



MDB'S CLIMATE ACTIONS ON ARTICLE 6

The Paris Agreement represents countries' commitment to strengthening the global response to climate change and raising ambition. Countries set out their individual climate pledges by submitting Nationally Determined Contributions (NDCs) to the UNFCCC that outline the actions they would undertake for low carbon and climate resilient economic development. A key challenge, however, is the financing required to bring about this global transformation while also recognizing that countries must meet and exceed their NDCs in order to meet the temperature goals of the Agreement.

Many countries and private sector entities are factoring in the potential role of market-based approaches such as carbon markets and other carbon pricing instruments for their decarbonization strategies. Carbon markets offer much-needed flexibility for countries to meet their NDC commitments and can act as a risk management tool in the transition to a net zero economy. A well-designed carbon price could be the most cost-effective way to abate greenhouse gas (GHG) emissions and trigger a transformational shift in investment patterns and behaviors, unlocking innovation in technologies, infrastructure, financing, and practices. Over half of the NDCs submitted by countries to date reference the use of carbon markets to meet their targets.¹ Non-market approaches are less well-developed but there are ideas in development that could enable alternative approaches to financing both adaptation and mitigation activities through, for example, results-based payment mechanisms focused on outputs, outcomes and impacts.

Role of Article 6 of the Paris Agreement – Article 6.2, 6.4, and 6.8

Article 6 of the Paris Agreement recognizes that countries may voluntarily cooperate with each other to deliver on their NDCs and raise mitigation and adaptation ambition. Effectively, this Article introduces the use of carbon markets and non-market approaches globally. Article 6.2 signals flexibility for and permits direct bilateral or plurilateral cooperation, under guidance of the Parties, for the generation and transfer of mitigation outcomes (MOs) from one country to another under a variety of mechanisms. Article 6.4 will be governed by the Parties through a centralized UNFCCC process. Article 6.8 provides for non-market approaches whilst leaving open the definition of such approaches.

International market cooperation under Article 6 of the Paris Agreement could mobilize private sector investments at scale and lower the cost of achieving mitigation targets, giving developing countries increased access to climate finance. Recent estimates suggest that cooperative implementation of NDCs can result in 40% higher emissions reduction at 40% lower average mitigation cost for the 2020-2030 period, compared to a scenario where all countries implement their NDCs independently.² International cooperation could reduce mitigation cost by \$300 billion per year by 2030.

Also, non-market approaches of Article 6.8 have significant role in supporting countries to implement NDCs. Provision of climate finance would be crucial in driving actions not only in adaptation but also in

¹ Asian Development Bank. 2020. Achieving Nationally Determined Contributions through Market Mechanisms in Asia and the Pacific. <https://www.adb.org/publications/achieving-ndcs-asia-pacific>

² https://www.ieta.org/resources/Resources/Net-Zero/Final_Net-zero_A6_working_paper.pdf

mitigation activities where GHG emission reductions are hard-to-measure and not suitable for market approaches but can utilize other forms of result-based finance.

The 'Paris Rulebook' – the implementing guidelines that will operationalize the landmark Agreement – is still under negotiation. In this context, the role of multilateral development banks (MDB) to build the capacity of host countries, help enhance the understanding of technical elements and focused piloting efforts, is essential for providing practical experience on the use of carbon markets post-2020.

MDBs' role and activities to operationalize Article 6

Against this backdrop, MDBs are working to support client countries through analytical and technical work to participate in post 2020 carbon markets and non-market approaches.

Drive a common understanding on key technical issues of Article 6

Capacity building and piloting activities are critical to strengthen the capacity of relevant stakeholders to better understand the requirements and how to participate in international carbon markets. Most importantly, such efforts are critical for host country governments to get equipped and play important role to support domestic market players. MDBs have continued efforts to foster a common understanding on technical elements for Article 6 through the Climate Market Club (the Club), which was established in June 2020. The Club is developing options for operationalizing carbon markets and has published the following papers outlining implementation options for Article 6.

- [Ensuring Environmental Integrity under Article 6 Mechanisms](#) that suggests a practical approach to operationalize the concept of ensuring environmental integrity.
- [Country Processes and Institutional Arrangements for Article 6 Transactions](#) that provides options on how host countries can design institutions and approval procedures at the domestic level, which includes Ci-Dev's standardized crediting framework as an actual example.
- [Carbon Asset Development Process](#) that identifies processes for the generation and transfer of carbon assets in post-2020 international climate markets and to suggest standard terminology in the carbon asset development cycle across key independent standards.
- [Country Policy Framework for Cooperative Approaches Under Article 6.2](#) that suggests a need for a national policy framework specifying a country's preferred approach towards implementing a Cooperative Approach under Article 6.2, which will provide the minimum legal foundation

Box 1: Climate Market Club

The objective of the Club is to serve as a **forum for discussion** and consensus on how different elements of Article 6.2 of the Paris Agreement can be piloted. This is intended to **facilitate the development of rules** under the Paris Agreement based on practical experience and catalyze early action.

The current Club members are:

The governments of Bangladesh, Bhutan, Chile, Ghana, Kazakhstan, Japan, Peru, Rwanda, Senegal, Singapore, Sweden, Switzerland, and Ukraine

The non-sovereign members include: KliK Foundation, Global Green Growth Institute, Temasek, Institute for Global Environmental Strategies, and United Nations Development Programme.

required to give Parties (including the private sector entities) the necessary certainty regarding their rights and obligations as participants to the Cooperative Approach.

In addition to above, the Club has been discussing other topics including use of a positive list for determining eligibility of mitigation outcomes, what elements of CDM methodologies could be useful in the context of Article 6.2/6.4, revisiting the concept of Additionality, guidance for developing an Article 6 strategy for host countries and corresponding adjustments for single-year and multi-year targets.

ADB convenes the ADB Roundtable on Article 6 to enable Article 6 negotiators to increase their capacity to understand the full implications of the paradigm shift in the international climate regime with the **Paris Agreement as compared to the Kyoto Protocol** and contribute to the development of, and benefit from, the carbon markets emerging under Article 6. The Roundtable provides Article 6 negotiators with access to leading international Article 6 and carbon market experts, facilitating discussion that builds deeper understanding of the key issues and technical options being deliberated under the ongoing international negotiations.

Support transparency through designing and testing an enabling infrastructure

Connect decentralized registry systems to reduce double counting risks

Transparency is essential for trust in markets. The World Bank in coordination with the MDBs, International Emissions Trading Association, and the Government of Singapore is building a Climate Warehouse ecosystem, which connects decentralized registry systems using the blockchain technology to enable tracking of carbon credits and reduce double counting risks.

Understand infrastructure needs to meet reporting requirements

There is a need to come to a common understanding on what market infrastructure may be needed at the national level to meet transparency and integrity requirements of Article 6, as well as to store, track, and transact units at different stage of a carbon asset's life cycle. The World Bank in coordination with the MDBs is developing a paper that analyzes various reporting requirements and potential infrastructure options available for countries to fulfil the requirements.

Enhance MRV using new and advanced digital technologies

New and advanced digital technologies can reduce transaction time and costs while improving accuracy, transparency and reliability of monitoring, reporting, and verification (MRV) of mitigation and adaptation outcomes. The European Bank for Reconstruction and Development (EBRD) is working with the MDBs on developing and piloting a Digitalized Monitoring, Reporting and Verification (D-MRV) system for mitigation actions, meeting high carbon quality standards to enhance efficiency and reduce operational costs. The World Bank has developed an open source national MRV and registry system to support

Box 2: Climate Warehouse

The Climate Warehouse connects decentralized registry systems using the blockchain technology to **enable tracking of carbon credits and reduce double counting risks.**

Once operational, the Climate Warehouse can be used to ease **integration between disparate registry systems.** Data on projects and units can be easily transferred between systems and the consolidated information in the Warehouse will provide the basis for compliance reporting and auditing of information.

countries with the deployment of such systems and monetization of emission reductions from eligible mitigation activities. Both EBRD and WB are currently exploring to integrate D-MRV at mitigation project level with the national MRV systems and pilot in one of the countries of operation.

Explore the role of tokenization in scaling up climate actions

Tokenization of carbon credits and smart contracts are likely to play an important role for digitizing and securing the information on assets and how they are used and traded. Tokenization is expected to increase efficiency of market activity, deepen market liquidity and transparency and can be programmed so that benefits accrue to project developers. The World Bank in coordination with MDBs and other partners in the carbon market is exploring how the tokenization can contribute to scaling up climate actions.

Develop tools and products to support market demand

Develop a standardized framework for assessing countries' diverse climate actions

While carbon pricing policies and international carbon markets are increasingly diverse to accommodate countries' NDCs and domestic priorities, the diversity of approaches reduces transparency between climate actions and increases the complexity of market integration. A standardized framework is needed in that context to assess the level of design and implementation of countries' climate policies and actions.

The World Bank developed two jurisdictional assessment tools under the [Mitigation Action Assessment Protocol \(MAAP\)](#) – the Domestic Carbon Pricing Instruments (MAAP-CPI) and the International Transfer Readiness (MAAP-ITR) in 2020 to help countries understand essential building blocks of the design and implementation of domestic carbon pricing instruments and participation in international carbon markets. The tools help identify gaps and capacity building needs beyond the project level assessment.

Explore the products for managing the risk of corresponding adjustment

A corresponding adjustment is essential for the buyer to use an internationally transferred mitigation outcome (ITMO) to demonstrate the achievement of their NDC. This presents a potential regulatory risk for buyers of mitigation outcomes since there is a timing mismatch between the ITMO being transacted and the host country delivering on its commitment to carry out a corresponding adjustment. The World Bank is exploring the possibility of developing risk mitigation products to manage risks related to the failure of countries making corresponding adjustments. Through its A6SF, ADB continues to provide institutional capacity-building and policy development support to countries to enhance the understanding of the national assessment and decision-making process that must underpin the authorization of ITMOs in relation to the requirement to make corresponding adjustments.

Enhancing capacity and readiness to operationalize Article 6 in the Asia Pacific Region

The Asian Development Bank (ADB) has established the Article 6 Support Facility (A6SF), which endeavors to support ADB's developing member countries (DMCs) in enhancing their capacity and readiness to operationalize Article 6 of the Paris Agreement. The A6SF is currently providing tailored support to seven DMCs (Indonesia, Mongolia, Pakistan, Philippines, Thailand, and Viet Nam), addressing their individual contexts and priorities.

For example, in Indonesia, ADB is supporting the development of a policy and legal framework and an assessment of institutional arrangements for operationalizing Article 6.2. Likewise, A6SF is supporting Viet

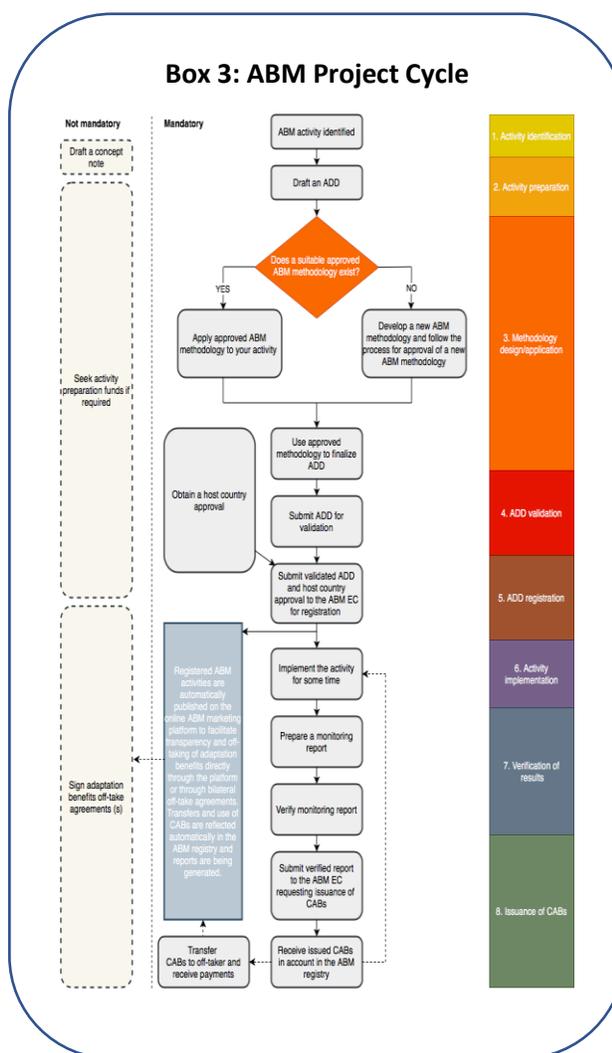
Nam to develop its policy and legal framework and institutional arrangements for operationalizing Article 6 and institutional arrangements for a domestic carbon market. ADB has also trained stakeholders from Viet Nam and Indonesia on developing approaches and criteria for screening prospective mitigation actions for piloting under Article 6 and developing a roadmap for the design and implementation of Article 6 pilots.

As a complement to A6SF’s capacity-building support, ADB also develops knowledge products, such as the two publications under the [Decoding Article 6](#) series or [Article 6 of the Paris Agreement – Drawing Lessons from the Joint Crediting Mechanism](#), to inform countries how market-based mechanisms can be used strategically to contribute to achieving NDC mitigation targets and raise mitigation ambition over time.³

Support adaptation action through developing an innovative incentive mechanism and robust methodologies

The African Development Bank’s Adaptation Benefits Mechanism (ABM) is developing and piloting an international incentive mechanism for financing adaptation. ABM is an innovative results-based mechanism that introduces the concept of “Certified Adaptation Benefits” which can deliver verified and largely quantified information for transparency and reporting on adaptation action and finance for the Paris Agreement. The Adaptation Benefits Mechanism’s Executive Committee is in the process of approving the first ABM methodology and is raising funds for more than 15 demonstration projects in African countries. Two additional ABM methodologies are expected to be completed by the end of 2021.

Box 3 illustrates the ABM Project Cycle which learns from the successes and challenges of the Clean Development Mechanism. The ABM Executive Committee is in the process of approving documentation to support the implementation of a transparent and credible project cycle that can enable Donors, developed country governments and consumers to pay towards the costs of adaptation. Details of the ABM are available at www.ABMEchanism.org.



³ These publications are available for download here: <https://www.adb.org/projects/50404-001/main#>