



THE NETWORKED CARBON
MARKETS INITIATIVE

Summary Report: Lessons Learned from Pilot Assessments of Countries' International Transfer Readiness under Article 6.2 of the Paris Agreement

30 March 2020

Copyright

© 2020 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. Because the World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes if full attribution to this work is given.

Attribution

Please cite the work as follows: “Summary Report: Lessons Learned from Pilot Assessments of Countries’ International Transfer Readiness under Article 6.2 of the Paris Agreement” by the World Bank, Washington, DC.

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; e-mail: pubrights@worldbank.org

Acknowledgements

The assessments were supported by the World Carbon Markets and Innovation Practice (CMI). The team from the World Bank included (in alphabetical order): Harikumar Gadde, Seoyi Kim, Juan Mata, Rachel Mok, Miguel Rescalvo, Chandra Shekhar Sinha, and Sandhya Srinivasan.

We would like to thank the following persons (in alphabetical order) who collaborated with the team on this pilot exercise. Without their support the pilot assessments would not have been possible.

Edwin Aalders (DNV GL); Aryanie Amellina (IGES); David Antonioli (Verra); Jay Barlow (EBRD); Sue Biniatz (UN Foundation); Simon Fellermeier (Federal Office for the Environment, Switzerland); Owen Hewlett (Gold Standard); David Hone (Royal Dutch Shell); Philipp Ischer (SECO); Søren Lütken (Technical University of Denmark); Kelley Ann Kizzier (EDF); Gareth Phillips (AfDB); Justin Macinante (University of Edinburgh); Andrei Marcu (European Roundtable on Climate and Sustainable Transition); Axel Michaelowa (Perspectives); Klaus Opperman (World Bank); Karen Olsen (UNEP DTU Partnership); Ingo Puhl (South Pole); Alexandra Soezer (UNDP); Jeff Swartz (South Pole); Jan-Willem Van de Ven (EBRD); Xing Zhang (IFC).

Key Messages

- While the bottom-up approach of Article 6.2 of the Paris Agreement presents an opportunity to broaden and deepen markets, it is very important to ensure that there is no double counting and maintain the environmental integrity of markets.
- While the rulebook for Article 6 is still being negotiated, the World Bank supported the development of the International Transfer Readiness (ITR) module under the Mitigation Action Assessment Protocol (MAAP) to reflect what experts consider to be best practices at the country level to maximize readiness for international market mechanisms under the Paris Agreement.
- The ITR Module seeks to provide a starting point for identifying gaps and capacity building needs to develop the necessary institutional framework and infrastructure for climate markets under the Paris Agreement.
- To date, ITR has been applied to 13 developed and developing countries. Pilot results showed that significant capacity building is still needed to align countries' institutional frameworks and infrastructure with the Paris Rulebook and evolving procedures of Article 6. This capacity building is needed even for countries that have substantial experience in Kyoto markets.
- Moving forward, the World Bank will continue to carry out a consultative process to explore how ITR assessments can help countries effectively identify capacity building needs, and thus facilitate broader capacity building efforts for Article 6.

1. Context

Climate markets, if designed well, can reduce mitigation cost, mobilize the private sector and raise collective climate ambition. According to a recent study¹, climate markets under Article 6 of the Paris Agreement could reduce the cost of implementing countries' climate targets, known as Nationally Determined Contributions (NDCs), by more than half (~\$250 billion/year in 2030).

Climate markets under the Paris Agreement will likely be substantially different to those that emerged under the Kyoto Protocol. International climate markets mechanisms created by the Kyoto Protocol, such as the Clean Development Mechanism (CDM), adopted a top-down approach. By contrast, the Paris Agreement offers greater flexibility for more diverse, bottom-up linkages that could create an opportunity for new and innovative approaches. Furthermore, the context and purpose of market mechanisms under the Paris Agreement has changed. While the Kyoto Protocol only required Annex I (or developed) countries to meet specific climate targets, the Paris Agreement created a new paradigm for all countries – both developed and developing – to take on individual targets, as elaborated in their respective NDCs. This new international environment has effectively introduced national “caps” on emissions (albeit of different scopes of ambition, coverage and stringency) and a process in which countries have to carry out “corresponding adjustments” to ensure that their traded mitigation activities align with their NDC targets. For countries that sell emission reductions to another country, this would require increasing the level of emission reductions needed to achieve its NDC to make up for the fact that they

¹ Edmund, J. et al (2019), “The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges”
https://www.ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20crops.pdf

sold some emission reductions to another country. Conversely, the country that purchased the credit should adjust its own emission reductions downward. This new paradigm creates new opportunities for climate markets to support countries in meeting their NDCs, increase cost efficiencies, and enable deeper mitigation ambition.

COP 24, held in Poland at the end of 2018, adopted the “Paris Rulebook” to define the rules and procedures for implementing the Paris Agreement. However, there was a lack of agreement on Article 6 at both COP24 and COP25, and related decisions were deferred to COP26 this year. Given the uncertainty in the policy landscape for post-2020 climate markets, it is now more important than ever to examine results obtained from pilots and analytical work to better understand the potential architecture for Article 6 and facilitate ongoing negotiations through learning-by-doing.

The draft negotiation text suggests that Article 6.2 will likely have flexibility for bilateral or plurilateral arrangements between Parties, relying on assets generated and transferred under a variety of mechanisms, procedures, and protocols. Article 6.4, in contrast, will likely be governed by Parties under the UNFCCC process, with a greater level of multilateral regulatory supervision. While the bottom-up approach under Article 6.2 implies a broader variety of international approaches, the diversity of climate markets could constrain market integration and add to the complexity of conducting transactions across different systems. A standardized framework can help assess countries’ ability to meet the requirements for participating in Article 6 in order to build trust amongst participants in decentralized international climate markets post-2020.

2. Vision

Anticipating the needs to transition towards decentralized international climate markets post-2020, the World Bank developed the Mitigation Action Assessment Protocol (MAAP) to drive meaningful assessment of diverse climate actions, with the goal of building transparency and trust in decentralized climate markets, and driving market demand towards transacting high-quality climate assets. The International Transfer Readiness (ITR) Module under MAAP aims to assess whether a country has the necessary regulatory and institutional framework in place to participate in Article 6 (particularly Article 6.2). Complementing the ITR’s assessment at the jurisdiction level, there are four other modules under the [Mitigation Action Assessment Protocol](#) (MAAP) that assess risks at the project level.

The purpose of the ITR Module is to create a basis for initiating a dialogue with government authorities at the national level by identifying the key gaps and capacity building needs to develop the necessary institutional framework and market infrastructure for Article 6 (focusing on Article 6.2). In doing so, it seeks to facilitate learning by identifying a checklist of best practice approaches for maximizing international transfer readiness, and enhancing transparency of countries’ readiness to engage in Article 6. The Annex of this report describes the methodological framework in more detail.

3. Objectives of the Pilot Assessments

The ITR Module has gone through several rounds of peer review and has already been piloted by the World Bank and its partners in 13 developed and developing countries. The current version of the Module considers key elements of the Paris Rulebook, and will continue to evolve as the guidance and rules for Article 6 are developed. The ITR Module is composed of a series of key indicators, each reflecting best practices for ensuring international transfer readiness. In this context, the Module considers:

- The extent to which processes are designed and implemented to ensure that international transfers between Parties do not lead to an overall increase in global GHG emissions and that units traded are real, permanent and verifiable;
- The alignment of traded activities with the issuing Party’s NDC to ensure that the activity is carried out in priority areas;
- The robustness of a country’s infrastructure and procedures to deal with potential double counting of emission reductions; and
- The extent to which a country is complying with the reporting requirements under the Transparency Framework of the Paris Agreement.

While the piloting process differed from country to country, the standard approach involves five stages. As outlined below, the assessment is usually led or supported by a local expert, and the assessment is reviewed and discussed with relevant government counterparts.

#	Assessment Stage	Work Description
1	Document and Data Gathering	The Assessor, with the support of local experts, gathers publicly available data and documents from different sources.
2	Information Analysis and Review	The Assessor reviews the data and documents obtained and identifies the most updated and relevant information required for the assessment.
3	Assessment (Preliminary Version)	The Assessor conducts a preliminary assessment and justifies the sub-item scores with specific reference to the obtained data and documents. The Assessor would also provide a professional opinion of the outlook (positive, neutral, negative) for regulatory and institutional developments that are planned or under implementation. The assessment should be led or supported by a local expert with deep knowledge and expertise on the country’s policy context.
4	Review and Discussion with Party	The Assessor presents and receives feedback from relevant Party authorities, including line ministries responsible for developing the Party’s NDC and relevant domestic climate change policies, on the preliminary results. The Assessor requests for complementary information (if available) to refine the assessment.
5	Assessment (Final Version)	The Assessor adjusts and completes the scoring justification of each sub-items. A final assessment report with main findings and recommendations is presented to relevant government counterparts.
6	Monitor and Evaluation	Upon request, the assessment could be periodically updated to reflect the country’s most recent policy updates.

4. Key Findings and Lessons Learned

Table 1.1 and Table 1.2 below summarize the average results of pilot assessments for Annex I and non-Annex I countries, respectively. The modules **“Party Readiness”** and **“Article 6 Implementation”** assess whether the country has the necessary institutional framework and infrastructure in place for international transfers under Article 6. The **“Party Readiness”** sub-module assesses the robustness of institutional frameworks and infrastructure for *existing* climate markets. On the other hand, the Article 6 implementation sub-module assesses the infrastructure and processes that are put in place specifically for international transfers under Article 6. The indicators under **“Article 6 implementation”** are most applicable to Parties with ongoing piloting activities. Scores

for each assessment area are scored out of 100. There are no indicators for “transparency” and “alignment of mitigation outcomes (MOs) with NDCs” under the “Article 6 implementation” sub-module, all indicators related to these two assessment areas are scored under the “Party Readiness” sub-module. See annex for further details on the methodology.

The results showed that countries that have robust regulatory and institutional frameworks for *existing* markets scored highly under the “Party Readiness” sub-module. However, virtually no countries are expected to achieve full scores under the “Article 6 Implementation” sub-module since guidance on Article 6 is still evolving and it will take time and effort for countries to adjust their policies to align with the Paris Rulebook.

Table 1.1 Pilot Assessment Average for Non-Annex I Countries

Assessment Results (scores out of 100)	Sub-Module	
	Party’s Readiness	Article 6 Implementation
Transparency	59	N/A
Double Counting Prevention	35	11
Alignment of MOs with NDCs	59	N/A
Environmental Integrity	60	24

Table 1.2 Pilot Assessment Average for Annex I Countries

Assessment Results (scores out of 100)	Sub-Module	
	Party’s Readiness	Article 6 Implementation
Transparency	76	N/A
Double Counting Prevention	92	83
Alignment of MOs with NDCs	79	N/A
Environmental Integrity	93	64

The pilot assessments demonstrated that substantial capacity building is still needed to ensure countries’ readiness to participate in Article 6. For example, the overarching requirements of new market instruments emphasize the critical value of developing robust measurement, reporting and verification (MRV) systems at different levels, starting from on-the-ground climate investments through to accounting and reporting at the level of national GHG inventories and NDCs. Such MRV systems should be able to support the implementation of the accounting, tracking and reporting requirements under the Paris Agreement for individual climate actions and NDCs. Furthermore, pilot results also demonstrated the need to develop or connect to a registry to record climate assets and transactions in a reliable manner in order to ensure that the traded units are real and are not double counted. Finally, the results also showed the need for countries to develop corresponding adjustment approaches to ensure that the traded assets are aligned with the country’s NDCs.

The pilot experience showed that reference to NDC is important. Some countries may have more ambitious domestic policies and targets in comparison to what has been provided in the NDCs. However, the ITR assessment should be benchmarked against the country’s NDC to ensure consistency of the assessments and alignment of policy frameworks with the Paris Rulebook.

The pilot experience showed that institutional coordination is key to ensure international transfer readiness of the country's institutional framework and infrastructure, and their alignment with the Paris Rulebook. For example, institutional coordination is needed to make decisions on which projects are eligible for market transactions; the policy framework needed at the national level for the authorization of international transfer and use of MOs; and the national procedures and infrastructure that should be put in place for the implementation of the cooperation.

Additional assessment frameworks may be needed to create trust and transparency in decentralized climate markets, and drive market demand towards high-quality climate assets. The ITR Module focuses on assessing readiness at the jurisdictional level. However, it should be complemented with additional frameworks that assess risk and performance at the project level, such as through MAAP Modules 1-4² which assess the project's design and implementation, management entity and financial structure and development benefits. Furthermore, the ITR module by design is not expected to cover all aspects of NDC ambition, as it only assesses the business-as-usual (BAU) emissions scenario and the stringency of the NDC targets compared to BAU. However, aligning NDC baseline with a stand-alone project level baseline can be complex at times, and hence other approaches and tools may be needed to assess other aspects of NDC ambition. Other types of ambition assessment, such as those under the Climate Transparency consortium³, could be leveraged to include the full range of ambition considerations.

5. Potential Next Steps

While the bottom-up approach of Article 6.2 of the Paris Agreement presents an opportunity to broaden and deepen markets, it is very important to ensure that there is no double counting and maintain environmental integrity. Given the lack of agreement on Article 6, assessments under the ITR Module are intended to provide a starting point for identifying countries' capacity building needs. Applying the ITR in a consultative manner offers an opportunity to help relevant national stakeholders better understand the opportunities and risks of participating in markets under Article 6, thereby facilitating a consensus-driven and informed decision-making process. Given the urgency of increased global climate action and the challenges in international negotiations, the development of such tools provides an opportunity to reflect on how cooperative actions under Article 6 can be designed.

Moving forward, the World Bank will continue to consultatively explore how ITR assessments can help countries effectively identify gaps in their infrastructure and institutional frameworks, and facilitate broader capacity building efforts for Article 6, such as through the Partnership for Market Implementation (PMI) program⁴. Countries that have participated in the first round of pilot assessments can also request supplementary assessments, if the country has substantially updated its policies since the previous assessment. The World Bank will also collaborate with its partners to periodically update the ITR Module based on the guidance that emerges from international negotiations on Article 6.

² MAAP online interface. <https://maap.worldbank.org/#/homepage>

³ Climate Transparency. <https://www.climate-transparency.org/>

⁴ Partnership for Market Implementation. <https://www.worldbank.org/en/topic/climatechange/brief/partnership-for-market-implementation>

ANNEX

Framework

a. Assessment of Party Readiness and Article 6 Implementation

The ITR Module is currently used as an excel tool and is accompanied by a Guidance Document that describes the means of assessment. The ITR Module is composed of a series of key indicators, each reflecting best practices for ensuring international transfer readiness. Each indicator includes a checklist of activities, and the scores assigned to each indicator depend on the extent to which these activities have been achieved.

Indicators are grouped under three sub-modules. The first two sub-modules, “**Party Readiness**” and “**Article 6 Implementation**” assess whether the country has the necessary institutional framework and infrastructure in place for international transfers under Article 6. The “Party Readiness” sub-module assesses the robustness of institutional frameworks and infrastructure for *existing* climate markets. On the other hand, the Article 6 implementation sub-module assesses the infrastructure and processes that are put in place specifically for international transfers under Article 6. The indicators under “Article 6 implementation” are most applicable to Parties with ongoing piloting activities.

The extent to which NDCs provide a clear and complete picture of a country’s climate commitment is critical for ensuring the environmental integrity of international transfers under Article 6. Against this backdrop, the ITR Module includes a third sub-module, “**NDC Completeness**”, in addition to the assessment of Party Readiness and Article 6 Implementation.

Figure 1. Sub-modules of the ITR Module



Indicators that are grouped under the “Party Readiness” and “Article 6 implementation sub-modules are further categorized into four assessment areas, as defined below:

- **Country level environmental Integrity.** This criterion assesses the processes countries are designing and implementing to ensure that transfers of units between Parties do not lead to an overall increase in global GHG emissions and that any international transferable unit generated as a result of cooperative approaches is real, permanent, and verifiable.
- **Alignment of mitigation activities with the NDC.** The alignment of traded activities with the issuing Party’s NDC is key to ensuring that the activity is carried out in priority areas.
- **Double Counting Prevention.** A country should have the required infrastructure to track all ongoing units and activities at the national and sub-national level related to GHG emissions, including those that may be transferred internationally. The mechanisms should have documented procedures for registering activities and dealing with potential double counting of emissions reductions.

- **Transparency.** This assesses the extent to which the country is complying with the requirements established, among others, in the Modalities, Procedures, and Guidelines (MPGs) for the Transparency Framework referred to in Article 13 of the Paris Agreement. Key indicators include those related to the quality of information related mitigation strategies and policies, the Party’s NDC, reporting requirements for the GHG inventory and for tracking the NDC implementation.

Figure 2. Framework of the “Party Readiness” and “Article 6 Implementation” sub-modules

Area Name	Key indicator	Party readiness	Article 6 implementation
Transparency	GHG mitigation strategy		
	Policy instruments and activities generating mitigation		
	Reporting within the National inventory		
	Information needed to track progress towards NDCs related to mitigation		
	Information related to participation in Cooperative Approaches under Art. 6		
Double counting prevention	Procedures in Place		
	Monitoring & reporting requirements		
	Registry requirements		
	Corresponding adjustment provisions		
Alignment of mitigation activities with NDCs scope	Mitigation activities alignment with issuing Party's NDC		
	Governance structure for development, planning, accounting of NDCs and mitigation activities		
	Definition of NDC targets and mitigation activities		
	Planning of NDCs and mitigation activities		
Environmental integrity	Ambition of NDC target		
	Accounting of NDC		
	Quantification of Article 6 units		
	Quality of units to be transferred		
	Nature and scope of Article 6 units for robust accounting		
	Registry for tracking of Article 6 units		
	Information for tracking of Article 6 units		

By design, some scoring parameters are covered in several indicators to ensure that the assessor has considered certain important processes and infrastructure (e.g. registries and MRV) in the context of different aspects of readiness. For example, when covered under “double counting prevention”, it assesses the registry requirements for mitigation activities intended to be transferred, while under “environmental integrity”, it also evaluates the robustness of the country’s registry for tracking units.

Since countries expect additional decisions related to Article 6 implementation and are currently adjusting their frameworks and capabilities to align with the requirements of the Paris Rulebook, the ITR Module provides two separate assessment results:

- **Assessment based on existing practices:** To reduce subjectivity, the final score of the ITR Module is solely based on existing and fully operational legal, regulatory and institutional frameworks. As mentioned above, the ITR Module score is the aggregation of the weight-adjusted scores for each key indicator. The

assessor is expected to provide justification for each key indicator score and provide details of the documented evidence that supports the score.

- **Outlook:** This reflects the assessor’s opinion on how the score is likely to change (increase, decrease, neutral) based on the plans and regulations that are pending approval or are at the design stage. This result is based on the professional opinion of the assessor who is expected to provide details on the ongoing work at the Party level to justify the future outlook scoring.

b. Assessment of NDC Completeness

As mentioned above, complementing the assessment of the “Party Readiness” and “Article 6 implementation” sub-modules, the ITR Module also includes a sub-module on assessing “NDC Completeness”. This includes requirements to facilitate the clarity, transparency, and understanding of NDCs (as listed in Annex 1 to Decision 4/CMA.1), which forms an important foundation to ensure countries’ readiness to transfer internationally.

Figure 3. Framework of the “NDC Completeness” sub-module

Scoring Parameter
Quantifiable information on the NDC reference point (including, as appropriate, a base year)
Time frames and/or periods for implementation for the NDC and mitigation activities, including for those mitigation activities to generate Art 6.2 units.
Scope and coverage of the NDC and mitigation activities for implementation, including those aiming at international transfers under Art 6.2 cooperative approaches
The NDC describes the planning process for the preparation and update of the NDC
The NDC provides information on the implementation plans for the preparation and update of the NDC
The NDC evidences the Party has analyzed and considered, when appropriate, reviews of the NDC and the Party's efforts for its implementation.
The NDC includes information on how the Party considers that its nationally determined contribution is fair and ambitious in the light of its NDC and contributes to the objectives of Art. 2 of the PA as per items E.4.1a-e (see Party's readiness sheet).
The NDC includes a description of all assumptions and methodological approaches for estimating and accounting of anthropogenic greenhouse gas emissions and removals corresponding to the Party's NDC and assumptions and methodological approaches used for accounting for the implementation of policies and measures or strategies in the NDC as per items E4.2a-e (see Party's readiness sheet) and as per the requirements in Annex I of the Decision -/CMA1.