A Host country choice – Article 6, voluntary markets or both?
Defining and understanding the RBCF, VCM, CCM space is useful to understand the role/impact of finance flows from different market mechanisms.

- **RBCF**: Results based climate finance
- **VCM**: Voluntary carbon market
- **CCM**: Compliance carbon market

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**Project Preparation**
- Project commences preparation and design according to the agreed standard is “Validated”/“Registered”

**Project Commissioning**
- Project begins operation and leads to emission reductions

**Verification**
- Monitoring and verification of outcomes/units

**Issuance**
- Process after verification by the carbon standard (e.g., CERs, VCU, etc.) for compliance or for defined claim/use for the voluntary market

**Authorization**
- Process after verification by the carbon standard (e.g., CERs, VCU, etc.) for compliance or for defined claim/use for the voluntary market

**Result-based finance space**
- Provider of results-based finance pays for verified outcome or Emission Reduction Credits (ERCs) following an agreed methodology and MRV (which can be based on a carbon standard)

**Voluntary Carbon Market space**
- Credits issued by the carbon market standard are bought/sold by the private sector. Host country engagement can be through the optional approval as a “non-adjusted support unit”

**Compliance Carbon Market space (Article 6, CORSIA, etc.)**
- Credits authorized and issued by the sovereign party or by a carbon market standard recognized by the sovereign is bought/sold by compliance entities or the private sector. Credits are accompanied by Letter of Authorization committing to Corresponding Adjustment under Article 6. Voluntary Market participants can also transact in authorized credits “labeled” for Corresponding Adjustment depending on the “use” and/or “claim”
To understand the role of government, one needs to understand what these emission reduction credits will be used for.

- **Compliance** by host country for Article 6 & other specified uses
  - Transfer for NDC compliance
    - Compliance corresponding adjustment for NDC
  - “International Mitigation Purposes” (e.g., CORSIA)
    - Compliance corresponding adjustment for IMP
  - For “Other Purposes”
    - Compliance corresponding adjustment for OP

- **Emission Reductions** generated through Article 6.2, Article 6.4 or eligible (independent) standards
  - For contribution claims
    - Contribution to host country’s NDC or finance contribution
  - Host country’s carbon market

- **Voluntary** by host country for Article 6 determined purpose
  - Voluntary for intl transfer for intl private buyers
  - Voluntary for intl transfer for domestic buyers

**International transfer with Corresponding adjustment**

**In the host country’s NDC without Corresponding adjustment**

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

<table>
<thead>
<tr>
<th>Compliance Markets under Article 6</th>
<th>Voluntary Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Delays with finalization of rules</td>
<td>• Illiquidity</td>
</tr>
<tr>
<td>• Complex requirements for host countries</td>
<td>• Lack of standardization</td>
</tr>
<tr>
<td>• Limited demand from ‘traditional’ buyer countries</td>
<td>• Legal nature of credits</td>
</tr>
<tr>
<td>• Lack of standardization for Govt-Govt transactions</td>
<td>• Corresponding adjustments/two-tier market</td>
</tr>
<tr>
<td>• Limited host country capacities</td>
<td>• Lack of oversight</td>
</tr>
<tr>
<td>• Stringency vs scale</td>
<td>• Transparency over ‘claims’</td>
</tr>
</tbody>
</table>
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

ICVCM: Integrity Council for the voluntary carbon markets; VCMI: Voluntary Markets Integrity Initiative; CA: Corresponding Adjustment; VCM: Voluntary carbon market
### How different countries are hedging the risks - case of India, Indonesia, Malaysia and Ghana

<table>
<thead>
<tr>
<th>Status of regulatory framework</th>
<th>Indonesia</th>
<th>India</th>
<th>Malaysia</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>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)</td>
<td></td>
<td>Exist (Energy Conservation Bill 2022); draft framework is published this week</td>
<td>Under finalization; Sarawak introduced the legislation requires verification under the global standard</td>
<td>Exist</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Projects subject to prior govt approval?</th>
<th>Indonesia</th>
<th>India</th>
<th>Malaysia</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Positive lists published</td>
<td>Expecting the approval requirement; Sarawak requires</td>
<td></td>
<td>Yes; for VCM, the choice is by the project developer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Units issued by national authorities or Ind. Standards?</th>
<th>Indonesia</th>
<th>India</th>
<th>Malaysia</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>MoEF will issue domestic offset units; by others depends on the terms of the mutual agreement bt MoEF and the relevant standard</td>
<td>BEE would administer the issuance and trading (proposed)</td>
<td>Bursa Malaysia Berhad entered an MOU with VERRA;</td>
<td>Ghana issues the Mos and record in their registry; recognizes all VCM projects; all projects need to be registered with the Carbon Market Office</td>
<td></td>
</tr>
</tbody>
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<thead>
<tr>
<th>Any restrictions on exports?</th>
<th>Indonesia</th>
<th>India</th>
<th>Malaysia</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes; expected to develop the conditions; may require buffer quantity</td>
<td>Bill does not contain any such and need to be seen if any will be introduced</td>
<td>The final bill may have some restrictions</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Positive/Negative lists</th>
<th>Indonesia</th>
<th>India</th>
<th>Malaysia</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not yet</td>
<td>Not yet</td>
<td>Not yet</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>
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 ($/tCO2)

• 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.
Resources:
https://pmicliminate.org
https://www.theclimatewarehouse.org