**#IFADInnovationTalk no.11**

# INNOVATIVE CLIMATE FINANCE: Developing national frameworks for Article 6 and Voluntary Carbon Market: lessons from Ecuador, Ghana, Indonesia and VERRA

*This webinar was an opportunity to take stock of the progress and challenges facing countries and private-sector actors since COP26. Panellists provided insights on how countries are handling emission reductions, to report against their own targets as defined in their nationally determined contributions (NDCs), or to be channelled through article 6.2. or 6.4.. Given the mandate of IFAD, a specific focus was on the emissions reductions generated from Agriculture, Forestry and Other Land Use (AFOLU) sector.*

**On Thursday 13 October 2022, IFAD's Change, Delivery and Innovation Unit (CDI) hosted the eleventh IFAD Innovation Talk to engage in a dialogue about innovative climate finance.**

More countries globally are having specific targets to reduce their greenhouse gas (GHG) emissions included in their NDCs submitted to the United Nations Framework Convention on Climate Change (UNFCCC). Some have even revised their targets to be more ambitious, in line with their commitments to curb emissions as detailed in their Biennial Update Reports (BURs). But what is the need for specific targets to curb GHG emissions?

In his opening remarks, **Axel Michaelowa** described the long overdue negotiation of Article 6, and especially Sub-Articles (Market-based approaches) 6.2 and 6.4 was finalized in Glasgow at COP26. Under Sub-Article 6.2, Parties to the Paris Agreement now have guidelines covering bilateral actions for internationally transferred mitigation outcomes (ITMOs), a positive move that will enhance removal and reduction of GHG emissions under concerted efforts. Sub-Article 6.4 created a new multi-lateral mechanism for government-to-government and government-to-private sector engagements in transfer of emission reductions – paving the way for fully private sector and voluntary carbon market activities globally. Since COP26, many countries are adjusting their national frameworks to integrate ITMOs under Sub-Article 6.2 and to have markets trading in emission reductions under Sub-Article 6.4. The Carbon Standards involved in the Voluntary Carbon Market also adjusted their approach to the new options offered for countries to value their GHG emissions reductions. Carbon markets are relevant for agriculture, as soils have been shown to have significant potential for sink enhancement in carbon sequestration.

**Speakers and panellists at the event**
*(In order of appearance)*

**Jyotsna Puri**, Associate Vice-President, Strategy and Knowledge Department (SKD), IFAD

**Axel Michaelowa**, Senior Founding Partner at Perspectives and Researcher at University of Zurich

**Pierre Yves Guedez**, Senior Climate Finance Specialist, IFAD

**Laksmi Dhewanthi**, National Focal Point for United Nations Framework Convention on Climate Change (UNFCCC) and Director General of Climate Change, Ministry of Environment and Forestry Indonesia

**Karina Barrera**, Undersecretary of Climate Change of the Ministry of the Environment, Water and Ecological Transition, Ecuador

**Daniel Benefor**, Senior Programmes Officer, Environmental Protection Agency, Ghana

**Andrew Howard**, Senior Director, Climate Policy and Strategy, VERRA

In light of efforts to reduce emissions, it is important to take stock of the progress made by countries despite many underlying challenges that make it harder to realize their own set targets as defined in their NDCs. In the panel discussion, moderated by **Pierre Yves Guedez**, special focus was on the emissions reductions generated from the AFOLU sector in selected countries: Ecuador, Ghana and Indonesia, and lessons from a private sector stakeholder, VERRA. As **Jyotsna Puri** pointed out, this focus aligns with IFAD's overall mandate of investing in poor rural people in developing countries specially to bring smallholder farmers (IFAD's main stakeholders) out of poverty and improve their livelihoods. IFAD has devoted at least 40% of its core resources to climate change adaptation and mitigation to support developing countries achieve their NDC targets.

Agriculture accounts for 21% GHG emissions in Ecuador. **Karina Barrera** expounded on how the Ministry of Environment, Water and Ecological transition plans to incorporate Article 6 in their NDC. The government is targeting US$ 2.6 billion to implement their NDCs (2019) mainly in energy, land use and agriculture. For agriculture and forestry, the relevant ministries will apply Article 6 in fulfilling their NDCs. This will be achieved through creating green jobs, financing technologies that have higher costs of $CO_2$ abatement and which cannot be financed by the government, and application of adaptation and mitigation mechanisms. It will also include mechanisms that safeguard the principles of Common but Differentiated Responsibilities, and the opportunities to finance both conditional and unconditional targets of the NDCs submitted to the convention.

Ghana submitted its NDCs to UNFCCC in 2021 with specific targets for GHG emissions – to reduce them by 64 million tonnes. **Daniel Benefor** pointed out the government's current engagements and reference to sub-article 6.2 in mobilizing international finance to attain the NDCs. Ghana also has bilateral agreements (2020) and frameworks (2021) with Switzerland to operationalize sub article 6.2; and two more corporative approaches aimed at bilateral agreements with the governments of Sweden and Singapore are currently ongoing. Ghana has also established a national enabling framework to operationalize the corporative approaches once it's converted to a legal document.

Indonesia recently submitted an enhanced NDC (increased unconditional scenario from 29% to 31.89%, conditional increased from 41% to 43.2%) and enacted a new carbon law to ensure environmental integrity covering both public and private sectors. **Laksmi Dhewanthi** explained how the new carbon pricing regulations are geared towards successful NDC implementation through mobilization of climate finance and innovative financing. This includes schemes such as carbon trading, results-based payment, levies on carbon and a combination of these schemes. As further explained by Laksmi, Indonesia is incorporating Articles 5 and 6 in regards to economic instruments in climate finance to offer a variety of financial options for different sectors in the carbon market.

Finally, **Andrew Howard** shared some lessons on how a private sector player can have their space in the carbon markets. Private entities are also major stakeholders as entailed in Article 6. VERRA is a major global Voluntary Carbon Standard developer and manager, and a leader in natural based solutions. In last 15 years, voluntary carbon markets have expanded and are now dominating growth in credits traded. This was observed by VERRA in 2021 where 500 million credits were traded valued at US$2 billion. The integration of independent crediting programs in Article 6 requires full accounting at the NDC level for the crediting programmes to increasingly serve both voluntary and compliance demand. With Article 6 being finalized in COP26, carbon trading is projected to grow between 1500 – 2000 Mt $CO_2e$ by 2030 and between 7000 – 13000 Mt $CO_2e$ by 2050 globally.

*If you are interested in the discussion with the audience, please consult the Q&A report and the event recording on the event page.*

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**CDI would like to thank the participants for taking part and for making the event such a success and showing how increasing interest and ample opportunities to create systematic approaches for improve global comprehension of progress.**

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## Missed the event? Watch it online!

A recording of the event can be found here.

Join the IFAD Innovation Network to receive our updates and to contribute to the knowledge sharing and learning of our innovation community of practice.

If you would like to skip directly to certain sections of the event, the times are listed below:

| Time (minutes) | Section |
|---|---|
| 00.00-2.39 | Welcome by Gladys H. Morales |
| 2.39.9.00 | Opening remarks by Jo Puri |
| 9.00-24.43 | Keynote speech by Axel Michaelowa |
| 24.43-1.14.22 | Panel discussion |
| 1.14.22-1.23.58 | Live Q&A |

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| 1.23.58-1.31.10 | Closing remarks by Jo Puri |