

Joint Inputs on the Work Programme on the Framework for Non-Market Approaches under Article 6.8

INTRODUCTION AND ROLE OF NON-MARKET APPROACHES

Article 6 of the Paris Agreement is designed to facilitate international cooperation to enable Parties to reach their goals set out in their Nationally Determined Contributions, and ultimately to keep global emissions under 1.5 degrees. While Article 6.2 and Article 6.4 are focused on market approaches, Article 6.8 focuses on other types of cooperation that contribute to reaching the climate adaptation and mitigation goals, but do not involve a transfer of mitigation outcomes among cooperating entities. These types of cooperation, also called “non-market approaches” or “NMAs” are an important element of Article 6’s cooperative infrastructure.

Article 5 of the Paris Agreement demonstrates the important role of nature-based climate action in addressing climate change, as it calls on countries to conserve and enhance sinks and reservoirs of greenhouse gasses, including forests, biomass and other ecosystems.¹ It also encourages countries to implement and support measures to reduce emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks—thereby anchoring the existing REDD+ Framework as part of the Paris Agreement.

Through decisions 2/CP.17² and 14/CP.19³ of the Warsaw Framework for REDD+, countries agreed that results-based payments for REDD+ may come in the form of non-market or market approaches while also ensuring environmental integrity is preserved. These Decisions provide the

¹ UN Framework Convention on Climate Change, Article 4.1 (d) “Promote sustainable management, and promote and cooperate in the conservation and enhancement, as appropriate, of sinks and reservoirs of all greenhouse gases not controlled by the Montreal Protocol, including biomass, forests and oceans as well as other terrestrial, coastal and marine ecosystems.”

² COP Decision 2/CP.17, Paragraph 66 states in full: “Considers that, in the light of the experience gained from current and future demonstration activities, appropriate market-based approaches could be developed by the Conference of the Parties to support the results-based actions by developing country Parties referred to in decision 1/CP.16, paragraph 73, ensuring that environmental integrity is preserved, that the provisions of decision 1/CP.16, appendices I and II, are fully respected, and should be consistent with the relevant provisions of decisions 1/CP.16 and 12/CP.17 and any future decision by the Conference of the Parties on these matters.”

³ COP Decision 14/CP.19, Paragraph 15 states in full: “Also agrees that results-based actions that may be eligible to appropriate market-based approaches that could be developed by the Conference of the Parties, as per decision 2/CP.17, paragraph 66, may be subject to any further specific modalities for verification consistent with any relevant decision of the Conference of the Parties.”

foundation for REDD+ activities to be included in market mechanisms, including under Article 6.2 of the Paris Agreement, as well as in non-market approaches, including under Article 6.8.

The COP Decision from Paris (1/CP.21), states that “*adequate and predictable financial resources*” are needed to support forest mitigation and adaptation activities, including “*support from, inter alia, public and private, bilateral and multilateral sources (...) and alternative sources in accordance with relevant decisions by the Conference of the Parties.*”

More funding needs to be channeled into nature-positive solutions to ensure the world can deliver on the global climate goals. Although Article 5 sends an important signal to countries to prioritize actions in the land sector, it is not, in and of itself, a vehicle for delivering financial support. It is essential to obtain significant climate finance from all potential sources, both market and non-market sources for nature-based climate action. To incentivize the full suite of ambitious mitigation actions in countries’ efforts to urgently address climate change, it is essential that market-based approaches under Article 6.2 or Article 6.4 and non-market approaches under Article 6.8 accelerate natural climate solutions while ensuring their environmental and social integrity.

Recommendations

Nature-based climate action should be accelerated by both market and non-market cooperation. The Article 6.8 framework should consider the following to facilitate non-market cooperation for nature-based mitigation and adaptation:

- There should be **clear, long-term financing options available from donors for non-market approaches**. Policies to address the role of climate change in nature take time to see results and must be done through an inclusive and participatory approach to establish public buy-in, particularly from vulnerable groups. Having long-term financing that reaches Indigenous peoples and local communities is critical to ensuring these programs can actually create change on the ground.
- **Approaches under Article 6.8 can serve two purposes: (1) serve as a testing grounds for eventual market-based approaches and (2) serve as a dedicated source of funding for non-market approaches that may never transition into a market.**
- **It must be clear that not all non-market approaches will transition to market approaches due to lower or uncertain mitigation outcomes but may offer higher co-benefits; and some should receive significant funding as non-market approaches.** This, in particular, might apply to cases where there is limited potential to provide high-quality carbon offsets, but strong social justice and equity components (e.g, in forest communities where a strong history of forest protection is evident, and thus where it may be difficult to meet carbon market additionality requirements, but funding is needed to continue these approaches) or where there are clear benefits for the environment (e.g., biodiversity enhancement or habitat protection).
- To reduce the burden on communities and developing countries, efforts should be made to **streamline metrics around policies and measures that mitigate climate change under Article 6.2 and under Article 6.8.**

SUCCESS STORY: NON-MARKET FINANCE AS TESTING GROUNDS FOR NATURE-BASED CLIMATE ACTION.

Non-market approaches have been critical testing grounds to incentivize and scale carbon finance. This is especially true of efforts to Reduce Emissions from Deforestation and forest Degradation (REDD+). Most historical payments in the past decade for REDD+ results came from bespoke agreements between countries, especially from bilateral deals with Norway. Because results were calculated outside of a third-party greenhouse gas standard, these carbon credits were not eligible in existing carbon markets.

This bilateral funding, in addition to multi-lateral REDD+ readiness funding, helped countries to improve their REDD+ programs to meet new carbon market standards for REDD+. Thus, when the Green Climate Fund set up a \$500 million fund (expected to run from 2017-2022 to pay results-based payments for REDD+), it was oversubscribed and ended two years ahead of schedule due to the significant results-based finance and capacity building that happened in the last decade.

Now, many REDD+ countries are able to apply for market-based funding through programs like the Forest Carbon Partnership Facility's (FCPF) Carbon Fund and Lowering Emissions by Accelerating Forest finance (LEAF) at scale. LEAF also includes pathways for non-market results-based funding from government donors (as does FCPF), as well as from corporate participants, depending on the preferences of the companies and jurisdictions. Non-market mechanisms can thus use similar structures as market approaches, can address needs of different funders and jurisdictions, and have been critical in helping to pave this road to market approaches by helping build technical capacity and political interest in market-based REDD+ requirements. The FCPF's Carbon Fund has now signed Emission Reductions Payment Agreements (ERPAs) with fifteen countries for a total contract value of USD 745 million and initial payments for results started in 2021; another 23 jurisdictions (countries, states, or provinces) have submitted eligible proposals for the LEAF Coalition. There is also a new carbon market for jurisdictional REDD+ credits through the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

In sum, non-market finance has helped to unlock and scale market-based demand for REDD+. Article 6.8 could help build a similar ramp for other mitigation activities that are currently not well suited under Article 6.2 or Article 6.4 but could be in the future with clear upfront financing available today.

THE ROLE OF NON-MARKET APPROACHES FOR NATURE- BASED CLIMATE SOLUTIONS

Nature-based climate action has benefited from both market and non-market schemes throughout the years. One of the most well-known forms of nature-based climate action, REDD+, has played a significant role in emissions reductions from the forestry sector while ensuring livelihoods of local communities. Additionally, for blue carbon, which, in select cases, mangroves can also fall under REDD+, there is potential for blue carbon activities to be pursued through either market or non-market cooperation.

a. Blue Carbon

Coastal habitats known as “blue carbon ecosystems”, such as mangroves, salt marshes and seagrasses are some of the planet’s most effective carbon stores per unit area and currently serve as net sinks with annual sequestration estimated to be 110.1-256.9 Tg CO₂ per year⁴. However, about one-third of blue carbon ecosystems have already been lost over the past decades, releasing billions of tons of carbon stored in the sediment (Mcleod et. Al. 2011). Additionally, the future ability of these systems to remain a net carbon sink largely depends on slowing the rate of degradation and loss, maximizing restoration efforts, and allowing for inward migration due to sea level rise and other climate impacts, particularly for mangroves and emergent marshes. The conservation, restoration, and sustainable management of coastal wetlands can also help protect millions of people while providing many other benefits such as healthier fisheries, coastal protection, water purification and improved local livelihoods.

Over the past decade, the science and policy around blue carbon has improved to the point where mangroves are now increasingly included in national forest inventories and monitoring, reporting and verification (MRV) systems for REDD+. However, effects from sea level rise and availability of upland for habitat migration may threaten the stability of these carbon stores long-term and pose critical challenges for the integrity of carbon credit schemes for these habitats. Identifying degradation and habitat conversion threats and preventing coastal squeeze will largely determine whether these systems increase or decrease in overall extent. Any potential concerns about mitigation potential from these ecosystems can be addressed with the establishment of *in situ* baselines, robust project design and adequate GHG accounting.

Despite the uncertainties that persist around all coastal blue carbon ecosystems as novel climate mitigation mechanisms, enthusiasm for the development of blue carbon markets and the inclusion of blue carbon in international and national accounting systems has grown. Examples include the 2013 IPCC Wetlands Supplement and the recent (2019) IPCC refinement to the 2006 national GHG inventory guidelines, and the fact that many countries included coastal wetland targets in their updated NDCs.⁵ Additionally, Verra, Gold Standard, and the Clean Development Mechanism (CDM) have all developed protocols applicable to blue carbon ecosystems that address leakage, permanence, reversals, additionality, uncertainty, and aggregation. Carbon credits for mangrove projects have been piloted and tidal marsh and seagrass projects are starting to be developed through the voluntary carbon market. The sale of voluntary carbon offsets could provide an important source of funding for the restoration and conservation of these critical coastal ecosystems.

Successful demonstration of coastal wetland projects can catalyze emerging markets, thus building a unique funding opportunity to support coastal wetlands restoration and conservation at a larger scale and longer-term. Focusing on the non-GHG mitigation values of healthier fisheries, biodiversity, livelihoods and coastal resilience strengthens the foundation for market and non-market approaches. Demonstration projects can also lay the groundwork for broader

⁴ Lovelock and Reef. Variable Impacts of Climate Change on Blue Carbon. [https://www.cell.com/one-earth/pdf/S2590-3322\(20\)30354-7.pdf](https://www.cell.com/one-earth/pdf/S2590-3322(20)30354-7.pdf). 2020

⁵ <https://ocean-climate.org/wp-content/uploads/2021/10/coastal-and-marine-ecosystemDEF.pdf>

acceptance of tidal wetland restoration and conservation activities in the regulated carbon markets where demand and prices are higher.

Similar to the REDD+ example above, we see valuable room for NMA financing to help with readiness and piloting around coastal blue carbon approaches that may transition to a market-based approach in the future. Climate finance from both public and private, market and non-market approaches are essential for scaling mitigation and adaptation actions through the management of blue carbon ecosystems.

b. Leveraging Non-Market Approaches for Nature-Based Climate Action

Other relevant models for nature-based climate action, more broadly, can and should also be prioritized under the Article 6.8 work programme, as explained below:

- Provide finance and/or capacity building to help countries remove perverse incentives and/or reform subsidies around land and coastal conversion.
- Payments for ecosystem services are a clear example of non-market approaches, whereby stakeholders are paid in exchange for their services for protecting, restoring or performing certain activities to ensure ecosystem services. These do not involve the transfer of any mitigation outcomes, yet can clearly contribute to mitigation and adaptation targets, while ensuring the livelihoods of local communities in line with the priorities of Article 6.8.
- Another example of nature-based non-market cooperation is results-based payments when there is no transfer of the actual mitigation outcomes. Adequate financing through non-market approaches is essential to enable payments for ecosystem services and result-based payments to be scaled up and continue to harness their potential in new jurisdictions as they tap nature's potential to address climate change.
- Water funds contribute to water security and resiliency, of which adaptation is a key component.
- Other types of nature-based climate action could also be explored under Article 6.8 to determine if they may be appropriate for cooperation among interested Parties (e.g. debt-for-nature swaps, or other financial tools such as the Adaptation Benefit Mechanism (ABM) elaborated by the African Development Bank).⁶

Adaptation projects have historically been harder to finance, only making up 25% of climate finance in 2019⁷ largely because there are no established metrics to evaluate progress, resulting in high risk for investors, unlike the use of greenhouse gas metrics for mitigation. This makes it particularly challenging for adaptation projects to participate in or benefit from market-based approaches. Most adaptation efforts contribute to communities at a local level. As such, under Article 6.2 and Article 6.4, adaptation is best captured as a co-benefit of market-based mitigation and through a share of proceeds from ITMO transactions under 6.4 and voluntary contributions under 6.2, as specified in the Article 6 "rulebook" agreed at COP 26 in Glasgow.

⁶ The ABM aims to de-risk and incentivize investments by using verified certifications to facilitate payments for delivery of Adaptation Benefits, or efforts to quantify adaptation benefits into credits, such as resilience credits <https://verra.org/first-sd-vista-methodology-addresses-coastal-resilience-benefits-open-for-public-comment/>

⁷ United Nations Environment Programme. What does COP26 mean for adaptation? <https://www.unep.org/news-and-stories/story/what-does-cop26-mean-adaptation>. 2021.

There is an important opportunity to finance adaptation under Article 6.8. The examples above include financial non-market mechanisms that can fund ecosystem-based adaptation.

c. Considerations for choosing Non-Market Approaches versus Market Approaches

In determining the appropriate pathways for cooperation across any sector, countries may consider whether market or non-market approaches are best suited for a particular intervention. Factors that may influence the most appropriate form of cooperation include the following examples:

- Non-market finance is well-suited for mitigation actions that are in the early stages of implementation or innovation, where methodologies do not yet exist for carbon crediting approaches.
- There are also instances where a project may not be financially or technically viable as a carbon crediting project (e.g., the size of the project is too small to warrant verification and validation costs).
- As their national prerogative, countries may ultimately choose whether an intervention that could qualify as market or non-market approach will fit under one or the other, provided it is not claimed under both approaches.
- Non-market finance can help provide an alternative financing pathway for countries or communities that either do not want to engage in market-based approaches, and/or wish to create a complementary funding stream for activities that are not well-suited to market-based approaches.

CONCLUSION

Nature-based climate action should be prioritized for both market and non-market cooperation. The Article 6.8 framework should consider the following to facilitate non-market cooperation for nature-based mitigation and adaptation:

First, there should be **clear, long-term financing options available from donors for non-market approaches**. Policies to address the role of climate change in nature take time to see results and must be done through an inclusive and participatory approach to establish public buy-in, particularly from vulnerable groups. Having long-term financing is critical to ensuring these programs can actually effect change on the ground.

Second, **non-market approaches may serve as a testing ground for eventual market-based approaches**, as seen in the example of REDD+ financing (see: "Success Story" on page 3).

Third, **it must be clear that not all non-market approaches will transition to market approaches**. There must be a dedicated source of funding for non-market approaches that may never transition into a market, due to lower or uncertain mitigation outcomes that may offer higher co-benefits. This, in particular, might apply to cases where there is limited potential to provide carbon offsets, but strong social justice and equity components (such as cases where local communities, Indigenous peoples, or countries have a history of taking care of their forests, and should receive funding to continue these approaches).

Fourth, to reduce the burden on communities and developing countries, efforts should be made to **streamline metrics around policies and measures that mitigate climate change under Article 6.2 and under Article 6.8.**

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