

# Nigeria's Article 6 Framework

Paving the path for significant participation in cooperative mechanisms under the Paris Agreement

CAPACITY BUILDING WORKSHOP JANUARY 30<sup>TH</sup> – 31<sup>ST</sup> 2024  
DAY 2



Federal Republic of Nigeria



# Introductory Statements

Government of Nigeria and UNDP



Federal Republic of Nigeria



# AGENDA DAY 2

Time	Activity
10:00 – 10:15	Introductory Statements by the Government of Nigeria and UNDP
10:15 – 10:30	Recap session: What is Article 6 and what are the key decisions to participate? <i>Speaker: Matias Ryberg – Neyen Consulting</i>
10:30 – 11:45	Article 6.2 Framework Session 2: Article 6.2 activities <ul style="list-style-type: none"> <li>Possible Article 6.2 project types. How do they contribute and impact achieving the NDC? How are they prioritized?</li> </ul> <i>Speaker / Moderator : Johan Nylander - Neyen Consulting / NCCC</i>
11:45 – 12:00	Break
12:00 – 13:15	Article 6.2 Framework Working Session 3: The Activity Cycle <ul style="list-style-type: none"> <li>Steps for the development of robust, additional, verifiable Article 6.2 activities</li> </ul> <i>Speaker / Moderator: Matias Ryberg– Neyen Consulting</i>
13:15 – 14:15	Lunch Break
14:15 – 15:30	Article 6.2 Framework Session 4: Authorization, Registration and Tracking Processes <ul style="list-style-type: none"> <li>Requirements related to authorization (i.e., cooperative approaches, involved entities, ITMO transfer, etc.); and registration and tracking of ITMOs.</li> </ul> <i>Speaker / Moderator: Johan Nylander – Neyen Consulting</i>
15:30 – 15:45	Break
15:45 -17:00	Article 6.2 Framework Working Session 1: Institutional arrangements <ul style="list-style-type: none"> <li>Entities and their responsibilities for Art.6.2 operationalization, and link to UNFCCC reporting processes.</li> </ul> <i>Speaker / Moderators: Matias Ryberg – Neyen Consulting</i>
17:00 – 17:15	Break
17:10 – 18:00	Q & A and Closing Remarks

# Recap session: Article 6

Speaker: Matias Ryberg – Neyen Consulting



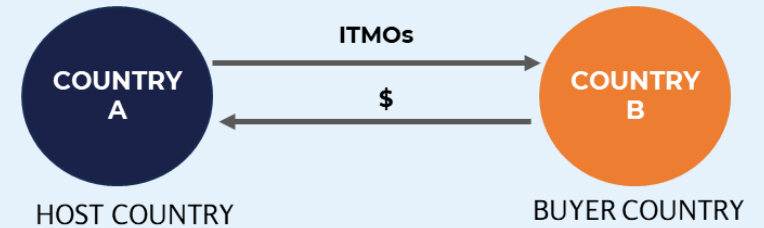
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# International Cooperation through Article 6

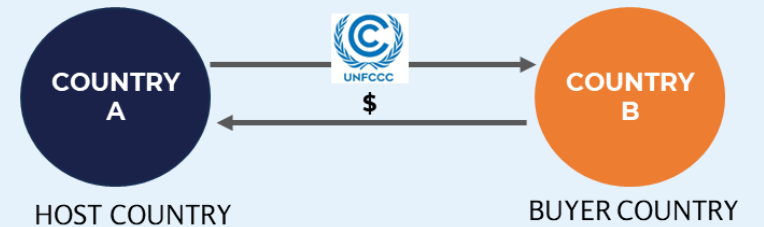
## Article 6.2

Host Country A transfers Article 6.2 units (ITMOs) to buyer Country B through a bilateral agreement. A decentralized approach, where countries A and B decide the rules and procedures of the cooperation, following UNFCCC guidelines. Cooperation can also be multilateral.



## Article 6.4

Country A generates units through a UNFCCC centralized mechanism and transfers them to country B. UNFCCC Supervisory Body governs the mechanism of Article 6.4 and oversees the validation, verification, and registration of projects.



## Article 6.8

Country B voluntarily uses a UNFCCC web platform to provide free-access resources to other countries without a market transaction. This can include, for instance, sharing the successful blueprint for a nationwide energy program.



# Reasons for Participating in Art. 6.2

Host countries may have several reasons to engage in cooperative approaches under Article 6.2 as a complement to other sources of climate finance. These include:

**REVENUES TO THE  
NATIONAL BUDGET**

**SUPPORT TO NDC  
IMPLEMENTATION**

**SUPPORT FOR HIGHER  
COST MITIGATION  
MEASURES**

**SUSTAINABLE DEVELOPMENT CO-BENEFITS**

# Risks of Participating in Art. 6.2

Beyond the risk of double counting, countries should consider risks associated with transferring units that may be needed to achieve their NDC, the opportunity costs, and the resources associated with participation.

**AVOIDING OVER-SELLING  
MITIGATION OUTCOMES**

**OPPORTUNITY COST**

**MANAGEMENT AND INFRASTRUCTURE COSTS**

# Implications of Participation in Art. 6.2

Participation in Article 6.2 implies the following:

## Reporting obligations

The guidance for Article 6.2 introduces specific reporting requirements for Parties participating in cooperative approaches. These specifically refer to the Article 6.2 Initial Report, annual information to be submitted to the future Article 6 Database, and information to be included in the biennial transparency reports (BTRs). In general, Parties participating in 6.2 are required to report on the following:

- Their compliance with Cooperative Approaches participatory requirements.
- How corresponding adjustments have been done.
- Specific details on the cooperative approaches the Party participates.
- Data on the ITMOS authorized and transferred.

## Infrastructure for registration, ITMO tracking, and integration with the system for tracking progress

Tracking of ITMOs in a registry is necessary to comply with the requirements for robust accounting and avoidance of double counting. In the absence of centralized rules and systems, Parties are discussing common formats to document international transfers and work together in one or several electronic tracking systems. Decision -/CMA.4 on Article 6.2 highlights the need for "interoperability" and a common nomenclature to harmonize registries.

## Institutional and regulatory development

Participation in Article 6.2 implies the development of an Article 6.2 framework and its integration into the regulatory provisions of the country. As part of this framework, a country must establish institutional arrangements managing Article 6.2.



# ARTICLE 6.2 ACTIVITY CYCLE



# Key Concepts of Article 6

## 1. ITMOs

Article 6.2 introduces the concept of internationally transferred mitigation outcome (ITMO). An ITMO is not a specific carbon credit or unit given that it can be the result of different types of activities and be issued under different cooperative approaches. An ITMO shall represent real and verified emissions reductions or removals. Article 6.4 Emission Reductions (A6.4ERs) units become ITMOs when authorized for use towards the achievement of NDCs and/or authorized for use for other international mitigation purposes.

## 3. Authorization of ITMO use

Authorization is a key milestone in the process of transferring mitigation outcomes to another country. Authorization by the transferring country means that another country or organization can use mitigation outcomes generated in the transferring country. It means that the transferring country cannot use these mitigation outcomes towards achieving its own NDC.

## 2. Corresponding Adjustments

The basic idea of corresponding adjustment is that countries' emissions levels, as reported when they track the progress towards achieving the NDC, should be adjusted to reflect the transfer (export) or receipt (import) of mitigation outcomes. Corresponding adjustments do not change the national GHG inventory. They are adjustments to an emissions balance that represents the sources of emissions and removals covered by the NDC targets.

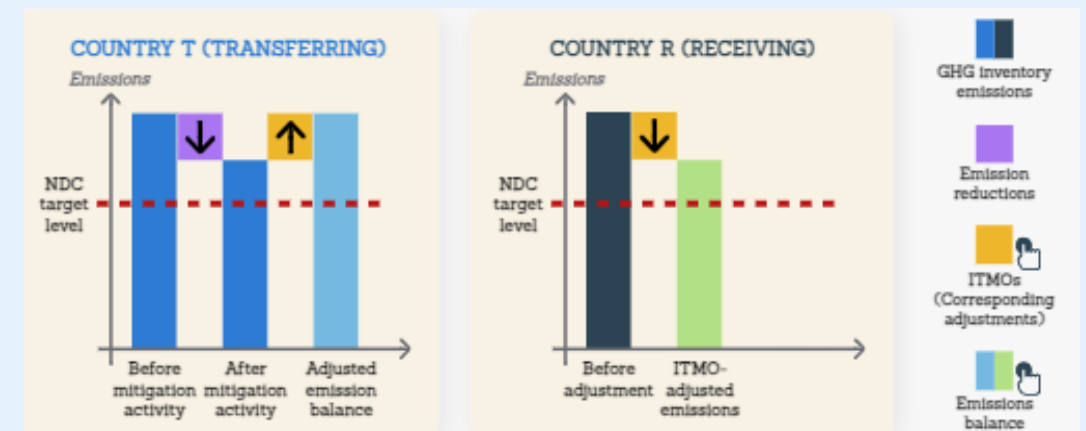


Figure 2. Corresponding adjustment illustration. Source: UNDP Operationalizing Article 6.2 of the Paris Agreement

# Article 6.2 Framework Working Session 1: Article 6.2 activities

Speaker: Johan Nylander – Neyen Consulting



Federal Republic of Nigeria





# CONCEPTUAL REMINDER

# ARTICLE 6.2 ACTIVITIES - DEFINITION

- Article 6 promotes voluntary cooperation among Parties to increase ambition and achieve their NDCs. Art 6.2 does not dictate what form of cooperation is eligible. Participating countries can determine the form of cooperation and the eligibility of mitigation activities as part of a cooperative agreement within the frame of Article 6.2 guidance.

**Article 6.2 can be of any type or scale:**

- Emissions reduction or removals programs or projects that may result in the transfer of mitigation outcomes from a transferring (or host) country to a receiving country.

Emissions  
reductions/removals  
individual projects

Programs of  
Activities

Sectoral  
approaches

Policy  
crediting  
approaches



# ARTICLE 6.2 ACTIVITIES - PRIORITIZATION

Art 6.2 Activities shall strive for a higher level of ambition i.e. they must be additional to the NDCs commitments.

The process to identify those mitigation activities which go beyond the NDC and can be part of cooperative approaches agreement with other countries is complex and require a deep understanding of:

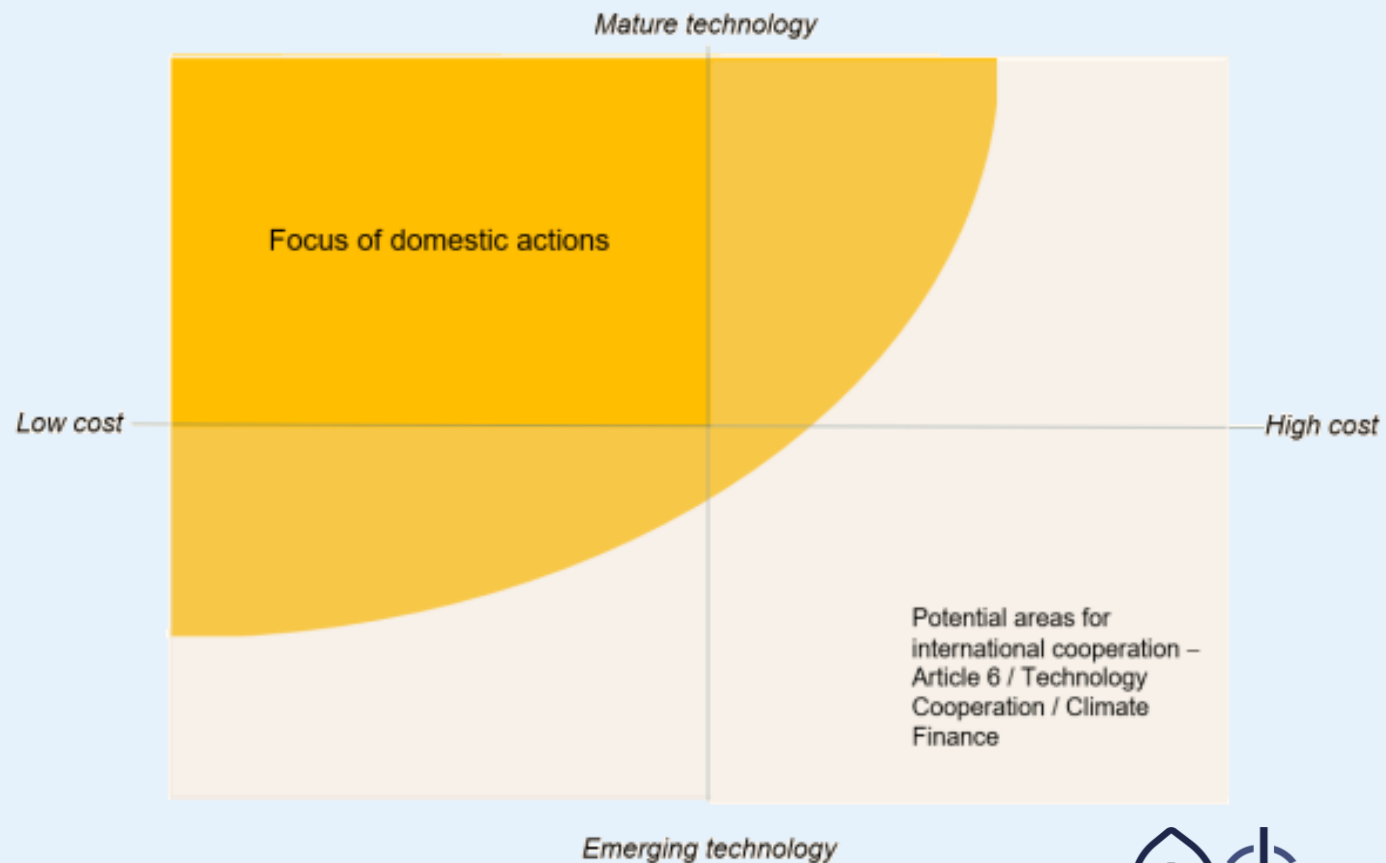
- NDC activities that are committed to being implemented domestically and are needed to achieve the NDC commitments (some countries refer to these activities in their NDCs as unconditional activities).
- Criteria for not over-transferring mitigation outcomes that may be needed for NDC compliance
- Climate actions that are already supported by international climate finance (other bilateral agreements, MDBs financing, etc.) and hence, do not require Article 6.2 support.
- NDC implementation status. How well is the country on track to meet the combined (unconditional and conditional) NDC targets



# ELIGIBILITY CRITERIA

## ELIGIBILITY MAY DEPEND ON:

- NDC SCOPE
- TYPE OF PROJECT
- MITIGATION POTENTIAL
- CONTRIBUTION TO SUSTAINABLE DEVELOPMENT
- TRANSFORMATIONAL CHANGE POTENTIAL
- ENVIRONMENTAL INTEGRITY



Source: opportunities and safeguards for ambition raising through article 6 – NewClimate Institute 2018



# Costs of Achieving Emission Reductions

The cost of achieving emission reductions in sectors with NDC mitigation targets should be a key factor that is taken into consideration when establishing eligibility criteria for authorizing the export of carbon credits.

It is important that the opportunity to reduce emissions in those sectors through relatively low-cost measures (commonly referred to as low-hanging fruit) is not reduced by exporting ITMOs.

The transfer of ITMOs should not result in the need for the government to invest in other, more costly, abatement actions for meeting its NDC targets.

Useful to look at the costs of implementing specific mitigation actions when establishing eligibility criteria for authorizing the use and transfer of ITMOs from different types of activities.

Those costs are often closely tied to the cost of investing in specific mitigation solutions (technologies and/or processes), which can in turn depend on the capital costs of technologies critical to a solution, the cost of skilled labor required for adopting a solution, the availability of other limited resources (such as, for example, biomass) needed for adopting a solution, or the cost of removing non technology- or labor-specific barriers to a solution.



# Approaches to Eligibility

One approach to addressing cost considerations can be to restrict authorization for mitigation actions that involve solutions that have already been identified and designated to be the focus of government efforts to meet its unconditional mitigation targets in the NDC.

A complementary approach is to restrict eligibility to investments that have been determined to involve relatively more expensive solutions with low penetration rates in Viet Nam (so-called high-hanging fruit).

A more nuanced approach would be to perform assessments of the capital costs and financial and non-financial barriers to a range of solutions that are relevant to the Nigerian context and to base eligibility criteria on the findings of such assessments.

Information on the penetration rates, capital costs and barriers to adopting different solutions would be needed for performing such assessments and may not be readily available



# **FRAMEWORK WORKING SESSION 2: WHAT ELIGIBLE ACTIVITIES FOR NIGERIA?**

# ELIGIBLE ACTIVITIES CRITERIA

WHICH CRITERIA FOR  
ELIGIBLE ACTIVITIES?

ARE THERE ANY  
ACTIVITIES UNDER A  
NEGATIVE LIST?

# Processes for determining eligible mitigation activities



# Article 6.2 Framework Working Session 2: Article 6.2 Activity Cycle

Speaker: Matias Ryberg – Neyen Consulting



Federal Republic of Nigeria





# CONCEPTUAL REMINDER

# ARTICLE 6.2 ACTIVITY CYCLE



# Article 6.2 Activity cycle: bilateral agreement

- Both host countries and receiving countries may have different requirements for Art. 6.2 activities. Countries need to agree, among others, on:
- Emissions reduction accounting methodologies (baseline and actual emissions monitoring) accepted.
- The documentation required from each Art. 6.2 activity from preliminary design and detailed design to periodic reporting of emissions reductions.
- If and how the information in the documentation is to be validated before an activity registration and/or approval
- If there will be a formal approval or pre-authorization of the mitigation activity after validation of the required documents.
- A verification process for monitoring data that can form the basis for issuance and authorization of ITMO use and transfer.

Example of activity cycle:

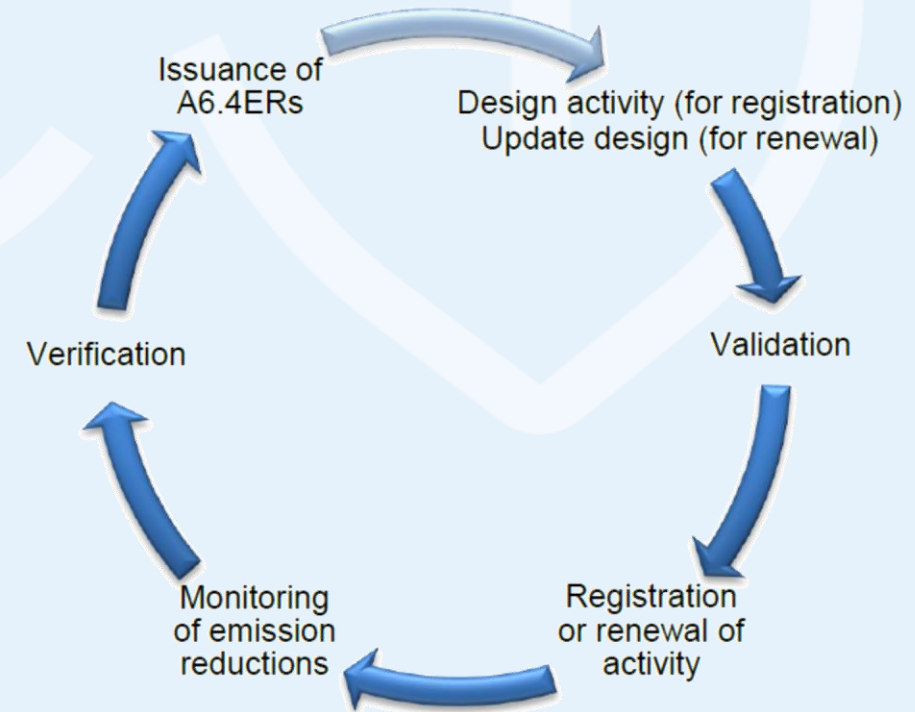
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# Article 6.4 Activity cycle

- Activity cycle: Drafting the design document with details of the project.
  - Key actor: Activity participant
- Host Country Approval: Approving the activity.
  - Key actor: Designated National Authority (DNA)
- Validation: Independent evaluation of activity design against
- Art 6.4 rules, modalities and procedures.
  - Key actor: Designated Operational entity (DOE)
- Registration: DOE submitting the request for registration to the SB and Share of Proceeds (SOP)
- Monitoring & Reporting: Monitoring and reporting of ongoing activity performance.
  - Key actor: Activity participant
- Verification & Certification: verifying the monitoring reports and claiming emission reduction.
  - Key actor: Designated Operational entity (DOE)
- Issuance of A6.4ERs: by Art 6.4 Parties & Supervisory body



# ARTICLE 6.2 ACTIVITY CYCLE – ENVIRONMENTAL INTEGRITY

- It is critical to ensure that activities implemented under any cooperative approach agreement preserve environmental integrity.
- Emissions reductions must be additional to what those countries could achieve without the support and therefore they shall contribute to a higher level of ambition compared to what countries have already committed in their NDCs.
- How individual activities contribute to a higher level of ambition is a complex process. A key component is the definition of the reference level or baseline.
  - The guidance for cooperative approaches state that reference levels and baselines should be set in a conservative way and below “business-as-usual” emissions projects (including by considering all existing policies and addressing uncertainties in quantification and potential leakage).
  - Considering “all existing policies” implies that the baseline is to be set to include the policies and measures implemented for achieving the NDC.





# GLOBAL CARBON MARKET OUTLOOK

# Types of Carbon Markets

## Compliance allowance markets

- Regulated mechanisms that permit trading of emissions allowances.
- Coverage of a defined number of entities that must submit allowances to cover their emissions.
- Price determined by policy and scheme design:
  - Marginal cost of abatement
  - Fuel switching
  - Long-run marginal cost of investment in decarbonization

## Compliance offsets

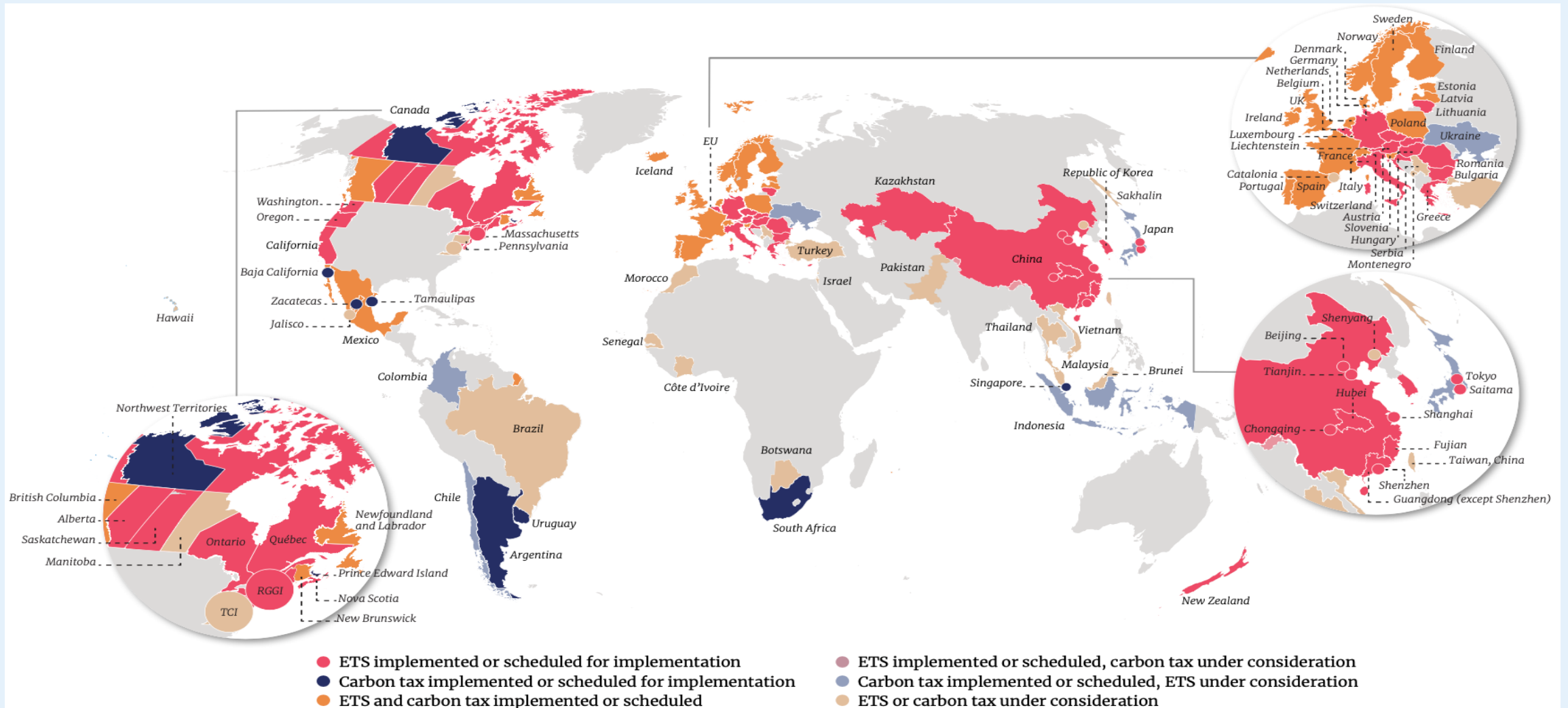
- Trade in certified emission reductions approved by independent accreditors that have been sanctioned by the respective compliance authority.
- Project based, with accreditation dependent on ‘additionality’ of the project.
- Price determined by the design of the compliance scheme, its linkage with the offset market, and the balance of supply and demand.

## Voluntary offsets

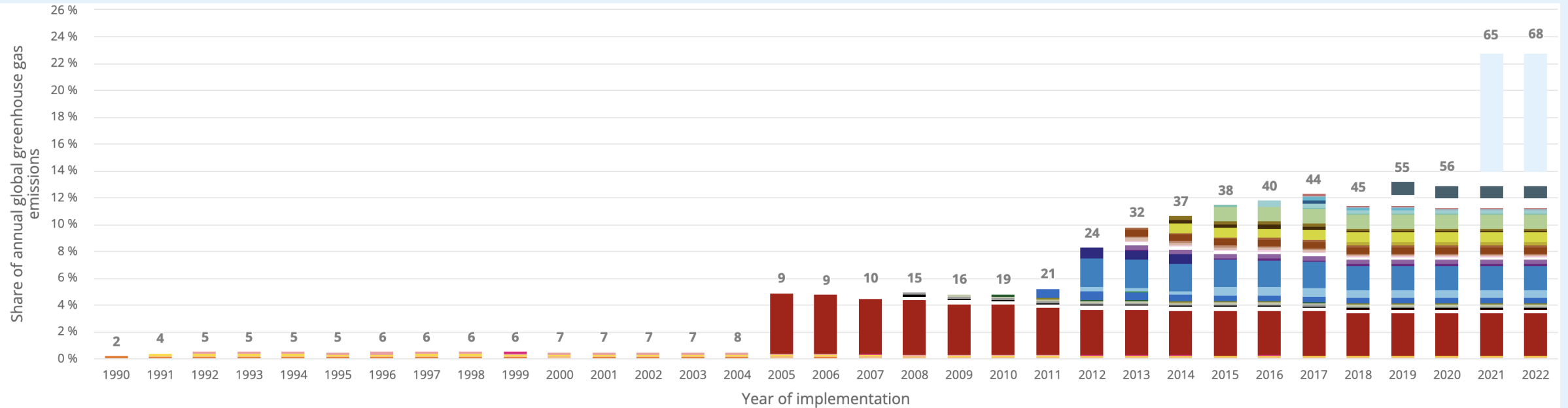
- Trade in certified emission reductions approved by independent accreditation initiatives.
  - Project based, with accreditation dependent on ‘additionality’ of the project.
  - Price determined by willingness to pay of the corporate buyer and perceived branding value.



# Global Carbon Market Landscape



# History of Carbon Pricing



- Finland carbon tax
- Slovenia carbon tax
- Switzerland ETS
- RGGI
- Saitama ETS
- Kazakhstan ETS
- Guangdong pilot ETS
- Hubei pilot ETS
- Fujian pilot ETS
- Colombia carbon tax
- Nova Scotia CaT
- Prince Edward Island carbon tax
- Baja California carbon tax
- Luxembourg carbon tax
- Uruguay CO2 tax
- Poland carbon tax
- Estonia carbon tax
- New Zealand ETS
- Iceland carbon tax
- California CaT
- UK Carbon Price Support
- Tianjin pilot ETS
- Chongqing pilot ETS
- Ontario CaT
- Massachusetts ETS
- Saskatchewan OBPS
- South Africa carbon tax
- Oregon ETS
- Tamaulipas carbon tax
- Norway carbon tax
- Latvia carbon tax
- Switzerland carbon tax
- Tokyo CaT
- Japan carbon tax
- Shenzhen pilot ETS
- France carbon tax
- Korea ETS
- Alberta carbon tax
- Argentina carbon tax
- Newfoundland and Labrador car...
- Northwest Territories carbon tax
- Netherlands carbon tax
- China national ETS
- Sweden carbon tax
- EU ETS
- Liechtenstein carbon tax
- Ireland carbon tax
- Australia CPM
- Shanghai pilot ETS
- Mexico carbon tax
- Portugal carbon tax
- Chile carbon tax
- Canada federal OBPS
- Newfoundland and Labrador PSS
- Mexico pilot ETS
- New Brunswick ETS
- UK ETS
- Denmark carbon tax
- Alberta TIER
- BC carbon tax
- Ukraine carbon tax
- Quebec CaT
- Beijing pilot ETS
- Spain carbon tax
- BC GGIRCA
- Zacatecas carbon tax
- Singapore carbon tax
- Canada federal fuel charge
- New Brunswick carbon tax
- Germany ETS
- Ontario EPS

# Export of ITMOs to Compliance Markets

- Singapore
- Korea
- EU ETS – currently not open

If a private project developer wants to sell credits to a non-state actor in a compliance market, such as an ETS, the credit will need to come with a corresponding adjustment. The compliance markets are a tool to achieve a country's NDC and the regulatory obligations for the credit buyers that are part of the ETS, are included in that country's NDC.



# The Voluntary Carbon Market (VCM)

- The voluntary carbon market (VCM) is a widely used terms for a set of fragmented markets where private individuals, corporations and other actors issue, buy and sell carbon credits.
- The VCM operates outside of regulated or mandatory carbon pricing instruments. Most of the supply of carbon credits is generated in developing countries and most of the demand for carbon credits is in developed countries.
- The VCM has emerged in response to the wish of private actors to finance activities that remove greenhouse gas (GHG) emissions from the atmosphere or reduce GHG emissions associated with industry, transportation, energy, buildings, agriculture, deforestation, or any other aspect of human life.



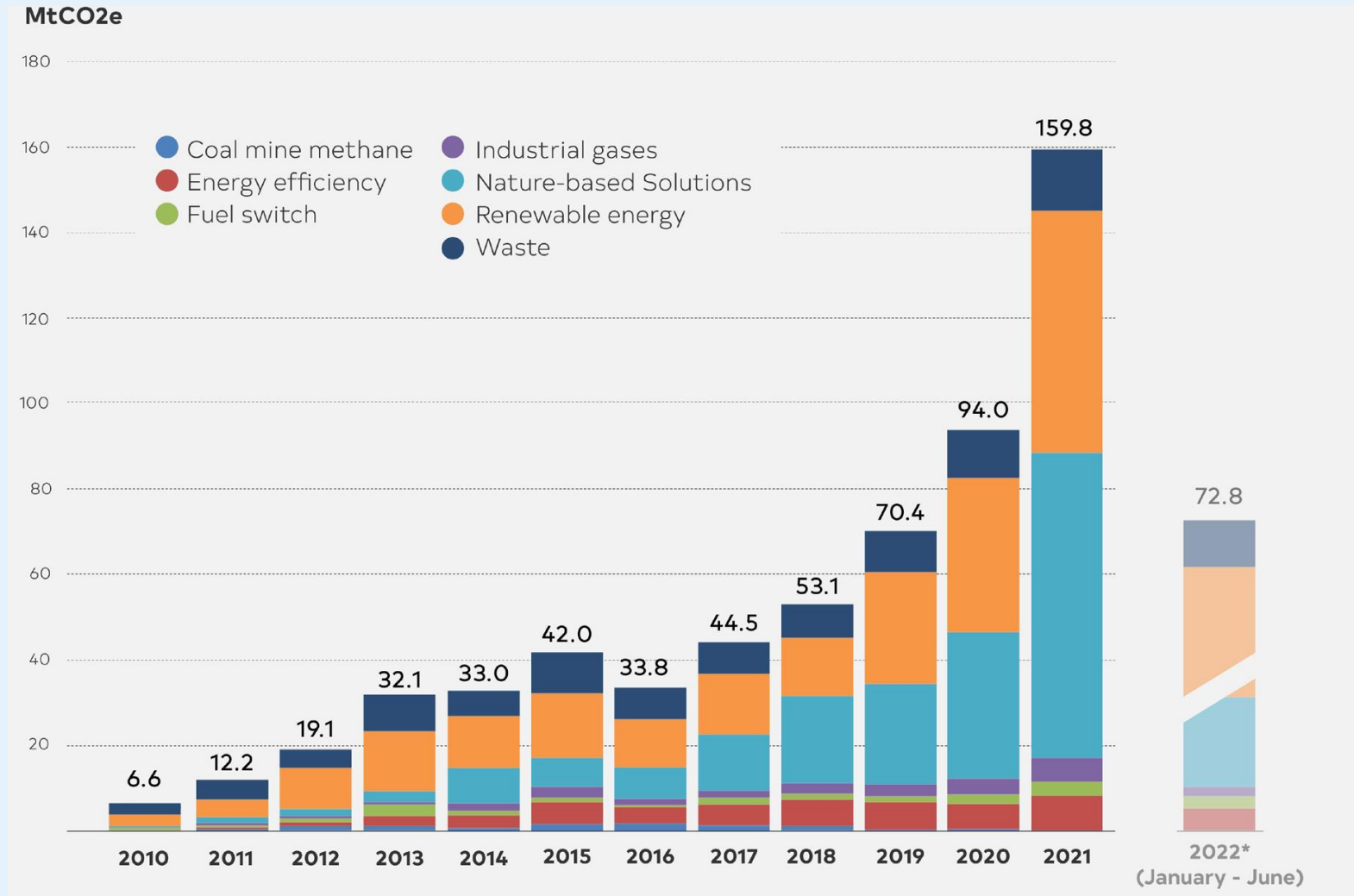


# Voluntary Buyers

- **Buyers typically have either a carbon neutrality target or a net-zero target:**
  - Carbon neutrality means not adding new GHG emissions to the atmosphere. Where emissions continue, they must be offset by absorbing an equivalent amount from the atmosphere, for example through reforestation that is supported by carbon credit schemes.
  - In a carbon neutral organization there is a commitment to estimate the CO<sub>2</sub> emissions, to reduce those emissions, and for emissions not possible to reduce, compensating (offsetting) for these by reducing emissions elsewhere, or by removing an equal amount of CO<sub>2</sub> from the atmosphere.
  - Net Zero on the other hand means that a company reduces its absolute emissions across its whole supply chain, to support the target to limit global temperature increases to 1.5 degrees Celsius, as agreed in the 2015 Paris Agreement.



# Project Types on the VCM



# Traded Volume on the VCM

MtCO<sub>2</sub>e

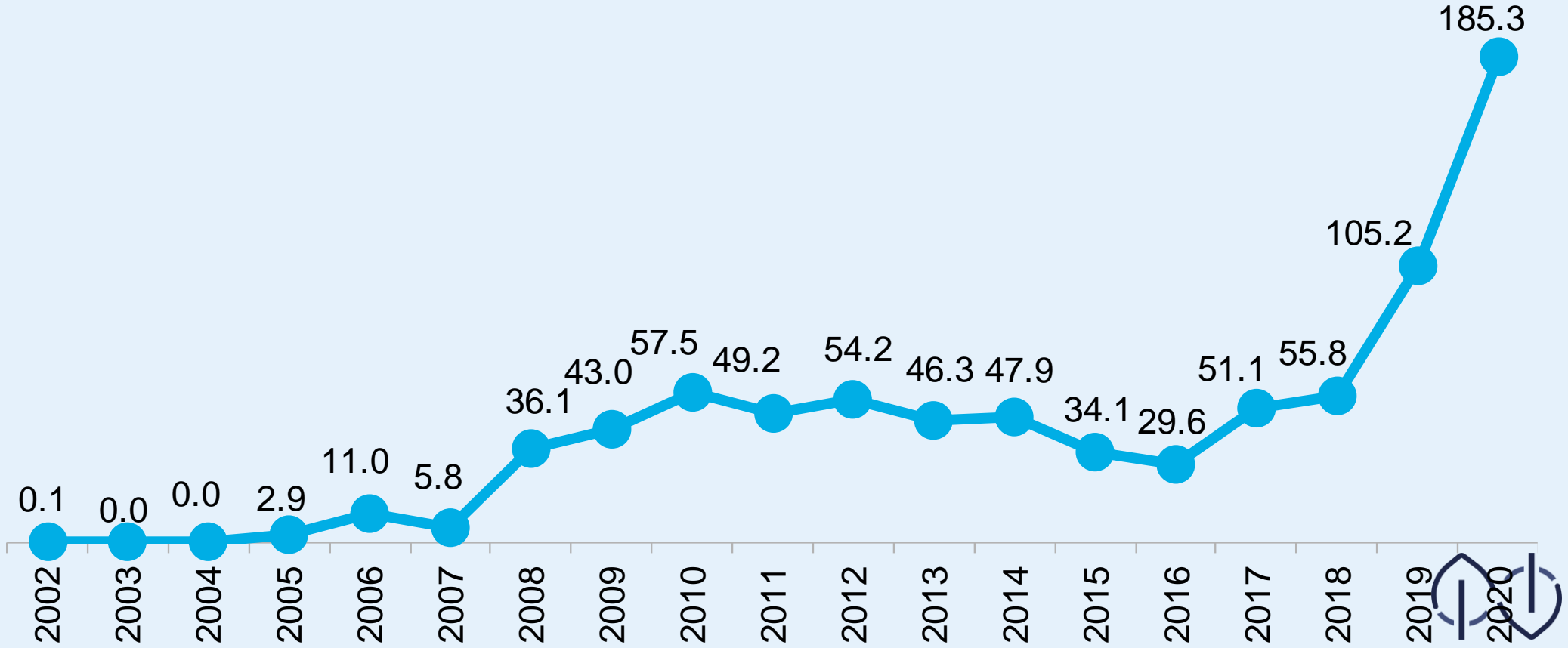
200

150

100

50

0



185.3

105.2

0.1

0.0

0.0

2.9

11.0

5.8

36.1

43.0

57.5

49.2

54.2

46.3

47.9

34.1

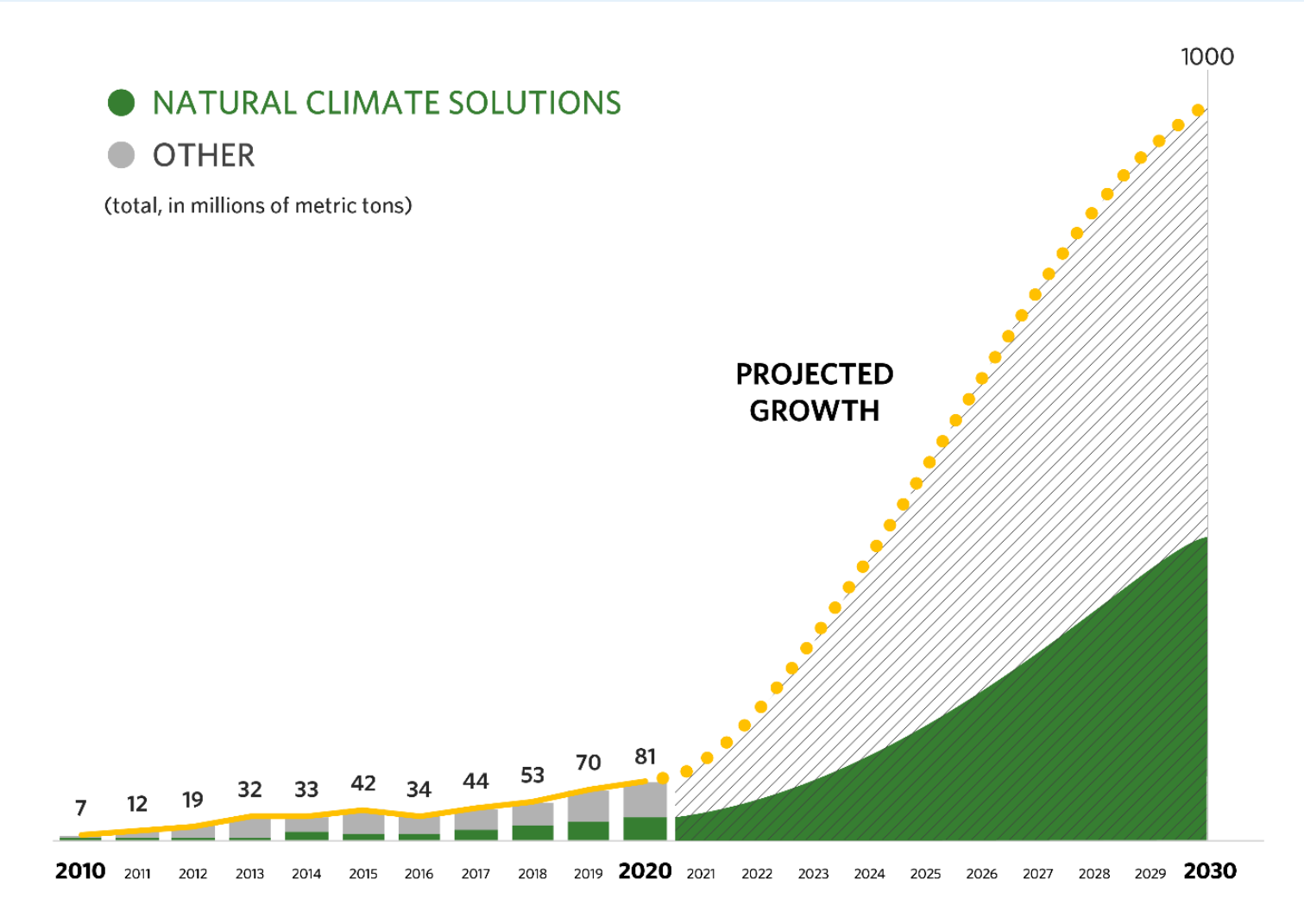
29.6

51.1

55.8



# VCM Expected to Grow



# Independent Carbon Market Programs

Carbon standards are private organizations - typically international non-governmental organizations - that provide requirements and rules to guide project developers in the design of activities that measurably remove GHGs from the atmosphere or reduce GHG emissions. These are the direct regulators of the VCM.

The four standards that contribute the greatest volumes of credits to the VCM are:

- Verified Carbon Standard (VCS) with 68% of the credits,
- Gold Standard (GS) with 20%,
- Climate Action Reserve (CAR) with 8%, and
- America Carbon Registry (ACR) with 3%.

While most of the transactions are currently happening in private conversations and over-the-counter deals, some exchanges are also emerging. Among the largest exchanges for carbon credits at the moment are the New York-based Xpansiv CBL and Singapore based AirCarbon Exchange (ACX).



# How are Prices Determined?

The pricing of carbon credits in the VCM is not as straightforward as it is in the compliance market. This is due to the many types of environmental projects that are available.

Prices vary widely according to the category of the project (e.g., renewable energy vs. forestry) and even within a particular category. A few elements affect the determination of the price:

- **Size of project.** Larger projects that produce higher volumes of carbon credits often have a lower price. Smaller projects are often more expensive to implement but produce fewer carbon credits.
- **Location of offset.** Where does the environmental project take place? Locations where there is conflict and higher risk may make the project more expensive.
- **Vintage.** What year did the emission reduction occur? Older projects are typically priced lower.
- **Quality.** The standard in which the project was certified can affect the price.
- **Co-benefits.** A co-benefit is any positive impact that is produced by the project above and beyond GHG emissions. For instance, if a project creates jobs for local communities or increases biodiversity, these are types of co-benefits.



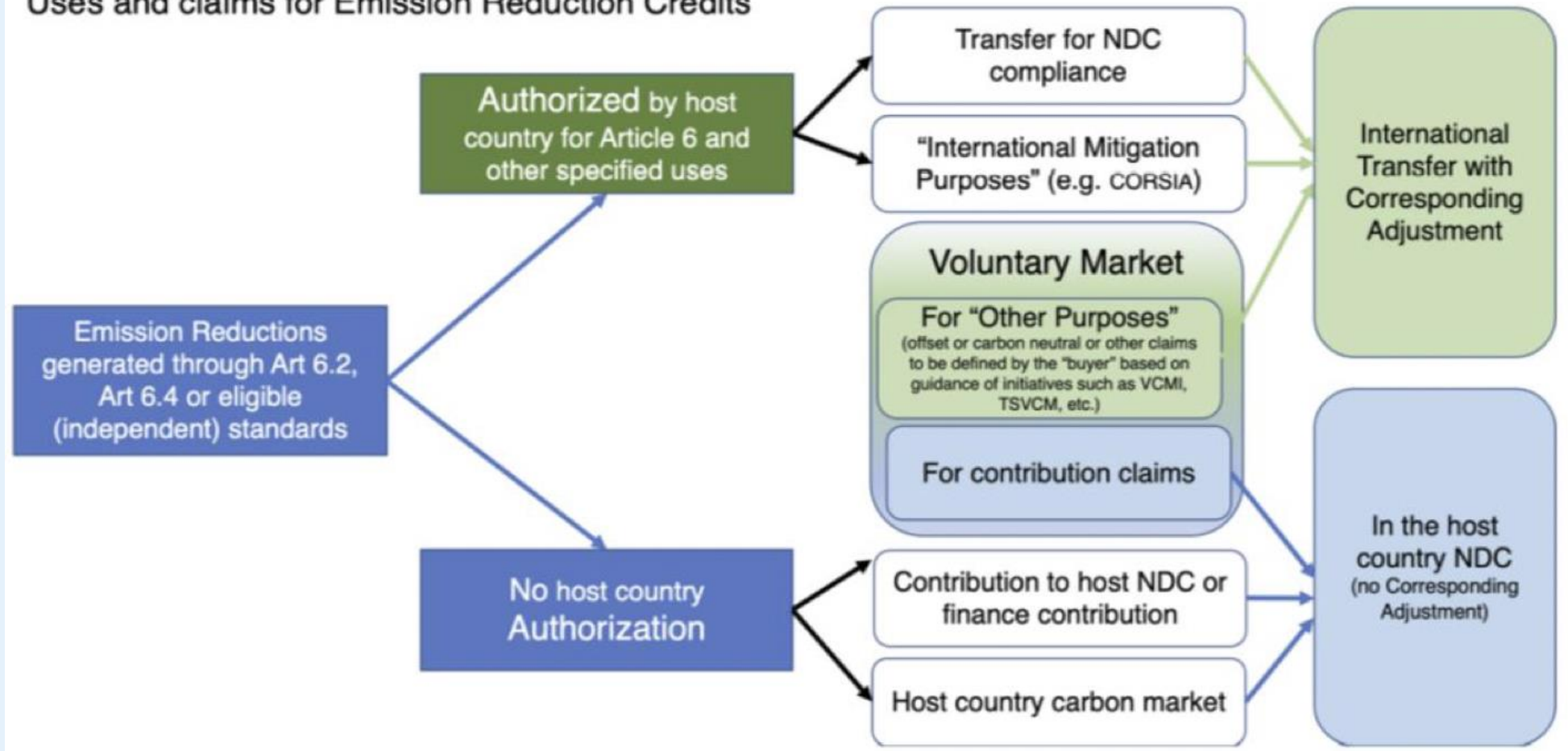
# VCM: Carbon Credit Quality

- No global institution has the authority to set global standards for the generation, verification, and issuance of carbon credits. However, in view of a significant growth of the VCM, a demand for better standardization and coordination has emerged.
- In 2021, major developments started to drive consensus on quality standards for the VCM, with potentially transformative impacts on the market as both supply and demand sides of the equation are being redefined. Some of these initiatives were spurred by efforts that began as the **Taskforce on Scaling Voluntary Carbon Markets**.
- **Integrity Council for the VCM (ICVCM)**'s has established a set of **Core Carbon Principles (CCPs)**, which will set new threshold standards for high-quality carbon credits and define which carbon crediting programs and methodology types are “CCP-eligible.” Offsets that meet its standards will be marked with a “CCP” label at registries and on exchanges.
- The **Voluntary Carbon Markets Integrity Initiative (VCMI)** is a multistakeholder project bringing together representatives of civil society, businesses, Indigenous Peoples and local communities, and governments to establish guidance on how voluntary carbon credits can be used and claimed as part of credible net zero decarbonization strategies.



# VCM: Authorization or Not?

## Corresponding Adjustment: Uses and claims for Emission Reduction Credits

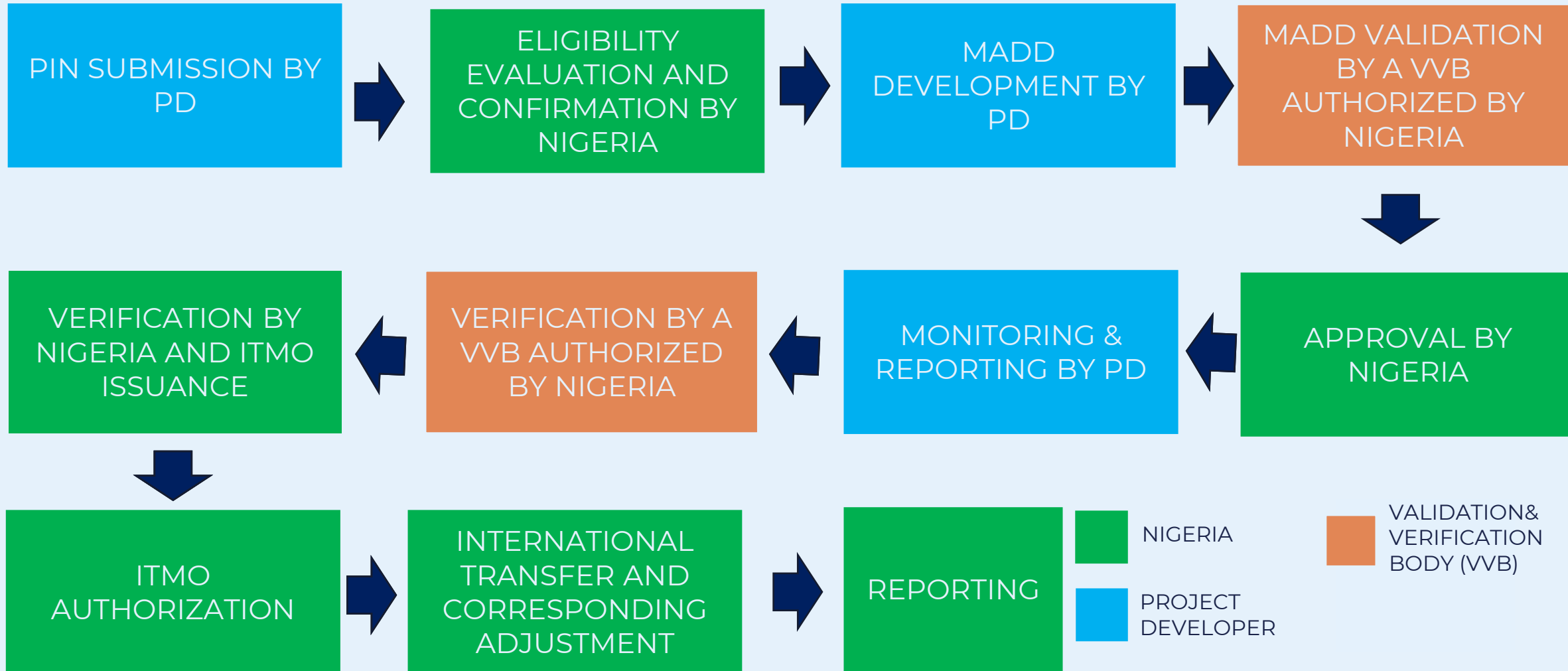






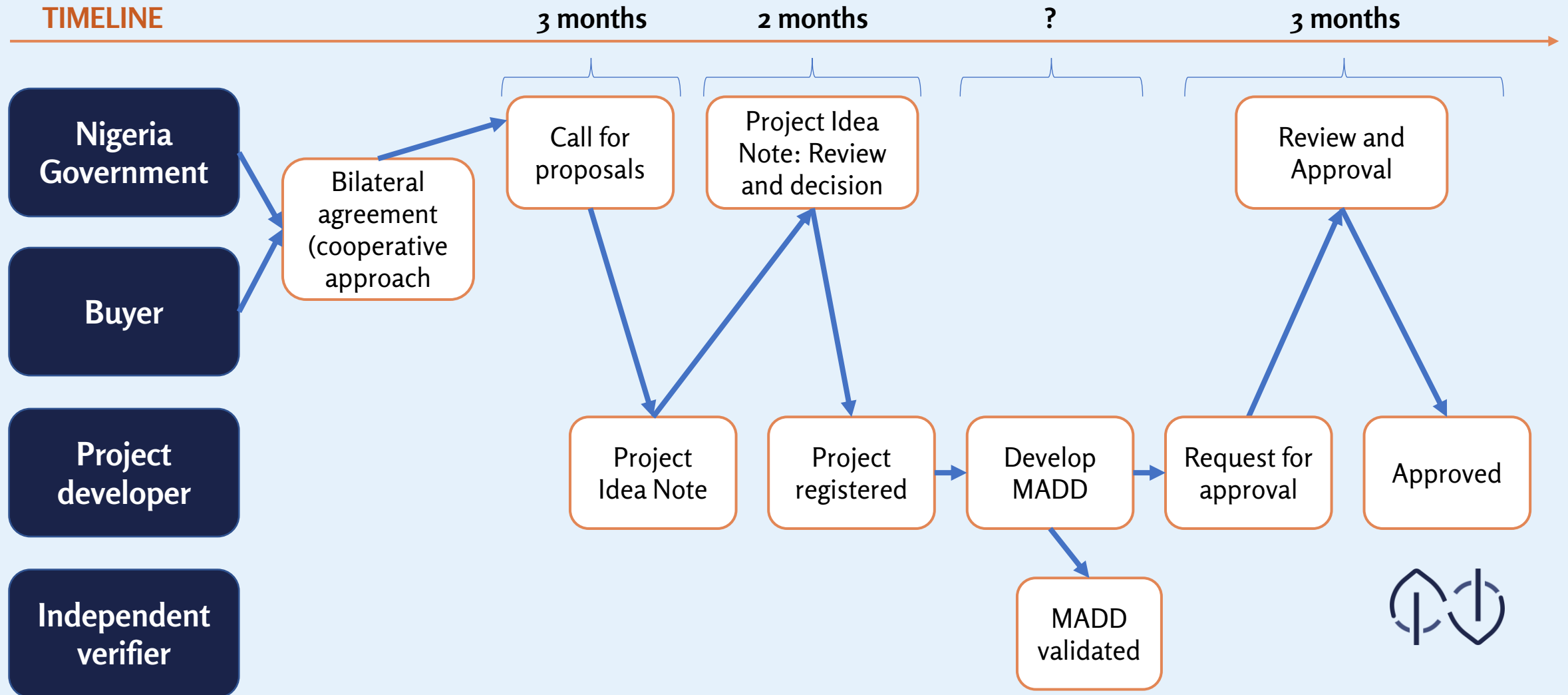
# **FRAMEWORK WORKING SESSION 2: WHAT ACTIVITY CYCLE FOR NIGERIA?**

# Discuss together the following proposed activity cycle



# Flow Chart (1/2)

## TIMELINE



# Flow Chart (2/2)

## TIMELINE

2 months

1 month

Direct

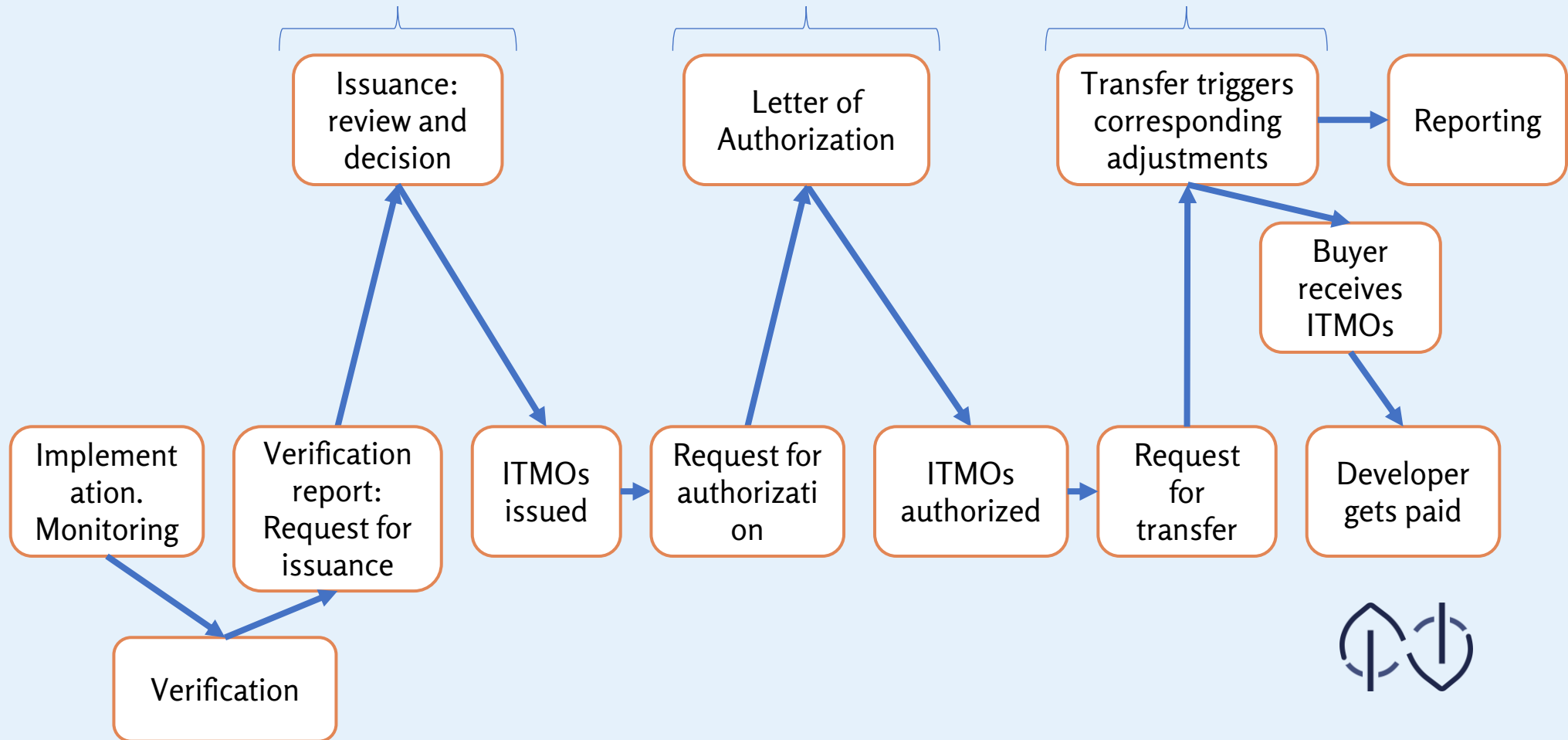
BTR plus  
April year +1

Nigeria  
Government

Buyer

Project  
developer

Independent  
verifier



# Article 6.2 Framework Working Session 3: Authorization, Registration and Tracking Processes

Speaker: Johan Nylander – Neyen Consulting



Federal Republic of Nigeria





# CONCEPTUAL REMINDER

# Processes for approval and authorizations

The Art. 6.2 activity eligibility determination process should include criteria to ensure that the activity will be adequate for approval and future authorization.

This process should include

- Steps and responsibilities for authorizing participation in the cooperative approach.
- Steps by Art. 6.2 activities proponents seeking approval. Independent review /validation requirements and possible outputs.
- Requirements for activity authorization
- Steps for ITMOs authorizations, including the requirements for activities verification and MO issuance.
- Responsibilities and authorities for ITMO transfer authorization
- Process for disputes and resolution of approvals and authorization decisions



# A process for the issuance of ITMOs

The Art. 6.2 framework processes should define, among others

## CLEAR CRITERIA FOR THE ACCOUNTING OF ER AT THE ACTIVITY LEVEL

- Accepted accounting methodologies
- Process for accepting deviations from those methodologies and their applicability criteria (call out, deviations can affect the level of assurance and conservativeness of the baselines and emissions reductions calculations)

## PROCESS FOR VERIFICATION AND ISSUANCE

- Eligible independent entities/verifiers.
- Verification technical requirements including level of assurance
  - Periodicity and possible outputs.
- Responsibilities for issuance and link to the registry and tracking system



# Processes related to infrastructure for tracking of ITMOs

- Article 6.2 participating countries are required to have access to a registry to track ITMOs.
- International accounting is especially challenging under the decentralized architecture of the Paris Agreement.
- Each country needs to assess the best alternative to register and track ITMOs and try to minimize the time and financial investment to develop this infrastructure. There are multiple options:

International  
registry from  
UNFCCC

Nationally-  
developed  
registry

Emerging  
initiatives



# Provisions for the non-compliance of different actors in the activity generation cycle

- Provisions for non-compliance of different participants in the activity generation cycle should be determined and implemented by the transferring country.
- This process entails establishing a set of criteria for non-compliance —fees and provisions— at different stages of the activity cycle, and a protocol or procedure to follow when non-compliance occurs.

Criteria for  
non-  
compliance

Fees and  
provisions

Protocol for  
non-  
compliance



# How to fund national processes?

How will the entity responsible for carrying out the processes be funded?

How will funding for the entity will ensure sustainability into the future?

- Countries are establishing as part of the cooperative approaches agreements the contribution to the initial set up of the Art. 6.2 framework, capacity and infrastructure.
- Also, Art. 6.2 Activities approval and authorization processes may incorporate the need to contribute with an administrative fees for process management.
- Consideration: Regulatory provisions for the proper use of funds





# **FRAMEWORK WORKING SESSION: WHAT PROCESSES FOR NIGERIA?**

# Processes for approval and authorizations

- Discuss together:

PROCESS		
DECISION TO PARTICIPATE COOPERATIVE APPROACH	What does the Government need to know before signing a bilateral agreement?	
ART. 6.2 ACTIVITIES PROPONENTS SEEKING APPROVAL (REVIEW AND VALIDATION REQUIREMENTS)	What does the activity proponent need to know before submitting an activity?	What does the procedure need to include?
REQUIREMENTS FOR ACTIVITY APPROVAL	Proponents present a validated document	What does the procedure need to include?
ITMO AUTHORIZATION	What does Nigeria require to ITMO authorizations?	When should this be done?
PROCESS FOR DISPUTES AND RESOLUTION OF APPROVAL AND AUTHORIZATION DECISIONS	What can go wrong in the activity cycle?	

# A process for the issuance of ITMOs

- Discuss together:

## CLEAR CRITERIA FOR THE ACCOUNTING OF ER AT THE ACTIVITY LEVEL

- Accepted accounting methodologies: international methodologies? Own methodologies?
- Process for accepting deviations from those methodologies and their applicability criteria? (call out, deviations can affect the level of assurance and conservativeness of the baselines and emissions reductions calculations)

## PROCESS FOR VERIFICATION AND ISSUANCE

- Eligible independent entities/verifiers?
- Verification technical requirements including level of assurance?
  - Periodicity and possible outputs?
- Responsibilities for issuance and link to the registry and tracking system?

# Processes related to infrastructure for tracking of ITMOs

- Discuss: What's the best option for Nigeria and why?

International  
registry from  
UNFCCC

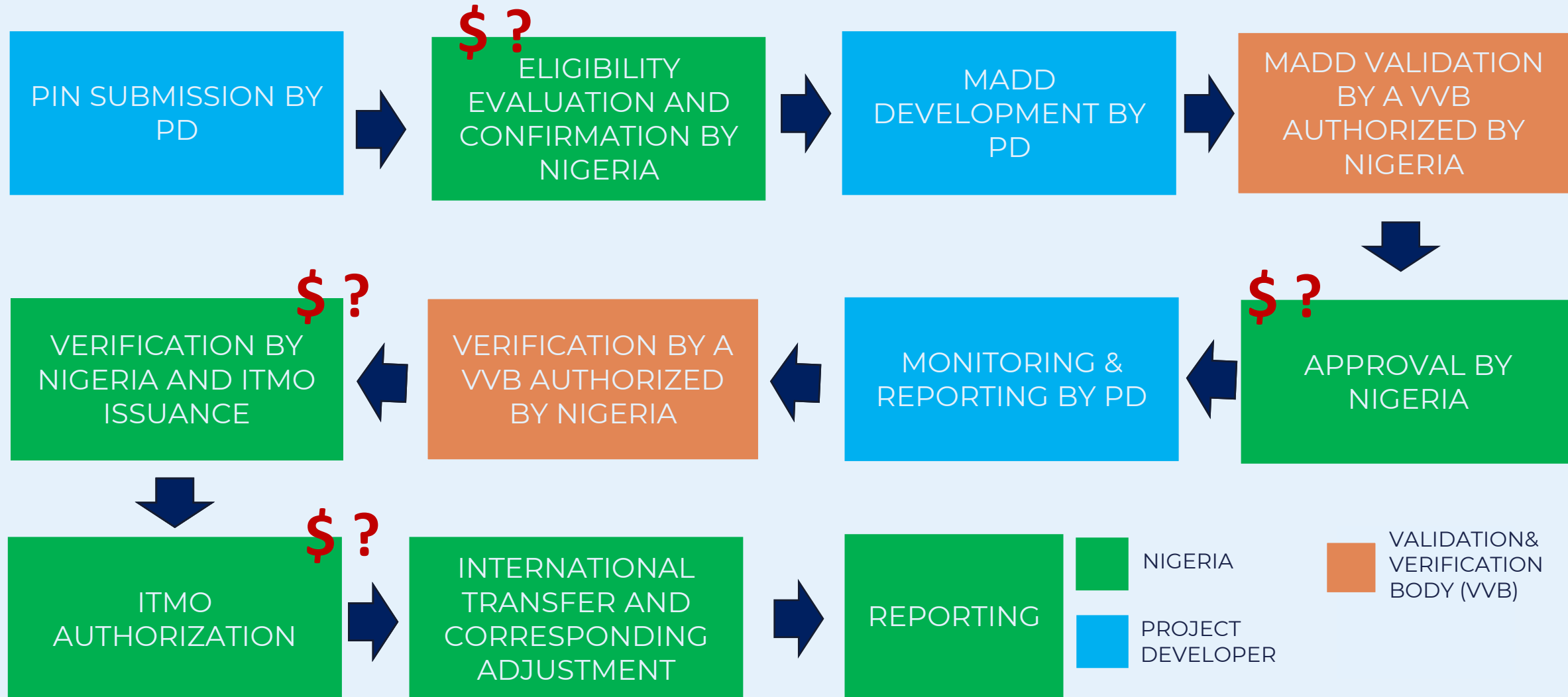
Nationally-  
developed  
registry

Emerging  
initiatives



# How to fund national processes?

- Discuss: when should admin. fees apply ?





# Article 6.2 Framework Working Session 4: Institutional arrangements

Speaker: Matias Ryberg – Neyen Consulting



Federal Republic of Nigeria





# COMMERCIAL ASPECTS

# Mitigation Outcome Purchase Agreement (MOPA)

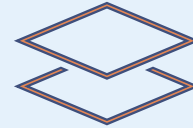
There are three market access points for a buyer:



Early stage /  
Project  
Origination



Registered and Validated  
projects looking for financing  
to begin implementation



During Project  
implementation  
(existing projects)



**MOPAs**

→ Risk exposure and risk management for the buyer will greatly depend on the MOPA terms.



# What is a MOPA?



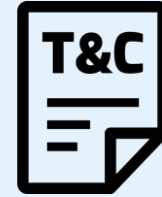
A **legally binding contract** that allows one party to **deliver ITMOs** to another.



The purpose is to **record the agreement** between parties.



Identifies **responsibilities, rights and obligations** to manage project risks.



Defines the **commercial terms** including price, volume and delivery schedule of credits.

→ The financial commitment implied by an MOPA can **boost investor confidence**, using it as **leverage** to attract more financiers to a program.

→ Contracts are often **complicated and time consuming** to negotiate.



# Components of a MOPA

Regardless of their individual specifications, any MOPA should cover the following key areas:

**Quantity and price** of emissions reductions to be delivered

**Delivery and payment** schedule of emissions reductions

**Consequences of non-delivery** for seller: (penalties, compensation...)

Other consequences: **payment default, false information** provided by seller, **changes in a country regulatory structure...**

**Obligations for buyer:** establishing an account to receive credits, make payment on schedule, communication with regulatory bodies...

**Obligations for Seller:** fulfilling verification, monitoring, delivering ITMOs to buyer, project implementation as design

**Project risks:** What are they? Who is responsible? Are the risks manageable? How?



# ITMO Pricing Structure

The common pricing structures for emission reductions (ITMOs) include fixed or floating, or a combination of the two:

## Fixed price

- **Agreed price** per emissions reductions which will not change no matter how prices may fluctuate in the carbon market.
- This price structure is often **preferred by Sellers** who want more certainty of the revenue for **budgeting** purposes and **leveraging**.
- It **protects both the Buyer and Seller** against market fluctuations.

## Floating price

- A price that is **linked to the market or other variable**.
- While there is significant potential for financial gains for the Seller, both **Buyers and Sellers could be left fully exposed to price fluctuations**.

## Combination of fixed and floating

- Allows buyer and seller to secure a **minimum / maximum price** while sharing any rises / falls in the market value of the emission reduction.



# Delivery and Payment Options

## 1. SPOT AGREEMENT

- **ITMOs** have been issued to the Seller and **are ready for delivery** to the Buyer. This means that the emission reductions will have been issued **before the MOPA has been agreed to**, which **often does not happen**.
- The Buyer **pays the Seller immediately on delivery**. There is very **little risk** either to the Buyer or Seller in terms of non-delivery or non-payment.
- Some Sellers do not like Spot Agreements as it **does not provide any upfront finance** from the Buyer, which is often needed to meet project costs.

## 2. FUTURE DELIVERY AGREEMENT

- ITMOs have not yet been issued but **will be in the future**. This is the **most common agreement type**, as MOPAs are usually made before or while the project is being developed (and therefore before emission reductions are issued).
- **Payment** is made either on **delivery of emission reductions** or **in advance**.
- **Payment on delivery:** the risk on both sides is very low.
- **Upfront payment:** substantial risks.
  - The risk can be mitigated if, for example, the Seller gets a **guarantee from a bank**, or if it gives the buyer **guarantee to replace ITMOs, buffer credits, etc.**



# Article 6 Considerations

In a MOPA where a country is involved, there may be obligations that the country must fulfil before the contract enters into force. This is an example of “**conditions precedent**”. For Article 6, there could be several such conditions:

- Fulfilment of participation requirements in Article 6 can be set as conditions precedent. For example, host countries must establish institutional arrangements and processes to authorize ITMOs. These decisions would define which body, official, or position in the country would have the authority to authorize and transfer ITMOs.
- Other requirements include having a tracking tool for ITMOs and having correctly prepared, communicated, and maintained an NDC.

“**Obligations**” listed in the MOPA can include that both countries have reporting obligations relating to the transfer of ITMOs.







# FACTORS IMPACTING THE PRICE

# Price Add-ons

- Administrative costs
- Contributing to a buffer fund
- Creating revenue to the government
- Cover opportunity costs
- Incremental costs of mitigation actions;
- Opportunity costs for the seller country in meeting its NDC. This cost component Carbon credit-related transaction costs
  
- Market premiums, including producer rents and premiums for ancillary benefits of GHG mitigation actions from a sustainable development perspective

# Share of Proceeds

Share of Proceeds (SoPs) for adaptation and overall mitigation of global emissions (OMGE) are not required for Article 6.2.

The SoPs adopted for Article 6.4 is 5% for adaptation and 2% for OMGE. This means that 7% of the Article 6.4 emission reductions (A6.4ERs) are not available for transfer.

How that is managed in the transaction is an issue for the buyer and seller; however, knowing what these types of SoPs are in advance is likely a prerequisite for transactions.

The impact of high shares of removed mitigation outcomes from the verified volume will depend on the price the buyer is willing to pay for the ITMOs.

# Crediting Periods

To date, cooperative approaches typically financially support mitigation activities during a crediting period that is limited to the NDC period of five years.

The transfer of mitigation outcomes during this period is subject to a corresponding adjustment, with emissions reductions contributing to the acquiring party's NDC achievement, and to the transferring country if there is a sharing of mitigation outcomes.

Crediting periods may have to be determined for sectors or even mitigation activity types.



# CONCEPTUAL REMINDER

# Institutional arrangements: Oversight Body

- It could be useful to appoint a body with a responsibility for a longer-term oversight, to support the process of adopting the necessary legislation and institutional mandates and to oversee that the processes, once established, work as intended.
- Art 6.2 requires the coordination among multiple ministries. This body should be responsible for this coordination and being formed by representatives from more than one ministry.
- Importantly, many countries will already have a body that can perform these functions.

## The oversight body will:

- Advise on Article 6 participation strategy at the highest level of the government
- Monitor the implementation of the Article 6 framework
- Coordinate with other climate and sectoral initiatives
- Ensure sustainability of Article 6 institutional arrangements

# Institutional arrangements: Article 6 Unit

- The day-to-day operation of Art. 6.2 activities and related processes may be handled by a different entity to the Oversight and long-term political guidance body previously described.
- This Art. 6.2 unit, normally part of a Ministry, should be the liaison with that higher level body and be responsible for, among others
- This unit should also coordinate with UNFCCC reporting units and those responsible for the enhanced transparency framework (ETF) implementation if not under its responsibilities and authority

## The Article 6 unit will:

- Define and implement the Article 6 Framework
- Manage the administration of share of proceeds
- Provide technical support, ensuring Article 6 activities developers can develop and operate projects
  - Manage or supervise transparency and accounting requirements: recording, reporting, the emissions balance, corresponding adjustments

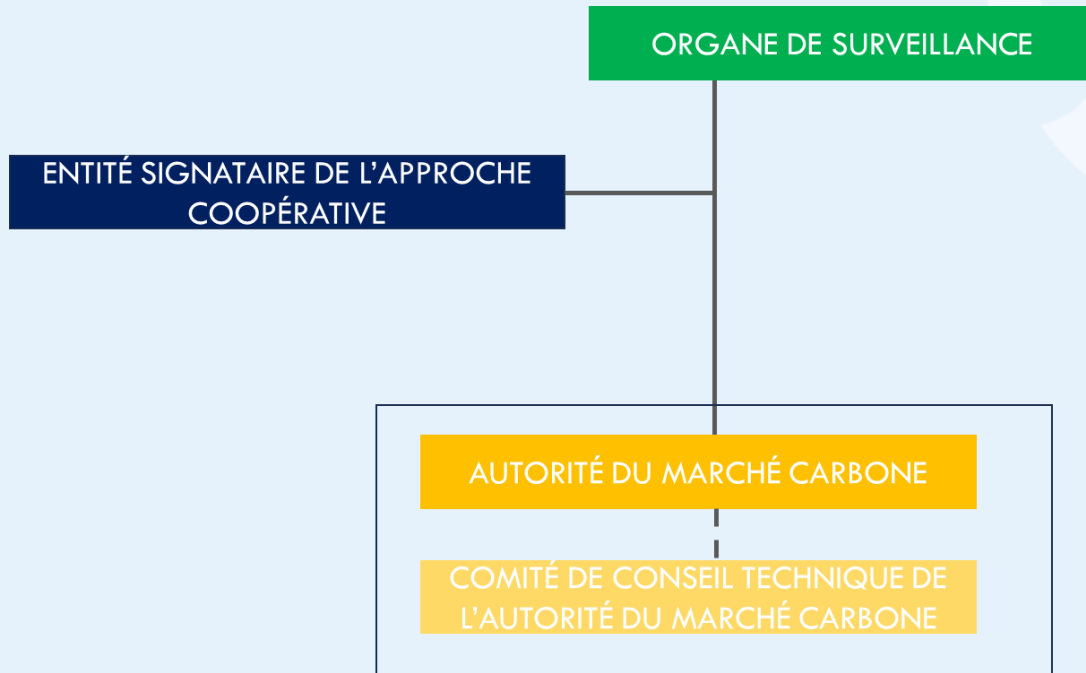
# Article 6 Implementation Processes

- The participation strategy is to be supported by the implementation of processes as part of the Art. 6.2 Framework
- The processes required for proper implementation may differ from country to country. In general, these may include:

- Processes for determining eligible mitigation activities
- Processes for approval of Art. 6.2 activities
- Processes for authorizations, the issuance of ITMOs and for managing the infrastructure for tracking of ITMOs;
- A process for the application of corresponding adjustments;
- Processes for informing the policy process of Article 6 participation in view of tracking progress towards the NDC and wider policy objectives, and ensuring that overselling risks are addressed;
- Integration of Art. 6.2 reporting and accounting in the national system for the UNFCCC reporting (fulfilling UNFCCC reporting requirements for cooperative approaches)
- Provisions for non-compliance of different actors in the activity generation cycle.



# Article 6 Institutional Arrangements: Examples from other countries.



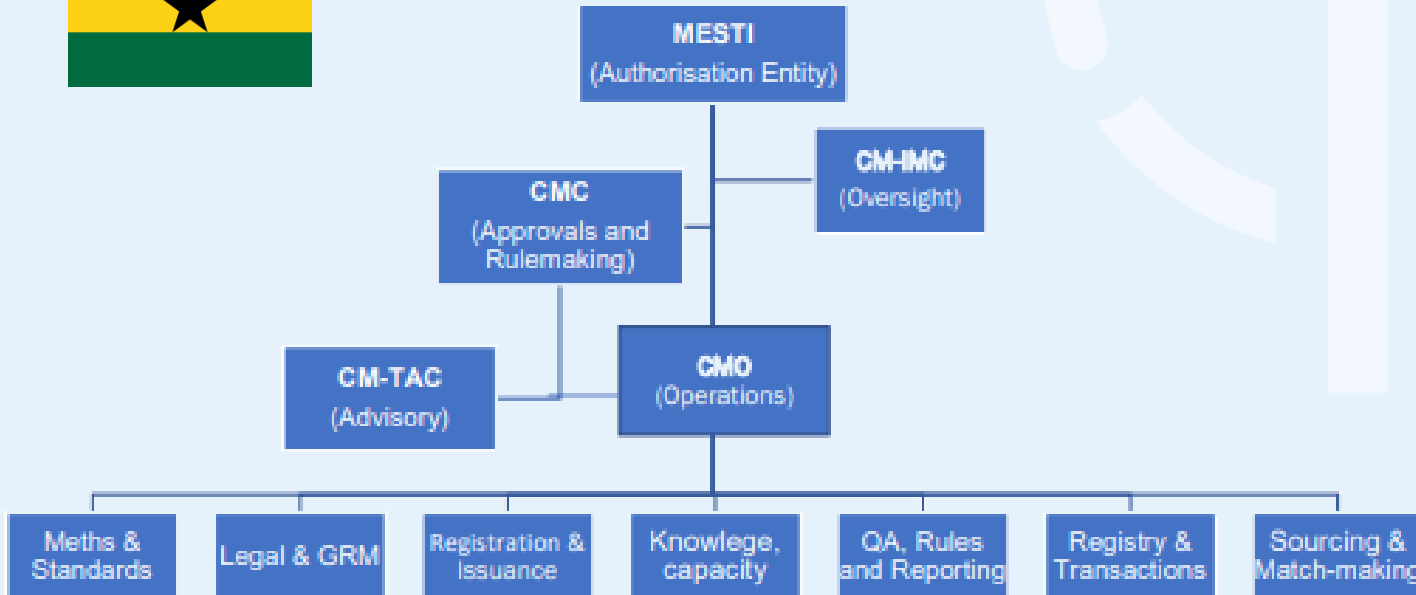
Authority	Role
Supervisory Body	Under the Prime Ministry. Composed by Heads of different Ministries.  → Strategic vision and supervision
Carbon Market Authority	New structure under the Ministry of Environment.  → Day-to-day operations
Signatory entity	Ministry of Finance.  → Signs the cooperative approach with other countries

# Article 6 Institutional Arrangements: Examples from other countries.



Authority	Role	Main tasks
Extended Governing Board (Oversight Body)	The Extended Governing Board memberships build on the existing structures: the Steering Committee for the CDM Designated National Authority, and the SCF Governing Board. It includes Ministries, Agencies, and NGOs.	<ul style="list-style-type: none"> <li>• Advise on Article 6 participation strategy at the highest level to the government.</li> <li>• Monitor the implementation of the Article 6 framework.</li> <li>• Coordinate with other climate and sectoral initiatives.</li> <li>• Ensure the sustainability of Article 6 institutional arrangements.</li> </ul>
Carbon Market Office	A new function for the department in charge of climate change in REMA (Rwanda Environment Management Authority). This may attract the recruitment of new staff to handle the function, and at a later date, the establishment of a separate department	<ul style="list-style-type: none"> <li>• Define and implement the Article 6 Framework.</li> <li>• Operation of Art. 6.2 activities and related processes.</li> <li>• Manage the administration of share of proceeds.</li> <li>• Provide technical support, ensuring Article 6 activities developers can develop and operate projects.</li> <li>• Manage or supervise transparency and accounting requirements: recording, reporting, the emissions balance, and corresponding adjustments</li> </ul>

# Article 6 Institutional Arrangements: Examples from other countries.



Authority	Functions
Authorization entity	Article 6.2 authorizations
Carbon Market Inter Ministerial Committee (CM-IMC)	High level strategic decisions and supervision.
Carbon Market Committee (CMC)	Develop and approve rules for transactions.
Carbon Market Technical Advisory Committee (CMC-TAC)	Provides technical support to CMC and CMO
Carbon Market Office	Implementation. Responsible for implementing policies, rules, guidance.



# **FRAMEWORK WORKING SESSION 1 WHAT INSTITUTIONAL ARRANGEMENTS FOR NIGERIA?**

# Which institutions will be involved in the operationalization process?

Split into groups and discuss which entities should oversee the operationalization process:

		ARTICLE 6 UNIT	OVERSIGHT BODY	OTHERS?
MEMBERS?				
TASKS	Supervision and strategic vision			
	Authorization and issuance of ITMOs			
	Tracking ITMOs			
	Tracking progress towards NDC			
	Reporting and accounting			
	Provisions for non-compliance			
	Signing and negotiating cooperative approaches			
	Applying corresponding adjustments			
	Risk management (overselling...)			
	Approval of activities			
	Determining eligible activities			



# Group discussion: How to fund national processes?

How will the entity responsible for carrying out the processes be funded?

How will funding for the entity will ensure sustainability into the future?

- Countries are establishing as part of the cooperative approaches agreements the contribution to the initial set up of the Art. 6.2 framework, capacity and infrastructure.
- Also, Art. 6.2 Activities approval and authorization processes may incorporate the need to contribute with an administrative fees for process management.
- Consideration: Regulatory provisions for the proper use of funds



# Group discussion: are there other decisions Nigeria may want to make?

Some hints:

- Sharing of mitigation outcomes
- SoPs for adaptation and/or OMGE
- Setting a floor price?



# FINAL Q&A AND GROUP DISCUSSION



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# CLOSING REMARKS



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