

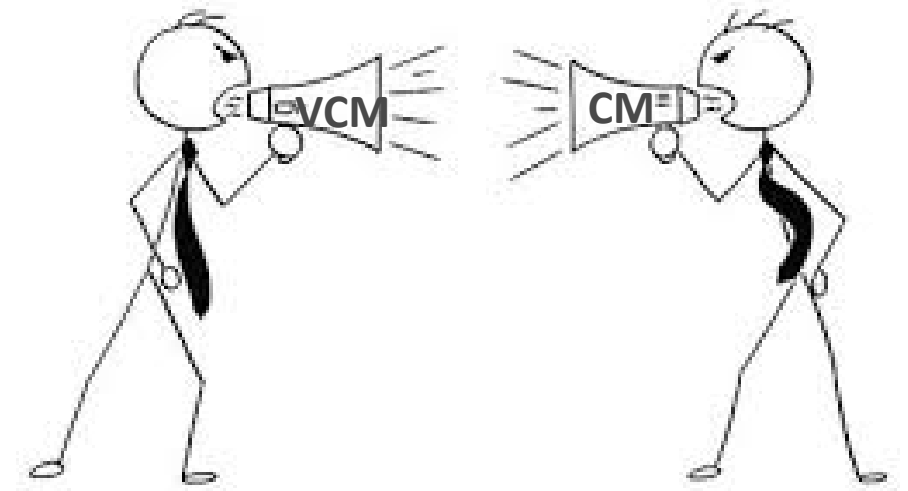


National Level Strategies and Policy Frameworks for International Carbon Markets

06 July 2022



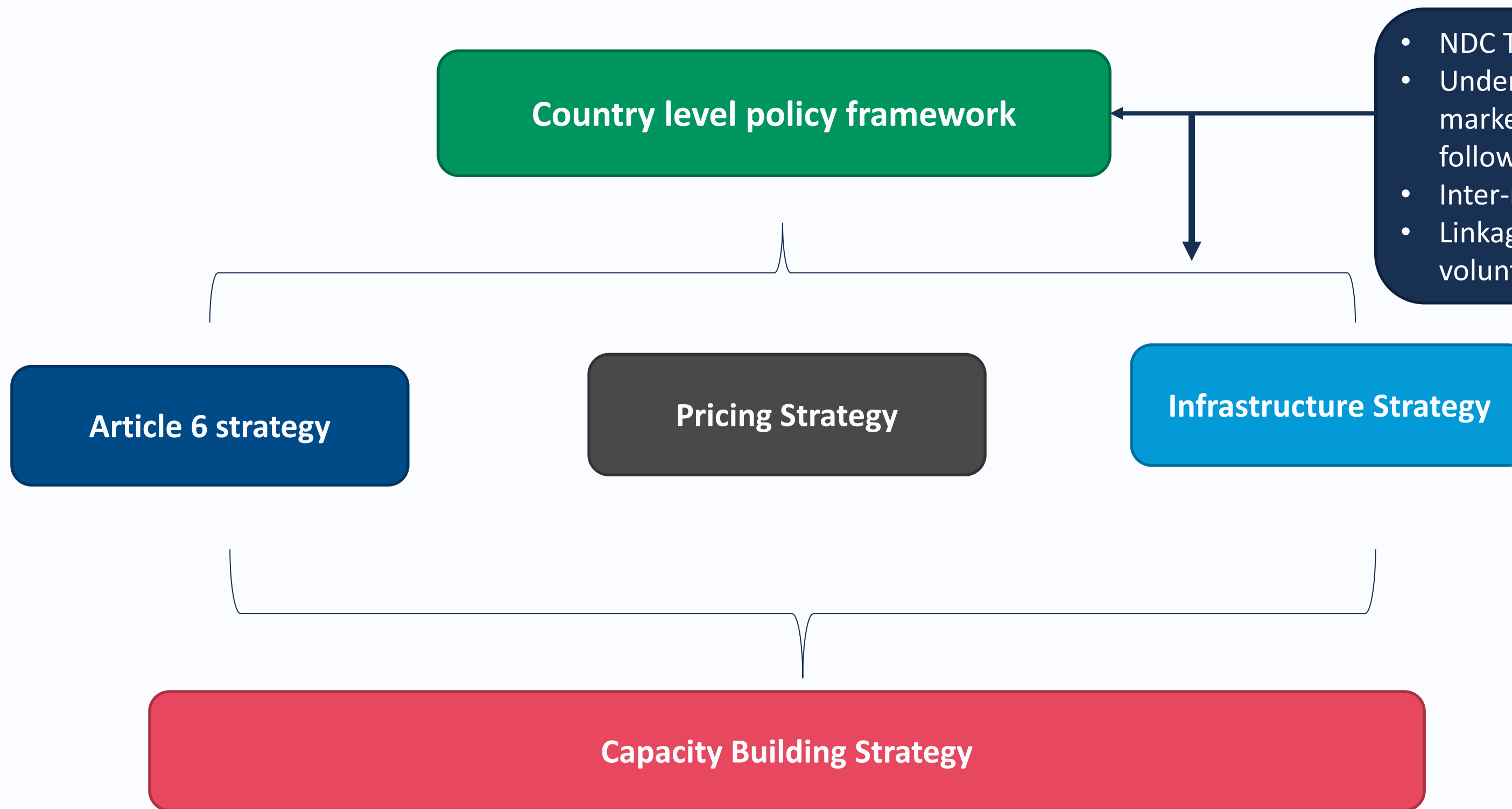




What.. I am not at fault



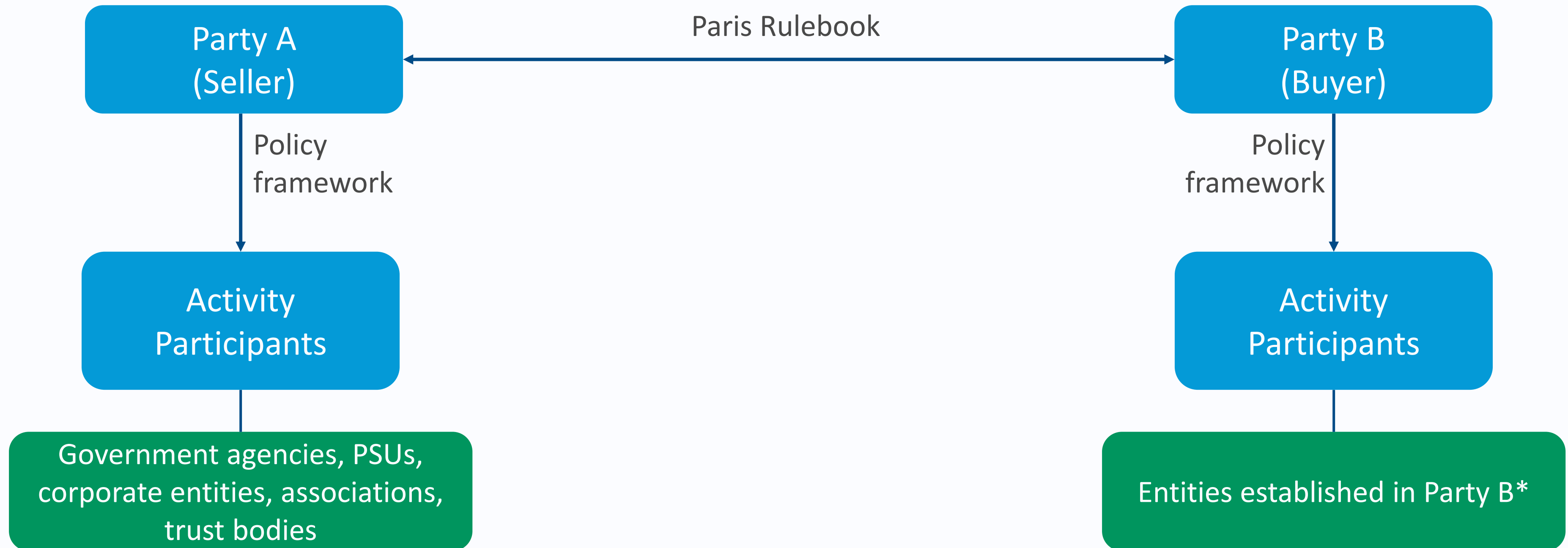
Country's participation in carbon markets depends on clear understanding of requirements and establishing clear strategies supported by a national framework



"They say that I need multiple strategies to prepare the carbon market recipe, so we invited an expert"

The policy framework provides a basis for participation by domestic entities and confidence/trust to market players to enter transactions

Clarifies rights and obligations of Activity Participants for participation in a Cooperative Approach



*A Party may decide whether to permit applicants established outside its jurisdiction to participate in Mitigation Outcome Activities in the country.



The structure and content of policy framework depends on needs identified and the role the country would like to play

Contents - Framework

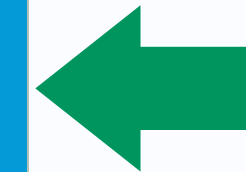
Guiding principles	<ul style="list-style-type: none"> • Scope and obligations • Environmental integrity • Sustainable Development • Alignment with Art 6.2 Guidance and CMA Guidance
Framework for eligible mitigation outcome activities	<ul style="list-style-type: none"> • MO development process • Validation and registration • Monitoring and reporting • Verification and issuance • Eligible entities for independent assessment
Framework for approval and authorization	<ul style="list-style-type: none"> • Approval of activities • Activity participants • Authorization for the purposes of Art 6.3 of the PA
Issuance of mitigation outcomes	<ul style="list-style-type: none"> • Prerequisites for creation of MOs • Creation of MOs • Registry and tracking
Corresponding adjustments	<ul style="list-style-type: none"> • Corresponding adjustments and reporting of ITMOs
DNA, penalties, and appeals	<ul style="list-style-type: none"> • Governance • Penalties • Appeals committee

Schedules - Specifics

1. Definitions
2. EI requirements
3. SD criteria
4. Eligible activity types and sectoral scopes
5. Eligible methodologies and standards for ex-ante estimation & the process for approval of new methodologies
6. MO development process
7. Validation, MRV
8. Requirements for activity participants
9. Issuance
10. Eligibility criteria and/or approval/accreditation process for independent entities
11. Authorization requirements
12. Prerequisites for MOs (vintage, metrics, etc.)
13. Registry procedures
14. Reporting procedures
15. Functions of the DNA and relevant ministry

Inputs for Schedules

- Approach Papers and associated discussions with the Climate Market Club
- Experience with pilots, PMR, etc.
- National circumstances
- Domestic requirements
- National climate strategies
- Final Article 6.2 Guidance



Article 6 strategy is expected to help countries to make needed decisions at different levels

Decisions for host countries on Article 6 engagement happen on three levels:

- **Strategic issues** for decision on whether to participate: Under what conditions would it be beneficial to participate in Art 6?
 - Understanding **risks** and **opportunities**: Overselling risks **vs** Opportunities for additional financing for low carbon development, sustainable development “co-benefits”, technology transfer, and capacity building
 - Analysis of options to address overselling risks: strategies for choosing sectors, project types, technologies for Article 6; pricing strategy to ensure sufficient revenue to cover high mitigation costs in the event of overselling; quantity restrictions, etc.
 - Explanation on how Article 6 can support the country’s NDC, long-term strategies, and net-zero targets
- **Tactical issues** for decision on how to participate: Possible models for engagement and implementation of Art 6
 - Identification of the relationship between domestic carbon pricing instruments and Article 6
 - Use of international and domestic programs and standards
 - Bilateral vs multilateral cooperation
 - Creation of a mitigation fund based on Art 6 levies
- **Operational issues** for choices on implementing the various strategic and tactical decisions: to be addressed in individual approach papers



Clarity on cost of meeting NDC target helps countries to avoid overselling risks and meeting its NDC target with potentially expensive mitigation measures

MOs: Cost Pricing

- Stay in host countries, applied toward host country NDC compliance;

Payment for MOs:

- Concessional climate finance (RBCF);
- Private climate donations.

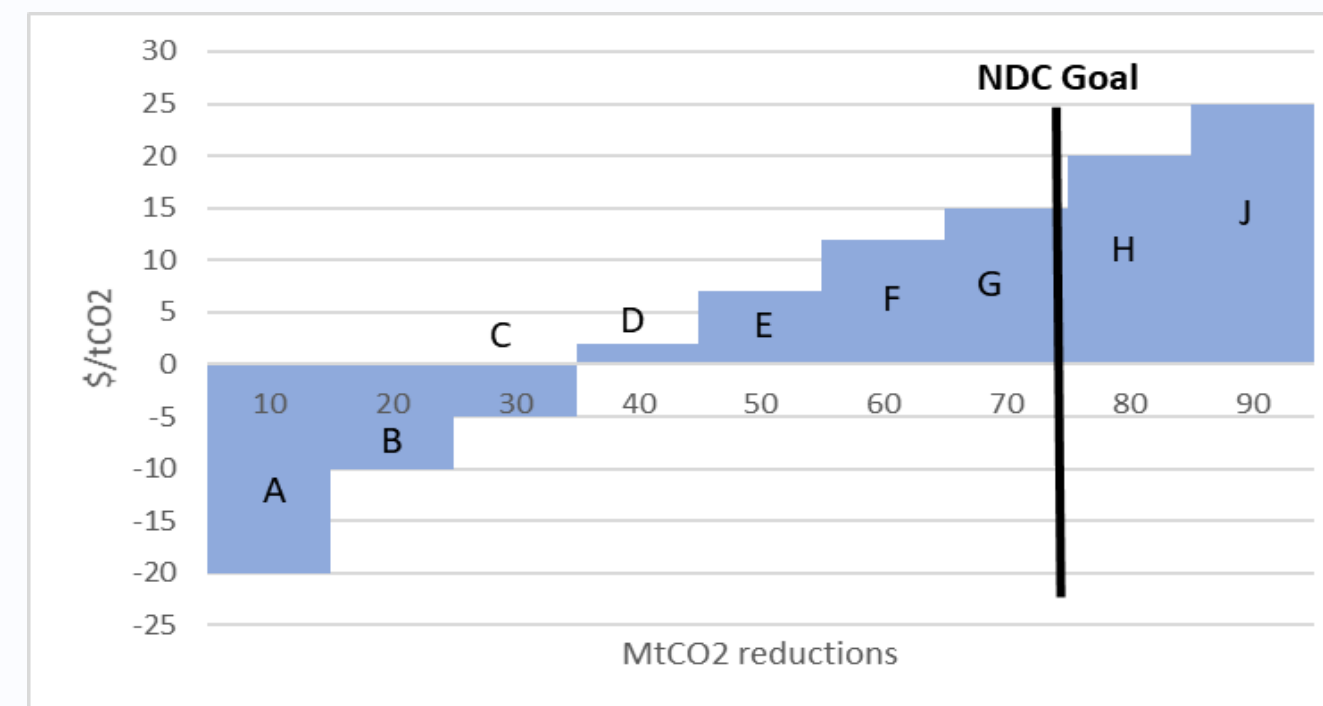
Minimum payment principle:

- Minimum payment to enable program implementation;
- Financial analysis to determine cost gap;
- Breakdown of cost gap to MO unit.

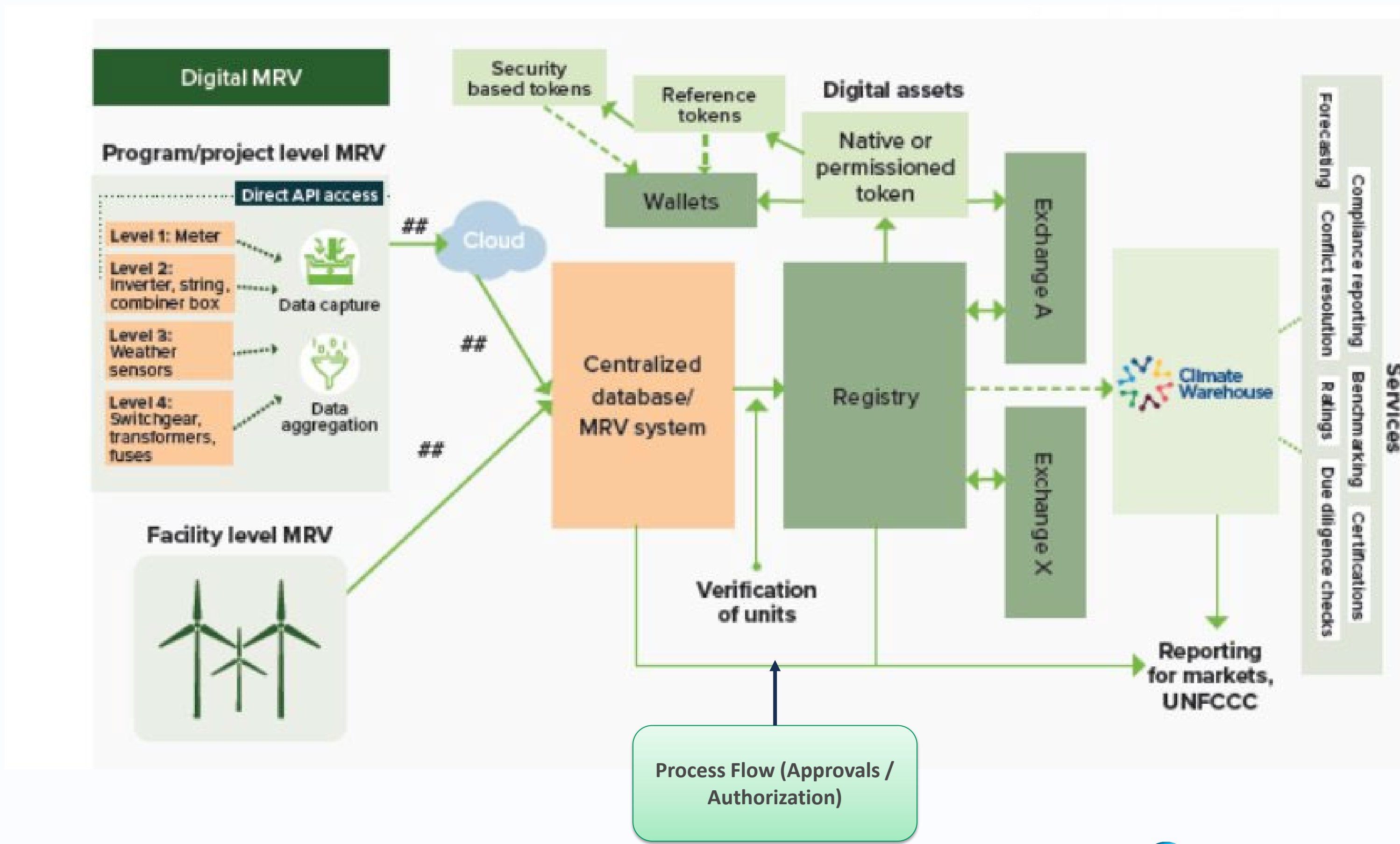
$$\text{ITMO cost} = c(\text{ITMO}) = c(\text{MO}) + \text{OC}$$

ITMOs: Opportunity cost pricing

- Transferred out of host country;
- No longer available for host country NDC compliance: corresponding adjustments;
- Host country has opportunity cost of transferring ITMOs.



Infrastructure needs at country level depends on the market potential, institutional capacity, existing systems and their linkages and resources available



The 'What' and 'How' of capacity building is critical for making stakeholders ready for international carbon markets

- Target a range of actors; make the process as inclusive as possible
- A lot of lessons to be learned from the Kyoto period
- Learning by doing
- Raise awareness of the opportunities and benefits of carbon markets
- Build and strengthen the national institutions
- Coordinate with multiple development partners, international organizations and donors
- Tailor technical assistance; sustainability is key
- Develop a 'toolkit'



Many countries, regional actors, donors and development partners are already helping several countries on multiple aspects of carbon markets

60+

Countries with policy/ legislation / decree that mentions **'carbon market'**

Open source, off-the-shelf MRV and Registry systems

World Bank
EBRD
UNFCCC
UNDP
Several private players like IHS, GEM etc

Training, e-courses, tools, blueprints, capacity building

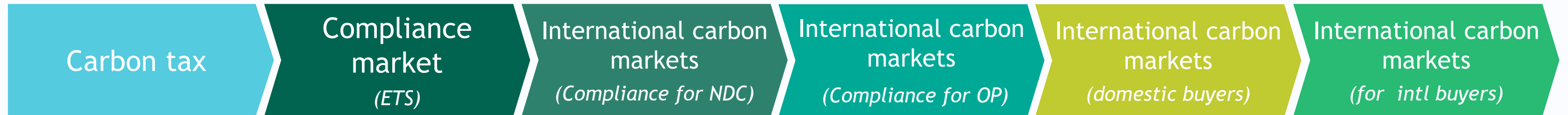
World Bank
UNFCCC
ADB
Switzerland
Sweden
Japan
UNDP
GGGI
West Africa Alliance
East Africa Alliance

*list is not exhaustive

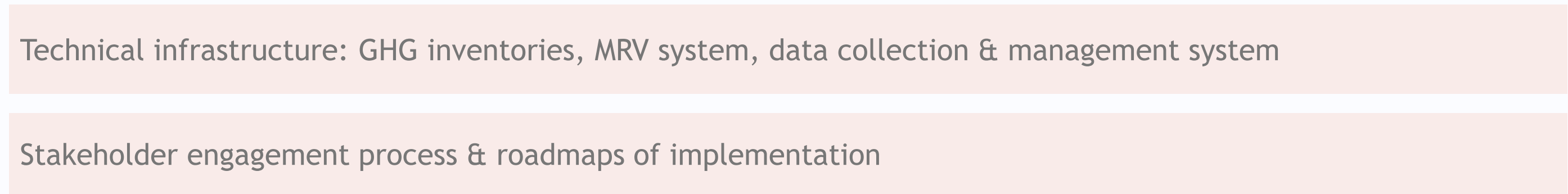


The World Bank is supporting countries their efforts to deploy CPIs & participate in international carbon markets

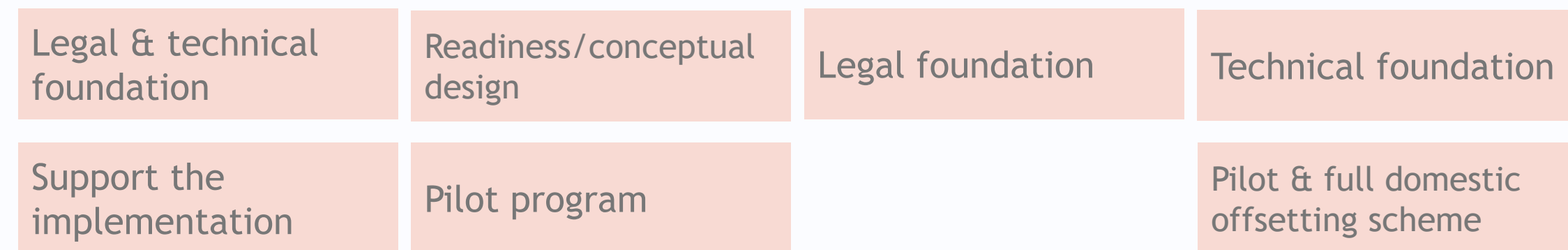
Our program



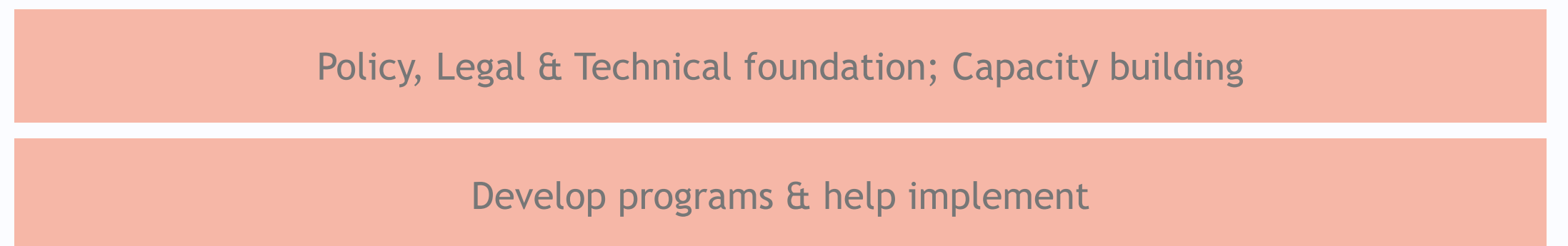
1. Partnership for market readiness (2016-2020)



2. Partnership for market implementation (PMI) (ongoing)



3. Enabling carbon markets: PMIF (Climate Warehouse); CERF/TCAF/Ci-Dev (ongoing)



ARTICLE 6 - Key Papers, Reports & Tools



Ensuring Environmental Integrity under Article 6 Mechanisms

Ensuring environmental integrity is recognized as an important goal under Article 6. This paper examines factors that affect environmental integrity under Article 6 of the Paris Agreement, and identifies practical approaches for implementing the concept based on lessons learned from the World Bank's pilot activities and feedback from stakeholders in pilot countries.



Country Processes and Institutional Arrangements for Article 6 Transactions

This paper provides options on how host countries can design institutions and approval procedures at the domestic level to manage Article 6.2 activities and transactions. It identifies functions required at the national level and discusses different options to allocate these functions to existing or new institutions.



Carbon Asset Development Process

This paper seeks to identify processes for the generation and transfer of carbon assets in post-2020 international climate markets and suggest standard terminology in the carbon asset development cycle across key independent standards. The paper reflects inputs from the informal working group on carbon assets, pilot transactions under different initiatives, as well as knowledge produced in relevant platforms.



Country Policy Framework for Cooperative Approaches Under Article 6.2

This paper suggests a need for a national policy framework specifying a country's preferred approach towards implementing a Cooperative Approach under Article 6.2. The policy framework is intended to provide the minimum legal foundation required to give Parties (including the private sector entities) the necessary certainty regarding their rights and obligations as participants to the Cooperative Approach.



The MAAP-Carbon Pricing Instrument (MAAP-CPI) and the MAAP-International Transfer Readiness (MAAP-ITR)

The Mitigation Action Assessment Protocol developed to measure, compare and benchmark the relative performance and risks of climate actions at the project/program level, now has two additional assessment frameworks for jurisdiction-level assessments. The MAAP-CPI and the MAAP-ITR are to help countries assess, prepare, and participate in domestic carbon pricing instruments and international carbon markets respectively.



Digital MRV Systems and their Application in Future Carbon Markets
<https://openknowledge.worldbank.org/handle/10986/37622>

Upcoming Report

Climate Warehouse Simulation II Final Report

The World Bank has developed the Climate Warehouse, a metadata layer that uses blockchain technology to connect heterogeneous carbon registries and improve transparency in global carbon markets. This report details the scope, design and outcomes of simulation II of the Climate Warehouse, which tested an operational prototype with more than 40 carbon market stakeholders, including country registries, independent standard registries and multilateral organizations.

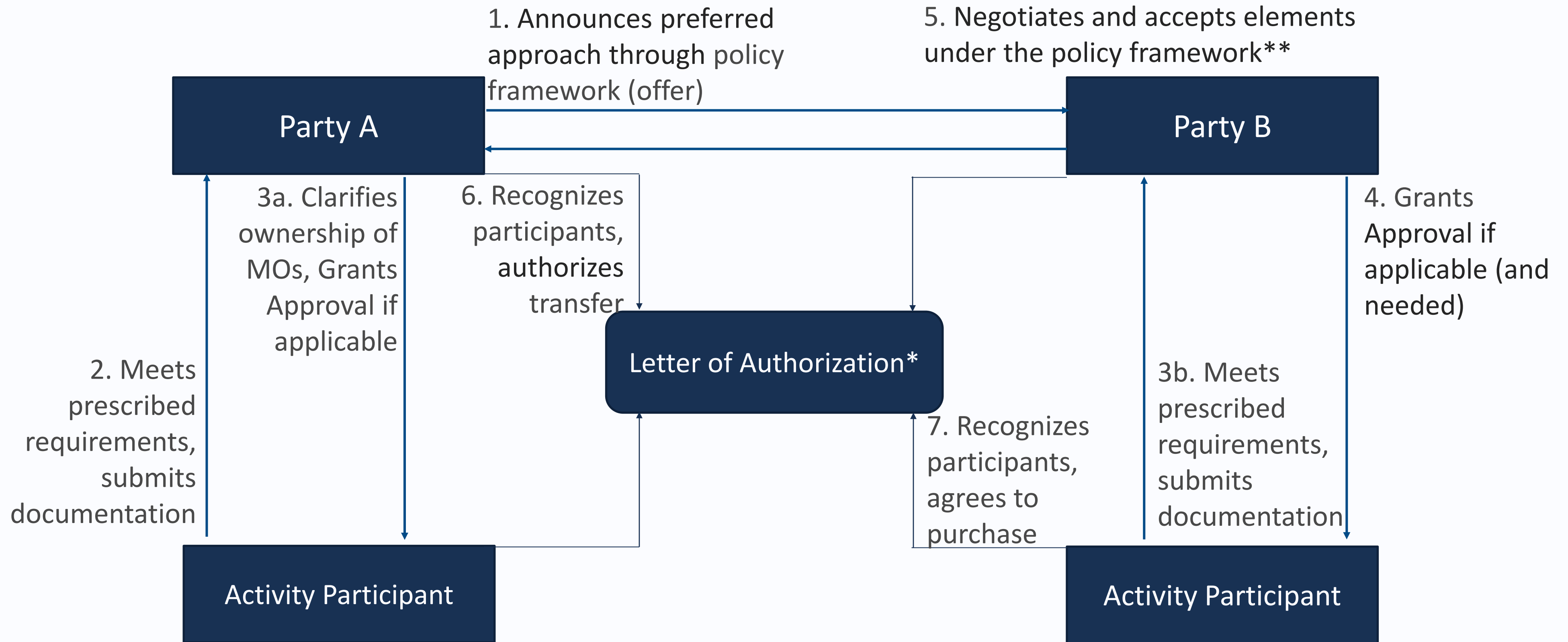




Additional Slides

The framework allows a Party to present its preferred approach

Minimum legal foundation to facilitate discussion and agreement between Parties



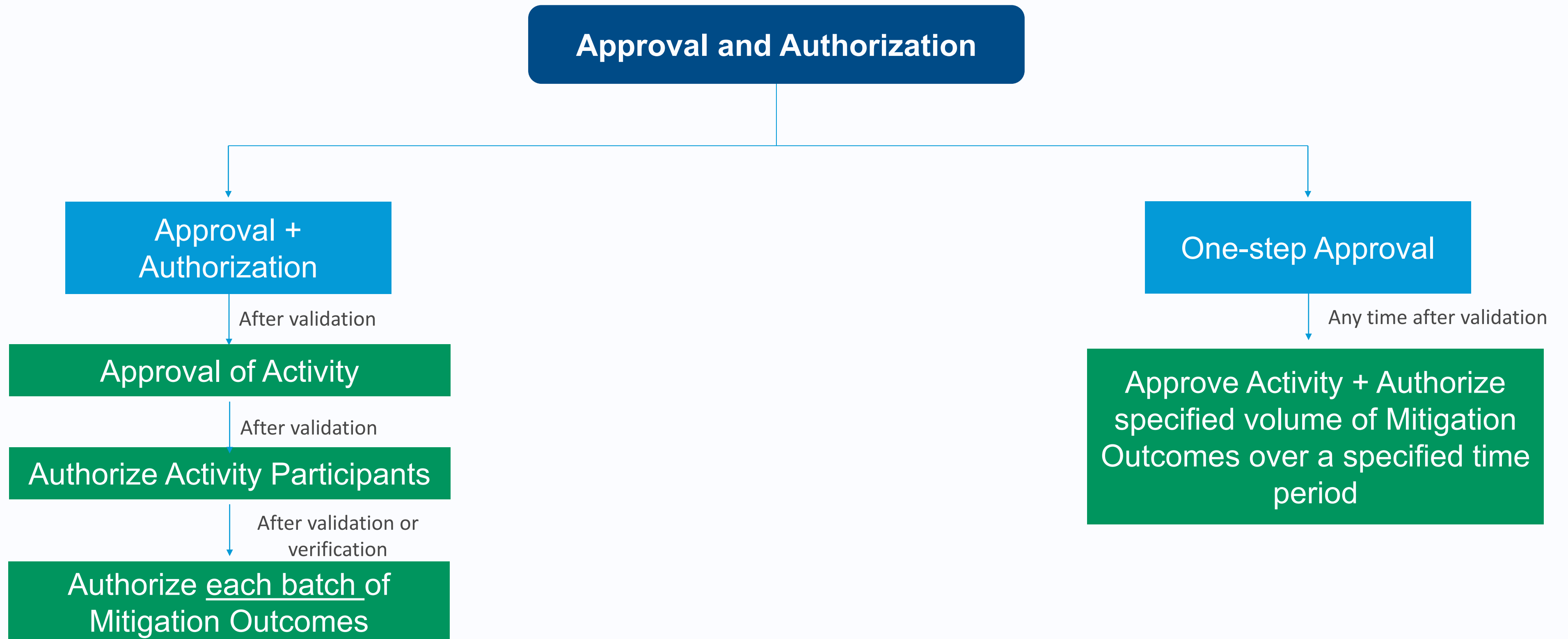
*Separate from commercial agreement

**Framework prioritizes elements that MUST be established at domestic level (minimum requirements)



The framework considers two possible modes for authorization

Depending on level of comfort, types of activities and their impact on NDC



Details of implementation to be defined through Schedules

Schedules can be customized to meet country requirements

Schedule	Description	References
Functions of DNA/ Relevant Ministry (Schedule 15)	Roles and responsibilities of different entities	Approach paper on country processes and institutional framework
Environmental Integrity & Sustainable Development (Schedules 2 and 3)	Minimum requirements for environmental integrity/ demonstrating unit quality	Approach paper on Environmental Integrity, SDGs, UNFCCC SD Co-Benefits Tool
Eligible Mitigation Outcome Activities (Schedule 4)	Could include positive list of technologies [for automatic approval]	Country-specific
Eligible Methodologies, MRV, Validation (Schedules 5 and 7)	Party may list eligible methodologies and process for developing new methodologies	Existing internationally reviewed standards and methodologies may be pre-approved
Mitigation Outcome Development Process (Schedule 6)	Steps for generating a mitigation outcome	Approach paper on carbon asset development process
Requirements for Activity Participants, Independent Entities, MOs (Schedules 8, 10, 12)	Conditions to be met, accreditation process, vintage/metric of MOs that can be transferred	To be defined at country level
Issuance and Authorization (Schedules 9 and 11)	Process for issuance and authorization of MOs	Draft Letter of Authorization
Registry Procedures (Schedule 13)	How MOs will be created and recorded. Reconciliation and transfer	Generic registry specifications; lessons learned from Climate Warehouse simulation

