Idea Note: Consultation on GGGI’s Potential as a Carbon Transaction Platform

PURPOSE/ACTION REQUIRED

Members of the Assembly and the Council will be invited to:

☑ Explore and provide preliminary feedback on the Idea Note on GGGI’s Potential as a Carbon Transaction Platform

☐ Other

CONTEXT/BACKGROUND

With most countries now committed to NetZero2050, and NDCs increasingly showing ambition towards 50% reduction of global emissions by 2030, the attention shifts to implementation. That means credible NDC Roadmaps and implementing actions that reduce emissions and increase resilience. There are two central challenges recognized in the Paris Agreement: (1) developing countries lack the finance to implement the conditional portions of their NDCs, among other challenges; and (2) many developed countries will be challenged to reduce emissions sufficiently domestically. That is why Cooperative Approaches under Art6 of the Paris Agreement recognizes several options for countries to partner to implement climate action.

This note has been drafted to provide a general overview of the issues and to kick off a discussion among GGGI Members as to the desirability and feasibility of an effective GGGI Carbon Transaction Platform. The intent is to have initial consultations with the Assembly and the Council Members at their Joint Session in October 2021, which may lead to more in-depth exploration of issues, consultation with Members, and if prospects look positive, design.

SUMMARY

GGGI proposes to consult its Members to identify and develop the most effective actions for it to play an effective role as a trusted adviser to facilitate and accelerate carbon transactions with the aim of fighting the climate crisis and maximizing benefits to its Members. Among the options to be explored are:

a. GGGI acting as a “carbon (market) club” where members agree on carbon transactions with a set of common guidance, agreed by club members, in line with Art6 of the Paris Agreement, once finalized.

b. GGGI managing single or multi-donor Trust Funds for carbon transactions in specific areas that may differentiate between ITMOs with associated corresponding adjustments, Nature based Solutions (NbS) more suited to the voluntary buyer or funds that engage in transactions on a basis of their co-benefits as the primary focus.

c. GGGI developing green investment projects that generate REDD+ carbon credits, or ITMOs, working through the challenges of attribution between climate and carbon finance where needed, and advising on potential enabling policies incentivizing green private sector investments.

d. GGGI enabling public-private collaboration, once governments have agreed on mechanisms, allowing private sector entities in buyer countries to buy carbon credits that are eligible either in the voluntary markets, or under Art6, once finalized, through a GGGI Carbon Transaction Platform.
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Frank Rijsberman, 15 October, 2021

This note has been drafted by Frank Rijsberman and was circulated and reviewed widely among GGGI colleagues during the week of October 10-15. It is now shared as an AOB note for the Assembly & Council hybrid session of GGGI on October 28, to brief GGGI Members of these ideas and obtain preliminary feedback. GGGI Management intends to develop these ideas further, in close consultation with its Members, during 2022.

Summary

1. With most countries now committed to NetZero2050, and NDCs increasingly showing ambition towards 50% reduction of global emissions by 2030, the attention shifts to implementation. That means credible NDC Roadmaps and implementing actions that reduce emissions and increase resilience. There are two central challenges recognized in the Paris Agreement: (1) developing countries lack the finance to implement the conditional portions of their NDCs, among other challenges; and (2) many developed countries will be challenged to reduce emissions sufficiently domestically. That is why Cooperative Approaches under Art6 of the Paris Agreement recognizes several options for countries to partner to implement climate action.

2. GGGI has built up many strengths to enable it to facilitate carbon trading between buyers and sellers among its Members effectively. Most importantly, almost all projects GGGI developed and mobilized green climate finance for (US$2 billion+ over 2015-20) reduced GHG emissions. A share of these GHG reductions could have been monetized if there had been a viable carbon market – and some were monetized in the voluntary carbon market for REDD+1 that exists independently of the Paris Agreement. Once a new global carbon market emerges, a significant share of the green investment project pipeline in GGGI (currently about US$ 5 billion) may generate tradeable carbon credits. These can be monetized through a variety of external mechanisms – but it is also the case that GGGI Members collectively could really help to accelerate the market activity across from developed to emerging and developing nations, through a GGGI Carbon Transaction Platform. This would allow GGGI Members to set the rules, Under the guidance of the Paris Agreement, where there is flexibility, and facilitate and supervise the transactions through GGGI’s governance mechanisms. Such mechanism would also address the concerns related to governance of shares and related transactions, corresponding adjustments and the need to avoid double counting raised during the Article 6 negotiations.

3. GGGI proposes to consult its Members to identify and develop the most effective actions for it to play an effective role as a trusted adviser to facilitate and accelerate carbon transactions with the aim of fighting the climate crisis and maximizing benefits to its Members. Among the options to be explored are:
   a. GGGI acting as a “carbon (market) club” where members agree on carbon transactions with a set of common guidance, agreed by club members, in line with Art6 of the Paris Agreement, once finalized.

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1 Reducing Emissions from Deforestation and forest Degradation. REDD+ is a United Nations-backed framework that aims to curb climate change by stopping the destruction of forests. REDD stands for "Reducing Emissions from Deforestation and forest Degradation"; the “+” signifies the role of conservation, sustainable management of forests and enhancement of forest carbon stocks. [https://www.conservation.org/blog/what-on-earth-is-redd Accessed October 15, 2021.]
b. GGGI managing single or multi-donor Trust Funds for carbon transactions in specific areas that may differentiate between ITMOs with associated corresponding adjustments, Nature based Solutions (NbS) more suited to the voluntary buyer or funds that engage in transactions on a basis of their co-benefits as the primary focus.

c. GGGI developing green investment projects that generate REDD+ carbon credits, or ITMOs, working through the challenges of attribution between climate and carbon finance where needed, and advising on potential enabling policies incentivizing green private sector investments.

d. GGGI enabling public-private collaboration, once governments have agreed on mechanisms, allowing private sector entities in buyer countries to buy carbon credits that are eligible either in the voluntary markets, or under Art6, once finalized, through a GGGI Carbon Transaction Platform.

4. GGGI has developed key assets that position it well to play this role, including:

a. Credible high-level leadership and effective, agile intergovernmental governance that can include both buyers and sellers on an equal basis.

b. Membership of 39 countries and 1 regional integration organization committed to a common purpose to accelerate the green transition, in line with the Paris Agreement, with another 20+ countries in the accession process of the GGGI Treaty.

c. Proven ability to originate, develop and finance green investment projects as well as REDD+ jurisdictional approaches, through a $2 billion + track record, and a $5 billion + pipeline, they may potentially be additional to NDC efforts and therefore eligible for carbon trading.

d. Three-quarters of its 400 staff embedded as trusted advisers in key ministries of over 30 developing countries, and acting as delivery partners for almost all of these countries to build climate finance capacity (through the GCF readiness program), and supporting NDC development, NDC Implementation Plans and Roadmaps, MRV capacity development, and long term decarbonization planning (LEDS).

e. Proven ability to engage the private sector in green investment projects (with over 40% of the $2 billion green and climate finance contributed by the private sector), green finance, engaging with central banks as well as private banks to increase their ability to manage green and climate finance through GCF accreditation, green taxonomy, green credit corporation, green projects, and green bond development.

f. Strong and growing in-house GGGI Carbon Pricing Unit currently managing programs funded by Norway, Sweden and German IKI funding (approval process is in its final stages) that prepare for Art6 engagement through developing governance, MRV capacity, as well as pilot Art6 transactions and with attention to SDG alignment and co-benefits, in 13 developing countries. This provides over $30 million in funded Technical Assistance to support developing country readiness and initial transactions under Art6.

5. GGGI Management seeks preliminary feedback on this Idea Note from its Members at the 2021 Council and Assembly meeting (October 28, 2021) and will then develop these ideas, in close consultation with interested Members in 2022, taking into account the outcomes of COP26.

Introduction

6. Spurred by the latest IPCC report that indicates that to keep 1.5 degrees within reach the world needs to reach NetZero by 2050, and reduce GHG emissions by 45-50% by 2030. At the same time,
UNFCCC reports show that emissions, 5 years into the critical post-Paris period, are not yet falling anywhere nearly enough to achieve the target.

7. NetZero commitments have now been issued by most governments, with the large majority targeting 2050. The private sector is issuing similar NetZero commitments at a dizzying pace. These commitments increase the pressure on all concerned to deliver. A critical bottleneck will be finance, but even more critical, in the view of GGGI and many other observers, is the scarcity of well-developed, implementable green investment projects that can drive the green transition.

8. While the US$100 billion climate finance commitment is a key piece of the puzzle, and not yet quite achieved, carbon markets have the potential to unlock other non-ODA public and private resources financing under Articles 6.2 (linking national emission trading schemes) or Article 6.4 (the UN mandated global carbon market) of the Paris Agreement. While the rules for Article 6 (hereafter referred to as Art6) have not yet been finalized, it is hoped that COP26 in Glasgow this year can provide a breakthrough. In any case, preparations for Art6 are many, including at GGGI.

9. As countries increase their NDC ambition, the need to look for internationally transferred mitigation outcomes also increases. In GGGI’s host country, Republic of Korea, for example, the government is close to confirming a 40% reduction over 2018 by 2030, expected before COP26. It is estimated that to achieve this NDC, Korea would require internationally transferred carbon credits for a volume of 50 million tons. Government and private sector stakeholders are therefore ramping up their interest and ability to engage. Even before Art6 is finalized, carbon trading occurs on national emission trading schemes (the price per ton on the Korean ETS has reached a high of about USD25 in October 2021), and in voluntary markets for, particularly, REDD+ / forest related carbon credits.

10. As GGGI is an intergovernmental organization of countries committed to the green transition, the notion that it could play a positive role to facilitate international carbon transactions came up shortly after the Paris Agreement was finalized. In late 2017, at the GGGI Global Green Growth Week in Addis Ababa, GGGI organized a consultation among Members on the idea of GGGI as a “Carbon Club”, facilitating carbon transactions among its Members. The conclusion at that time was that the idea was valid but it was too early to pursue.

11. GGGI has gained broad and deep experience supporting its Members with NDC development, with accessing climate finance and with development of green investment projects – and has more recently initiated projects specifically focused on cooperation under Art6.

12. This note has been drafted to provide a general overview of the issues and to kick off a discussion among GGGI Members and staff as to the desirability and feasibility of an effective GGGI Carbon Transaction Platform. The intent is to share this note with the GGGI Assembly and Council in October 2021, for an initial consultation, that may then start a period of more in-depth exploration of issues, consultation of Members, and if prospects look positive, design.

**GGGI’s Carbon Transaction Vision and targets**

13. GGGI envisages that in the coming 2-4 years it can develop a platform that will enable:

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2 See the following article for a short overview of Art6 related issues: [https://www.wri.org/insights/what-you-need-know-about-article-6-paris-agreement](https://www.wri.org/insights/what-you-need-know-about-article-6-paris-agreement)

3 The Korean National Assembly adopted a NetZero2050 law at the end of August 2021, which also mandated a 35% reduction by 2030. Government is currently finalizing plans to revise this NDC upwards to 40%.
a. Members that are in the market to buy carbon credits, such as Norway or Korea, to buy ITMOs directly from other Members, through a carbon club or through projects developed by GGGI, or through single or multi-donor Trust Funds managed by GGGI, through which buyers can select carbon credits with specific co-benefits, such as reduced deforestation, and/or increased green jobs and poverty reduction. Private sector entities in buyer countries may then further be able to buy carbon credits through mechanisms sanctioned by their governments, that will transfer to their governments emission reduction obligation for ITMO qualifying Trust Funds.

b. Members that are in the market to raise funds to implement their NDCs, and have the ability to generate transferable carbon credits, such as Angola, Colombia, Ethiopia, Lao PDR or PNG, can elect to sell their carbon credits directly to other GGGI Members, or through GGGI managed Trust Funds (dealing with multiple buyers).

14. Based on its track record to date, GGGI believes it has the ability, with its Members, to be an early mover in the new Paris era carbon markets, targeting internationally transferred emission reductions on the order of millions of tons of carbon.

Carbon Transaction Platform Ideas

15. There are a wide range of possible mechanisms GGGI Members could use to enable carbon transactions among buyers and sellers, with varying levels of complexity and varying advantages and disadvantages. GGGI proposes to explore the feasibility, and Member interest, in a number of these options, and to subsequently propose a design for a GGGI Carbon Transaction Platform that enables carbon transactions among members using a number of prioritized mechanisms that are based on Member priorities and build on GGGI’s strengths.

16. Carbon transactions could range from: (a) the most straightforward project based transaction where a buyer and seller agree on a payment in return for the carbon credits delivered by a specific project, sectoral or policy approach (linked, or not linked to other investments that receive other project co-benefits), where all variables are negotiated one-off on a project by project basis; to (b) a carbon market club, where club members agree on a set of commonly accepted guidance, which simplify subsequent transactions – but are not easy to agree on to start with. A number of mechanisms GGGI could use are outlined below.

Carbon market club

17. As outlined in many policy briefs that appeared at or around the time the Paris Agreement was struck, “generally speaking, climate clubs bring together groups of countries, and possibly non-state actors, to work together on a specific climate issue by following agreed guidelines and rules in exchange for benefits that can be shared among themselves and excluded from nonmembers. Through their unique incentive structure built around these so-called exclusive “club goods,” climate clubs can help incentivise participation, ensure compliance, deter free-riding, and scale up ambition.” Carbon market clubs could agree on environmental integrity definitions including baseline and monitoring methodologies, standards, and other key features to be followed for transactions among club members. The advantage for GGGI Members to establish a GGGI-based club is that GGGI has a fully developed system of governance, multilateral ODA status, and a fully developed system of policies and safeguards in place, as evidenced, for example, by GGGI’s pillar-assessed status for the European Union.

Multi-donor / Multi-country Trust Funds at GGGI

18. Easier to establish would be a multi-donor Trust Fund at GGGI. For a multi-donor / multi-country Trust Fund, a number of countries could agree a joint purpose, such as carbon credits from investment projects for nature-based climate solutions for a range of specifically defined interventions. Once agreed, the Trust Fund could be opened to actors, possibly public as well as private to contribute to the Fund and agree to jointly buy carbon credits by investing mutually in an agreed portfolio of projects.

19. An example of this approach is the LEAF Coalition that was launched by the US, UK and Norway at the Climate Leaders Summit in April 2021. "The Lowering Emissions by Accelerating Forest finance (LEAF) Coalition aims to mobilize at least $1 billion in financing, kicking off what is expected to become one of the largest ever public-private efforts to protect tropical forests, to the benefit of billions of people depending on them, and to support sustainable development." The LEAF Coalition invites private sector entities to join and make contributions to the Fund that is managed by a US non-profit NGO set up for this purpose (EMERGENT). LEAF’s primary focus is tropical forest conservation, or avoided deforestation, and it will invest in projects that generate carbon credits on the voluntary market under the REDD+ scheme.

20. The disadvantage of a fund such as LEAF is that it is a coalition of buyers in which the sellers are not represented and that EMERGENT is not an ODA eligible organization. GGGI could establish a similar Multi-Donor Trust Fund, with a more equitable governance in which all participating GGGI members are represented, both buyers and sellers, and that would be ODA-eligible. Funds could be focused on REDD+, or on a wider set of eligible carbon transactions, including ones that avoid the complications linked to the transitory nature of forest-based transactions. Funds could be limited to those eligible under Art6, and focused on specific co-benefits, from jobs focused transactions to adaptation or ecosystem restoration focused transactions.

Single-donor / Single-country Trust Funds at GGGI

21. A variation on the Trust Fund outlined above would be a single donor, or rather single country Trust Fund at GGGI. The advantage would be simplicity, with a single government setting the goals and objectives, not requiring agreement among countries which may be hard to achieve. While the Trust Fund would be established by (and for) a single country, such a country interested in buying carbon credits, say Korea for example, could still allow different government entities, as well as state owned companies, or private sector entities, to contribute to the fund.

22. A single-donor Trust Fund is a straightforward mechanism that many donor countries use for specific purpose vehicles they create with multilateral organizations. MDBs operate numerous Trust Funds. The primary disadvantage of a single donor trust fund is that it does not take advantage of synergy or partnership among countries and miss opportunities for cost-sharing and joint learning, would likely be more limited in size and thus not able to deal with large transactions. An effective GGGI Carbon Transaction Platform may then have to have a relatively large number of separate Trust Funds to fit all needs.

Project origination, development and financing

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23. The engine driving the GGGI Carbon Transaction Platform would a pipeline of green investment projects with qualifying transferable carbon credits. GGGI has a significant track record and growing investment pipeline (currently about USD$ 5 billion) and has been able to attract significant Technical Assistance (TA) resources to support project origination, development and financing. While green investment projects developed to date have only limited potential for transferable carbon credits, future project origination work could develop a dedicated pipeline of carbon projects. Continued project development, and scaling up the volume of tradeable carbon credits, would require a continued flow of TA resources, either mobilized separately by GGGI, or through a service charge through the Carbon Transaction Platform.

24. In addition to the investment projects GGGI has extensive experience in climate policy, more recently looking to carbon pricing policies by way of subsidies for energy switching, modal shift in transport and green building regulations. The Carbon Pricing Unit is working (with funding from Norway) on converting such policies into transactions – directly linking the implementation of emission reducing policies to payments for the reductions. This is industry leading work and still in somewhat early stages but the potential for scale and impact can help members more easily reach their goals.

25. While GGGI has well-developed specialized in-house green project development capabilities, GGGI has also managed calls for proposals to originate climate finance investment projects for the GCF NDAs in Indonesia and Uganda. While GCF funded projects cannot (currently) sell carbon credits, GGGI has gained experience managing such calls for proposals. Expanding or scaling up the availability of tradeable carbon credits could also be achieved through GGGI-managed calls for carbon project proposals that would then be evaluated, managed and monitored by GGGI through its in-house capabilities.

*Capacity building for Art6 governance, MRV and enabling policy environment*

26. In the last two years GGGI has established a team dedicated to Art6, carbon markets and carbon pricing. This team currently implements Art6 preparatory projects in 9 developing countries with funding from Norway and Sweden, focusing both on capacity building in countries that potentially will be suppliers of internationally transferred carbon credits (developing policies, governance and MRV to support international carbon trading under Art6) as well as developing pilot transactions, i.e. originating and developing green projects with potential for ITMO generation, to gain experience with such projects and be ready when Art6 rules will be finalized. GGGI is also in the final stages of negotiating a new Art6 project funded by Germany (the IKI program), that will expand the number of countries to prepare for Art 6 with 4 more, bringing the total to 13 countries, and the volume of Art6 TA funding to over USD 30 million, establishing a solid foundation of technical expertise and early mover experience, on which to build additional projects.

27. In addition, GGGI has become a key delivery partner for climate finance capacity building through the GCF Readiness program. GGGI’s portfolio of GCF Readiness projects now totals 58 proposals submitted to GCF by the NDA’s of 29 countries, with a total value of USD51.9 million. Of the 58 proposals 40 projects have already been approved by GCF; 15 of those are completed; and a further 18 proposals are under review. Through this portfolio GGGI supports direct access of its Members to GCF, building the capacity of NDAs, supporting accreditation of new direct access entities (both

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public and private), development of GCF Concept Notes, and development of GCF Full Proposals. To date, 5 Full Proposals developed with GGGI support have been approved by the GCF Board, with a total value of US$247 million. A large portfolio of GCF projects is under development ranging from early ideas to projects that can be submitted to the GCF Board in the coming year. While we understand the current challenges of blending climate and carbon finance, we are confident that guidance around attribution between them will be generated by the market soon’.

28. GGGI also prioritized support for NDC (re-)development in 2020-21. As a result GGGI contributed to redeveloped, updated, and enhanced NDCs in 29 countries, and has provided MRV development and related support from NDC Road map development to development of long term Low Emissions Development Strategies in 5 countries. This includes also a strong focus on SDG alignment and socio-economic co-benefits integrated into multi-criteria decision making frameworks supporting more ambitious actions. Over the last few years, GGGI has been focusing on developing country capacities to understand and prepare for future reporting under the enhanced transparency framework, with emphasis on building the enabling environment for, amongst others, the systems necessary for Art6 and ITMOs.

29. As a result of these activities, GGGI has developed strong partnerships with a large number of NDAs, and a deep expertise and experience with the structure and content of NDCs, including the potential to support internationally transferred mitigation outcomes.

Voluntary markets and Art6

30. While an effective international carbon market awaits finalization of the Art6 rules, carbon transactions have taken place through national emission trading schemes and via voluntary markets. Whether some of these credits can be transferred to the Paris Agreement is one of the ongoing subjects of negotiation.

31. GGGI has supported development of several REDD+ projects that have sold carbon credits on the voluntary market, and can continue to do so if GGGI Members have an interest in this, but going forward it is expected that once finalized the dominating carbon market will become that regulated through Art6.

Private sector engagement

32. GGGI, as an intergovernmental organization, only serves the interests of its Member governments. It is probably desirable, however, that the GGGI Carbon Transaction Platform enables private sector entities from Member governments to buy carbon credits through specific GGGI mechanisms approved by their government, so that the credits bought can transfer to contribute to the NDCs of the respective country.

33. As part of the GGGI Carbon Transaction Platform consultations and design, GGGI will assess the demand for private sector engagement both from its Members and private sector entities. Early, exploratory engagement with private companies in Korea indicates that such demand could be high.

GGGI Qualifications

Agile, balanced governance and high-level leadership

34. GGGI has a balanced governance, through its Council, representing contributing and participating Members as well as non-state actors. GGGI’s governance has proven to be agile and effective,
avoiding the pitfalls that have complicated governance of other climate related organizations and processes.

35. GGGI has benefitted from the high-level leadership of its Assembly and Council, consistently at the level of a former Head of State, a position currently held by HE Ban Ki-moon, the 8th Secretary General of the United Nations. GGGI’s President and Chair afford its access in its member states at the highest level.

Agile, nimble multilateral organization dedicated to green transition

36. As the sole multilateral entirely dedicated to the green transition, GGGI has managed to build up a highly experienced Secretariat with deep technical expertise in its close to 400-strong staff, both in green policy development and green investment project origination, development and financing. GGGI has also managed to develop and implement agile policies, processes, and online tools that enable it to function in an agile manner while being highly decentralized, and able to continue working, online, despite the challenges posed by the COVID-19 pandemic.

Strong and engaged membership with shared purpose

37. GGGI, as a treaty-based intergovernmental organization, now counts 40 Members that have ratified its Establishment Agreement, and has managed to conclude Host Country Agreements, ensuring appropriate privileges and immunities, with the large majority of countries where it operates.

38. In addition to its 40 Members, well over 20 more countries are in the accession process, counted as GGGI partner countries – and GGGI therefore engages with 60+ countries.

Trusted adviser, embedded in developing and emerging economies

39. GGGI has developed a position as a trusted adviser and has gained a strong set of in-house skills and expertise critical to establishing the Carbon Transaction Platform, including:
   a. In-house skills and experience developing green investment projects and enabling policies incentivizing private sector investment
   b. In-house skills and experience building capacity in green and climate finance, NDC / LEDS development, roadmaps and implementation plans and MRVs, green taxonomies, green bonds.
   c. In-house skills and experience in Art6 and REDD+
   d. In-house skills and experience in Green Economic Modelling and socio-economic co-benefits assessment, including gender and social inclusion safeguards
   e. In-house skills and experience in building transparency systems
   f. In-house skills and experience engaging with the private sector
   g. Policies and instruments enabling grant management, Trust Funds, in place

Next steps

40. Following initial drafting and internal GGGI review of this Idea Note, it is now shared with GGGI’s Council/Assembly as an AOB agenda item for preliminary feedback. Subsequent steps are envisaged as follows:
a. If feedback is positive, invite interested Members to work with GGGI to develop these ideas through consultations and/or task forces November 2021 - March 2022.

b. Take into account Ar6 related outcomes of COP26.


d. Engage the GGGI MPSC in next steps in April 2022

e. Consult GGGI Members with initial, recommended design options of GGGI’s Carbon Transaction Platform before June 30, 2022 to obtain feedback and guidance

f. Establish elements of the GGGI Carbon Trading platform, in line with GGGI’s Regulations and Rules, if there is sufficient support among its Members.

/End