Carbon Transaction Platform: Recommendations

PURPOSE/ACTION REQUIRED

Members of the Council will be invited to:

| ☐ Take note | ☐ Provide feedback |
| ☒ Approve the Council Decision on Establishment of the Carbon Transaction Platform | ☐ Other (please specify) __________ |

BACKGROUND/SUMMARY

In 2021, with a desire to scale up further and faster, the idea for the Carbon Transaction Platform (CTP) was formed as a way for GGGI to bring its Members and partners to the table in an equitable fashion and trade Internationally Transferred Mitigation Outcomes (ITMOs) using cooperative approaches under Article 6 of the Paris Agreement. GGGI believes such a mechanism, built around ‘learning by doing’ and the sharing of knowledge, is essential in these early days of the Article 6 carbon market. In order to ensure an agile approach, CTP would be executed through a Readiness Facility and Carbon Trust Funds.

The idea was shared with Council for feedback at the October 2021 Council meeting to establish interest from GGGI Members. Council responded positively and a Task Force chaired by the DG was brought together to implement the process of design and consultation. The Task Force drafted an Options paper that was first circulated internally for comments in February and shared with MPSC for its meeting in April. The GGGI Secretariat also conducted a survey during April-May among its Members to assess both their level of Article 6 readiness and their views on GGGI’s activities, in which 29 countries participated. The consultation process was concluded in June with a series of regional webinars and a global event organized from 7-9 June.

The conclusion from the consultation process was that there is strong support from essentially all potential seller countries and at least several potential buyer countries among GGGI members. Not all members support ITMO transactions, and one Contributing Member expressed a view that it would not want its core funding to support a possible CTP, but it did not object to other Contributing Members using their core if they had such an interest.

Originally circulated as an Options Paper for discussion on design, this paper has now become the proposal for the establishment of the CTP, for submission to the GGGI Council for approval in October 2022. The proposed decisions for Council are elaborated in the paper setting out the Proposed GGGI Carbon Transaction Platform, and summarized in the CTP Council Decision.

Documents:
- (Draft) Council Decision on Establishment of the Carbon Transaction Platform
- Proposed GGGI Carbon Transaction Platform: For Council Approval
[Draft] Decision on Establishment of the Carbon Transaction Platform

The Council,

Recalling the Article 2 of the Agreement on the Establishment of GGGI on the objectives of the Global Green Growth Institute (GGGI);

Recalling Financial Regulation 6.3(e) [C/8/DC/5] that states dedicated trust funds may be established by the Director-General with respect to restricted contributions provided to finance the dedicated activities;

Recognizing that carbon pricing has emerged as a new area of opportunity where GGGI can support countries, particularly through mobilization of carbon finance under the Paris Agreement Article 6 Framework, as indicated in GGGI’s Strategy 2030 Addendum approved by the Council at its Fourteenth Session on October 28, 2021 [C/2021/DC/7];

Taking note of the Council’s recommendation at its Fourteenth Session on October 28, 2021, for the Secretariat to further develop the options presented on the Carbon Transaction Platform;

Taking note of the discussions and recommendations of the Management and Program Sub-Committee (MPSC) regarding the establishment of the GGGI Carbon Transaction Platform and Carbon Trust Funds at its Fourteenth Meeting held on April 18-28, 2022 [MPSC/2022/13] and Fifteenth Meeting held on June 27-July 7, 2022 [MPSC/2022/26];

Decides the following:

1. The Council authorizes the Secretariat to establish the GGGI Carbon Transaction Platform as a program of GGGI, that will encompass all GGGI’s Article 6-related activities, both related to technical assistance (Article 6 readiness) and the operational support for ITMO trading through GGGI Carbon Trust Funds. The CTP program will be managed by the Carbon Pricing Unit in IPSD.

2. GGGI Council authorizes the Director General to establish GGGI Carbon Trust Funds, under the same conditions the Director General is authorized to establish GGGI Trust Funds, as detailed in GGGI’s Financial Regulations. GGGI Council requests the Director General to develop additional Financial Rules as may be required to operate such Carbon Trust Funds and to consult MPSC on such additional Financial Rules before their approval and implementation.

3. GGGI Council decides that GGGI’s carbon transaction activities will be limited to
developing and emerging economy seller countries in which GGGI operates, but authorizes the Director General to agree on carbon transaction readiness and purchasing activities with all interested donors and buyers, respectively, in the interest of GGGI Member and partner countries.

4. GGGI Council determines that GGGI’s objective to undertake CTP activities will be to enable the governments of both sellers and buyers among its Members and partners to develop, advance and scale up Art6 carbon transactions in the mutual interests of buyers and sellers. Once an agreement to trade ITMO’s between buyers and sellers has been reached, the GGGI Secretariat is authorized to engage with the government as well as the private sector in seller countries to develop and make available ITMOs for trade, and with the government as well as the private sector in buyer countries to purchase the ITMO’s thus made available.

/End
Proposed
GGGI Carbon Transaction Platform
For Council Approval

Drafted by the GGGI Carbon Transaction Platform Task Force
October 22, 2022
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Executive Summary

COP26 has provided an opportunity for trading carbon between buying countries and selling countries under Article 6 of the Paris Agreement through completion of the so-called rulebook. Currently, there is a need in the market for an organization to facilitate a strong pipeline of mitigation activities for buyers, to ensure the necessary capacity and knowledge of sellers to engage in mutually advantageous transactions, and more generally to provide a level playing field between buying and selling countries. GGGI has undertaken extensive consultation across its Members and partners to better understand the potential role it could play in filling this gap, and there is clear and strong demand for such efforts. This paper brings together the analysis and consultation summary underpinning GGGI’s proposed mechanism and recommends a clear way forward for Council Decision that would respond to Members’ requests, using solely earmarked funding. GGGI believes that the Carbon Transaction Platform outlined in this paper could play a significant role in accelerating the green growth transition.

Article 6 potential threatened by seller governments’ barrier

The Paris Rulebook elaborates on the design of the next generation of a carbon credit mechanism to be overseen by a UNFCCC-based Supervisory Body (Article 6.4), creates room for bilateral cooperative approaches (Article 6.2), and provides for non-market approaches (Article 6.8). Until the Supervisory Body for Article 6.4 trades is functional (mid-2024 or 2025), current carbon transaction activities are being designed as bilateral trades under Article 6.2. Despite the increased flexibility provided by Article 6, GGGI’s early experiences in providing Article 6 readiness and transaction preparation support to GGGI Member and partner countries reveal some key challenges:

- Potential seller governments’ participation burden is increasing while developing and emerging economies – the primary group of potential sellers – are experiencing a significant capacity gap in knowledge, skills and experience related to carbon trading.
- Potential seller governments are experiencing an ambition commitment dilemma (i.e., uncertainty regarding the amount of emission reductions required for meeting mitigation targets versus the amount available for trading), thus making some potential participants hesitant to sell.
- There is currently a lack of effective mechanisms through which potential market participants can come together for trading while also exchanging knowledge and learning from each other’s experiences with Article 6 mechanisms.
- There is uneven participation in the market, characterized by a buyer-centric market that does not currently provide sufficient opportunity or capacity for sellers to contribute to the setting of market norms.

GGGI’s Article 6 experience and early-mover advantage

Since 2019, GGGI has developed an active technical support program for its Members through its Carbon Pricing Unit. In 2022, GGGI is supporting more than 10 countries with technical assistance to build Article 6 carbon trading capacities through earmarked projects funded by the Norwegian Ministry
for Environment and Climate (NMCE), the Swedish Energy Agency (SEA) and the German International Climate Initiative (IKI). The experience gained to date puts GGGI’s Members and the Secretariat in a unique position to address the critical barriers to opening the global carbon market in the Paris era, particularly with respect to enhancing the participation of developing and emerging economy seller governments.

To this end GGGI proposes to expand its carbon pricing activities by facilitating accelerated carbon trading in the Article 6 market through the establishment of the Carbon Transaction Platform (CTP).

**Proposed GGGI Carbon Transaction Platform**

Following a wide-ranging consultation among its Members to determine the desirability and feasibility of the CTP, GGGI proposes that the CTP would expand GGGI’s Article 6 carbon trading activities as follows:

- Maintain and expand current activities that focus on:
  1. Capacity building (participation requirements, governance, MRV, transaction processes, etc.); and
  2. Piloting model transactions (originating and preparing mitigation activities, structuring transactions for bilateral negotiation).

- Initiate new activities as follows:
  3. Establishing the CTP under the overall governance of the GGGI Council, providing a level playing field for buying and selling GGGI Member governments;
  4. Facilitating consensus building through knowledge sharing around key issues related to Article 6 trades among GGGI buyer and seller Members;
  5. Serving as trustee to facilitate transactions between buying and selling governments, providing legal and fiduciary services to manage trades through specific GGGI Carbon Trust Funds.

Establishing and operating such Carbon Trust Funds is the most significant new activity GGGI proposes to undertake and is the primary reason the CTP has been put forward for discussion among its Members, and approval from the Council.

The essence of GGGI’s new role is shown in the figure below and elaborated in detail in this paper. GGGI proposes a pragmatic, step-by-step approach to developing the CTP, expanding GGGI’s current carbon trading related activities and supporting its Members to take maximum advantage of the new opportunities offered by Article 6 of the Paris Agreement.
There is substantial potential for scaling up Article 6 carbon trading through the CTP. While efforts would initially focus on piloting bilateral trades that involve a single seller and buyer among GGGI Members, carbon trust funds could be developed and evolve to include multiple buyers or sellers. The trust fund structure could allow GGGI to effectively host one or more “carbon clubs”1 or clusters of GGGI members who trade amongst each other. Each trust fund could have its own set of conditions as agreed by participants.

Consultation of GGGI Members and partners

The consultation of GGGI Members and partners included the wide circulation of a Carbon Transaction Platform Options Paper, a survey of the level of Article 6 readiness in 29 GGGI Member and partner countries, as well as three regional consultation events and one global event organized from 8 to 9 June 2022 that were attended by over 200 of GGGI’s Article 6 in-country counterparts. The overall conclusion from the consultation was that a very large majority of GGGI Members support the idea of a CTP and have expressed interest in GGGI expanding its Article 6-related activities, including the proposed GGGI Carbon Purchasing Trust Funds. There were exceptions, particularly as not all Members plan to engage in the buying and selling of Internationally Transferred Mitigation Outcomes (ITMOs), but instead believe that their Nationally Determined Contribution (NDC) commitments should be realized domestically. As a result GGGI proposes not to use GGGI core funding to establish and operate the CTP, but to use earmarked resources made available by resource partners for this purpose. To date this

1 A carbon club here is defined as a group of buyers and sellers that agree to trade under shared conditions.
includes Norway, Sweden and Germany, but there is a high likelihood of other funding partners joining this effort.

Proposed GGGI Council Decisions
Through this paper, the GGGI Secretariat proposes that GGGI Council take the following decisions:

1. GGGI Council authorizes the Secretariat to establish the GGGI Carbon Transaction Platform as a program of GGGI, that will encompass all GGGI’s Article 6-related activities, both related to technical assistance (or Article 6 readiness support) and operational support for ITMO trading through GGGI Carbon Trust Funds. The CTP program will be managed by the Carbon Pricing Unit in the Investment and Policy Solutions Division (IPSD)

2. GGGI Council authorizes the Director General to establish GGGI Carbon Trust Funds in accordance with GGGI’s Financial Regulations. GGGI Council requests the Director General to develop additional Financial Rules as may be required to operate such Carbon Trust Funds and to consult MPSC on such additional Financial Rules before their approval and implementation.

3. GGGI Council decides that GGGI’s carbon transaction activities will be limited to developing and emerging economy seller countries in which GGGI operates, but authorizes the Director General to agree on carbon transaction readiness and purchasing activities with all interested donors and buyers, respectively, in the interest of GGGI Member and partner countries.

4. GGGI Council determines that GGGI’s objective to undertake CTP activities will be to enable the governments of both sellers and buyers among its Members and partner to develop, advance and scale up Article 6 carbon transactions in the mutual interests of buyers and sellers. Once an agreement to trade ITMOs between buyers and sellers has been reached, the GGGI Secretariat is authorized to engage with the government as well as the private sector in seller countries to develop and make available ITMOs for trade, and with the government as well as the private sector in buyer countries to purchase the ITMOs made available.
1. Introduction

To respond to the global climate crisis, there is an urgent need in GGGI Members’ and partners’ economies to bridge the finance gap that will allow them to transition to carbon neutrality by 2050 or earlier. GGGI has been supporting its members through accelerating the flow of finance for green growth through both its Green Investment Services (GIS) and Carbon Pricing Unit (CPU) services, supported by the Climate Action and Inclusive Development (CAID) department.

In 2021, with a desire to scale up further and faster, the idea for the Carbon Transaction Platform (CTP) was formed as a way for GGGI to bring its Members and partners to the table in an equitable fashion and trade Internationally Transferred Mitigation Outcomes (ITMOs) using cooperative approaches under Article 6 of the Paris Agreement. GGGI believes such a mechanism, built around ‘learning by doing’ and the sharing of knowledge, is essential in these early days of the Article 6 carbon market. In order to ensure an agile approach, the CTP would be executed through a Readiness Facility and Carbon Trust Funds.

The idea was shared with Council for feedback and agreement as to whether to investigate the need further and to propose a design. Council responded positively and a Task Force was brought together to implement the process of design and consultation. The Task Force drafted an Options paper that was first circulated internally for comments in February and shared with MPSC for its meeting in April. The GGGI Secretariat also conducted a survey during April-May among its Members to assess both their level of Article 6 readiness and their views on GGGI’s activities, in which 29 countries participated. The consultation process was concluded in June with a series of regional webinars and a global event organized from 7-9 June.

Originally circulated as an Options Paper for discussion on design, this paper has now become the proposal for the establishment of the CTP, for submission to the GGGI Council for approval in October 2022.

2. Vision and Value Proposition for a GGGI Carbon Transaction Platform (CTP)

2.1 Vision for the CTP

GGGI intends to play a key role in accelerating global greenhouse emissions reductions by becoming a leader in catalyzing carbon trading under Article 6 of the Paris Agreement.

GGGI’s primary objective in the 2023-2030 period is to open up the Article 6 carbon market, facilitating high-integrity carbon transactions of at least 50 million tons CO₂eq between Member and partner countries by 2030. GGGI would do this by aiming for two complimentary outcomes:

Outcome 1: Improving confidence and capacity of Parties, particularly seller governments, to participate in Article 6 carbon trading, and
Outcome 2: Introducing mechanisms for originating and enabling Article 6 transactions between its Members and partners.

These outcomes can be accomplished by expanding GGGI’s carbon trading service offerings, and building on the organization’s current carbon pricing, climate action and green investment activities. The expanded activities, including the management of one or more carbon trust funds, would take place under the umbrella of a new cooperation mechanism hosted by the GGGI Secretariat: the CTP.

Figure 1: Overview of the GGGI Carbon Transaction Platform

2.2 Value Proposition of the CTP

Focus on “cooperative approaches” under Article 6. While there are many potential modalities through which international carbon transactions might take place, the CTP would focus on Article 6 compliant transactions, using the widest array of methodologies, standards, and transaction models possible to ensure the environmental integrity of traded units while opening the market. The lines between what has historically been regarded as the voluntary market and the compliance markets are blurring – for example CORSIA (a compliance market) accepts trades under standards traditionally seen as belonging to the voluntary market. If a voluntary transaction is accompanied by a corresponding adjustment, it can be used by a buying government towards reaching and going beyond their Nationally Determined Contribution (NDC) commitments – potentially the new ‘compliance market’. Being focused on trading under Article 6 would require that any transactions conducted through the CTP comply with Paris Agreement guidance, including environmental integrity provisions that stipulate:

- Avoidance of double counting through robust accounting.
- Transferred units must be permanent and calculated using conservative baselines.
By pioneering bilateral trades, GGGI aims to set the path for others to follow, adding value to global efforts to catalyze trading through cooperative approaches and achieving scale. As GGGI continues to build relationships with buyer and seller governments, its ability to facilitate multi-directional knowledge sharing and exchange will continue to increase, which is critical to overall market development.

**Enhance equity in the international carbon trading process.** GGGI’s unique delivery model, which is based on close partnerships that focus on the needs and context of governments in developing and emerging economies, would enable the CTP to introduce a higher level of equity between sellers and buyers in the trading process than has been seen in previous iterations of the international carbon market. The CTP could leverage the knowledge and experience gained through GGGI’s Article 6 programs and the diversity of GGGI’s Membership and its Council – in which buyers (primarily developed/donor countries) and sellers (primarily developing and emerging economies) are equally represented – to create more equitable market conditions and a more level playing field for participants to engage in carbon transactions.

**Achieving green investment and green growth objectives.** Mobilizing green investment for countries’ green growth objectives is core to GGGI’s strategy of promoting “Economic growth that is environmentally sustainable and socially inclusive.” Enhanced effort to promote international carbon trading under Article 6 through the CTP would allow GGGI to scale its impact, further enabling flows of finance to developing and emerging economies to implement their green growth objectives.

**Continuity in program development and implementation.** As an international organization, embedded within its member governments, one of the key benefits of GGGI managing a carbon trust fund is that it would ensure continuity in program development and management for carbon transactions that are long-term purchase agreements. The relationships and understandings established between GGGI and the seller countries during the program development phase would then be maintained in the implementation phase. This would be beneficial to both the buyer and seller country.

### 2.3 CTP’s Value with the Article 6 landscape

Following COP26, a multitude of Article 6 related programs have been initiated by development and intergovernmental organizations. Despite this initial offer of support to some countries, potential sellers in the market are still generally underserved and the demand for more capacity building support is growing (see Chapter 3 below). While the current focus of Article 6 efforts is on capacity building, in time it will move toward more targeted technical assistance that aims to ensure the governance frameworks required for Article 6 trading - such as institutional processes and accounting infrastructure - are in place to facilitate ITMO trading (see Figure 2 below).

**GGGI has the advantage of being a step ahead** thanks to the multiple Article 6 programs it has already established, including the Mobilizing Article 6 Trading Structures (MATS) program, which has been running since 2020, and the Designing Article 6 Policy Approaches (DAPA) program, in place since 2019. In addition, extensive preparation work has been conducted for the recently agreed Supporting Preparedness for Article 6 Cooperation (SPAR6C) program. Lessons from these programs have already proven useful when shared for the benefit of the countries GGGI supports, with in-country counterparts...
learning about topics such as approaches to establishing governance frameworks and the origination and preparation of mitigation activities.

Figure 2. Existing Article 6 Market Preparation Activities and Service Providers.

As GGGI expands its activities through the CTP, it will be able provide high-quality services based on a wider range of experiences that cover the full mitigation activity transaction cycle, with its Readiness Facility activities informed by lessons learned during transaction facilitation. This feedback loop will benefit all sellers and buyers in the market.

At the same time, GGGI’s unique approach to in-country delivery compared to many other development organizations gives it a competitive advantage in the following ways:

- GGGI’s position as a trusted advisor embedded in countries allows for a continuous communication flow with government counterparts, helping to coordinate learning activities within and between Member countries.
- Although ITMO trades have not yet taken place, GGGI has already generated a wealth of Article 6-related knowledge that can be shared with others through the CTP.
- GGGI support is country-led, which is vital for ensuring that a seller country can exercise control and ownership over the design and implementation of Article 6 activities.
- As both a readiness support service provider and a carbon trust fund manager, lessons learned from engaging buyers in the market can be more readily integrated into GGGI’s support to sellers, which can be beneficial to market development.

In terms of its global reach, GGGI’s diverse and growing membership provides a unique opportunity to promote mutual learning and market participation. As of writing, GGGI counts 43 Members, with more than 20 countries on the road to ratification of the GGGI Establishment Agreement (i.e., membership). By the end of 2022, GGGI expects to be implementing Article 6 readiness support activities in more than 10 of these countries, putting the organization at the cutting edge of Article 6 implementation globally.
This context would allow GGGI to serve as a leading facilitator of mutual learning between potential buyers and sellers.

As in all of its work, GGGI prioritizes coordination with other development partners and avoidance of duplication of efforts in the Article 6 space. In this stage of market development, it is critical for all implementing agencies and donors to coordinate efforts and share and apply lessons learned to scale efforts. For example, coordination between UNDP, the Klik Foundation, and GGGI through its DAPA program in Senegal ensures maximum impact in the country, with complimentary efforts across the market preparation spectrum shown in Figure 2.

3. Members and Partners Needs around Article 6

3.1 Readiness Survey

In early 2022, GGGI surveyed 29 Member and partner governments to learn about the perceptions of potential seller countries regarding the challenges they face in preparing for engagement in the Article 6 carbon market. Surveys were conducted by GGGI country teams through in-person interviews with key government representatives – generally those responsible for Article 6 or carbon trading activities in each country.

The survey findings show that most developing countries are eager to engage in the Article 6 carbon market. An overwhelming majority of surveyed countries (93%) indicated that they are considering engaging in cooperative approaches under Article 6 and believe that they can achieve greater mitigation ambition and greatly benefit from carbon finance to meet their sustainable development and green growth objectives. At the same time, buyers are already approaching seller countries to consider engaging in transactions. 69% of surveyed countries had been approached by a potential buyer, and 41% were already engaged in some type of piloting activities. 66% of countries noted that private sector entities have inquired about Article 6 procedures.

Despite this interest, however, uncertainties and risks temper how and when countries are likely to undertake transactions. Most surveyed participants (59%) felt that their countries were either not ready or were unsure whether they were prepared for transactions. Those respondents who felt their countries were prepared were from countries which had more experience with the Clean Development Mechanism (CDM) or voluntary carbon markets. However, even for the most prepared countries, it is clear there will be a steep learning curve, and the burden of participation is seen as high. The need for assistance is generally reflected in most responses to questions, either directly or by implication. Governments have requested assistance in developing and implementing governance frameworks and regulations, and with gaining a more comprehensive understanding of market dynamics and the strategic opportunities involved with Article 6 engagement.

At the same time, potential sellers worry about the lack of equal opportunity for them to benefit from market participation. 48% expressed concern over an imbalance in access to information and overall uneven influence in the transaction process (including on issues like price), which could
disproportionately favor the needs of buyers. This can create deep, long-term barriers to opening the market.

The findings of this survey demonstrate a clear need for support to seller countries with capacity building, knowledge exchange, and technical assistance for mitigation activity origination and preparation. Measures to enhance mutual learning among sellers and between buyers and sellers can have an impact on long-term market development, which should be built into GGGI’s Article 6 activities under the CTP. A detailed report with the survey results as well as some insight into the needs and perceptions of buyers in the market will be published by GGGI in 2022.

3.2 CTP Consultations

In addition to the survey, GGGI undertook consultations directly with government stakeholders in May and June of 2022. First, the draft Options paper shared with MPSC in April was shared with over 300 stakeholders though one week of e-consultations. GGGI then organized a series of webinars and events for Members and partners on June 8-9, which included three regional events (to accommodate all time zones) and a global event on June 9. In total, well over 200 participants engaged in these discussions. The feedback obtained was overwhelmingly positive. There were no significant objections raised to GGGI’s proposals to establish the CTP, and GGGI was able to validate the survey needs expressed and get a more granular understanding of the situation with regard to Article 6 in Member and partner countries. The most cautious response was received from one Member that has indicated that it does not plan to engage in international ITMO trading, and therefore does not want to see its core contributions to GGGI used for the CTP.

4. Design of the Carbon Transaction Platform

4.1 Overall Structure of the CTP

Within GGGI, the CTP will operate as a program managed by the CPU as the umbrella for all the organization’s Article 6 related activities. The Readiness Facility will interact closely with GGGI’s existing Article 6 programs – MATS, DAPA and SPAR6C – to share knowledge and generate potential transaction pipelines. The new Carbon Trust Funds will also be managed by CPU, in line with other trust funds such as the Korea Green New Deal Fund (KGNDF) (Figure 3).
4.2 **GGGI Article 6 Readiness Facility**

One focus of the CTP is on readiness for Article 6, as shown through Outcome 1 in the theory of change - Readiness Improved. Many GGGI Member and partner countries have expressed interest in carbon market participation but are not armed with the right knowledge to determine whether participation will be in their best interests and how best to engage. The CTP will assist in the following ways:

- Initial awareness raising and capacity building with a wide range of stakeholders. This is particularly important given the broader responsibilities placed on governments under the Paris Agreement’s bottom-up approach.
- Initial identification of potential transactions, helping to offer clarity for potential seller countries by way of real transactions.
- Matchmaking of potential buyers and sellers in order to help facilitate transactions.
- Knowledge sharing – at all points along the early readiness activities and then circling back at numerous points on the way and after completion of a transaction.

4.2.1 **Capacity Building Activities**

Beyond confidence and willingness to participate, countries must be ready and able to meet the Article 6 participation requirements outlined in the Paris Rulebook. However, general understanding of market mechanisms tends to be low, particularly in developing countries. Governments must have a fundamental understanding of the benefits and risks of participation as well as the institutional and governance frameworks required to ensure adherence to the Article 6 guidance. To address these challenges the CTP will implement the following:

- General awareness raising among national stakeholders on climate change, carbon finance and Article 6.
• Supporting governments to develop strategies and necessary governance arrangements and processes for Article 6 participation.
• General capacity building for government, the private sector and other groups on market mechanisms and the benefits and risks of carbon trading under Article 6.
• Training on transaction models and legal agreements associated with selling/purchasing carbon credits (e.g., terms of ITMO purchase) and contract negotiation skills.

4.2.2 Origination & Matchmaking Activities

At the same time that countries are preparing the foundations for participation, another challenge that should be addressed is the identification and development of mitigation activities. These can be projects, programs or other formulations (such as policy approaches). Because carbon projects can be technically complex, seller countries are likely to need technical assistance to originate, assess and select mitigation activities for potential trading, which GGGI can provide through the CTP as it does in its MATS and DAPA programs and more generally for green investments across its country programs. Once a mitigation activity has been originated, the CTP would serve as a platform for connecting sellers and buyers in the Article 6 market. Origination and matchmaking activities in the CTP will include:

• Originating mitigation activities through ideation, consultation and high-level design and assessment, preparation of project idea notes (PINs) for potential mitigation activities.
• Conducting informational sessions (through webinars and external engagements) with project developers in countries that are ready to participate but do not have any activities, in partnership with participating governments utilizing parallel Article 6 programs (like the UNFCCC RCCs) where possible.
• Once PINs are available, sharing project notes with potential buyer country participants in the CTP for consideration and discussion, with the aim of identifying buyer interest.
• Likewise, if buyers express a particular interest in purchasing ITMOs, discussing this with countries where GGGI feels there is a strong potential to develop supply.

4.2.3 Knowledge Exchange

Confidence in participating in the international carbon market – a fundamental requirement for market development – will grow only as the rules and norms\(^2\) of the market become clearer with time and experience. Therefore, through the CTP, participants would be given the opportunity to discuss perspectives and provide lessons learned on operationalizing Article 6. Activities will include:

• Sharing experiences around mitigation activity development, including those being supported by GGGI in Member/partner countries, capturing practitioner experiences and reflections on the latest international movements and trends in the Article 6 market.
• Facilitating technical dialogue between buyers and sellers on key topics as the market develops to understand perspectives of different market participants. Topics could include understanding

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\(^2\) The CTP will not aim to resolve issues related to rules of Article 6 carbon trading that are negotiated and established under the consensus decision making umbrella of the UNFCCC.
• ‘environmental integrity’; interpretation of the Article 6 Rulebook; transitioning of Kyoto-period credits; or others.
• Taking stock on needs and challenges by engaging regularly with GGGI Member and partner countries as they navigate their participation. Roundtable discussions in the context of GGGI Council or CTP meetings, for example, could be used to collect firsthand feedback.
• Development of global knowledge products, with reports such as the recent GGGI Global Survey on Article 6 Readiness, or other assessment tools or activities will be developed in the CTP and shared through GGGI’s networks, such as the Green Growth Knowledge Platform (GGKP).
• Exchanging information between buyers and sellers on the journey to a transaction and the challenges from both sides so that others may learn from these experiences.

4.3 Carbon Trust Funds

In order to enable ITMO trading between GGGI Members and partners through one or more carbon trust funds – i.e., Outcome 2 – Catalyze Trading, the CTP aims to serve as the umbrella for carbon trust fund management, along with the preparation and facilitation of transactions. GGGI envisages that carbon trust funds will provide an opportunity to increase the pace and volume of trading by allowing GGGI to manage the burden of administration for initial trade completion as well as the ongoing trade management over the transaction period. Given potential capacity restraints among both buyers and sellers needing to deal with the burden of trade management and the subsequent potential for bottlenecks to develop, the establishment of carbon trust funds managed by GGGI could be an efficient vehicle for purchasing and processing ITMO transfers.

In addition, GGGI’s involvement in fund management can provide value in the following ways:

• Capturing potential transaction pipelines through GGGI’s other activities with its Members and partners (i.e., adding carbon transactions to the broader suite of services provided by GGGI).
• GGGI’s permanent presence in countries allows for oversight of transactions over the whole crediting period (often 5 or more years).
• Being embedded in Member countries also allows GGGI to provide Member governments ongoing guidance and support as they develop, execute, and monitor Article 6 trades.
• GGGI’s membership base has broad regional representation, allowing a wider number of buyers to be available as well as a more varied pipeline of potential transactions.
• GGGI can ensure a fair pricing policy through its trust fund for buyers and sellers until such time as a price discovery mechanism (such as an exchange) exists.

4.3.1 Fund Management Activities

In the early stages of the CTP, GGGI would be responsible for establishing carbon purchasing trust funds though discussions with buyers. The buyers (fund beneficiaries/donors) will be able to determine what the fund buys, the methodologies and standards used for mitigation calculation, along with ultimate trade price decisions. GGGI would provide fund management services as the Trustee, reporting to the buyer (or Fund Board for a multi-donor trust fund). Activities will include:
• Financial management of resources in the trust fund.
• Investment management and advisory.
• Accounting and financial reporting.

The GGGI would be accountable to the buyers for performance of its functions, consistent with the establishment agreement, by-laws, policies and procedures.

The benefits of GGGI acting as trustee of carbon funds for buyers include an increase in efficiency of transaction management after the initial trade agreement has completed. In such long-term agreements regular deliveries and payments must be received and paid, GGGI as the fund trustee would be responsible for monitoring and oversight of the projects (for the purposes of ensuring implementation and ongoing MRV for generation of mitigation outcomes) throughout the transaction period as well as management of the verification, issuance, transfer and payment for ITMOs. Efficiencies can be made if this function is held by a single entity for multiple transactions. This can also be an important measure to address resource limitations in buyer country governments.

As time goes on, the complexity of the trust fund management function may increase, where multiple investors and multiple buyers undertake transactions through a single fund (as is the case with the World Bank’s Transformative Carbon Asset Facility – TCAF). In this case, the efficiency gains could be significant, in addition to the opportunity to reduce risk for buyers by investing in portfolios covering a wider number of transactions.

4.3.2 Transaction Preparation Activities

Once potential buyers participating in the CTP have identified mitigation activities that they would like to support and develop into ITMO transactions through matchmaking activities under the Readiness Facility, GGGI can provide technical assistance for the preparation of mitigation activities. Preparation could involve not only the development of the carbon transaction, but also a wider range of services already offered such as investment services through policy planning or the setup of MRV systems, which are already core services provided by GGGI. Assuming that initial analysis has been developed during an origination phase, examples of activities that could be implemented include:

• Business model development associated with projects/programs.
• Additionality assessment.
• Deep impact assessment of the potential mitigation activity (mitigation and co-benefits).
• Stakeholder engagement and technical review.
• MRV setup and proposal design.
• Prepare and review MADD (for government approval).

Transaction preparation activities would be funded through a technical assistance allocation of the carbon trust fund, potentially with co-funding from other established trust funds in GGGI like the KGNDF.

4.3.3 Transaction Facilitation Activities

GGGI is currently implementing carbon programs funded by the Swedish Energy Agency (SEA) and Norwegian Ministry of Climate and Environment (NMCE) which aim to prepare bilateral pilot Article 6
transactions with GGGI Member and partner countries. In these programs, ITMO purchase agreements are expected to be formulated as direct transactions between the funding partner and the GGGI Member country involved. GGGI is considered a technical assistance provider and advisor to seller country governments but is not a counterparty to any transaction. In the future, GGGI would propose to expand its role in facilitating transactions, serving as a trustee of carbon funds that would purchase ITMOs as shown in Figure 4 below.

Figure 4: CTP structure showing GGGI as fund manager and trustee to Carbon Trust Funds

Through the CTP, following verification that a mitigation activity satisfies the environmental integrity requirements of Article 6, GGGI will support the ITMO transfer. In the case of a carbon purchasing trust fund, this would be done in accordance with the buyers requirements. The fund would receive the ITMOs\(^3\), transferring them to the beneficiary country government according to the terms of a Mitigation Outcome Purchase Agreement (MOPA) and the procurement processes of the buyers. An illustration of a transaction is shown in Figure 5.

\(^3\) As funds are not Party to the Paris Agreement, they may not physically receive ITMOs but may be labelled in the contractual MOPA agreements as Focal Point or Coordinating Managing Entity with legal title to direct the ITMOs between registries.
Figure 5. Example transaction structure for a carbon trade through the Carbon Transaction Platform

4.4 Governance of the CTP and Carbon Trust Funds

As a program of the GGGI, the ultimate oversight of the CTP would be entrusted to the GGGI Council, the organization’s primary governing body. All GGGI’s activities envisaged and proposed under the CTP would be subject to the usual scrutiny and approval of GGGI’s governance organisms through its existing planning, budgeting, monitoring, and reporting mechanisms.

The Council sets GGGI’s policies and approves its Regulations and thereby determines the operational guidance for the GGGI Secretariat to follow. In developing GGGI’s projects and programs, GGGI staff will ensure to operate within the Regulations, Rules and Code of Conduct established by Council - including all the safeguards currently in operation. To date, GGGI’s Council has not set any operational guidance specifically affecting carbon trading, but it could do so in future if it felt that was in the best interest of the organization.

The Council has delegated the management of the GGGI Secretariat to the Director General (and onwards through GGGI’s established Delegation of Authority). The DG is authorized to commit the organization through contracts, such as for earmarked projects, and to negotiate, and establish, Trust Funds, with interested donors. Once agreed, the decision making for earmarked projects or Trust Funds, is as agreed in the respective grant agreements or Trust Fund Administration Agreements.

Specifically for the newly proposed Carbon Trust Funds, the buying decision remains with the fund participants/donors (the buyers of carbon credits) and the selling decision concerning corresponding adjustments remains with the selling governments. GGGI’s role is limited to facilitating agreements between buying and selling governments, as well as the development of projects or policies that may generate carbon credits, then facilitating transactions and managing investments over the crediting period as the trustee of the Carbon Trust Funds.
Under this overarching governance, buyers would fund and have full control over the carbon trust funds they invest in, as agreed in the Administration Agreements negotiated for each Trust Fund (equivalent to the negotiation of grant agreements negotiated for an earmarked project). GGGI, as trustee, would propose investments and activities to the buyers (Trust Fund Participant(s)/ donor(s)) for their approval (see Chapter 3.4.1).

4.4.1 Ensuring Environmental Integrity of ITMOs

The CTP would be guided by Article 6 of the Paris Agreement to ensure the environmental integrity of transactions. This must ensure that any ITMOs traded are additional to business as usual and are of high quality using robust accounting rules. Specific Trust Funds may also choose to state commitments such as alignment with the San Jose Principles or restricting the use of CDM rollover credits.

Although the CTP aims to help governments access the widest number of possible standards in the market in order to enable the widest collection of sectors and activity types to be possible under Article 6.2, it must be acknowledged that any standard registration process relied on must be aligned to Article 6 Rulebook. It must ensure environmental integrity and apply corresponding adjustments to ITMO transfers.

4.4.2 Maintaining GGGI’s Trusted Advisor Role

Maintaining GGGI’s role as a trusted advisor while acting as a trustee for a carbon trust fund is essential. GGGI is currently positioned as a trusted technical advisor in the green growth and climate change space. A close relationship with government counterparts is one of GGGI’s greatest strengths as a development institution and maintaining the position of trusted advisor is central to our mission, including in the Article 6 and carbon pricing area. Practitioners and decision-makers in our Member and partner countries must be able to comfortably raise any questions or concerns they have in their carbon trading experiences and GGGI’s neutrality should never come into question in the process of purchasing ITMOs through a carbon trust fund. The primary source of risk to GGGI’s neutrality comes from the process of trade facilitation, particularly the negotiation between buyers and sellers and the terms of trading. GGGI would take measures to ensure it remains a neutral facilitator in this process, such as:

- Clarifying in the establishment agreement of all trust funds what the criteria are for the fund’s purchases.
- Ensuring sellers understand the terms of trade clearly early on in the trading process.
- Establishing and following principles for ethical mediation between participants in carbon transactions under Article 6.

5.1 Conclusions

Based on the consultation of its Members and partners, the GGGI Secretariat concludes that there is a very strong interest in Article 6 carbon trading amongst almost all GGGI Members, though most countries – including sellers and buyers – are not yet prepared to participate, with very significant knowledge and capacity gaps still to be addressed. GGGI’s Global Survey on Article 6 Readiness shows that potential sellers are keen to have an equal level of influence in the development of the market but require support in order to achieve this.

Now that the Article 6 Rulebook has been completed, there are many articles, scientific papers and opinion pieces available to guide decision makers. At the same time, there are many other organizations willing to provide support to developing countries in the Article 6 area. However, GGGI has a strong advantage in this field as a result of its practical activities since 2019 and will continue to gain useful insight for practitioners as we aim to support one or multiple first-to-market ITMO transactions over the coming year.

Given the knowledge and experience gained by GGGI’s CPU, combined with its unique position as a trusted advisor embedded in over 35 of our Member and partner governments, the GGGI Secretariat concludes that there is substantial potential for GGGI to expand and scale up its Article 6 support services – building on its technical assistance, capacity building and pilot transaction development support and catalyzing global carbon trading as a facilitator and trustee of Carbon Trust Funds.

5.2 Proposed GGGI Council Decisions

Based on feedback received from stakeholders and the support received from the MPSC in July 2022, the GGGI Secretariat proposes that GGGI Council takes the following decisions:

1. GGGI Council authorizes the Secretariat to establish the GGGI Carbon Transaction Platform as a program of GGGI, that will encompass all GGGI’s Article 6-related activities, both related to technical assistance (Article 6 readiness) and the operational support for ITMO trading through GGGI Carbon Trust Funds. The CTP program will be managed by the Carbon Pricing Unit in IPSD.

2. GGGI Council authorizes the Director General to establish GGGI Carbon Trust Funds, under the same conditions the Director General is authorized to establish GGGI Trust Funds, as detailed in GGGI’s Financial Regulations. GGGI Council requests the Director General to develop additional Financial Rules as may be required to operate such Carbon Trust Funds and to consult MPSC on such additional Financial Rules before their approval and implementation.

3. GGGI Council decides that GGGI’s carbon transaction activities will be limited to developing and emerging economy seller countries in which GGGI operates, but authorizes the Director General to agree on carbon transaction readiness and purchasing activities with all interested donors and buyers, respectively, in the interest of GGGI Member and partner countries.

4. GGGI Council determines that GGGI’s objective to undertake CTP activities will be to enable the governments of both sellers and buyers among its Members and partner to develop, advance
and scale up Art6 carbon transactions in the mutual interests of buyers and sellers. Once an agreement to trade ITMO’s between buyers and sellers has been reached, the GGGI Secretariat is authorized to engage with the government as well as the private sector in seller countries to develop and make available ITMOs for trade, and with the government as well as the private sector in buyer countries to purchase the ITMO’s thus made available.