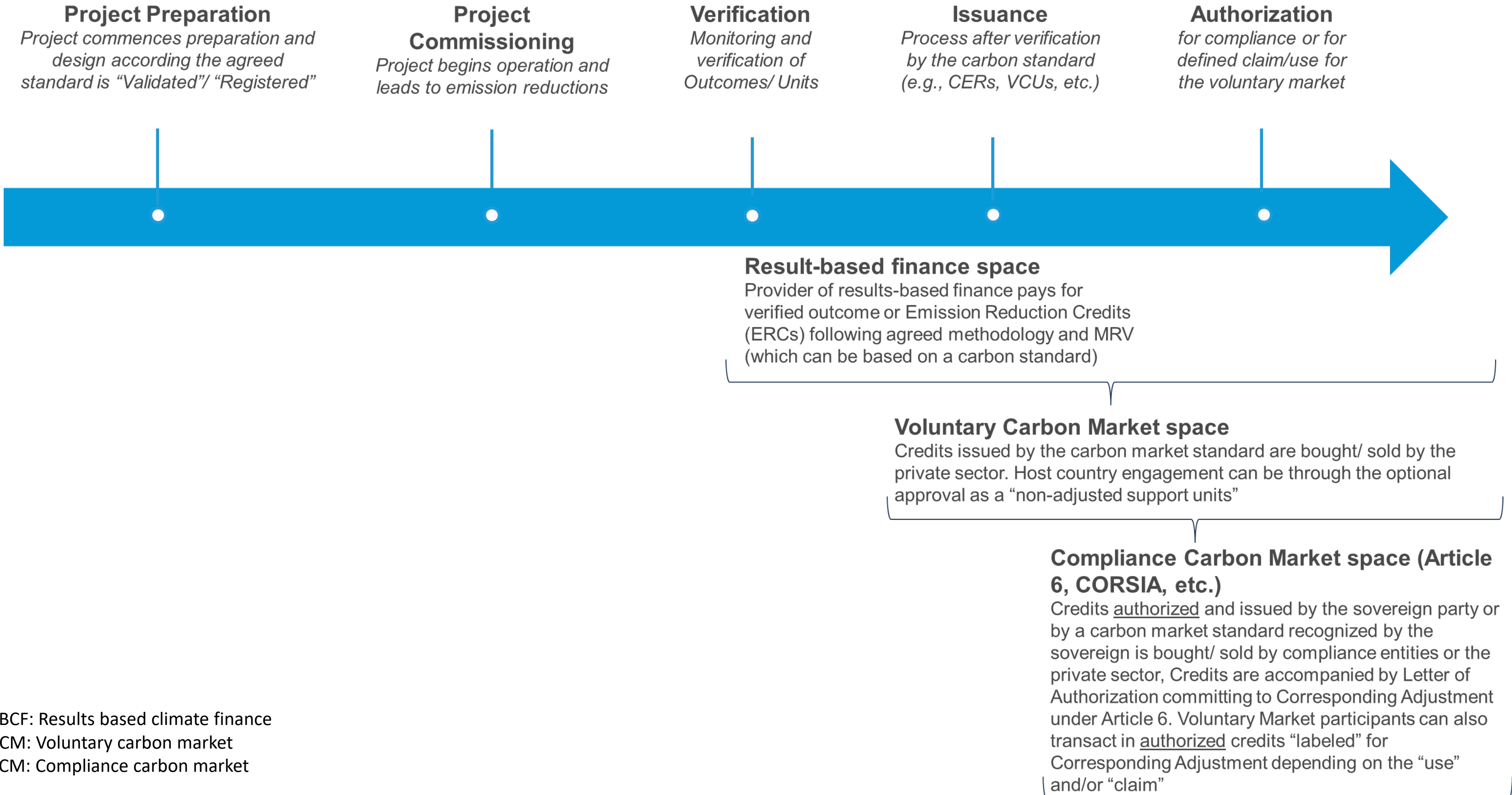




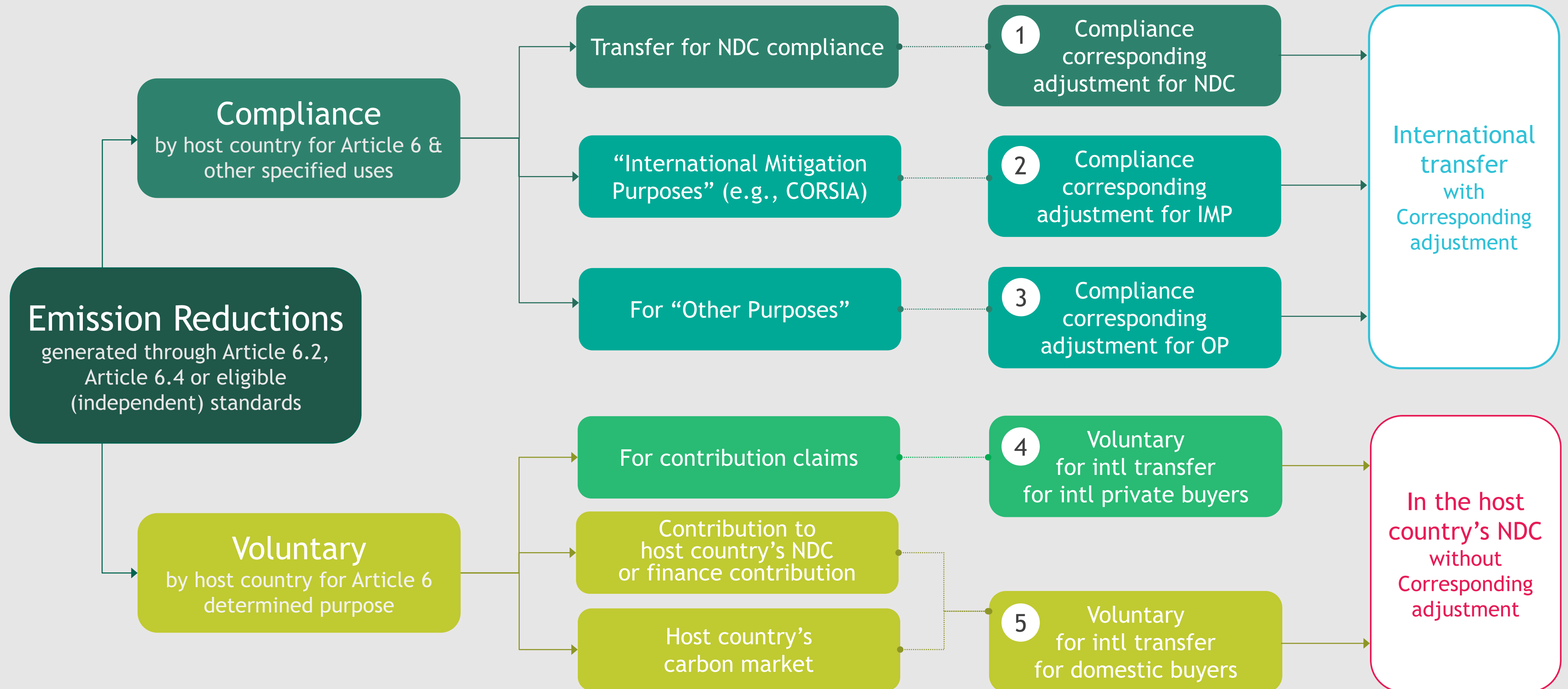
# A Host country choice – Article 6, voluntary markets or both?

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# Defining and understanding the RBCF, VCM, CCM space is useful to understand the role/impact of finance flows from different market mechanisms.



# To understand the role of government, one needs to understand what these emission reduction credits will be used for.



Source: WB Climate Warehouse

# Current issues with Article 6 and voluntary markets are likely to impact how quickly these markets grow and play a meaningful role

## Compliance Markets under Article 6

- Delays with finalization of rules
- Complex requirements for host countries
- Limited demand from 'traditional' buyer countries
- Lack of standardization for Govt-Govt transactions
- Limited host country capacities
- Stringency vs scale

## Voluntary Markets

- Illiquidity
- Lack of standardization
- Legal nature of credits
- Corresponding adjustments/two-tier market
- Lack of oversight
- Transparency over 'claims'

## A host country choice – Article 6, voluntary markets or both?

- Choice is not binary
- Credibility of VMs: increased market scrutiny, potential voluntary oversight by the ICVCM and VCMI
- Defining ‘beyond compliance’ in respect of a host country NDC: additionality/environmental integrity and the need for CA; NDC stringency key
- CORSIA, while allowing credits from voluntary markets, requires CA
- Countries like Singapore require all credits be correspondingly adjusted, in order for them to use in its carbon tax scheme
- Accordingly, countries may choose to:
  - Create ITMOs under A6.2 and A6.4 ERs under A6.4
  - Create voluntary credits using standards such as GS, Verra and choose not to do CA
  - Adopt a hybrid approach: create credits under ind. Standards and unilaterally decide to do CS
- The accounting and economic cost of carrying out a CA is the same whether the unit in question is an A6.4 ER, an ITMO or a voluntary market credit.
- The choice therefore depends on: a) speed by which A6.4 market becomes operational; b) the ease of use or convenience of the new A6.4 markets vs the VCM; c) the market price of an ITMO or A6.4ER compared to a CA VCM credit or a non-CA VCM credit.
- Given the experience of CDM when host countries lost their ability to finance project due to collapse of demand, host countries may wish to hedge their bets between Article 6 markets and VCM
- This will be likely reflected in the relevant legislation they pass and the manner in which their A6 authorization frameworks to be introduced

# How different countries are hedging the risks - case of India, Indonesia, Malaysia and Ghana

	Indonesia	India	Malaysia	Ghana
Status of regulatory framework	Exist (Presidential regulation no. 98 of 2021 requires prior approval of project from MoEF; Regulation no 21 of 2022 sets detailed rules for authorization framework)	Exist (Energy Conservation Bill 2022); draft framework is published this week	Under finalization; Sarawak introduced the legislation requires verification under the global standard	Exist
Projects subject to prior govt approval?	Yes	Positive lists published	Expecting the approval requirement; Sarawak requires	Yes; for VCM, the choice is by the project developer
Units issued by national authorities or Ind. Standards?	MoEF will issue domestic offset units; by others depends on the terms of the mutual agreement bt MoEF and the relevant standard	BEE would administer the issuance and trading (proposed)	Bursa Malaysia Berhad entered an MOU with VERRA;	Ghana issues the Mos and record in their registry; recognizes all VCM projects; all projects need to be registered with the Carbon Market Office
Any restrictions on exports?	Yes; expected to develop the conditions; may require buffer quantity	Bill does not contain any such and need to be seen if any will be introduced	The final bill may have some restrictions	
Positive/Negative lists	Not yet	Not yet	Not yet	Yes

## What govts should know/have?

- Clarity on its NDC targets and what it takes to meet it and through what activities and financing needs
- Understanding the costs of meeting its NDC (\$/tCO<sub>2</sub>)
- Full knowledge on the requirements under the compliance and voluntary markets, mainly on the authorization/approvals needed and the need for the corresponding adjustment and its implications
  - Restrictions from independent standards on types of activities
  - Countries moratorium on transfer of credits until the clarity is reached
- Providing clarity to the market through a needed policy framework that defines the process flow, eligibility, approvals/authorizations required, any levies/taxes, what data/info should be provided etc.

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Resources:

<https://pmiclimates.org>

<https://www.theclimatewarehouse.org>

<https://www.worldbank.org/en/topic/climatechange/brief/world-bank-carbon-funds-facilities>