



PRESENTATION OF RESULTS

GLOBAL SURVEY ON ARTICLE 6 READINESS REPORT





Acronyms

CDM	Clean Development Mechanism
CER	Certified Emissions Reductions under the CDM
COP	Conference of the Parties to the UNFCCC
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
CTP	Carbon Transaction Platform
DNA	Designated National Authority under the CDM
GGGI	Global Green Growth Institute
ITMO	Internationally Transferred Mitigation Outcomes
LDC	Least Developed Countries
MRV	Monitoring, Reporting and Verification
NDC	Nationally Determined Contribution
RMP	Rules, Modalities and Procedures
VCM	Voluntary Carbon Market
UNFCCC	UN Framework Convention on Climate Change



ABOUT GGGI

The Global Green Growth Institute (GGGI) is a treaty-based international, inter-governmental organization dedicated to supporting and promoting strong, inclusive, and sustainable economic growth in developing countries and emerging economies. GGGI supports its member and partner countries with a broad range of planning, policy and green investment advisory services to achieve their national climate change and sustainable development objectives.

Market-based mechanisms and carbon pricing instruments are critical to the fight against global climate change. This survey and report were developed by GGGI's Carbon Pricing Global Practice, which supports GGGI's Member and partner readiness to engage in international carbon markets, such as the one created by Article 6 of the Paris Agreement. GGGI is committed to the common objective of global participation in a vibrant carbon market that can help all countries efficiently achieve their climate change mitigation ambitions in line with the goals of the Paris Agreement.



GGGI is committed to the common objective of global participation in a vibrant carbon market.

Executive Summary

The Global Green Growth Institute (GGGI) works with more than 10 governments to support engagement in carbon transactions under Article 6 of the Paris Agreement. GGGI supports its partners through the mitigation activity cycle and provides technical assistance to ensure robust decision-making and accounting systems. As trading under Article 6 begins to accelerate, a core component of GGGI's capacity building will be multi-directional knowledge exchange and cross-learning between participants in the market.

To better understand the perceptions of potential host countries/sellers on trading Internationally Transferred Mitigation Outcomes (ITMOs) under Article 6.2 and the challenges they face in preparing for engagement, GGGI surveyed stakeholders across 29 of its member and partner countries. The survey collected first-hand accounts from stakeholders regarding national readiness for Article 6 carbon trading. The questions explored capacity-building needs, concerns, and expectations for engaging in international carbon transactions. The survey provides an important “temperature check” on the readiness of countries to engage in Article 6 carbon trading, and provides a wealth of insight to inform GGGI's future support activities, and potentially, the activities other global partners.

In the survey, countries showed a keen interest in international carbon trading under Article 6. This interest in carbon trading builds on experiences gained with the Clean Development Mechanism (CDM), the Voluntary Carbon Market (VCM) and REDD+. It is boosted by a belief that carbon finance – the revenue stream generated through the sale of carbon credits – is an important tool for countries to meet their ambitious global climate objectives and achieve domestic sustainable development and green growth goals.

An overwhelming majority of survey participants indicated that their countries are considering participating under Article 6 (93%). The potential benefits of international trading were well understood by survey participants, but their eagerness to engage in transactions is tempered by their perception of regulatory, market, and capacity risks as well as some perceptions of lack of equity in the process of trading in this early phase of the market. 86% of participants indicated that they perceive risks and capacity gaps that could affect their participation and ambition. Exploring this phenomenon further, the survey examined several facets of readiness, including both functional capacity (measured in terms of the state of existing governance frameworks, current availability of capacity building support, private sector skills and experience) and confidence in the market (characterized by a common perception of an uneven playing field between sellers and buyers). Throughout the interviews with stakeholders, a clear and consistent request for support was revealed.

Some countries are already taking action to catalyze market activity. In addition to awareness raising through international forums and negotiations and a number of more ad hoc capacity building activities, a handful of potential buyers and sellers are engaged in the development of pilot mitigation activities that could lead to some of the first ITMO trades of the Article 6 market. However, the survey found that GGGI's member and partner countries felt they needed much more support to be fully ready to engage in and benefit from Article 6 trading.

Key findings from the survey

This survey provides a snapshot of 29 of GGGI's members and partners from developing and emerging economies, representing all regions of the world. The findings provide important insights into the state and perceptions of potential sellers regarding Article 6 readiness globally. Based on the findings, GGGI can make the following conclusions:

1. Potential seller countries are expressing their needs for more capacity building support:

While some seller countries have gained market experiences from the CDM, Article 6 trading is likely to require more strategic planning and oversight and involves larger risks. Readiness support providers must carefully analyze opportunities and risks for seller countries and tailor training to the many different domestic audiences involved in implementing mitigation activities and transferring ITMOs. Cooperation among service providers and opportunities to share lessons learned among practitioners will be critical. Providing potential market participants with a consistent, reliable platform for knowledge exchange, including lessons learned and best practices, could help close the capacity gap.

2. More piloting and “learning by doing” is critical for Article 6.2 implementation.

Rules, modalities and procedures need further clarification for the market to take off. Even once these are developed for Article 6.4 transactions, questions about how to undertake Article 6.2 transactions, which take place without the approval of the UNFCCC Supervisory Body, will remain. For Article 6.2 transactions, norms that lay out the proper processes and procedures can be developed only as transactions are implemented. This is why a learning by doing approach, particularly through piloting, is essential to market development.

3. Perceived gaps in equity between buyers and sellers must be addressed.

Carbon trading under Article 6 of the Paris Agreement involves a delicate mix of commerce and diplomacy. To maximize the GHG emission-reducing impact of the market (through creation of a vibrant, active market), buyers and sellers must be both able and willing to engage in transactions under optimal market conditions agreed by both sides. Capacity building plays an important role in this regard; sellers must be fully engaged and capable of making decisions in their best interest. At the same time, partnerships rooted in the spirit of cooperation at the core of Article 6 can create a more “even playing field,” giving sellers the confidence they need to engage in transactions. Open and honest exchange of experiences between buyers and sellers can also build seller confidence.

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01. Introduction

1.1 Background

Article 6 of the Paris Agreement describes three distinct mechanisms to achieve ambitious emissions reductions through cooperation:

- Article 6.2: bilateral and multi-lateral cooperative approaches
- Article 6.4: a market mechanism overseen by a UNFCCC-based Supervisory Body
- Article 6.8: non-market approaches

The "Paris Rulebook" on Article 6 was adopted at the 26th session of the Conference of the Parties (COP26) to the UN Framework Convention on Climate Change (UNFCCC). With the adoption of the Rulebook, more clarity is forming around the design and functions of Article 6 through guidance for operationalizing cooperative approaches under Article 6.2 of the Paris Agreement, and the rules, modalities, and procedures for the mechanism established by Article 6.4. Despite increasing clarity, activity in the market has been relatively slow to commence. In its position as trusted adviser to more than 10 host/seller governments in the area of Article 6 readiness and pilot transaction preparation support, GGGI has taken note of three key challenges to market development.



For developing and emerging economies, likely to be the primary group of potential sellers, there is a significant capacity gap in knowledge, skills, and experience related to carbon trading. The burden of participation on governments considering participation as seller countries under Article 6 is higher than that required under the CDM. While experience with the CDM has provided some capacity or general awareness among key stakeholders, given the NDC targets and transparency requirements, there is a steep learning curve that these countries must climb to participate on a level playing field in the international carbon market.

The rules of market activity are not well defined in this stage of the market, leading to uncertainty and hesitancy to participate. Even with the adoption of the Paris Rulebook, the full set of rules, modalities, and procedures to be managed by the UNFCCC Supervisory Body under Article 6.4 are still being developed. At the same time, decentralized cooperative approaches under Article 6.2, while allowing even more flexibility, require bespoke, innovative collaboration agreements among Parties. Under these conditions, uncertainty exists over what and how much to sell and buy.

There is a substantial untapped opportunity within and among developing countries and emerging economies for mutual learning and knowledge exchange. Many governments have interacted with other potential market participants through forums, workshops, knowledge-sharing events, and the UNFCCC negotiations. However, there is scope for more learning by and among governments, as well as between and among different stakeholder such as project developers, investors and financial institutions, civil society, and others.



1.2 The Survey

As readiness support becomes more available, and trading under Article 6 accelerates, GGGI's service offerings have continued to develop to respond to the needs of potential market participants, including through the establishment of new technical assistance programs, facilitation of more cross-learning between market participants, and establishment of mechanisms to facilitate transactions (see Chapter 6 for details). To better understand the state of affairs and perceptions of potential participants in the Article 6 market, in mid-2022, GGGI undertook a survey of key stakeholders in its member and partner country governments. This survey provides a temperature check on seller/host country practitioners' views on national readiness for Article 6 carbon trading – including insights into public and private sector actors – and reveals concerns and expectations around engaging in international carbon transactions.

The survey consisted of 23 multiple choice questions, most with prompts for respondents to elaborate on their answers, providing a wealth of insight into their perceptions and level of understanding of key concepts and issues related to Article 6 and international carbon markets. The questions were either “exploratory” (aiming to better understand perceptions of interviewees) or “descriptive” in nature (aiming to understand the state of affairs around carbon transaction readiness), and covered five broad areas:

1. General Perceptions on Article 6
2. Perceptions on Government Readiness for Participation in the market
3. State of Article 6 Mitigation Activities
4. Government Perceptions on Private Sector Readiness for Market Participation
5. Priorities and Needs with regard to Article 6 Carbon Trading

To conduct the survey, GGGI leveraged the benefit of its embeddedness, whereby most staff manage programs from inside partner government institutions. Training was provided in advance of administering the survey to GGGI's country teams on key concepts and processes related to Article 6 and the Paris Rulebook. Surveys were then administered by focal points through one-on-one interviews and/or focus group discussions to a total of 77 individuals across 29 countries. Most respondents participated in interviews voluntarily in their personal capacity rather than in an official government capacity.

Responses were collected through the interviews in English and/or local language, and later transposed in English to a Microsoft Forms tool for quantitative and qualitative analysis. Where there were multiple responses collected for a particular country, the individual responses were compared and compressed into a single harmonized country-level response using averaging. As survey responses from individuals in most cases do not represent official governmental positions, measures were taken to confirm and validate “country-level” responses using the open-ended responses which provided clarity in most cases. All efforts were taken to clarify contradicting or unclear statements with leading experts.

The purpose of this survey was to take a quick temperature check on the Article 6 readiness situation in GGGI member and partner countries. There were three main limitations to the survey. The first was the broad focus of the questionnaire, including the number of qualitative and quantitative questions, particularly given the time allotted for interviews (usually around busy interviewee schedules). The result was that in some areas, information is abundant, while in others, there is a lack of information that sometimes made it difficult to draw firm conclusions. Second, there was a knowledge differential between the survey participants and interviewers. Not all interviewers were subject matter experts, nor were many of the participants. In some cases, the views of a single national expert or focal point were given stronger emphasis in formulating the harmonized or compressed response. Finally, the timeline of implementing the survey was quick, lasting no longer than 8 weeks. Future exercises may take more time to ensure more targeted participation.

The Survey



Methodology:

- 26 Multiple Choice Questions
- One-to-One Discussion
- Focus Group Discussion
- In-depth Interviews



Survey Objective

- ✓ Gauge market needs & preferences
- ✓ Identify Article 6 related needs concerns & expectations
- ✓ Determine Country Article 6 Readiness

1.3 Profile of Respondents

Participation in the survey was requested by GGGI country teams first from government units that are currently or will likely be responsible for decision-making around engagement in Article 6. To the extent possible, representatives from environment ministries (such as climate change department heads), UNFCCC Focal Points, and Designated National Authorities (DNA) under the Kyoto Protocol’s CDM, were included. Other stakeholders with insight into the country’s carbon market activities from sectoral ministries, ministries of finance, economy, or planning were also invited.

Most participants identified themselves as being from seller countries (76%), while 14% identified as “neither buyer nor seller.” Seven percent of countries indicated they were “both buyer and seller” (Figure 1). Of the 77 individual respondents interviewed, 32 were women, and 45 were men.

Figure 1: Breakdown of Survey Participants by Perceived Market Role (Buyer or Seller)

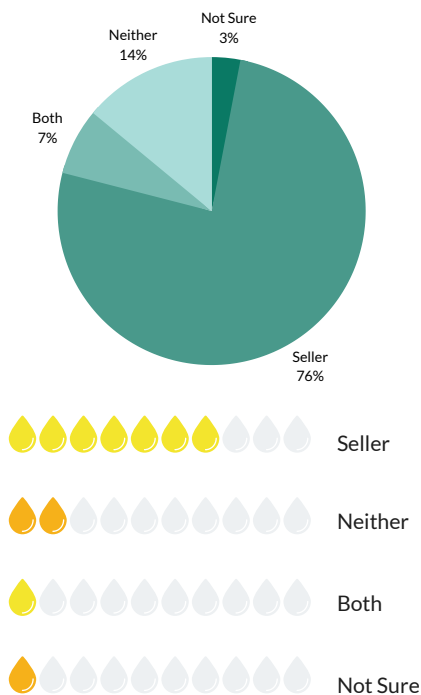
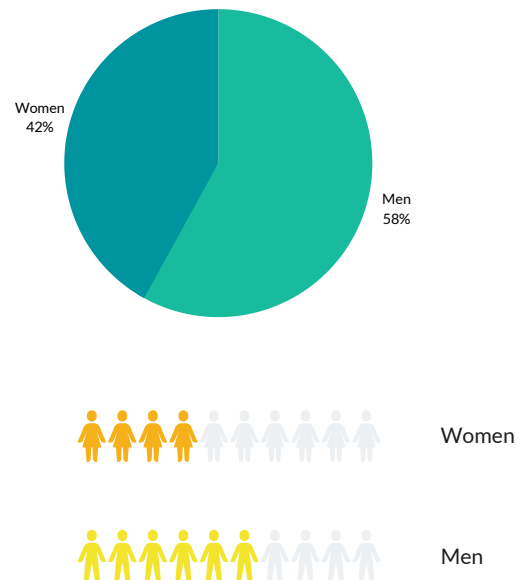


Figure 2: Breakdown by Gender of Survey Participants



Responses were received from one or more respondents in the following 29 countries:

- | | | |
|--------------------|-----------------------------------|-------------|
| Burkina Faso | Kiribati | Peru |
| Cambodia | Lao People's Democratic Republic | Philippines |
| Colombia | Mexico | Rwanda |
| Cote D'Ivoire | Mongolia | Senegal |
| Dominican Republic | Morocco | Sri Lanka |
| Ethiopia | Nepal | Thailand |
| Fiji | Organization of Eastern Caribbean | Togo |
| Guyana | States (OECS) ¹ | Uganda |
| Indonesia | Papua New Guinea | Vanuatu |
| Jordan | Paraguay | Zambia |

¹ The OECS, a GGGI member, is an inter-governmental body representing 11 countries in the Caribbean.

Figure 3: Map of surveyed countries



2. Article 6 General Perceptions

There is considerable interest from GGGI member and partner countries in participating in international carbon trading under Article 6. While not every country surveyed has fully considered their approach to participation, 27 of 29 countries indicated some level of consideration, and 27 acknowledged potential benefits to international carbon trading under Article 6. There are many different reasons why countries are interested. In some cases, there was a perception that “low performance” in the CDM – where some countries felt they were not able to capture the benefits of carbon finance – was perceived as a lost development opportunity. International carbon markets under Article 6 were seen to represent a new chance to access finance that can help countries meet their sustainable development priorities while accelerating the achievement of their climate targets. Specific benefits noted from participants included:

- Creating additional revenue streams to help countries meet their targets
- Ability to increase ambition in mitigation targets
- Developing and advancing partnerships
- Helping to develop a dynamic private sector that can assist in the low-carbon transition
- Achieving the country’s sustainable development priorities and NDC targets
- Promoting low-emissions development
- Building capacity and accessing new technologies

Interest in market participation is tempered by uncertainties and perceived risks regarding the operational features of the Article 6 markets. 86% of countries noted concern about risks associated with international carbon trading. While the adoption of the Paris Rulebook brought some clarity to the likely future structure of the carbon markets, more clarity is needed to encourage participation. More broadly, perceived risks fell into three categories: regulatory, market dynamics (related to pricing and stability of the market) and environmental integrity.

Regulatory risks were linked to lack of clarity on the “Paris Rulebook” and need for robust national frameworks. Perceived lack of clarity on the operating rules around Article 6, despite the decision in Glasgow, as well as the increased need for tracking infrastructure tempered expectation of benefits from Article 6 trading. Rules, modalities and procedures for project-based trading was also mentioned as an area of concern and how countries account for project-based credits when different types of NDC targets are involved. Without clarity in the form of UNFCCC guidance or better national understanding of the processes, countries are unsure if they will be able to participate.

Perceived Risk



Lack of Clarity

Regulatory risks were linked to lack of clarity on the “Paris Rulebook”



Lack of Understanding

Lack of clear understanding of market dynamics was raised frequently as a source of perceived risk of participation in Article 6.



Double Counting

Environmental integrity was noted as an important risk to address. Survey participants frequently mentioned the need to avoid double counting.

Lack of clear understanding of market dynamics was raised frequently as a source of perceived risk of participation in Article 6. Some respondents noted price volatility and inequity in the market between buyers and sellers as market dynamics that might impede participation. 9 out of 25 risk-concerned responses noted the potential for buyers to benefit more than sellers as a key concern. As noted in one response, “There is a lack of capacity on how to participate in the market: the government is uncertain of how to negotiate contracts, avoid overselling, and get the maximum benefit from Article 6 participation.” Others raised concerns over oversupply of credits in the market, given previous experience in CDM. Some responses indicated the transition from the CDM to Article 6 as an area of concern and how Article 6 may influence the VCM. These concerns are not surprising given the fact that market rules are relatively new and only partially complete, and since many countries are working on building their national systems.

Environmental integrity was noted as an important risk to address. Survey participants frequently mentioned the need to avoid double counting (a situation where emissions reductions or removals are counted more than once to achieve climate mitigation targets). The lack of methodologies, lack of experience in government and private sector, as well as lack of focus on transparency processes (such as verification regimes) were all perceived as risks that should be addressed. On the plus side, the emphasis on the need to address this risk is promising for the overall integrity of the future market.

3. Readiness for Article 6 Participation



01

Governance framework readiness

To be considered “ready” for participation, potential seller countries need both capacity and confidence to be fully engaged.



02

Capacity building support

Capacity building and awareness raising activities for Article 6 can play an important role in ensuring readiness to engage in the market both in the short and long term.



03

Private sector experience & sectoral expertise

A fully engaged private sector can help mobilize additional finances and support for innovative approaches which is critical to Article 6 engagement.



04

Confidence in the Market

For potential sellers in the market, readiness is not only a matter of capacity to engage but also confidence that they will get equitable treatment and payment in their transactions

To be considered “ready” for participation, potential seller countries need both capacity and confidence to be fully engaged. The risks associated with market participation, described in the previous chapter, were strongly underpinned by a general perception of lack of readiness to engage in terms of both capacity and confidence.

59% of countries were characterized as either less than “ready to engage” in the Article 6 market or lacking a “strong understanding of Article 6” participation requirements. Weaknesses were noted in terms of national governance frameworks, project/program development experience (in both public and private sectors), experience with negotiating purchase agreements (commercial contracts for carbon credits) and other risks such as political stability

On the other hand, 41% percent countries were characterized as both ready to engage and having a strong understanding of Article 6 participation requirements, another factor in determining a country’s capacity for engagement. Affirmative responses were more likely to come from countries with CDM experience or active participation in the voluntary markets, and those on the forefront of developing national governance frameworks for Article 6.

The relatively positive perception of readiness (41% of countries) appears at first to contradict the overwhelming acknowledgement of risk resulting from lack of capacity, as also described in the previous chapter. However, this could also suggest that at this early stage of the market, countries are confident that such risks can be managed. Given the growing availability of technical assistance and capacity building resources for Article 6 participation, countries are increasingly willing to continue to explore engaging in the market (accessing the perceived benefits of carbon finance), even though more objective measures of readiness and clear understanding of the rules is lacking. The survey delved into these more objective elements of readiness to get a better sense of where countries stand in terms of their capacity (measured by 1) the state of governance frameworks, 2) the state of capacity building support, and 3) perceptions on private sector experience) as well as their confidence in the market.

¹ Previous experience with the CDM was not directly measured through this survey, nor was participation in the voluntary carbon market (VCM). Responses to open-ended questions, however, indicate that CDM experience influenced the country’s approach to Article 6 and that the VCM engagement occurs in many countries.

3.1 Governance framework readiness

Government policies guiding and enabling participation are needed for countries to be able to meet the requirements of the Paris Rulebook. Additionally, a strategic approach to participation is key to ensuring seller countries maximize the potential benefits of Article 6 without overselling emissions. Government policies and strategies as well as processes and technical infrastructure, commonly referred to as “governance frameworks” or “national frameworks” are important tools for government decision making and they can both provide signals to and reduce risk perception for potential buyers. The survey examined three governance framework-based dimensions of readiness, including the existence of Article 6 regulations, Article 6 strategies, and/or general carbon pricing policies.

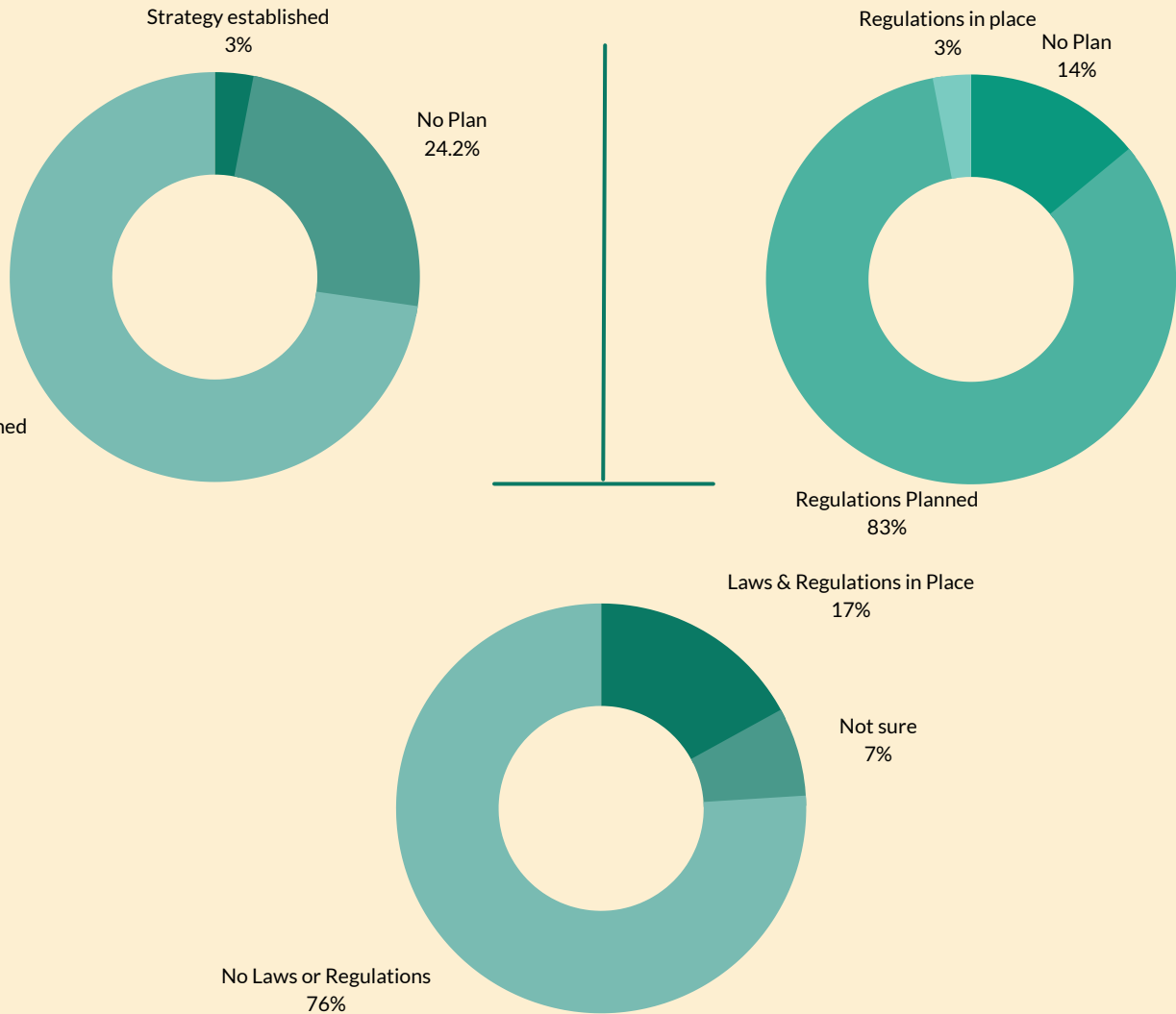
Countries are overwhelmingly convinced of the need to develop Article 6-related policies. 24 of 29 countries noted their intention to establish regulations to govern their Article 6 carbon trading, with only one country noting that regulations were already in place. Similarly, 21 of 29 countries noted their intention to establish an Article 6 strategy. Several responses identified existing policies, such as a Low Emissions Development Strategy (LEDS), or knowledge activities or engagements (roundtable discussions and participation in a regional carbon market alliance) as the catalyst for their interest in strategy development.

24% of countries indicated there was “no strategy planned,” though, of these responses, some explained that a strategy was a good idea (one country) or they were looking for an organization to provide support in developing a strategy (four countries). Still, there appears to be a persistent need to communicate to potential sellers the importance and role of a strategy, which can help to provides key insight into the type of mitigation activities the government is willing to approve, the approach to avoiding overselling, and much more. Many respondents were familiar with international organizations that are or could provide technical assistance support the development of their governance framework, including but not limited to GGFI.

Many countries have undertaken efforts to build domestic carbon pricing instruments, often with the support of programs such as the World Bank’s Partnership for Market Readiness (PMR)/Partnership for Market Implementation (PMI) projects. As of 2022, there are more than 68 carbon pricing instruments in operation, including carbon taxes and emissions trading systems, covering approximately 23% of global GHG emissions¹. These programs frequently require the development of their own governance frameworks such as a national framework law or regulation on carbon pricing. Likely because of these global efforts, this survey found a percentage of countries with general carbon pricing regulations in place was much higher than for Article 6 policies (17% of countries compared to 3-4% for Article 6 policies). The introduction of carbon pricing regulations for domestic instruments can create an enabling environment for Article 6 trading. However, the state of carbon pricing policies globally is still underdeveloped, suggesting that there is great need for targeted support for countries to participate in international markets.

¹ World Bank 2022. State and Trends of Carbon Pricing 2022. <https://openknowledge.worldbank.org/handle/10986/37455>

Figure 4: Status of government policies related to Article 6



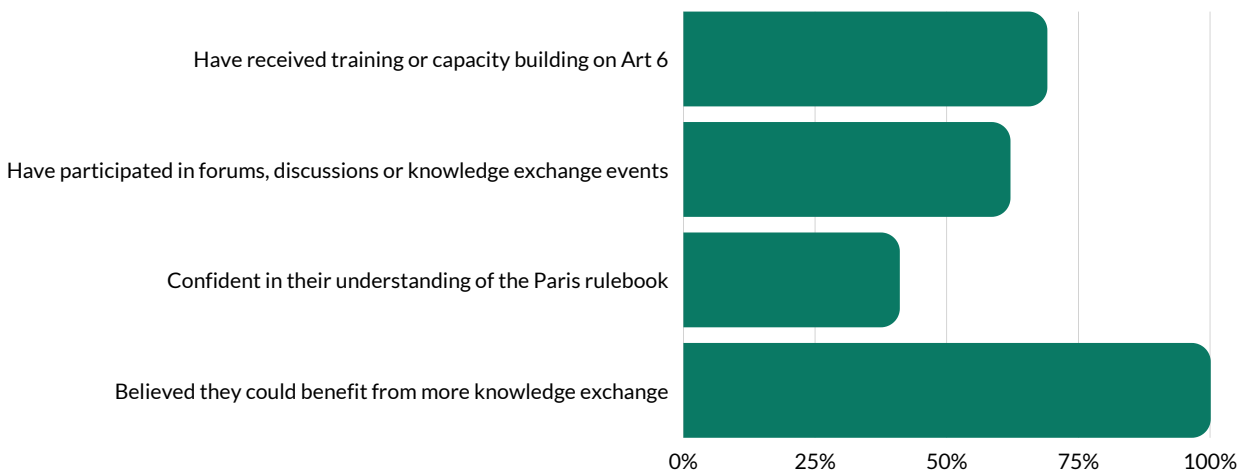
3.2 Capacity building support

Capacity building and awareness raising activities for Article 6 can play an important role in ensuring governments and private sector developers are ready to engage in the market both in the short and long term. During this early stage of the market, participants are still digesting basic concepts around carbon trading and market dynamics, as well as information about the participation requirements in the Paris Rulebook. Development partners play a key role in providing this support through training or through establishing knowledge exchange and promoting cross-learning between market participants.

The survey responses indicate that, while some capacity building and knowledge exchange has taken place, much more is needed. Respondents in 69% of countries indicated that their governments had received training or capacity building on Article 6 and/or international carbon markets. Regarding participation in forums, discussions or knowledge exchange events, 62% noted that they had the opportunity to learn from others at UNFCCC negotiations, COP side events, regional workshops, and bilateral discussions (including with buyers). Some also noted their previous experience in exchange in the context of the CDM or REDD+ mechanisms.

Despite these initial capacity building and knowledge exchange activities, as previously described, respondents in only 41% of countries – many of whom are national focal points for the UNFCCC or individuals in charge of Article 6 decision making – were confident in their understanding of the Paris Rulebook. An overwhelming interest in more support was expressed during all interviews, and every respondent to the survey (100%) acknowledged that they would benefit from more knowledge exchange. More detail on the priorities and needs for readiness support are described in Chapter 5 below.

Figure 5 : Capacity building question results



3.3 Private sector experience and sectoral expertise

Private sector entities will be crucial to enabling countries to meet their NDC targets as they invest in implementing mitigation activities. A fully engaged private sector can help mobilize additional finances and support for innovative approaches which is critical to Article 6 engagement. In 66% of countries, investors, developers or other private sector actors (primarily in the energy/oil and gas, AFOLU and waste management sectors) had already enquired to government about procedures to approve of Article 6 mitigation activities. This is not surprising given the high rates of activity in the voluntary carbon market, and the increasing interest in high-quality (including Article 6-authorized) credits.¹

While government must focus attention on developing enabling policies for investment in its governance framework, private sector actors should be equally well-informed about the structure and rules of the Article 6 market, and the risk and opportunities of engaging in ITMO transactions. The survey aimed to gauge the level of private sector interest within countries as well as the perceived level of readiness from the perspective of (mostly public sector) participants in the survey. Participants were asked to gauge the level of potential for their private sector to develop ambitious mitigation activities. 64% felt that their private sector was at either a medium or high state of potential, with only 17% feeling the private sector was relatively unprepared.

In terms of sectoral expertise and experience for carbon project implementation, many GGGI member and partner countries felt they have best practices to share. Although this varies substantially by sector, it may help to explain where early market activities are most likely to be identified. For example, considering IPCC sectors, 24 out of 29 countries felt they had particularly strong experience in implementing energy sector projects. 13 felt the same in the land-use change and forestry sector, and 9 in the waste sector. Only 5 countries felt they had experience in the area of agriculture or industrial processes.

3.4 Confidence in the Market

For potential sellers in the market, readiness is not only a matter of capacity to engage but also confidence that they will get equitable treatment and payment in their transactions. Beyond assessing the functional ability to participate in the market (i.e. “capacity”), the survey examined how potential seller governments felt about their position in the market and the “confidence” that it is worth their effort to participate and that the risks they perceive can be managed. The responses revealed an overall lack of confidence of potential sellers linked to both perceived gaps in their own capacity, but also a sense of inequity in the market.

Survey participants were asked if they felt there was “equal opportunity for sellers and buyers to benefit from carbon trading under current market conditions.” In 86% of countries (21 out of 29 surveyed) respondents concluded that they did not believe that buyers and sellers had equal opportunity to benefit from the market under current conditions. Nearly 50% of surveyed countries felt they were not able to equitably participate in the market, and that they may be at risk of being taken advantage of by buyers. Specific comments received directly from survey respondents (paraphrased from interviews to maintain anonymity) are presented below:

- Current market conditions disproportionately favor the needs and requirements of buyers over sellers.
- Countries are at different stages of readiness and have different market entry levels, which may lead to the inability to compete on an equal footing. Developing country buyers, for example, will have a capacity gap compared to developed country buyers. For example, most LDCs don't have the legal and institutional frameworks, or the capabilities needed to actively engage.

¹World Bank (2022), State and Trends of Carbon Pricing 2022; IETA (2022), GHG Market Sentiment Survey 2022; Ecosystem Marketplace (2022), State of the Voluntary Carbon Markets 2022 Q3.



“In 86% of countries (21 out of 29 surveyed) respondents did not believe that buyers and sellers had equal opportunity to benefit from the market under current conditions

- Currently, carbon pricing is formulated in the absence of national emissions trading schemes or carbon pricing regulations, which leads buyers to offer very low prices
- Sellers could be taken advantage of, especially if they don't know how prices in the market are moving.
- Buyers control the price of carbon. There is a need for equity on all sides, particularly the communities (and sellers) where the projects are located.
- There are different policies for each country and different political power in negotiations. Price setting is not well balanced. For example, a developed country might need to spend USD 100 to reduce 1 ton of CO₂ in their own country, but they are only willing to pay USD 20 to purchase 1 ton of CO₂ from a developing country.

As with capacity gaps, lack of confidence creates a sense of caution that could diminish the drive to cooperate among countries and could leave some hesitant to engage in Article 6 trading.

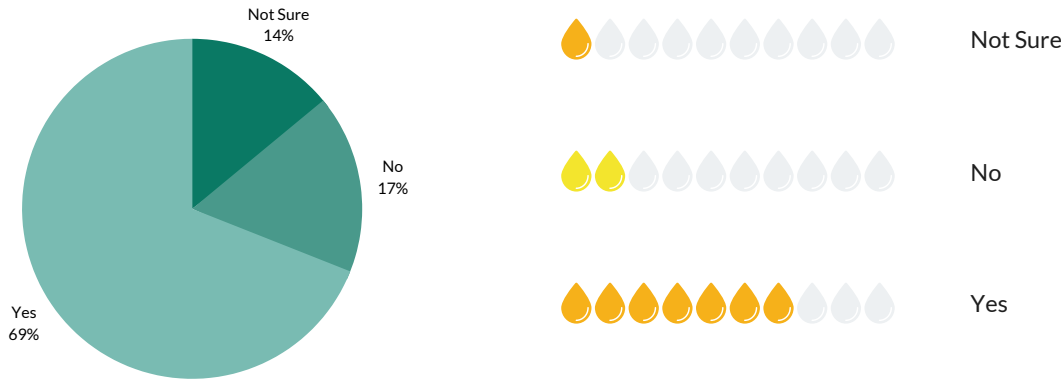
4. Article 6 Mitigation Activities

Some host/seller countries are moving quickly to prepare mitigation activities that could generate ITMOs for trading under Article 6. These early movers are working with investors, ITMO-purchasing entities and other international partners through a “learning by doing” approach. Others are considering how to transfer CDM activities to meet the requirements of the Paris Agreement so the generated credits can be traded in the Article 6 market.

More than two-thirds of countries at the time of survey had been approached by potential buyer governments. These potential buyers expressed interest in both boosting the general readiness of the seller to engage in Article 6 transactions (through capacity building and technical assistance), as well as developing ITMO-generating mitigation activities. Countries identified as potential buyers by survey respondents included Switzerland, Japan, Sweden, South Korea, Australia, Norway and Germany. In 90% of the cases where buyer and seller government entities had communicated regarding potential ITMO transactions, the issue of avoiding double-counting through conducting corresponding adjustments was emphasized early on. Twelve countries indicated they were designing or implementing pilot activities under Article 6.

Some countries had also been contacted directly by private sector buyers wishing to engage in voluntary market transactions or entities interested in filling needs under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA).

Figure 6: Percentage of respondents approached by potential buyers?



Piloting transactions will play a critical role in the overall development of the Article 6 market. Not only does piloting help potential seller countries become ready for long-term market engagement, but it also reveals challenges to market participation for others and triggers innovative solutions that can be shared and tested globally. Piloting transactions in this stage of the market can be confusing, take a long time and entail costs that some potential seller countries are not willing or able to bear. The survey revealed a range of reasons that some potential seller countries had not yet engaged in designing or implementing a pilot mitigation activity under Article 6. The top three reasons cited were:

1. The need to ensure that emissions reductions needed to achieve targets would not be sold,
2. A preference for preparing national rules and procedures before piloting a project, and
3. Wanting to better understand the benefits and consequences

Table 1: Reasons for not engaging in an Article 6 pilot activity

Main reason for not engaging in a pilot activity

We want to ensure we are not selling emissions reductions that will be needed to achieve targets	11
We would prefer to prepare our own rules and procedures first before piloting	08
We want to better understand the benefits and consequences	07
We are waiting for the market to be more mature before engaging	05
No one has approached us yet	04
We are not interested participating in international markets	0
Other	02

These findings suggest that the “learning by doing” approach may not be the preferred approach for all potential sellers. Some countries will prefer technical assistance and capacity building to understand the benefits and risks of participation, and to develop national strategies and policies to avoid overselling before engaging in discussions on specific mitigation activities with potential buyers. More detail about priorities and needs is described in Chapter 5 below.

5. Article 6 Seller Country Priorities and Needs

Closing capacity gaps highlighted by participants is critical to the development of a well-functioning carbon market, as the burden on potential seller governments under Article 6 is substantial. The survey attempted to collect feedback directly from potential seller countries on their priorities and needs for readiness support. It is unclear whether survey participants believe there is an optimal way or method to build capacity. Respondents were asked to select their country's top 3 priority areas for support for improving Article 6 readiness. Based on the responses, the top three areas selected by participants were:

1. Putting in place legislation and regulations for engaging with international carbon markets,
2. Capacity building/training for the government stakeholders, and
3. Develop a national registry or tracking tool

Table 2: Priority Areas for Article 6 Readiness Support as Ranked by Participants

Area of A6 Readiness Support

Putting in place legislation and regulations for engaging with international carbon markets	20
Capacity building/training for the government stakeholders	18
Develop a national registry or tracking tool	12
Defining national rules to select and approve carbon market projects	10
Preparing a strategy to comply with my unconditional target	09
Defining a governance framework for international carbon trading	08
Establishing systems and procedures for MRV	06
Capacity building for private sector project developers	06
Identifying a pipeline of potential projects and programs suitable for carbon trading	06
Other	04

In terms of the type of assistance preferred, countries showed relatively equal interest in all types, with a high priority for financial assistance to build technical infrastructure such as registries, tracking tools and data management systems for carbon accounting. There was also a high priority given to pilot projects, capacity building to understand markets, and other technical assistance to assess and prioritize potential mitigation activities for trading.

Those responses indicating “no strategies are planned” provided explanations that a strategy was a good idea (1) or they were looking for an organization to provide support in developing a strategy (4). Countries participating in REDD+ had strategies to cover REDD+ activities under Article 6.

6. GGGI’s Article 6 Readiness Activities

Since 2019, GGGI has been working with partner countries to structure carbon transactions under Article 6.2 of the Paris Agreement. GGGI’s Carbon Pricing Global Practice supports more than 10 countries with Article 6 readiness activities, linking policy development, technical analysis, project origination, capacity building and institutional strengthening. Thanks to these activities, GGGI is a recognized service provider in the Article 6 space, focusing on supporting government stakeholders to operationalize Article 6 rules and mainstream carbon finance into the national climate and investment systems in member and partner countries.

GGGI’s current initiatives include:

- The Mobilizing Article 6 Trading Structures (MATS) Program, funded by the Swedish Energy Agency, supports host countries to access carbon finance under Article 6 of the Paris Agreement by developing project and program-based mitigation activities into carbon transactions and supporting host country governments to put in place the institutional frameworks for Article 6 trading. The MATS Program is currently working in Nepal and Cambodia, with two more countries to be added in 2022.
- Designing Article 6 Policy Approaches (DAPA) is a global carbon finance project funded by the Norwegian Ministry of Climate and Environment in 4 countries, namely Indonesia, Morocco, Senegal and Vietnam. GGGI supports the identification, selection and design of crediting Policy Approaches to mobilize results-based carbon finance under Article 6 of the Paris Agreement. They are expected to lead to GHG emission reductions beyond the unconditional Nationally Determined Contribution (NDC) target, making them eligible to be traded bilaterally under Article 6.2 as Internationally Transferred Mitigation Outcomes (ITMOs).
- Supporting Preparedness for Article 6 Cooperation (SPAR6C) is a global readiness program funded by the international Climate Initiative (IKI) of the German government. More than eight Article 6 mitigation activities will be developed across four program countries (Colombia, Pakistan, Thailand and Zambia). The program will produce a toolbox of innovative guidance and approaches for transformative Article 6 design and take a research-based approach to capacity building to facilitate a Community of Practice for Article 6 Implementing Countries (CoP-ASIC) for learning and sharing of experiences regionally and globally.

GGGI also supports its members and partners with a broad range of climate change and green growth planning and implementation activities that in many ways form the context or enabling environment for trading. These could include technical assistance for preparing a Long-term LEDS, NDC implementation planning, investment preparation, climate finance mobilization and readiness support and a range of other services. GGGI’s extensive experience in these areas are easily integrated into its Article 6 work and can help to scale up efforts.

Building on the findings of this survey, and a series of validation discussions and consultations in mid-2022, GGGI is in the process of developing a new mechanism to promote Article 6 carbon market development, called the Carbon Transaction Platform (CTP). The CTP will both allow GGGI to expand its readiness support activities through the establishment of a Readiness Facility, and enhance GGGI's ability to facilitate transactions between buyer and seller countries through the establishment of one or more carbon purchasing trust funds. More details on the CTP can be found here: <https://gggi.org/gggi-completes-consultation-phase-for-the-design-of-the-article-6-carbon-transaction-platform/>

7. Key Conclusions

This survey provides a snapshot of 29 of GGGI's members and partners from developing and emerging economies, representing all regions of the world. The findings provide important insights into the state and perceptions of potential sellers regarding Article 6 readiness globally. Based on the findings, GGGI can make the following conclusions:

1. Potential seller countries are expressing their needs for substantially more capacity building support.

While some seller countries have gained market experiences from the CDM, Article 6 trading is likely to require more strategic planning and oversight and involves larger risks. Readiness support providers must carefully analyze opportunities and risks for seller countries and tailor training to the many different domestic audiences involved in implementing mitigation activities and transferring ITMOs. Cooperation among service providers and opportunities to share lessons learned among practitioners will be critical. Providing potential market participants with a consistent, reliable platform for knowledge exchange, including lessons learned and best practices, could help close the capacity gap.

2. More piloting and “learning by doing” is critical for Article 6.2 implementation. Rules, modalities and procedures need further clarification for the market to take off.

Even once these are developed for Article 6.4 transactions, questions about how to undertake Article 6.2 transactions, which take place without the approval of the UNFCCC Supervisory Body, will remain. For Article 6.2 transactions, norms that lay out the proper processes and procedures can be developed only as transactions are implemented. Although not all countries are interested in being early movers (by, for example, beginning their Article 6 readiness journey by developing pilot mitigation activities), the learning by doing approach taken by many countries in partnership with potential buyers is essential to market development.

3. Perceived gaps in equity between buyers and sellers must be addressed.

Carbon trading under Article 6 of the Paris Agreement involves a delicate mix of commerce and diplomacy. To maximize the GHG emission-reducing impact of the market (through creation of a vibrant, active market), buyers and sellers must be both able and willing to engage in transactions under optimal market conditions agreed by both sides. Capacity building plays an important role in this regard; sellers must be fully engaged and capable of making decisions in their best interest. At the same time, partnerships rooted in the spirit of cooperation at the core of Article 6 can create a more “even playing field,” giving sellers the confidence they need to engage in transactions. Open and honest exchange of experiences between buyers and sellers can also build seller confidence.

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