University of Zurich[UZH]

Institute of Political Science - Center for Comparative and International Studies

Moving towards Article 6 implementation through capacity building and blending with climate finance

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COP27 Side Event of Dominica and University of Zurich, 15 November 2022

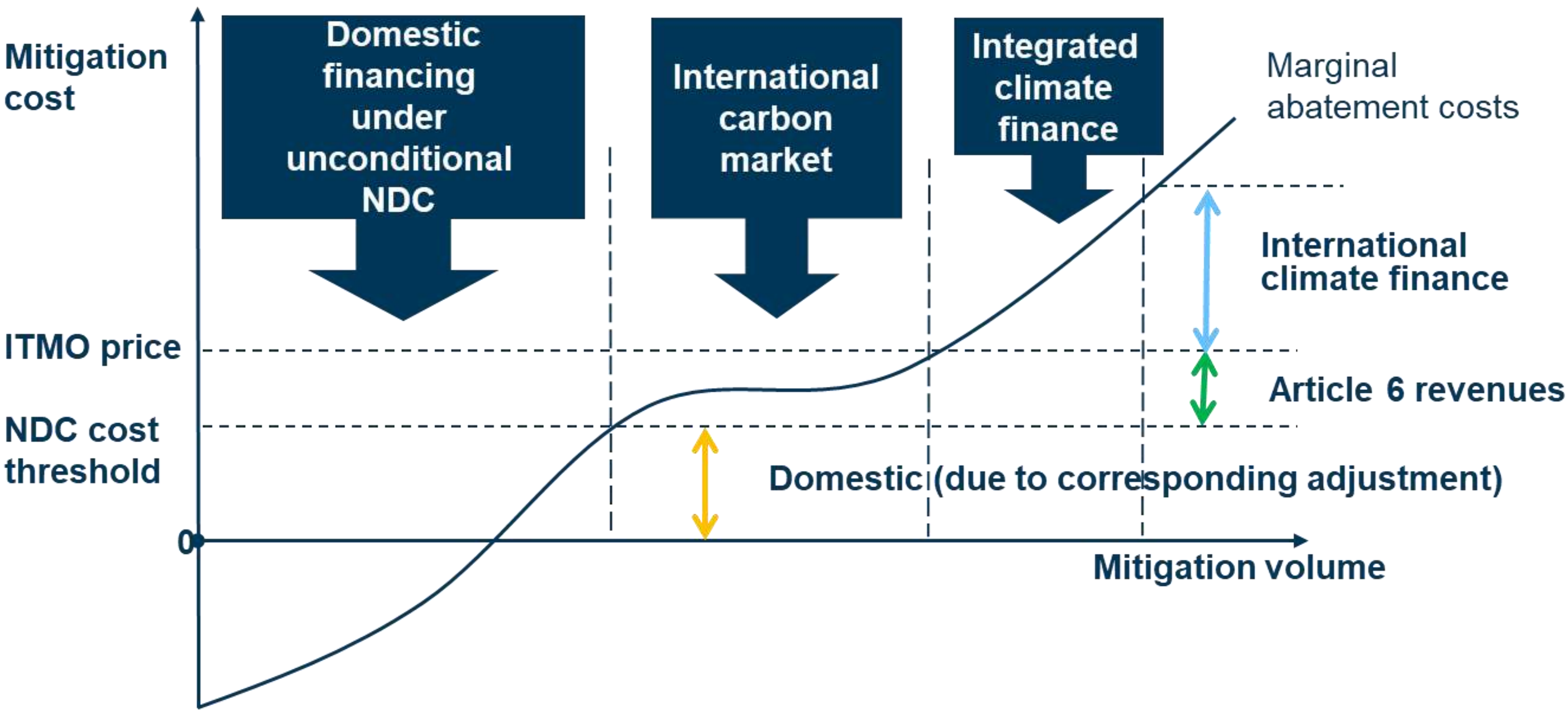
Setting the scene

- **SIDS have been bypassed by international carbon markets in the past**
  - Experiences with CDM concentrated in a handful of countries
    - Latin America/Caribbean region: Dominican Republic: renewable energy generation.
    - Asia & Pacific region: Papua New Guinea: waste management.
    - Africa/Indian Ocean – Mauritius: renewable energy sector, particularly Solar PV
    - Several cookstove PoAs undertaken in Fiji, Haiti, Timor-Leste and Vanuatu
- **How can this be prevented under Article 6? The side event discusses approaches to capacity building in SIDS involving North-South and South-South collaboration, methodology simplification as well as blending of finance sources**
  - Dominica, Dominican Republic, Vanuatu: Article 6 pilots (Switzerland, Sweden)

South-South collaboration

- **Establishment of South-South cooperation channels is critical for sharing country experiences on NDC implementation and carbon market activities across the regions**
- **One of the most effective and holistic approaches to capacity building that leaves no one behind**
- **'Learning by knowing' and 'peer-to-peer' knowledge sharing provides learning through a practical approach that can encourage peers to actively engage and make strides in Article 6 implementation**
- **This in-turn will enhance local human capacity of all relevant stakeholders, ensuring a sustainable and inclusive carbon market action**
- **Regional South-South cooperation can be built on knowledge products such as trainings, workshops, guidebooks etc.**

Integrated climate finance



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Agenda

Institute of Political Science - Center for Comparative and International Studies

Topic	Speaker
Benefits of Article 6 implementation to a Small Island Developing State like Dominica	Ms. Honourable Francine Baron, CEO of Climate Resilient Executing Agency of Dominica (CREAD)
Presentation of Dominica's National Financing Vehicle as pioneering example for SIDS financing and blending with Article 6 revenues	Ramiro Tabares, ROA Partners
Panel discussion on the role of private capital in the low carbon transition: The realization of opportunities presented by Dominica's NFV for LPs, GPs and the state	Moderated by Racquel Moses, Caribbean Climate-Smart Accelerator • Honourable Ms. Francine Baron, CREAD • Ramiro Tabares, ROA Partners • Ms. Fenella Aouane, GGGI • Ms. Alicia Montalvo, CAF
Success factors for article 6 readiness	Ms. Ursula Flossmann-Kraus, KliK Foundation
South-South Article 6 capacity building: Exchange between the East African Alliance and the Caribbean.	Ms. Irene Chekwoti, Eastern African Alliance for Carbon Markets
The International Initiative for Development of Article 6 Methodology Tools (II-AMT)	Ms. Juliana Kessler, Perspectives Climate Research
The II-AMT's tools for rapid Article 6 implementation: • **Additionality** • **Baseline** • **Monitoring, reporting and verification**	Mr. Randall Spalding-Fecher, Carbon Limits Ms. Martha Ntabadde, Member of CDM Methodology Panel

COP 27

Mobilizing private capital in SIDS

National Financing Vehicle

Commonwealth of Dominica

Private capital mobilization in SIDS

The unique demographics and geography of Small Island Development States require a different approach to mobilizing private capital. Private capital in SIDS should be viewed from the perspective of unlocking the potential of small/micro business, while still providing large investments in key drivers that inhibit growth and resilience.

Private capital mobilization in SIDS

Fundamentals for creating country-led private investment vehicles:

- Unlocking private capital is a grass-roots, market-based approach.
- Microbusiness constitute most of the employment in the Caribbean.
- Small improvements in productivity, especially in agriculture, can yield high gains.

Fishing | Agriculture | Tourism | Commerce | Industry | Trade

High Energy Costs | Educational Offer | Limited Access to Capital

NFV Opportunities

The NFV

The National Finance Vehicle is a private impact investment fund that seeks transformative change in Dominica's economy through a series of privately-led initiatives, strong governance, and sustainable interventions.

The NFV Structure

The NFV has been structured to accommodate a diverse group of impact investors with unique mandates for profitability and impact. The NFV will manage 3 sub-funds, each with a different expected results and financial instruments to be deployed.

National Financing Vehicle (NFV)

Dominica Adaptation Fund

Fund Expected Results: (I) Resilience of vulnerable populations to climate change and natural disasters (ii) increasing the productivity of existing income-producing businesses (iii) enhancing business opportunities towards sustainable livelihoods.

Financial Instruments: Grant-Based TA, Concessional Lending, Blended Loans.

Dominica Blue Fund

Fund Expected Results: (i) Competitive and resilient marine-services (ii) Improvement in the livelihoods of vulnerable coastal communities

Financial Instruments: Equity, Grant-Based TA,, Blended Loans.

Dominica Mitigation Fund

Fund Expected Results: (I) reduction to net zero of the entire energy matrix of Dominica (ii) increase export driven income-generating RE bi-products

Financial Instruments: Equity, Commercial Loans.

Independence & Governance

Safeguards in terms of legislation, governance, tax efficiency, and overall operation have been built in the Fund's design. A tender of a GP is to be selected by the Government through internationally-accepted procurement guidelines principles, who will then lead the fundraising process for the three sub-funds. Subscription agreements may be tailored to specific investor or donor reporting.

Independence & Governance

Two layers of oversight have been built in the NFV's governance structure; at the investor level and at project level. The GP, who manages the fund, evaluated all potential investments, which must be approved by a subject-matter expert-based Investment Committee. A Technical Committee provides local expertise on project-related issues. Investor's (LPs) interest are represented through an Advisory Committee, providing supervision of GP activities.

AE

Limited Partners

Advisory Committee

Investment Committee

General Partner

Technical Committee

Government

Sub-Fund Investments

NFV Operation

The NFV will be executed under two distinct mechanisms to ensure a) investor-centric, and b) donor-centric approach. Donors and investors have different reporting and monitoring requirements. Donors seek impact on their contribution, investors seek return. The NFV operates under these assumptions, allowing for a diverse donor and investor base to contribute. Further, a robust M&R framework allows for strong alignment with Dominica's climate commitment and aspirations.

NFV Operation

Projects that have several activities , especially those that require procurement of experts, will be managed through a GP-appointed Project Management Unit (PMU). PMUs will also report and monitor project activities. Investments will made to established sponsors, who will manage all construction activities, including reporting to the GP.

General Partner

Appraisal & Supervision

GP Staff

Project Management Unit

Sponsor / EPC

Monitoring & Reporting

Projects

Investments

High Measurable Impact

By 2030, Dominica aspires to be a sustainable country with a large proportion of its production generated by green and blue business, for example, at least 80% of the energy production and consumption will must come from renewables. The NFV is designed to contribute to the achievement of Dominica's climate commitment and development Plans.

High Measurable Impact

The NFV's MRV framework allows for targeting results in different economic sectors of the Economy of Dominica. The MRV framework was designed around the GCF result areas, levering investment return with high-impact interventions in small and micro-business.

Climate change adaptation	Blue economy	Climate change mitigation
HEALTH AND FOOD SECURITY	WATER GENERATION AND SEA POLLUTION	ENERGY GENERATION AND ACCESS
LIVELIHOODS	ECO TOURISM	TRANSPORT
INFRASTRUCTURE AND BUILT ENVIRONMENT	MARINE INFRAESTRUCTURE	BUILDINGS, CITIES, INDUSTRIES AND APPLIANCES
ECOSYSTEMS AND ECOSYSTEM SERVICES	WATER ECOSYSTEMS	FOREST AND LAND USE

Further Info

Contact: jointheNFV@roa.lat

Advisors

Donor

Delivery Partner

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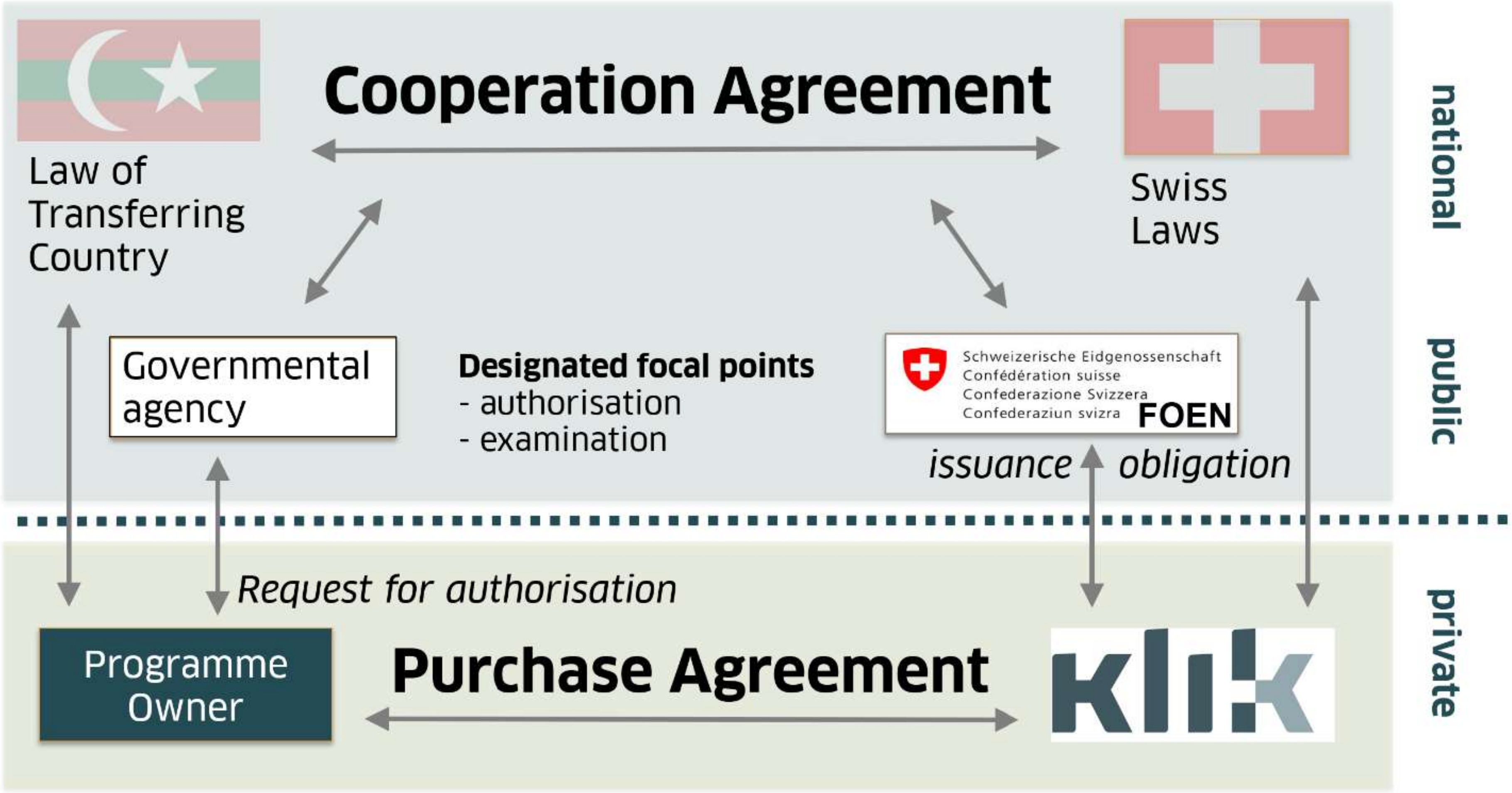
Moving towards Article 6 implementation through capacity building and blending with climate finance: Success factors for article 6 readiness

Ursula Flossmann-Kraus
Carbon Procurement Manager

klik

Sharm El-Sheikh, 15.11.2022, 18:30-20:00

Public-Private Architecture (Art.6.2) PA



Requirements

- **Raise ambition:** beyond unconditional NDC targets
- Hydro-power **smaller than** 20MW, no **forestry,** no nuclear power, nor fossil fuel lock-in (no O&G projects)
- Larger programmes (>**250’000 t CO_2** reduced until 2030)
- **Maturity** and bankability are key
- Second (major) revenue stream and **self-sustainability**
- Programmes **not yet implemented**
- Programmes **must** be (financially) **additional**
- No **double claiming** nor **double counting**

Cooperation Under Bilateral Implementing Agreement With Switzerland

Dominica
Georgia
Ghana
Peru
Senegal
Thailand
Ukraine
Vanuatu

Bilateral Implementing Agreement Expected Soon

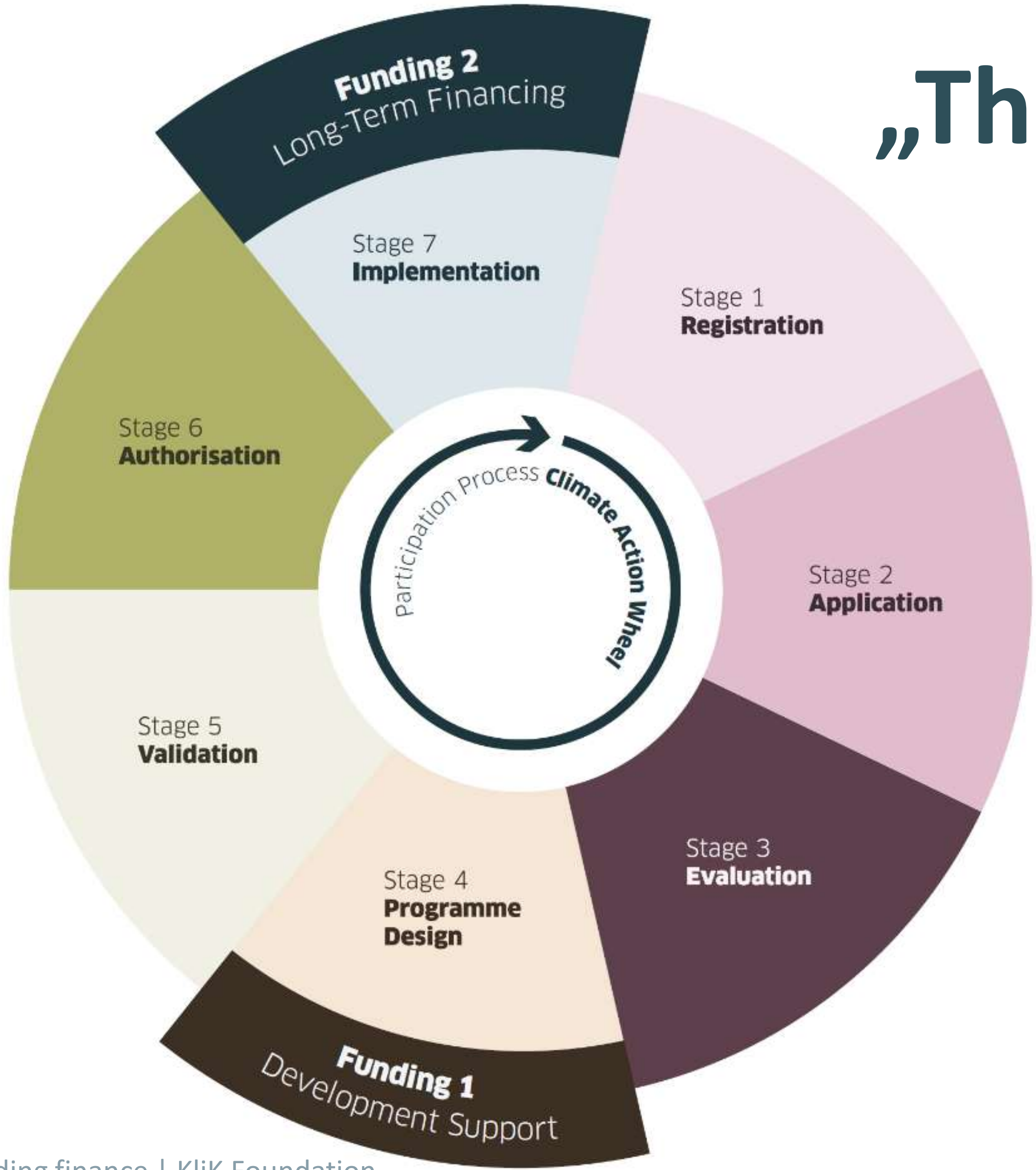
Malawi
Morocco
Uruguay

What Are We Trying to Achieve?

UNLOCK **INVESTMENT** **REDUCE** **CO_2**

- Engage **host country's business sector** to make **investments** in **green technology**
- **What we offer:**
  - Financial support to develop full proposal (MADD)
  - Network of project developers that can help set-up the program
  - Long Term Contract for ITMOs (until 2030)

KliK Foundation modalities and programme cycle



„The Climate Action Wheel“

Our financial committment:

- 1. Conceptual development
- 2. Purchase of the resulting emission reductions

Article 6 readiness needs and prerequisites in the public and private sectors

- ✓ Interlinkages article 6 and NDC / carbon pricing
- ✓ Pipeline development/ identification
- ✓ NOP, Validation, Authorisation
- ✓ QS, NDC/SDG contribution
- ✓ Accreditation of DOEs
- ✓ Reporting, recording, tracking

- ✓ Identify business and investment opportunities
- ✓ Develop and file applications
- ✓ Manage programmes, replicate and scale up
- ✓ Obtain upfront financing
- ✓ Validatation and verification

Success factors for Article 6 readiness:

- ✓ NDC review and update
- ✓ Active engagement of host countries
- ✓ Engaged private sector
- ✓ National frameworks including instititional arrangements
- ✓ Broad stakeholder engagement
- ✓ Knowledge and tools
- ✓ Partnerships for CD and finance

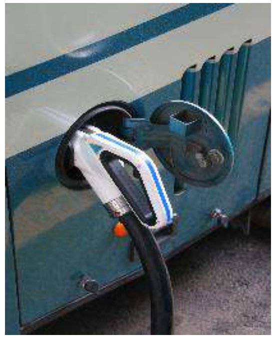


Image: Grutter Consulting

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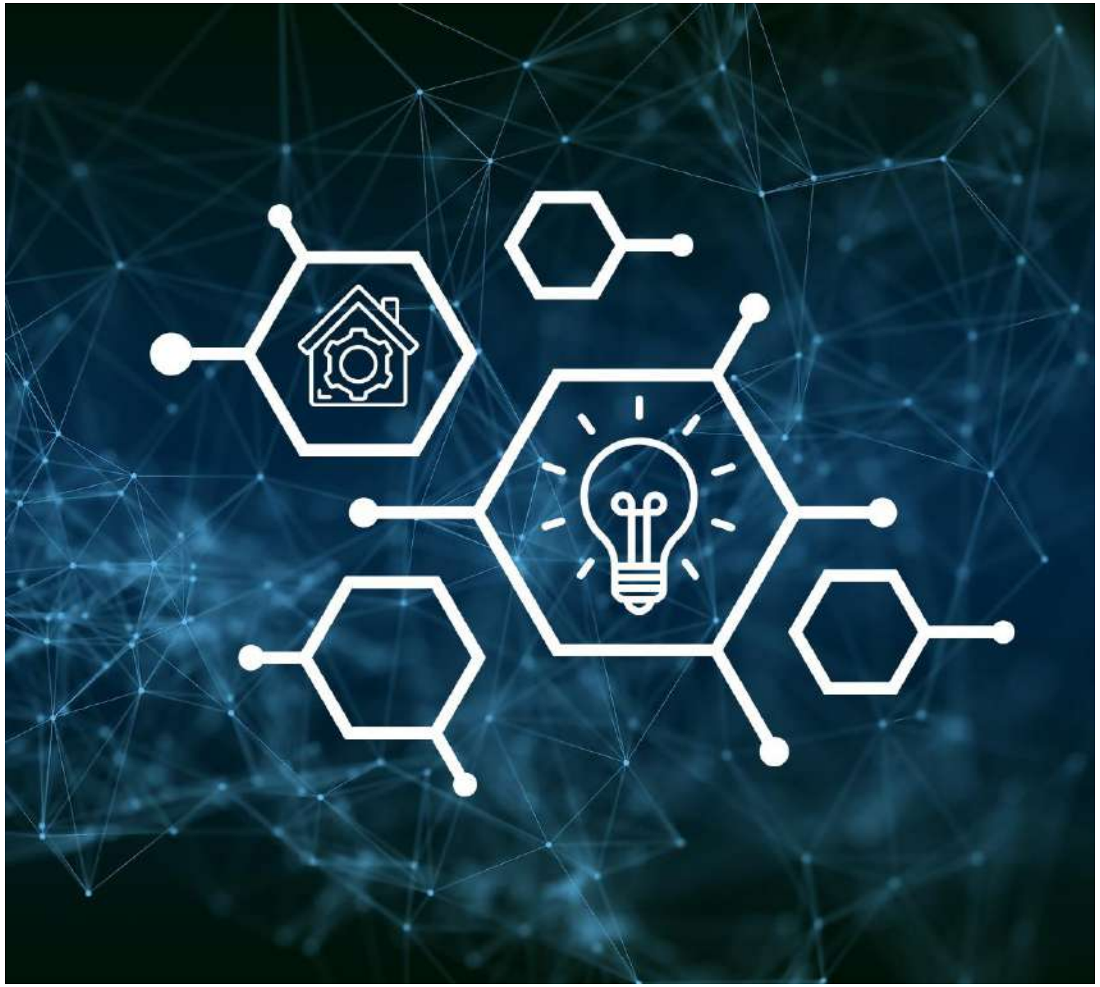
Facilitating the methodology transition

The International Initiative for Development of Article 6 Methodology Tools (II-AMT)



Juliana Keßler, Perspectives Climate Research

COP27

15 November 2022

Key Article 6.4 methodological requirements

Old principles already applied under CDM and JI

- take into account **uncertainty**, leakage, and relevant circumstances
- be **transparent, conservative, credible**
- recognise **suppressed demand**
- **address reversals** where applicable

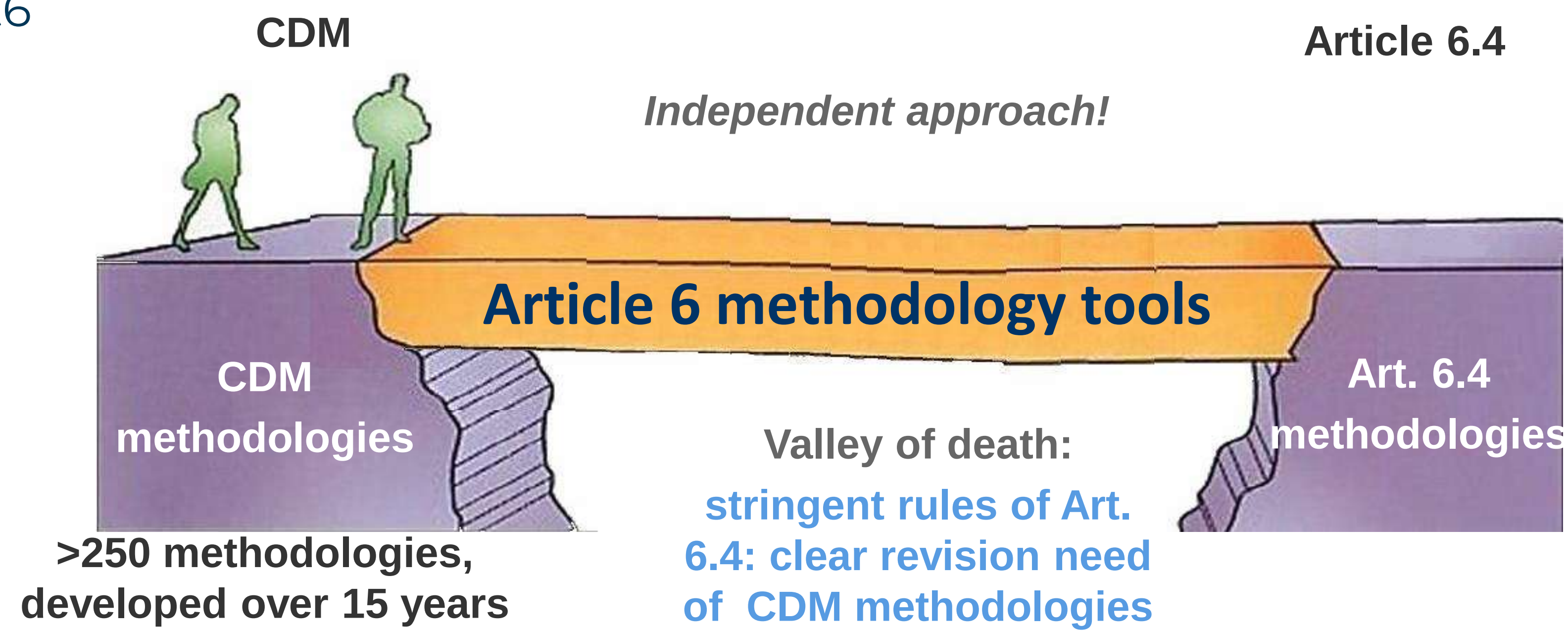
New principles going beyond those of the Kyoto Mechanisms

- encourage **ambition over time**
- align with the **long-term temperature goal** of the PA
- contribute to reducing emission levels in the host Party; and align with its **NDC**, if applicable, its **long-term low GHG emission development strategy** [...] and the long-term goals of the PA
- be **below** BAU/ historical emissions, adjusted downwards
- take into account **policies + measures**
- contribute to the **equitable sharing of mitigation benefits** between the participating Parties

Introduction to the initiative

International Initiative for the Development of Article 6 Methodology Tools (II-AMT)

- **Objective**
  - Alignment of approved CDM baseline and monitoring methodologies with Art. 6 rules and principles
  - Development of Art. 6 methodological tools by a group of international experts that can be “grafted” upon CDM methodologies to enable rapid application of methodologies under Art6



Introduction to II-AMT

Phases of the initiative

Ongoing Phase

Conceptualisation

- Concept notes for tools on additionality, baseline, MRV and guidance note on NDC/LT-LEDs alignment
- Work plan for the initiative
- Validation

Tool development

- Stakeholder consultation and interaction
- Development of four tools
- Validation of tools

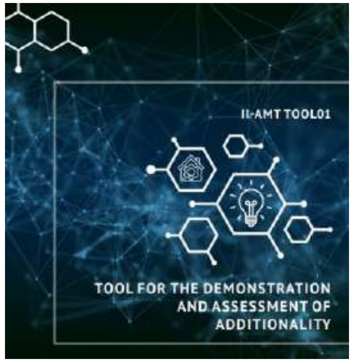
Piloting/ submission

- Help desk for pilot activities
- Potential: submission of tools to A6.4SB
- Revision of tools, and workshops

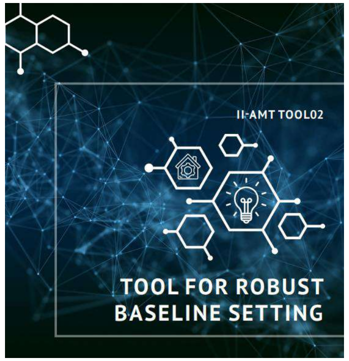
Jan-Mar 2022 | May 2022- Feb 2023 | Mar -Aug 2023

Overview of II-AMT outputs

- Expert group developed draft tools, building on the well-known and established principles for carbon crediting (e.g., accuracy, conservativeness, consistency)
- Documents operationalise both principles enshrined in the Article 6.2 guidance and the Article 6.4 RMPs and adhere to “shall” as well as “should” requirements
- Scope
  - No coverage of sectoral or policy level interventions
  - Sector and technology agnostic
  - Complemented by further sector-specific guidance (e.g., for land-use and forestry sector) to be applicable for all appropriate activity types



TOOL01 - Tool for the demonstration and assessment of additionality



TOOL02 - Tool for robust baseline setting

TOOL03 – Tool for monitoring, reporting and verification of emissions and emission reductions

Guidance for contributions to host country NDC and long-term strategies and goals.

perspectives climate research

Public consultation on draft tools launched today (open until 16 January)

https://www.perspectives.cc/public/initiatives/international-initiative-for-development-of-article-6-methodology-tools-ii-amt/

Additionality tool

Randall Spalding-Fecher

15/11/2022

Additionality tool

Objectives

To provide a **robust approach and guidance** for mitigation activity developers **to demonstrate that their proposed mitigation activities can be considered additional** in the context of Article 6 of the Paris Agreement

To propose a stepwise approach to assess and demonstrate the additionality of **projects** and **programmatic** approaches (collectively called “mitigation activities”) that is in line with Article 6.2 guidance and A6.4M rules.

Scope

Based on experience with and **lessons learned** from the application of the **CDM additionality tool** and **other approaches** to additionality assessment applied in international carbon markets

Defined as **stand-alone tool** for additionality under Article 6 for **project and programme-level** mitigation activities. It **does not cover sectoral or policy level interventions**.

Additionality tool

Proposed Steps

Steps:

a. Checking for **public notification** of the intent to earn carbon credits prior to the start of the activity.

b. Determining **regulatory additionality** by confirming that the activity is neither mandated by law, nor is the mitigation it achieves effectively required by regulation. This step also includes a check of whether existing or promulgated regulations would mandate the activity at any point during the crediting period.

c. Evaluating the **risk** that the activity type is **financially attractive without carbon revenue**, to decide if an investment analysis is required.

d. Determining **financial additionality** of the activity based on an investment analysis + **limiting crediting period** if marginally unattractive .

Additionality tool

STEPS

Step 1 - MANDATORY: Public notification of intent to earn carbon revenue prior to start of the activity

Step 2 - MANDATORY: Determination of regulatory additionality

Step 3- MANDATORY: Evaluation of inherent financial additionality risks of the specific activity type

Step 4: Determination of financial additionality of the activity through investment analysis (MANDATORY step if inherent financial additionality risk is medium or high)

Step 5 – MANDATORY: Re-assessment of regulatory additionality at the point of crediting period renewal. Reapply Step 2.

Additional Guidance

1. **Development of positive lists**
2. **Crediting period length and renewal**
3. **Stepwise approach for considering additionality at crediting period renewal.**

Baseline tool

Martha Ntabadde Kasozi

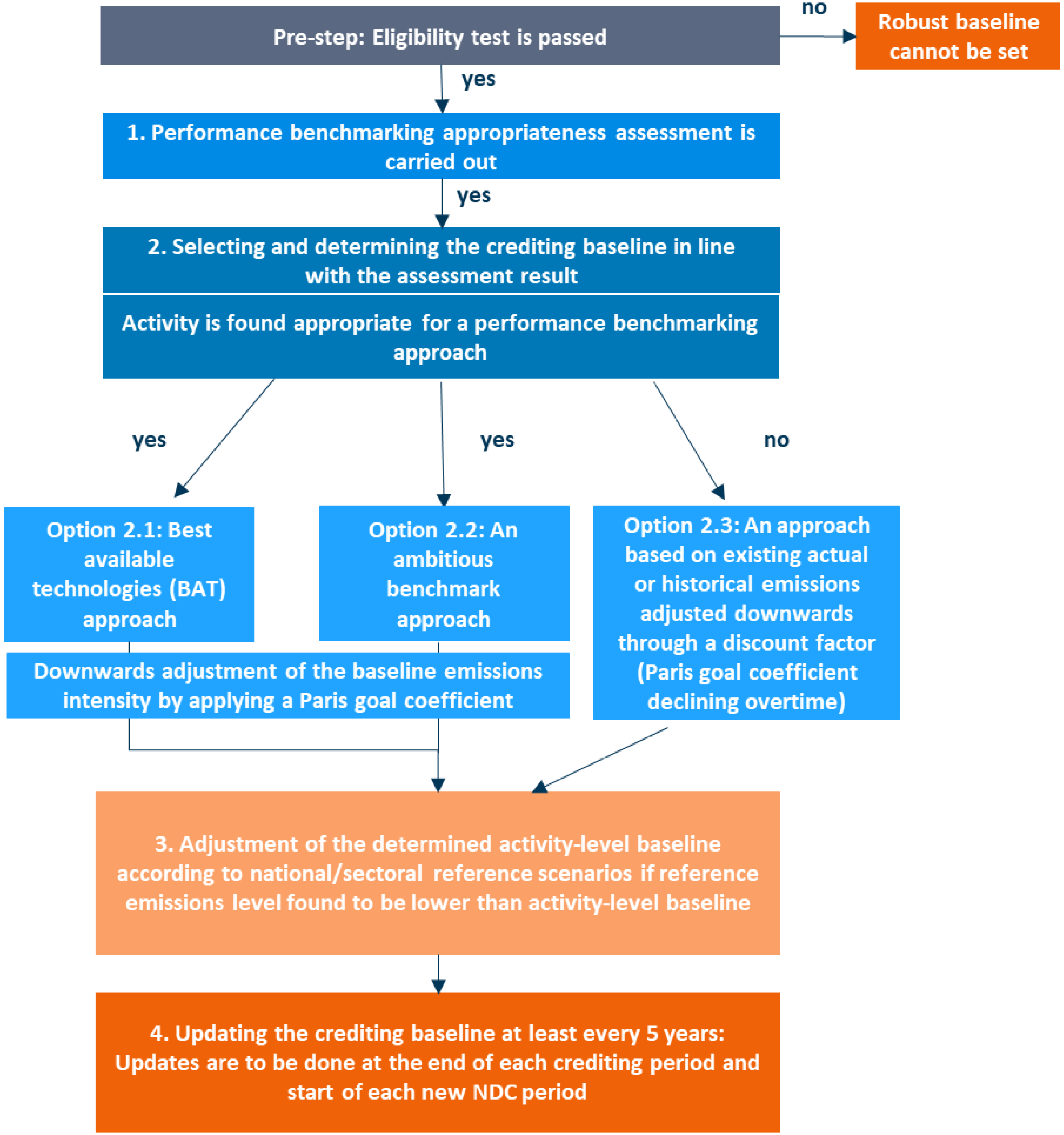
15/11/2022

Baseline Tool – Key Steps

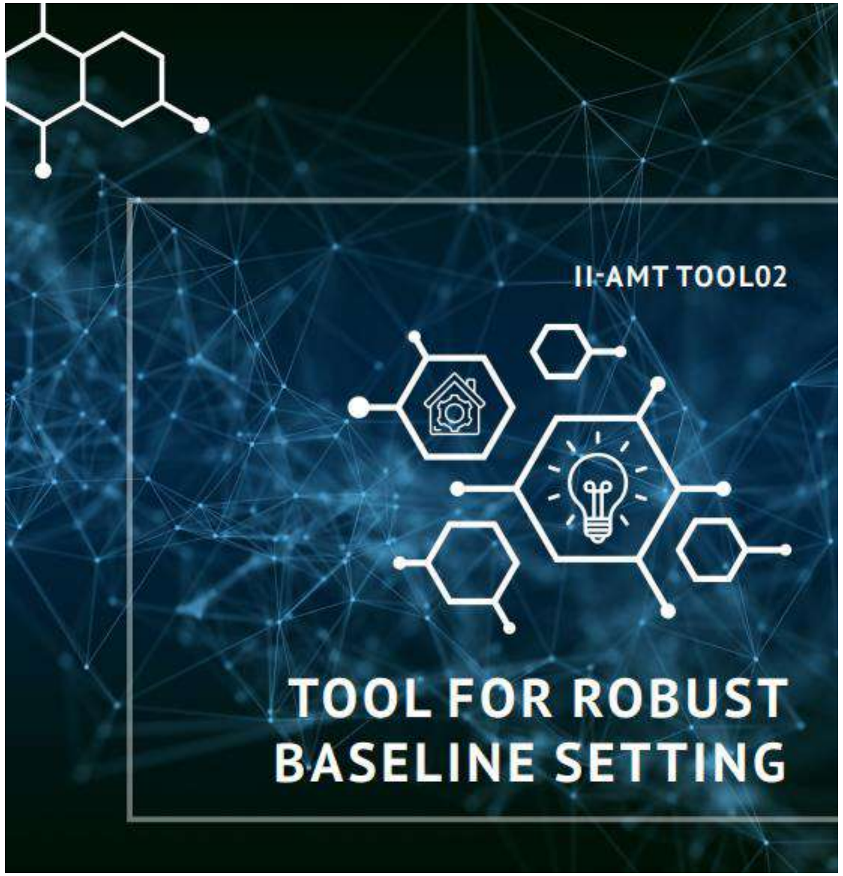
Aim: To provide robust approaches to baseline setting under Article 6 of the Paris Agreement

STEPS:

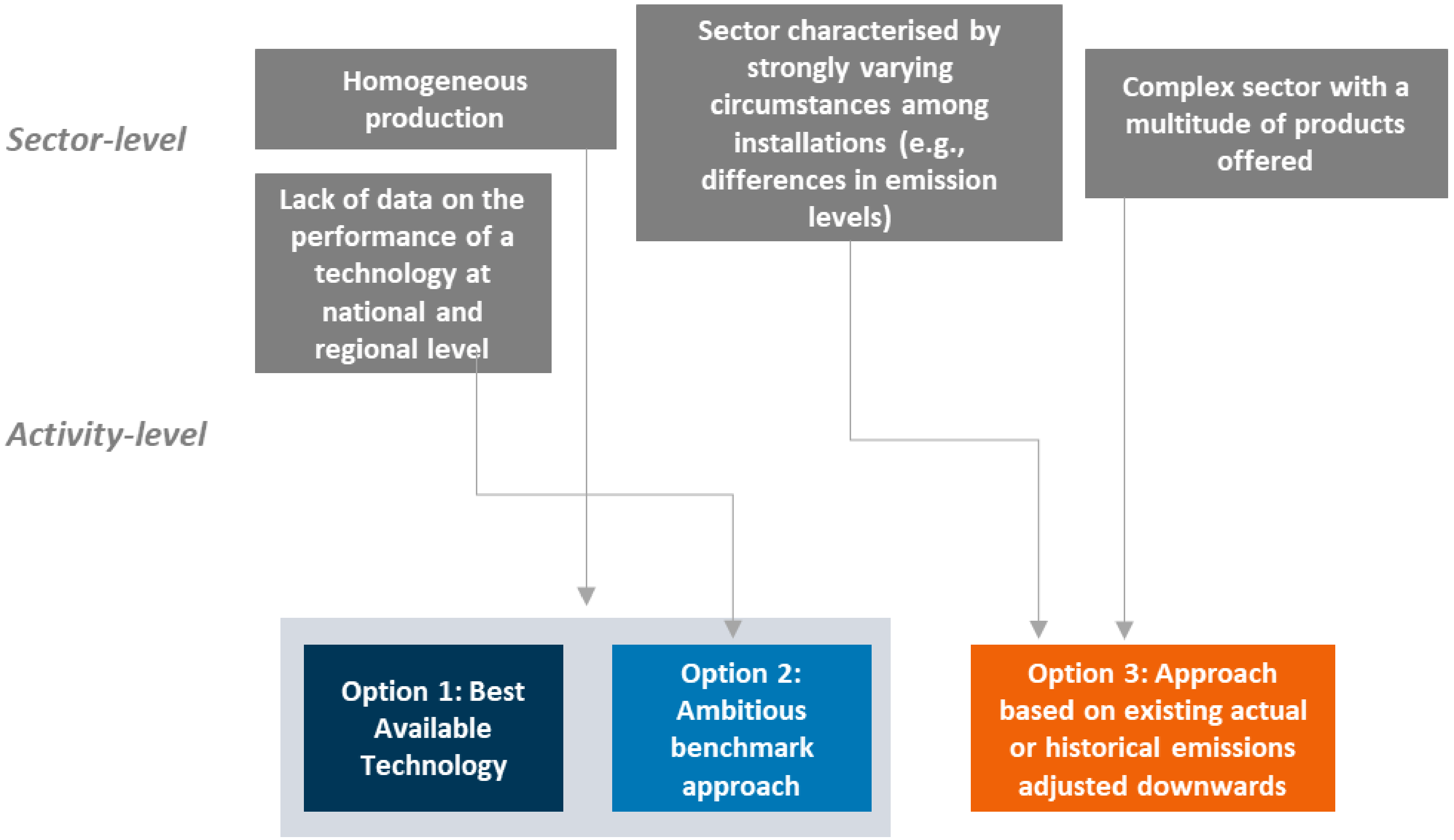
0. **Fulfil the eligibility criteria of alignment with the long-term goals of the Paris Agreement and not leading to emissions lock-in**
1. **Appropriateness of performance benchmarking for the sector and sub-sectors targeted by the proposed activity**
2. **Selection of baseline approach**
   - Best available technology;
   - Ambitious benchmark approach; and,
   - Actual/historical emissions adjusted downwards.
3. **Assessment of the activity-level baseline set as per step 1-2 for alignment with the NDC unconditional target scenario and sector-specific strategies (NDC alignment)**
4. **Regular updates to the baseline**
5. **Setting the baseline in a more conservative manner than this tool (optional)**

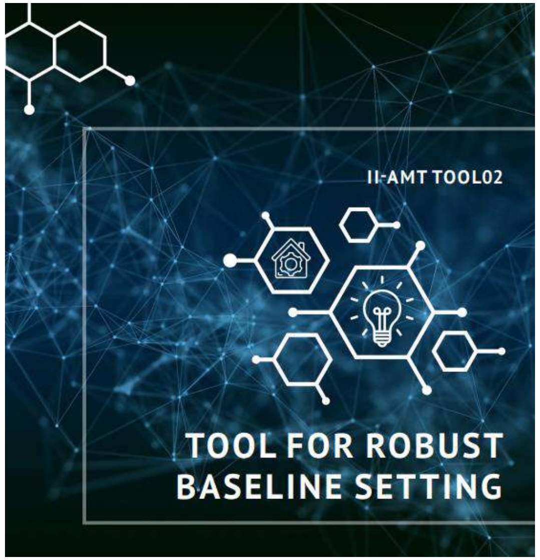


Sequence of steps



Sector characteristics and selection of approaches





MRV tool

Martha Ntabadde Kasozi

15/11/2022

MRV tool

- **General** guidance and an **MRV framework** for Article 6 activities
- Description how existing CDM monitoring methodologies are to be enhanced to satisfy Article 6 requirements
- Different structure to the other tools

Rules and Principles
(Art6.2 guidance, RMP Art6.4, MPG for ETF and Marrakech Accord)

Terms and Definitions
Conservativeness
Relevant policy
Reversal etc.

New Elements Considered:
1. Monitoring of **all relevant policies**
2. Monitoring of **reversals**
3. **Sustainable development** tool
4. Interplay between **conservativeness** and **accuracy**

Also included: Generic verification guidance

Existing CDM elements:
Accuracy, Completeness, Consistency, Comparability, Leakage, Materiality, Confidential information, Use of recent IPCC AR GWPs, Quality assurance/Quality control

MRV tool – Key elements

1. Conservativeness
   - Activity developer to strive for highest level of accuracy available without prohibitive cost
   - Cost and accuracy can be balanced through concept of conservativeness
   - Where higher level of accuracy would lead to prohibitive costs → activity developer can use less accurate methodology provided conservativeness is guaranteed by
     - Ensuring that activity emissions are overestimated, and removals are underestimated.
2. Monitoring of policies
   - **Step 1:** Risk analysis on whether emission levels are influenced by policies during the crediting period. Based on the results, host DNA shall set aside 10% of the certificates issued each year into an escrow account to account for potential policy impacts.
   - **Step 2:** Assess every five years, aligned with NDC periods, whether policies significantly influencing the activity's GHG emission and/or baseline emission levels over a year or longer have been implemented
   - **Step 3 and 4:** Where the 5-yearly assessment indicates adjustments to the estimation of activity reduction and/or removals, the baseline and/or methodology must be adjusted for the estimation of the activity emissions and/or removals; as well as the amount of certificates adjusted using the escrow account.

MRV tool – Key elements

3. Monitoring of reversals
    - **Step 1:** Identification of potential reversals using remote sensing
    - **Step 2:** In-depth monitoring of reversals once identified
    - **Step 3:** Remedying reversals using insurance contracts or cancellation of credits in buffer reserves
4. Monitoring of sustainable development impacts – Safeguards Assessment tool
    - **Step 1:** Screening of whether a detailed Environmental, Social-economic Impact Assessment (ESIA) is necessary
    - **Step 2:** Scoping to determine the relevant ESI impacts and data gaps
    - **Step 3:** Assessment using IFC Performance Standards on Social and Environmental Sustainability or the Environmental and Social Standards under the World Bank Environmental and Social Framework (ESF)
    - **Step 4:** Formulation of an Environmental and Social Management Plan (ESMP) and Environmental Impact Statement (EIS).