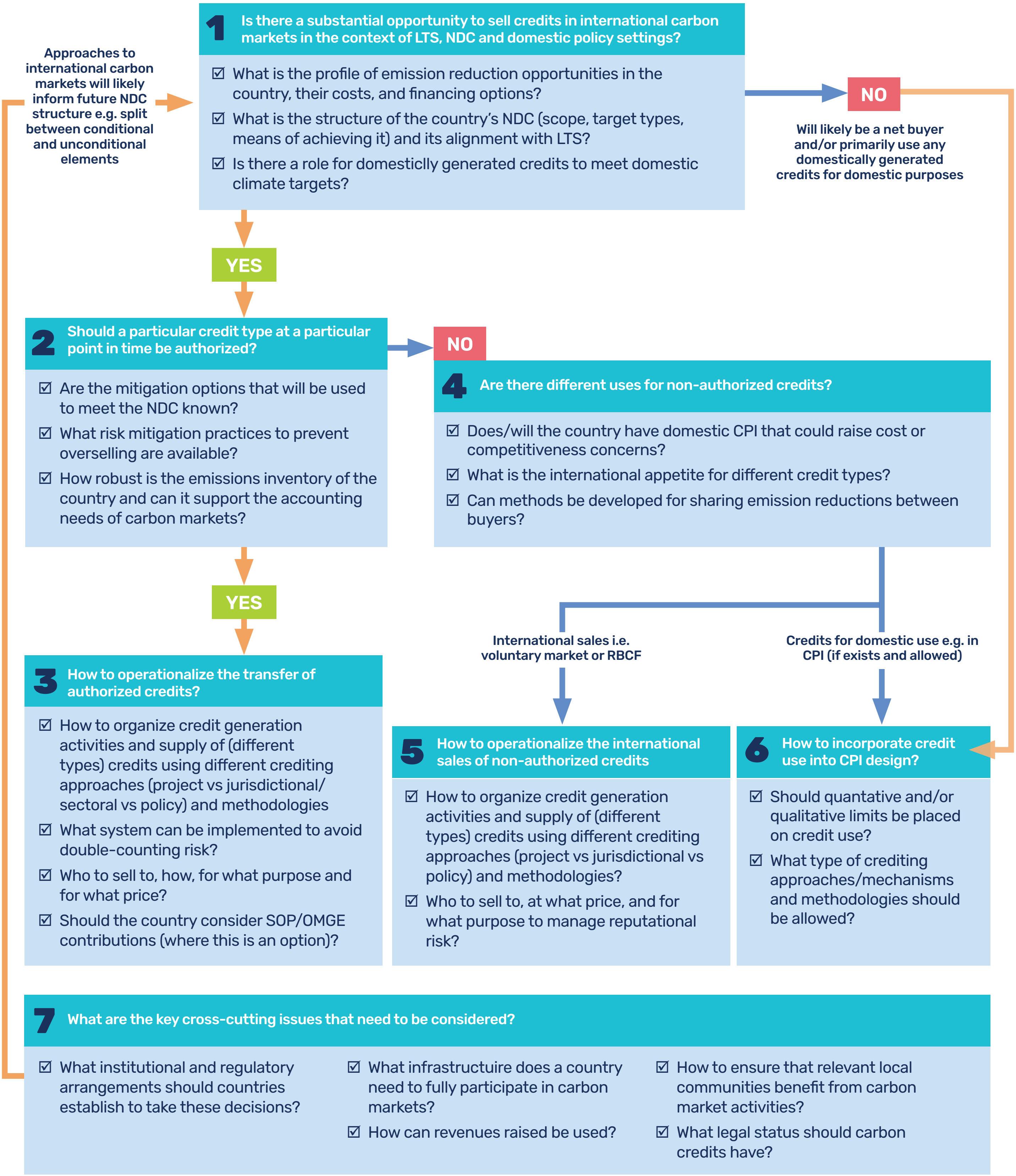

Figure 3
Structured questions to guide the development of a host country's carbon market strategy

Note: *LTS:* Long term strategy; *CPI:* Carbon pricing instrument; *RBCF:* Results-based Climate Finance; *SOP:* Share of proceeds; *OMGE:* Overall mitigation in global emissions