



Wilton Park



Report

**COP26 Catalyst for Climate Action Assembly at the
UN Regional Climate Week for Asia-Pacific**

Carbon markets participation

Wednesday 7 July 2021



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Introduction

In its role as the incoming COP26 Presidency, the UK is committed to better understanding the capacity building challenges faced by developing countries and climate finance recipients, particularly those most vulnerable to climate impacts, and to providing opportunities to share positive experiences and lessons learned across the Asia-Pacific region.

This regional dialog at this year's UN Regional Climate Week for the Asia-Pacific Region provided the space for a wide range of countries to explore capacity building challenges and share their experiences and lessons learned in relation to Article 6 international carbon market participation.

Historically the flow of carbon finance has not benefitted all parties equally. In future a high number of countries – almost 100 – have expressed interest in their Nationally Determined Contributions (NDCs) to use carbon markets to help achieve or increase their ambition. Forming plans under the Paris Agreement will include new requirements that countries have not experienced, including under the Kyoto Protocol. Many countries have already formed plans, and many have yet to get started. Developing countries have also highlighted their need for capacity building support to enable them to take full advantage of these opportunities. This meeting explored the practical challenges that participants face and how they have avoided or overcome these challenges. What capacity building support might be needed for countries in the future, and what further steps can we take to enable equitable and environmentally sound carbon markets? This report provides a summary of the key points raised at the meeting.

Country experience

Making progress with carbon markets: learning from country experience. What can be learnt from Asia Pacific country experience of carbon markets so far?

Participants shared experiences from a range of countries and contexts. Here are some examples and summary points:

Indonesia

Indonesia has experience of participating in carbon markets via the Clean Development Mechanism (CDM), Joint Crediting Mechanism (JCM) and the voluntary carbon market. Its latest progress this year is the piloting of an Emission Trading System (ETS) in the power sector. A major challenge for Indonesia has been to continue to make progress throughout the COVID-19 pandemic. Despite this, the country is still committed to achieve its NDC and all policies for emissions reductions. Indonesia is very open to cooperation with other countries and institutions to help develop capacity building for carbon markets.

Officials highlighted some market-based mechanism challenges they have experienced:

- Registering and calculating emission reductions at the national and global level is becoming increasingly complex;
- The integration of carbon trading in national climate change funding and linkages between different schemes and mechanisms;
- Unclear which national emission reductions policies carbon markets can penetrate;
- Readiness of human resources from the government, private sector, and financial institutions.

Nepal

Nepal is working both domestically and internationally to present its perspective on Article 6 of the Paris Agreement and to prepare its governance framework and mitigation activities for trading through Article 6. It is building its internal capacity, especially on institutional requirements to engage and ensure roles and responsibilities are assigned to the relevant institution. Several policy measures are in place to deal with carbon markets including a new climate change policy, and a new environmental protection regulation that provides a strong institutional basis for carbon trading. Nepal's NDC includes several conditional aspects and Article 6 is viewed as a tool that can bring investment that stimulates mitigation activities. Nepal has been active in the CDM and has built up capacity via this channel including the MRV capacity of some sectors in the country. One example is Nepal's household biogas programme which has reduced outdoor and indoor pollution and has directly helped female and child household members.

Lessons learnt

- Some governments and the private sector across the Asia Pacific region have limited knowledge and information about Article 6. While the government can provide support, progress has to be driven by the private sector, which often does not yet understand the benefits of carbon market participation.
- Development of carbon markets requires good data in terms of emissions in order to understand the potential impact of carbon trading and permit enhanced transparency.
- Capacity is needed to help countries better understand how carbon markets can be integrated into national emission reductions policies and the achievement of NDCs.

“We have to take a different approach to working with the private sector.”

“Capacity building for carbon market participation should invest in peer-to-peer learning from countries that already successfully doing things.”

- A strong institutional platform to participate in carbon markets is necessary but not sufficient to address Article 6; legal and policy frameworks are also required.
- Capacity building efforts should be based on peer-to-peer learning among those who have actual experience of working successfully in the real-world context. Tailored approaches are required for different stakeholder groups (e.g. the private sector tends to respond better to one on one advice or consultancy rather than workshops).

Making progress with carbon markets: what more is needed to benefit from Article 6?

Participants shared experiences from a range of countries and contexts. Here are some examples and summary points.

Cambodia

For the past ten years, Cambodia's government has increased national budget allocation for climate related activities to increase its capacity and ability to respond to climate change. It has also integrated climate change into national and sub-national plans and budgeting. Cambodia is committed to mitigating action and reducing emissions, however, their projects, covering both adaptation and mitigation come at a huge cost. The country needs to mobilise resources from partners (e.g. the Green Climate Fund) and is seeking to get better understanding of the short- and long-term implications of Article 6, and how it can be applied.

Fiji

Fiji has limited experience of CDM projects but has consistently engaged on REDD+ programming (e.g. via FCPF), gaining an understanding on benefit sharing and environmental and social safeguards. The country is exploring how to engage in carbon markets and implement a carbon pricing mechanism; however, it does not currently have the infrastructure to do the trading and requires technical support and capacity building. It is also considering how to build the capacity of the private sector, and a wide range of medium and small-scale enterprises, to engage in carbon markets. The accuracy and quality of data is always an issue for small island developing countries.

What is needed?

- Countries need more knowledge and greater clarity on carbon market issues and the application of Article 6. To be able to benefit from the opportunities presented by carbon markets to leverage finance for climate action a long-term perspective must be taken, that includes sectoral and sub-national level strategies.
- An approach to discussing Article 6 that considers the common benefits to both sides in a transaction, accounting for the sustainable development opportunities carbon markets can present.
- Countries need technical support and capacity building to create the institutional strength and infrastructure needed (including tools, frameworks and systems) to conduct carbon trading and assess projects in a robust and transparent way. Countries need to define who is responsible for authorisation.
- Building the capacity of the private sector to engage in carbon markets is critical in order to ensure the ongoing credibility of carbon market activities.
- Greater understanding of financial flows is needed, particularly in terms of tracking, distribution, benefit sharing and ownership.
- There should be increased collaboration among decision makers in government agencies to share knowledge and take collective action.

“The more we learn and the more we engage with key stakeholders, the more we need to understand the implications.”

“We need to balance between economic development and natural resource and environmental protection. We want our carbon markets to be sustainable.”

“The private sector plays an important role to increase investment, and to promote sustainable development.”

“Capacity building is not just about learning, but to do something with what you have learned and this requires investment in time and resources beyond a workshop.”

“How do you get data from stakeholders? There is a lack of awareness of the need for emissions data, and we don't have proper archiving systems.”

“When we talk about a embedding a skill or awareness, it is better done through a systematic or programmatic way that is built into the institution rather than a particular person.”

- Capacity is needed to develop eco-systems assessments and monitoring. It is challenging for some countries, especially small island nations, to have a robust emissions inventory and conduct accurate data collection and analysis. Countries require support to create the necessary conditions for the Enhanced Transparency Framework (EFT).

Areas for future discussion on capacity building to build carbon markets

Participants shared reflections on future directions for capacity building including these key points:

- South-to-south engagement, country ownership of workshops and on-the-job learning are good ways to approach capacity building.
- Capacity building strategies must be long-term, based on country needs and include the participation of all country stakeholders.
- Collecting and analysing data is a significant area of concern for many countries. Some countries have data but it is not shared with the Ministry of the Environment. Other countries struggle to collect quality data and present it in a useful format. Building trust and creating the conditions for transparency is crucial for obtaining accurate data.
- Raising awareness of carbon market issues through short workshops is often insufficient. Meaningful capacity building involves longer training courses and establishing ongoing support via peer-to-peer learning to ensure that newly gained knowledge is put into practice.
- Collaboration with national focal points and development partners including capacity building agencies is required to design training for national stakeholders who will be the practitioners who implement Article 6.
- Use local entities to disseminate information, train trainers and cascade knowledge and information in ways to make it systematically embedded and fixed in institutions.
- One challenge is that the private sector can create incentives to lure people away from institutions, once they have had their capacity built. This needs to be avoided, for example, by ensuring people who are sponsored and trained by the government must work for a minimum fixed period of time.

Resources shared during meeting

<https://www.iges.or.jp/en/pub/understanding-article62-reporting-icm/en>

<https://openknowledge.worldbank.org/handle/10986/33809>

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Annex

[Carbon Markets meeting agenda](#)

