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UNLOCKING THE CARIBBEAN'S CLIMATE POTENTIAL: PROSPECTS OF A CARIBBEAN ALLIANCE ON CARBON MARKETS AND CLIMATE FINANCE

BRIEFING PAPER

PREFACE

The topic of Global Carbon Market is becoming increasingly important in our partner countries and, as a result, in international cooperation. As a result, the Gesellschaft für Internationale Zusammenarbeit (GIZ), initiated the 5th phase of the Global Carbon Market (GCM) project in 2018, on behalf of the German Federal Ministry for Economic Affairs and Climate Protection (BMWK). The project supports various partner countries in introducing and using flexible carbon pricing mechanisms and other market-based instruments to mitigate climate change at the national and regional levels.

Although Small Island Developing States (SIDS) are the lowest contributors to the total global greenhouse gas emissions, they are among the most vulnerable to the effects of climate change. The latest data from the Intergovernmental Panel on Climate Change (IPCC) highlights the exceptional exposure of Caribbean SIDS to sea-level rise, ocean acidification, coastal erosion, and tropical cyclones. These impacts will fundamentally undermine development prospects.

Most Caribbean Island States did not gain any experience with carbon markets as they did not take part in the Kyoto Protocol's Clean Development Mechanism (CDM) nor made use of other carbon pricing instruments. In May 2021, GCM began a cooperation with Grenada and St. Lucia. This period was of great uncertainty in terms of the practical application of Article 6 of the Paris Agreement since the rulebook for Article 6 was only decided at the COP26 in Glasgow 2021. While Article 6 had already set the basic cornerstones for the future of market-based climate change instruments, the Glasgow decisions and the published rulebook helped to clear open points regarding the implementation of the mechanism. These climate policy developments gave the project a decisive boost.

The GCM project in the Caribbean has promoted capacity building and raised awareness in the public

and private sector, transferred knowledge and built structures with local (political) actors and institutions. Crucial to the successful development of the project was the close cooperation with the local RCC St. George's, and the Organization of Eastern Caribbean States (OECS) Commission. Over time, the project became a major player in the region for issues related to carbon pricing and market-based instruments.

Through its support in establishing the Eastern Africa Alliance on Carbon Markets and Climate Finance, the project has played a role in facilitating the formation of a regional platform. Since July 2022, the Caribbean component is actively supporting the establishment of the Caribbean Alliance on Carbon Markets and Climate Finance. The Caribbean Alliance will aim at supporting the implementation of the regional and national carbon market strategies. In addition, the Alliance could steer a tailored capacity-building programme to enhance the technical expertise and knowledge of government representatives and policy makers to make informed decisions related to their country's participation in Article 6, identify sectors with high mitigation potential, unlock finance for the scale-up of carbon mitigation projects and share best practices from member states and sister Alliances. Concretely, a Caribbean Alliance could develop templates for carbon market frameworks and Article 6 transactions, harmonizing procedures across the region.

The Briefing Paper "*Unlocking the Caribbean's Climate Potential: Prospects of a Caribbean Alliance on Carbon Markets and Climate Finance*" informs OECS MS about carbon finance opportunities originating from Article 6 of the Paris Agreement and Voluntary Carbon Markets (VCM). It provides an outline of the NDC targets of the OECS MS, assesses the potential benefits of the establishment of a Caribbean Alliance focused on Article 6 implementation and VCM participation, and makes recommendations to the OECS MS for NDC implementation.

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Unlocking the Caribbean's Climate Potential:
Prospects of a Caribbean Alliance on Carbon
Markets and Climate Finance

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EXECUTIVE SUMMARY

To reach the goals of the Paris Agreement, developing countries must mobilise billions of dollars in climate finance. Climate finance can take various forms, including bi- and multilateral financial cooperation and international carbon market instruments. Because of their location, natural resources, and ambitious mitigation and resilience objectives, Organisation of Eastern Caribbean States (OECS) members have significant potential to benefit from carbon finance. In fact, most OECS Member States (MS) have expressed interest in participating in market mechanisms in their updated Nationally Determined Contributions (NDCs). However, unlocking available climate finance and ensuring effective participation in international carbon markets will require building these states' national capacities, institutional arrangements, and the necessary accounting and reporting frameworks as required by Article 6 (Cooperative Approaches) and Article 13 (Enhanced Transparency Framework) of the Paris Agreement.

This briefing paper informs OECS MS about carbon finance opportunities originating from Article 6 of the Paris Agreement and Voluntary Carbon Markets (VCM). Because OECS MS have limited experience with carbon markets and climate finance mobilisation, they require country-driven capacity building that is championed by national stakeholders and relevant to international partners.

Regional climate experts and practitioners recognise that the most effective path to accessing climate finance and engaging in international carbon markets is through collaboration and cooperation between countries. Caribbean governments have already expressed keen interest in working closer together to build their capacity for climate finance mobilisation. Drawing from existing processes in Eastern and West Africa, this briefing paper introduces the potential of a dedicated **Caribbean Alliance on Carbon Markets and Climate Finance** of OECS MS. The purpose of the proposed Alliance is to convene countries across the Caribbean through a capacity-building and resource mobilisation platform through which countries can learn from each other. This regional cooperative approach would enable member states

to achieve regional synergies and greater mitigation impacts, all while reducing transaction costs for participating countries.

Consultations with regional stakeholders brought to light the challenges and opportunities for OECS MS in their engagement with carbon markets. By considering these key insights, this briefing paper makes the following recommendations:

1. Using the existing structures of the OECS

The creation of a Caribbean Alliance, situated within the OECS structure, would avoid duplication of efforts and leverage existing resources. The Caribbean Alliance would appear to be best positioned under OECS, which primarily focuses on smaller Eastern Caribbean Islands. The OECS aims to create a single economic and financial space and benefits from an administrative and technical body providing policy direction to its members. While there is overlap in membership and objectives, CARICOM and other fora have a broader geographical scope and role that might not adequately address regional needs, challenges and the specific OECS MS circumstances.

2. Harnessing synergies through a Caribbean Alliance

A Caribbean Alliance will aim at supporting the implementation of the regional and national carbon market strategies and provide regular monitoring and evaluation of progress towards these objectives.

a. Providing country-tailored capacity-building activities

The Caribbean Alliance could steer a tailored capacity-building programme to enhance the technical expertise and knowledge of government representatives and policy-makers to make informed

decisions related to their country's participation in Article 6, identify sectors with high mitigation potential, unlock finance for the scale-up of carbon mitigation projects and share best practices from member states and sister Alliances. Concretely, a Caribbean Alliance could develop templates for carbon market frameworks and Article 6 transactions, harmonising procedures across the region.

b. Pooling resources for infrastructure needs

OECS MS have limited resources, which can be maximised by pooling them. The Caribbean Alliance would provide a regional platform to pool regional resources for infrastructure needs (such as for a regional carbon registry and/or for regional GHG data collection), reducing the costs for individual member states.

c. Testing the ground for a regional NDC

The Caribbean Alliance could open more opportunities for regional climate cooperation, by serving as a stepping stone towards a regional NDC under the UNFCCC.

3. Develop a regional Article 6 strategy

a. Taking advantage of Programmes of Activities (PoAs)

The small size of OECS MS poses a significant challenge for them to effectively leverage carbon markets. However, by implementing inter-OECS MS Programme of Activities, the mitigation potential of OECS MS can be unlocked through the scaling up of micro/small-scale activities supporting common NDC priorities.

b. Marketing OECS Internationally Transferred Mitigation Outcomes (ITMOs) as high-quality

The focus would be on marketing ITMOs as high-quality and high-impact, resulting in higher prices. ITMOs (and VCM credits) generated in the OECS should become synonymous with high integrity and adaptation benefits. OECS MS could engage with buyers to design Article 6 cooperative approaches that reduce emissions and increase resilience.

4. Focus on high-impact mitigation activities

a. Increasing adaptation and resilience

One way of strengthening adaptation benefits from Article 6 transactions would be for OECS MS to approve activities with strong adaptation co-benefits, such as decentralised renewables, microgrids, cycling infrastructure and retrofitting buildings. In addition, the revenues earned from carbon markets could also be earmarked for local adaptation activities via fees on registration, issuance and authorisation of credits through an adaptation share of proceeds.

b. Making the tourism industry greener

Integrating carbon markets and sustainable practices into the tourism sector in OECS MS can bring multiple benefits, including environmental conservation, economic advantages, enhanced reputation and increased attractiveness to eco-conscious travellers. This could be achieved by implementing activities for more sustainable sea-transport, e-mobility and waste management, to protect and preserve the natural resources and landscapes of the islands and further improve their reputation as a top tourist destination, supporting a key sector in OECS MS.

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LIST OF ACRONYMS

AFOLU	Agriculture, Forestry and Other Land Use
AOSIS	Alliance of Small Island States
BAU	Business as Usual
BMWK	Federal Ministry for Economic Affairs and Climate Action of Germany
CARICOM	The Caribbean Community and Common Market
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
COP	Conference of the Parties
EAA	Eastern African Alliance
ECS	Eastern Caribbean States
ER	Emission Reduction
GCF	Green Climate Fund
GCM	Global Carbon Market
GHG	Greenhouse Gas
GIZ	Gesellschaft für Internationale Zusammenarbeit
HFC	Hydrofluorocarbons
INDC	Intended Nationally Determined Contributions
IPCC	Intergovernmental Panel on Climate Change
ITMO	Internationally Transferred Mitigation Outcomes
KLiK	Foundation for Climate Protection and Carbon Offset
LED	Light-emitting diode
LEDS	Low-Emission Development Strategy
LULUCF	Land Use, Land-Use Change and Forestry
MRV	Measurement, Reporting and Verification
MS	Member States
NDC	Nationally Determined Contributions
NMA	Non-Market Approaches
ODA	Official Development Assistance
OECS	Organisation of Eastern Caribbean States
OMGE	Overall Mitigation in Global Emissions
PV	Photovoltaic
RCC	Regional Collaboration Centre

REDD	Reducing Emissions from Deforestation and Land Degradation
SIDS	Small Island Developing States
TNA	Technology Needs Assessment
UN	United Nations
UNEP	United Nations Environment Programme
UNFCCC	United nations Framework Convention on Climate Change
USD	United States Dollar
VCM	Voluntary Carbon Market
WAA	West African Alliance

Introduction

01

Caribbean small island countries are among the most vulnerable to climate impacts.¹ The latest IPCC report summarises the available research on climate change projections in Central America and the Caribbean. According to the report, there will be an increase in warm days and warm nights, coupled with an increase in drought severity towards the end of the century.² In 2017, the Caribbean saw the devastating impacts of hurricanes Irma and Maria, which together caused billions of dollars in damages in the region. Based on available climate research, an increase in tropical cyclone precipitation rates and intensity is likely to occur in the 21st century.³ Between 2000 and 2020, the number of people in the region exposed to floods increased by 70%.⁴ Moreover, by 2100, the region is projected to experience a mean sea level rise of 1.4 meters.⁵ The total cost of inaction for the Caribbean could reach more than 30 billion USD annually by 2050.⁶

The Member States (MS) of the Organisation of Eastern Caribbean States (OECS) have committed to ambitious targets in their Nationally Determined Contributions (NDCs) to address climate change.

While some OECS countries have unconditional targets, most have conditional targets that require considerable international support (e.g., for finance, capacity building, technology transfer) to attain significant emission reductions in the coming years. Despite the relatively small size of these island states, their NDCs demonstrate a significant commitment to reducing greenhouse gas (GHG) emissions and transitioning to a more sustainable, low-carbon economy. However, achieving these targets will require significant financial support and technical assistance, particularly for the smaller, less economically developed countries. Moreover, given the significant impact of climate change on these island nations, including sea-level rise and increased frequency and severity of natural disasters, meeting their NDC targets is critical to ensure their long-term survival and sustainability.

Despite the recognised importance of climate finance, developing countries are still not receiving enough financial resources to adequately address the challenges of climate change. According

to a survey conducted in 2020 by the UNFCCC Regional Collaboration Centre, “anticipated financial resources” was the most common factor that prevented Caribbean countries from further raising their NDC ambition, followed by “insufficient data” and government capacity to implement”.⁷ The lack of funding poses a significant barrier to achieving the goals of the Paris Agreement, particularly for vulnerable countries with limited resources and high exposure to climate change impacts. To address these finance gaps, several countries have begun engaging with carbon markets, which could become important instruments to achieve their NDCs. These mechanisms provide financial incentives to reduce GHG emissions and encourage investment in low-carbon technologies and sustainable practices. Carbon markets – where emissions reduction credits are traded – enable countries or companies to buy or sell carbon credits. Both compliance and voluntary carbon markets can play an important role in achieving countries’ NDCs, but each requires robust accounting and reporting rules to ensure environmental integrity.

Article 6 of the Paris Agreement establishes a framework for international cooperation through carbon markets. It provides a mechanism for countries to cooperate on emission reduction targets and transfer mitigation outcomes between buyers and sellers in the compliance market. This mechanism could help reduce the cost of achieving NDCs, facilitate technology transfer, and support sustainable development in developing countries.

Caribbean countries, with very few exceptions, have not yet accessed carbon finance instruments to fund their green transitions. As the new carbon market mechanism of the Paris Agreement become operational, and the voluntary carbon market keeps growing, it is beneficial to explore untapped opportunities in this area.

¹ Notre Dame Global Adaptation Initiative (2020). Country Index – vulnerability. Available [here](#).

² IPCC (2021) AR6 WGI Atlas 7.1. Available [here](#).

³ GFDL (2023) Global warming and hurricanes..Available [here](#).

⁴ World Bank (2020), 360 Resilience: A Guide to Prepare the Caribbean for a New Generation of Shocks. Available [here](#).

⁵ Stennett-Brown, R. et al. (2019). Caribbean climate change vulnerability: Lessons from an aggregate index approach. Available [here](#).

⁶ Bueno, R. et al. (2008). The Caribbean and Climate Change: The costs of inaction. Available [here](#).

⁷ NDC Survey Report – Caribbean (2020). Available [here](#).

This brief focuses on the potential of carbon markets, including Article 6, as instruments to achieve Eastern Caribbean States' (ECS) NDCs and their transition towards a low-carbon economy. The report also explores the benefits of Article 6 and VCM, and the possibility to leverage them by establishing a Caribbean Alliance on Carbon Markets and Climate Finance, following the example of similar initiatives in Africa.

The brief was made possible thanks to insights collected through several interviews with national stakeholders and carbon finance experts working in the region.

How do carbon markets relate to NDCs and the Paris Agreement?

02

Carbon markets provide incentives for climate action through the trade of carbon credits, which are units representing reductions or removals of GHG emissions. Carbon markets allow countries and the private sector to mobilise resources and reduce costs for their low-carbon transitions

(Figure 1). Finance from carbon markets may also complement traditional climate finance, which is largely concessional since funding generally comes from governments through Official Development Assistance (ODA) in the form of inter alia, guarantees, loans, and grants.

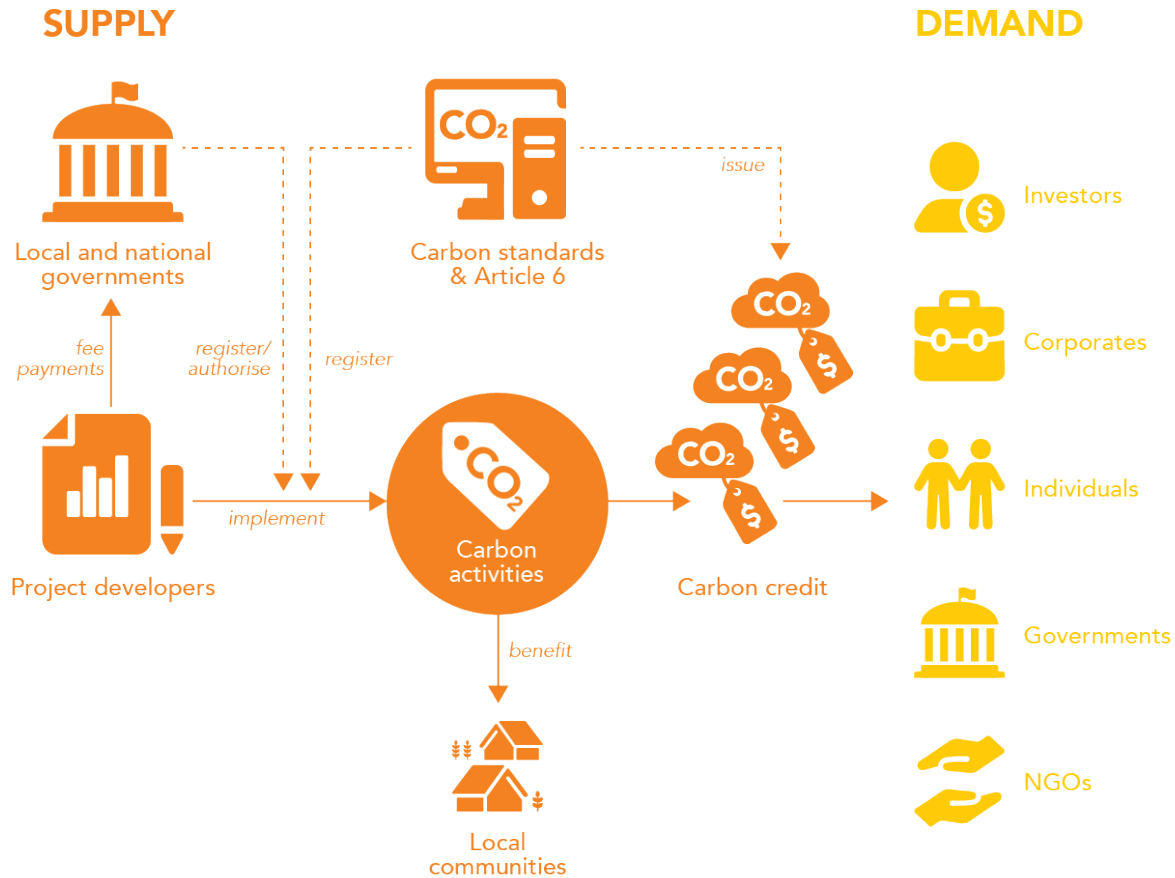


Figure 1: How carbon markets work (authors, adapted from [here](#))

Carbon trading in compliance markets took off when the United Nations Framework Convention on Climate Change (UNFCCC) established market mechanisms to support countries in meeting their reduction commitments through cost-effective approaches. Most notably, the Clean Development Mechanism (CDM) under the Kyoto Protocol of the UNFCCC allowed signatory countries (Annex B Parties) to implement emission-reduction projects and programmes in developing countries and count the resulting Certified Emission Reductions (CERs) towards their own commitment under the Kyoto Protocol. Article 6 of the Paris Agreement establishes rules and mechanisms for the voluntary cooperation between countries, based on market and non-market approaches, to achieve emission reduction targets in their NDCs:

- **Article 6.2:** establishes rules for countries to enter cooperative approaches and design and administer their own carbon crediting schemes.
- **Article 6.4:** creates a global carbon market mechanism under the UNFCCC that will replace the CDM and generate UN-recognised credits referred to as A64ERs.
- **Article 6.8:** defines non-market approaches (NMAs) to promote mitigation and adaptation without trading emission reductions.

Article 6 allows national governments to expand the mitigation investment landscape to other stakeholders, particularly the private sector. Article 6 has distinctive features in how it is designed and operationalised. It establishes an accounting

framework for international cooperation by regulating the approval, authorisation, transfer, tracking, transparent reporting and accounting of internationally transferred mitigation outcomes (ITMOs). Article 6 of the Paris Agreement requires that countries apply corresponding adjustments to credits that are traded between Parties to avoid double counting. Making a corresponding adjustment means that when Parties transfer a mitigation outcome internationally, that mitigation outcome must be 'un-counted' by the Party that agreed to transfer it. Article 6.3 of the Paris Agreement introduced the concept of authorisation, by providing that the use of ITMOs must be authorised by the host Parties.⁸

Governments can engage with carbon markets as regulators, activity proponents, or facilitators. Public agencies can directly implement or finance VCM activities; design regulations to ensure project alignment with national priorities (whilst observing the necessary safeguards); and implement incentives to attract and direct carbon investments into their priority sectors.⁹ The VCM has seen continued growth over the years and is governed by private standards as opposed to international or national regulatory bodies. However, VCM projects and programmes could support countries in achieving their commitments under the Paris Agreement by complying with Article 6 the rules¹⁰ reached by Parties at COP26 in Glasgow. In terms of their engagement with the market, governments should design VCM and/or Article 6 strategies that align with their policy priorities and national circumstances, all while helping achieve their NDC targets.

⁸ Greiner, S. et al. (2019). Article 6 Corresponding Adjustments. Available [here](#).

⁹ Streck, C. (2022). Voluntary Carbon Markets: considerations for host countries. Available [here](#).

¹⁰ Climate Focus. The Voluntary Carbon Market Explained. Available [here](#).

**Why are carbon
markets important?**

03

3.1 OECS NDC targets are partially conditional on international support

OECS MS' NDCs demonstrate their commitment to taking action on climate change and reducing their GHG emissions. Among the most ambitious mitigation targets are those from Dominica (-45% GHG emissions below 2014 levels by 2030) and St. Kitts and Nevis (-61% GHG emissions below 2010 levels by 2030). A common goal among the OECS MS is to transition to renewable energy sources. For example, Grenada has committed to achieving 50% renewable energy generation by 2030, while Antigua and Barbuda has committed to achieving 20% renewable energy generation by 2027. Dominica, along with St. Kitts and Nevis, aims to reach 100% renewable energy by 2030. These targets should also be considered in the context of the overall Caribbean Community and Common Market (CARICOM) energy target of 47% renewable power capacity by 2027.¹¹ Additionally, OECS MS have pledged to reduce emissions across a range of sectors, including transport, waste, agriculture, and manufacturing (see **Annex I** for a full overview of the NDCs).

It is crucial to point out that **a majority of targets included in these NDCs are conditional to international financial support through carbon and climate finance** (see **box**). Based on the countries that provide clear cost estimates for mitigation and adaptation activities, the total finance needs for Caribbean Small Island Developing States (SIDS) amount to USD 51.3 billion.¹²

While there is no internationally agreed upon definition of **climate finance**, the term relates to concessional funds required to address climate change, generally through instruments such as grants, loans, guarantees provided by governments and financial institutions. **Carbon finance** is a special type of climate finance considered to be more transactional and linked to revenue from the sale of carbon credits, which are generated by mitigation activities registered with a recognised carbon standard.¹³

3.2 Current state of climate finance and carbon markets in OECS Member States

The level of international carbon and climate finance flowing to Caribbean countries is disproportionate to their high vulnerability to climate change. Caribbean countries receive only a minor fraction of global international climate finance flows. Between 2003 and 2020, multilateral climate funds approved a total of 388 projects in the 40 SIDS spread across three regions. Total disbursed funds amounted to USD 2.1 billion in funding¹⁴ with the largest share coming from the Green Climate Fund (GCF). SIDS of the Caribbean received 37% or USD 785 million of project approvals, of which 3% targeted REDD+¹⁵ finance. Further, it is important to note that finance for adaptation comprised approximately 70% of all international public finance flows to the region.¹⁶

The share of international compliance and voluntary carbon markets in OECS MS remains very low compared to the rest of the world. Several Caribbean countries have implemented projects under Kyoto Protocol's CDM, the VCM, and one pilot project under Article 6 of the Paris Agreement. However, OECS MS have not benefited from either the voluntary or compliance markets (see **Table 1**).

¹¹ CCREEE (n.d.). Objectives and mandate. Available [here](#).

¹² Mohan, P.S. (2021). Implementing nationally determined contributions under the Paris Agreement: an assessment of climate finance in Caribbean small island developing states. Available [here](#)

¹³ Gputa, A. (2016). Handbook of Environmental and Sustainable Finance: Chapter 1. Available [here](#).

¹⁴ Climate Finance Regional Briefing: Small Island Developing States (2021), Heinrich Boll Stiftung, Washington DC. Available [here](#).

¹⁵ REDD+ definition: Reducing emissions from deforestation and forest degradation plus the conservation and sustainable management of forests and enhancement of forest carbon stocks.

¹⁶ OECS (2022). Technical Assessment of Climate Finance in Eastern Caribbean States. Available [here](#).

To date, there has been one Article 6 pilot programme established in the OECS MS. This singular programme is being implemented in Dominica by the KliK Foundation.¹⁷ The e-mobility programme¹⁸ aims to transform Dominica's transportation sector towards electric mobility. This Article 6 pilot complements the member country's existing national climate protection projects, contributes to achieving national climate

goals and sustainable development and will result in the sale of ITMOs. Additionally, in the Caribbean, an MoU within the framework of Article 6 was signed by the Swedish Energy Agency and the Dominican Republic's Ministry of Environment and Natural Resources,¹⁹ which should enable the implementation of cooperative GHG mitigation activities in the Dominican Republic.

Table 1: OECS Member States experience in voluntary and compliance markets

MARKET	PROJECTS PER REGION		TYPE OF PROJECT
Clean Development Mechanism (CDM) of the Kyoto Protocol	OECS	0 (1 in Dominica did not pass validation stage)	Renewable energy
	Caribbean	20 registered (15 of which are in the Dominican Republic)	
Article 6 of the Paris Agreement	OECS	1 project in Dominica (electric vehicles) in partnership with the KliK Foundation	Renewable energy E-Mobility
	Caribbean	MoU between the Dominican Republic and the Swedish Energy Agency	
Voluntary Carbon Markets (VCM)	OECS	0	Renewable energy (9) Clean water and cookstoves (8) Industrial and commercial (2) REDD+ (4) Chemical processes (1)
	Caribbean	2 in Aruba	
		1 in Bahamas	
		4 in Belize	
		9 in Dominican Republic	
		7 in Haiti	
1 in Suriname			

Source: authors, based on *CDM pipeline* (UNEP-CCC), *Voluntary Registry Offset Database* (University of Berkeley).

3.3 Benefits of carbon markets

Carbon markets can contribute to filling the climate finance gap, helping to mobilise resources and identifying cost-efficient ways to reduce emissions and achieve mitigation targets. Carbon markets can offer much-needed flexibility for countries to meet their NDC commitments and are estimated to cut the cost of NDC implementation for Parties by more than half by 2030.²⁰ Additionally, carbon markets foster innovation and bottom-up action by encouraging private sector and non-state actors to engage in

climate action. Companies and organisations can invest in carbon reduction activities, which creates new and innovative technologies. Finally, the transparency of carbon markets ensures that the activities implemented are credible, enhancing overall trust in the market.

The implementation of carbon market activities that leverage emerging technologies offers OECS MS a wide range of benefits. The implementation of carbon market-backed mitigation activities such as low-carbon transport through e-mobility, solid

¹⁷ The Foundation for Climate Protection and Carbon Offset, KliK. Available [here](#).

¹⁸ The KliK Foundation: Green Financing for E-Mobility – Transforming Dominica's Transportation Sector. Available [here](#).

¹⁹ Sweden announces new climate cooperation with Nepal and Dominican Republic. Available [here](#).

²⁰ IETA (2019) The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges. Available [here](#).

waste management and cookstove activities can have positive effects on public health, inclusivity, congestion and travel time in cities, as well as unlocking employment opportunities in different sectors of the economy.

The OECS MS can leverage carbon pricing revenues in a multitude of ways to benefit their economies and the environment, while providing social benefits.²¹ Carbon revenues could be used to finance climate action without adding further public debt burden, provide tax cuts in NDC priority areas or to increase government spending for national climate and development priorities. Additionally, Article 6 ITMOs can be seen as a mechanism for generating high prices in carbon markets. Carbon markets have shown to be effective at: (i) crowding in private finance; (ii) potentially creating a new source of demand for emissions reductions; (iii) driving up prices and creating additional revenue streams for OECS MS participating in carbon markets; and (iv) guiding novel investment opportunities in emission reductions and removals through a (high) carbon price.

OECS MS can recuperate their operating costs through the introduction of fees under Article 6. OECS MS will incur a variety of operating costs in order to participate in the carbon market. Such costs include carbon credit transactions, hiring national staff, and ensuring the maintenance of institutional arrangements. These costs could be recuperated by introducing administrative fees on registration and issuance, registry listing fees, and a **share of proceeds (authorisation and transfer fees) for adaptation**. For example, Ghana outlined a detailed fee structure in its carbon market framework to cover administrative costs and collect revenues.²²

Another notable benefit of carbon markets under Article 6 is the introduction of Overall Mitigation in Global Emissions (OMGE). OMGE is an AOSIS' (Alliance of Small Island States) priority as it enhances the mitigation impact of carbon market activities. OMGE occurs if a portion of the emission reductions achieved through carbon markets is not used by either the buyer or the seller toward the achievement of NDCs or other mitigation targets.²³ The urgency of the climate crisis calls for the delivery of OMGE, especially since studies from the IPCC and other reputable organisations indicate that domestic

policies and cumulative mitigation efforts contained in current NDCs do not meet the required scale to reduce global emissions consistent with holding the average global warming to well below 2°C or to 1.5°C.

Finally, carbon markets can **accelerate the deployment of a robust digital infrastructure** that ensures data verification and security can set the seal on accurately accounted and tracked reductions.²⁴ A thorough overview of sectorial emissions is key to effective climate policy making.

3.4 Risks of carbon markets

While carbon markets provide ample benefits and a mechanism for reducing GHG emissions at a lower cost than traditional regulation, they also carry risks that must be addressed to ensure their integrity and effectiveness. These risks include capacity gaps, complexity, transaction costs, price volatility, overselling and reputational risks associated with low-integrity carbon markets. In this section, we will outline and briefly discuss each of these risks.

Carbon market participation requires specialised knowledge and expertise to manoeuvre through the complex rules, procedures and verification requirements. This knowledge may not be available in all countries (including OECS MS) or organisations. A lack of technical expertise and resources can limit OECS MS participation and effectiveness in voluntary and compliance carbon markets.

One of the main challenges with carbon markets is the potential for significant price fluctuations. This price volatility can occur due to changes in policy or regulation, shifts in market demand and supply and changes in investor sentiment or market expectations. Price volatility and competition in the market can affect the financial viability of emission reduction projects in OECS MS and the overall effectiveness of the carbon market. Regulatory bodies and government agencies that oversee carbon markets have implemented measures to reduce price volatility (e.g. setting price floors and ceilings). Some experts have called for greater transparency and data sharing within carbon markets to reduce price fluctuations and increase confidence among investors and stakeholders.

²¹ Carbon Pricing Leadership Coalition (2016). What Are the Options for Using Carbon Pricing Revenues? Available [here](#).

²² Schneider, L. et al. (2019). How could the concept of an "overall mitigation"

²³ World Bank (2022). Countries on the Cust of Carbon Markets. Available [here](#).

²⁴ World Bank (2022). Countries on the Cust of Carbon Markets. Available [here](#).

Overselling mitigation outcomes can jeopardise countries' ability to meet their NDCs. Overselling refers to a situation in which a host country authorises more mitigation outcomes for transfer as ITMOs (at a price lower) than it can afford. This means that the ITMO revenue does not compensate for the cost of the underlying mitigation activity and/or the additional mitigation activities needed for achieving the NDC targets. Via a governance framework or strategy, governments can provide clear criteria on the type of mitigation activities they are willing to authorise, in addition to their general approach to avoiding overselling mitigation outcomes.²⁵

Finally, reputational risks are a significant concern for carbon markets because they rely heavily on trust and credibility. Reputational risks can lead to investors losing confidence in the market, especially when there are concerns over the ethical or social implications of certain mitigation activities. Additionally, there are concerns over the accuracy of data used to calculate GHG emission reductions or the validation and verification process for carbon credits.

It is important to note that these risks can be mitigated through appropriate baseline and monitoring methodologies, policy design, implementation and governance. Robust monitoring, reporting and verification (MRV) systems, transparent reporting and disclosure mechanisms and clear rules and regulations can help address these risks and ensure the integrity and efficacy of carbon markets.²⁶

²⁵ GGGI (2022). Developing Carbon Markets based on Article 6 of the Paris Agreement: Challenges and Opportunities. Available [here](#).

²⁶ Taskforce on Scaling Voluntary Carbon Markets. Available [here](#).

Untapped potential for carbon markets in OECS Member States

04

4.1 Where does the potential lie?

The use of emerging technologies and nature-based activities could be hugely beneficial to OECS MS. These countries could benefit from several types of activities that are highly relevant to their NDCs and could help accelerate progress towards their climate goals. As a strategy to address their unique climate vulnerabilities, Caribbean countries could benefit from carbon markets to restore their natural ecosystems, further strengthen their environmental resilience and channel carbon market proceeds to fund further climate action in support of NDC priorities.²⁷

Given the deforestation rates in the OECS MS²⁸ implementing reforestation and afforestation projects could be beneficial for the region. Nature-based Solutions (NbS), such as blue carbon and the blue economy, could also play a critical role in mitigating climate change by sequestering carbon and supporting sustainable economic development.²⁹ OECS MS have blue carbon ecosystems, such as seagrass and mangroves, which can store large amounts of carbon dioxide. However, these ecosystems are under threat; there has been a 35% global decline in mangrove forests since the 1980s.³⁰ The main threat to these ecosystems has historically been from agricultural production. However, climate change is now expected to further hasten this decline. Mangroves store more carbon than most other forest types and have the added benefit of providing protection to the coast, while providing refuge for many species.³¹ NbS can also contribute to adaptation by enhancing the resilience of ecosystems and communities to climate change impacts.

The Technology Needs Assessment (TNA) project, implemented by the United Nations Environment Programme (UNEP) and the UNEP Copenhagen Climate Centre, has carried out studies on Antigua and Barbuda, Dominica and Grenada to identify

these countries' technology gaps.³² Based on their NDCs and stakeholder interviews, a key priority for OECS MS is the deployment of **renewable energy**, particularly solar PV (across all countries) and geothermal energy (specifically for Dominica). One major challenge OECS MS face is their heavy dependence on fossil fuels to meet their energy demand, especially for electricity generation and transportation. OECS MS use a significant share of their Gross Domestic Product (GDP) and forex earnings to import fossil fuels. As a result, their economies are vulnerable to the volatility of fossil fuel prices. By transitioning away from fossil fuels and towards renewable energy sources (e.g., solar, wind, hydro, geothermal, bioenergy), OECS MS can reduce their energy import bills, enhance energy security, diversify their energy mix, create local jobs and improve public health while mitigating GHG emissions.³³

Moreover, **microgrid systems** powered by renewable energy sources could help these countries transition to more sustainable and resilient energy systems. By generating power locally from renewable sources, microgrids can reduce the dependence on imported fossil fuels and provide a reliable source of energy in the event of a disruption to the main grid. Microgrids can enter "island mode" and operate normally in the event of outages, which are commonplace during and after hurricanes.³⁴ Critical infrastructure could greatly benefit from such systems. The deployment of renewably powered microgrids would therefore align with both mitigation and adaptation goals of OECS MS. Examples of microgrids are already found across the Caribbean, such as in St. Lucia³⁵ and Antigua and Barbuda,³⁶ and could particularly benefit from programmatic carbon market approaches.

Complementarily, activities targeting **energy efficiency** (e.g., LEDs and efficient appliances) could further drive emissions down and generate carbon credits. Moreover, in such tropical climates, sustainable buildings, building retrofits and green cooling solutions can also support the reduction

²⁷ How Caribbean Countries Can Leverage Nature to Finance Clean Energy (2022). Available [here](#).

²⁸ Global Forest Watch (2023), Results for OECS Member Countries. Available [here](#).

²⁹ Nature based solutions can play a critical role in mitigating climate change. Available [here](#).

³⁰ Global declines in human-driven mangrove loss (2020). Available [here](#).

³¹ Conservation International. Share the facts about mangroves. Available [here](#).

³² Technology Needs Assessment brochure. Available [here](#).

³³ The OECS Sustainable Energy Framework (2023). Available [here](#).

³⁴ Masson et al. (2020). Sustainable Energy Paths for the Caribbean. Available [here](#).

³⁵ USTDA (2022). USTDA Advances Renewable Microgrids in Saint Lucia. Available [here](#).

³⁶ Dunlop (2021). How to hurricane-proof a solar plant. Available [here](#).

of emissions. OECS MS could use the carbon market to build on the Kigali Agreement to the Montreal Protocol to reduce GHG emissions from Hydrofluorocarbons (HFCs) from the cooling sector. The reduction in HFC in the cooling sector can be achieved through more energy-efficient green cooling technologies. Implementation of such technologies would not only lower the global warming potential of refrigerants but also reduce energy consumption and costs. The reduction of GHG emissions from HFCs could also be complemented by implementing waste management projects that properly treat refrigerants and air conditioning appliances at their end of life.

Activities related to **electric mobility and integrated transport management** (e.g. charging infrastructure for private electric cars, electric public transport vehicles, bike infrastructure, car leasing, ferries/boats) can help reduce GHG emissions from the transport sector, which is a major contributor of GHG emissions in the ECS³⁷ with average emissions from the sector higher than the global average.³⁸ To ensure that the electrification of the transportation sector results in decarbonisation, it is important to increase the share of renewables in electricity generation. As mentioned above, the Article 6 programme being implemented in Dominica focuses on electric mobility. Of particular relevance to OECS MS is inter-island transport, such as in the context of the tourism sector, which can benefit from mitigation activities.

Finally, stakeholder interviews indicated **waste** as a potential sector with carbon market potential. Sustainable waste management systems are critical in island nations. Substandard waste management practices can result in serious damage to agriculture and fishing and ruin the natural beauty of Caribbean islands, on which the tourism industry relies. However, funding is inadequate to keep Caribbean waste management systems running in the face of increasing pressures on waste infrastructure.³⁹

4.2 What are the challenges?

To unlock the full potential of carbon markets and generate carbon credits, OECS MS must address several issues. First, the countries' limited

experience with carbon markets creates an entry barrier. Additionally, the small size of the OECS MS limits the scalability of projects, making it difficult to achieve the necessary volume of credits to be financially viable. However, multi-country Programmes of Activities (PoAs) can group small projects together and significantly reduce transaction costs and time and create economies of scale. PoAs can be of great relevance for the OECS MS – especially regarding energy-efficient cookstoves and off-grid and micro-grid solar appliances – because the programmatic approach can help reach the required scale of the mitigation activities.

Furthermore, the OECS MS are particularly vulnerable to natural disasters, which can damage infrastructure and disrupt the implementation of carbon projects. Hurricanes, in particular, can be exceptionally damaging to forest ecosystems,⁴⁰ increasing the risks associated with the permanence of nature-based projects. Carbon market activities with significant adaptation impacts can contribute to mitigating this challenge by building resilience to natural disasters.

The OECS MS also have limited MRV and carbon accounting capacity. Given the requirements for corresponding adjustments, Article 6 transactions require an adequate level of inventory granularity, in order to ensure that the country only authorises what it can afford to let go.

Operating costs are another consideration, and OECS MS can recuperate their operating costs through the introduction of fees under Article 6. OECS MS will face several types of operating costs for carbon market participation (e.g., carbon credit transactions, hiring national staff and ensuring the maintenance of institutional arrangements). These costs could be recuperated by introducing fees on registration and issuance, registry listing fees and a share of proceeds (authorisation or transfer fees). The revenue from these fees can then be used to cover administrative costs for host country governments.

Maintaining environmental integrity is also essential to ensure high prices and enhance the markets' reputation. Setting stricter criteria for carbon crediting, and aligning with international

³⁷ NDC Survey Report 2020 – Caribbean. Available [here](#).

³⁸ World Bank. How better transport will help Latin America get ahead of the climate crisis. Available [here](#).

³⁹ UNEP (2018) Caribbean Waste Management Regional Action Plan. Available [here](#).

⁴⁰ Eppinga et al. (2018), The impact of hurricanes Irma and Maria on the forest ecosystems of Saba and St. Eustatius, northern Caribbean. Available [here](#); and Voiland (2017), Why Caribbean Islands Went Brown And How Long Will They Stay That Way? Available [here](#).

carbon market integrity efforts (e.g., IC-VCM) can help achieve this.

The cross-institutional communications and the synergies between government agencies needed to engage with carbon markets represent an additional challenge for OECS MS, which suffer from a significant lack of capacity. Pooling resources at a regional level could help address these capacity gaps.

Despite the challenges mentioned earlier, the OECS MS possess competitive advantages that make them attractive for carbon projects. Firstly, OECS MS can **generate VCM credits** through the implementation of renewable energy and energy efficiency projects. To combat deforestation rates, reforestation and afforestation projects could be implemented in the region. Secondly, the **use of Programmes of Activities (PoAs)** can bundle small projects together, thereby significantly reducing project costs and time. So-called blended projects (i.e. funded via carbon finance and climate finance) in the VCM related to renewable energy deployment can create economies of scale and reduce transaction costs. Third, marketing credits that originate from SIDS as “high-quality” can provide a unique selling point for OECS MS within the carbon market. Public revenue can also be generated through the sale of carbon credits. Lastly, emerging technologies such as electric mobility can be integrated into carbon projects, diversifying the OECS countries’ carbon portfolios.

Towards a Caribbean Alliance

05

5.1 Getting ready for Article 6: an insurmountable obstacle?

Currently, OECS MS have limited experience with carbon markets and Article 6 in particular. To effectively use Article 6, countries must have in place “the capacities and systems, including a strategy, guiding principles, an institutional framework and related monitoring procedures and tools to make use of Article 6 collaboration in a way that suits their national context [...]”.⁴¹ Article 6 activities and carbon market transactions under the Paris Agreement thus need to be understood and accounted for in the context of a host country's NDC, and they need to be embedded within the overall NDC planning, accounting and reporting processes. Combined, these qualities are commonly understood as ‘Article 6 readiness’ or ‘Article 6 operationalisation.’ Several developed countries and development organisations have started to engage with (developing) countries to support their operationalisation of Article 6.

Because the Article 6 rulebook has only recently been completed, very few countries across the world have established their institutional frameworks for Article 6 participation, or for NDC accounting and reporting more broadly. Some initial steps towards Article 6 implementation have been taken in the Caribbean region such as individual bilateral agreements, though most are still at an early stage.

To start engaging with Article 6, host parties need to develop a strategy that clearly defines how Article 6 may contribute to achieving their NDC targets. Such a strategy should guide Article 6 Focal Points to:

- Clearly indicate the intention of the country to use Article 6.
- Ensure consistency on various levels to achieve effective NDC integration (i.e., implementation, reporting and governance).
- Foresee safeguards that generally apply to NDCs (i.e., provisions that prevent “overselling,” “double counting” and “hot air”, thus

safeguarding the environmental integrity of an Article 6 transaction).

Integrating the governance structure of the Article 6 strategy with overall governance of NDC implementation, reporting and updates is crucial. This integration can be achieved by ensuring that dedicated Article 6 staff within the Focal Point and/or the ministry are formally connected to other NDC-related personnel (e.g., through a seat on relevant committees, the same department, physically close offices, networks, etc.). Moreover, Article 6 staff should be well versed in other NDC-relevant areas, such as international climate finance, UNFCCC reporting or UNFCCC negotiations to understand the interdependencies.⁴²

As a first step, an effective assessment of current technical and institutional capacities in each member state is needed to establish and harmonise national frameworks and infrastructure. These activities include:⁴³

- Conduct SWOT analysis⁴⁴ for the potential use of existent institutional setup and evaluate its suitability for implementation for Article 6 activities highlighting institutional gaps faced with current systems in place.
- Assessment of legislative and policy gaps to do with authorisation and transfer of ITMOs.
- Draft guidelines and recommendations to fill the institutional, legislative and policy gaps towards article 6 implementation.

Article 6 oversight and implementation requires a broader and more complex set of institutional frameworks compared to the Kyoto Protocol carbon markets. Tracking NDC progress requires new and expanded institutional capacity, especially if the implementation also relies on carbon markets. Carbon market transactions under Article 6 require a governance structure that steers processes (e.g., ITMO authorisation procedure, accounting processes, etc.), and assigns responsibilities that relate to political and strategic decision-making, technical steering and oversight as well as administrative tasks.⁴⁵

⁴¹ Michaelowa, A. (2021). Promoting Article 6 readiness in NDCs and NDC implementation plans. Available [here](#).

⁴² Espelage, A. et al. (2022). Blueprint for Article 6 Readiness in member countries of the West African Alliance. Available [here](#)

⁴³ Eastern Africa Alliance on Carbon Markets and Climate Finance (2021). Revitalizing Eastern Africa's institutional capacity to engage in global carbon markets the synthesis report: Article 6 institutional and legal framework assessment in Eastern Africa. Available [here](#).

⁴⁴ A SWOT analysis identifies the Strengths, Weaknesses, Opportunities and Threats for strategic planning purposes.

⁴⁵ Ahonen, H. (2022). Capacity building for Article 6 cooperation: The way forward. Available [here](#)

When establishing these processes, governments must ensure that they adhere to the applicable Article 6.2 guidance and/or the rules of the Article 6.4 mechanism and that they are guided by the strategic objectives for Article 6 and the Article 6 policy.⁴⁶ Further information on the main tasks to be undertaken by the host Party to establish and formalise an institutional framework is available in **Annex II**.

The development of necessary capacities to implement these Article 6 activities requires time and resources. Relevant short-term, medium-term

and long-term processes are depicted in **Figure 2** outlining goals, activities and expected outcomes.⁴⁷

Considering their limited capacities and available national staff, OECS MS may find themselves overwhelmed by the amount of preparation needed to engage with Article 6. To overcome what may seem like insurmountable obstacles to individual countries, we propose a regional capacity-building approach that would pool resources together and create economies of scale, in the form of a Caribbean Alliance.

Figure 2: Actions to build Article 6 readiness.

	GOALS	ACTIVITIES	EXPECTED OUTCOMES
SHORT TERM	<ul style="list-style-type: none"> Secure political buy-in for Article 6 market mechanism Map conditional NDC target activities for Article 6 implementation Formalising UNFCCC participation requirements 	<ul style="list-style-type: none"> Implement stakeholders' consultation with Article 6, NDC, and private sector Identify high hanging activities with mitigation potential for Article 6 cooperative agreement Map UNFCCC compliance criteria needed for participation in Article 6 	<ul style="list-style-type: none"> Common consensus among key stakeholders with interests and roles in Article 6 achieved Sectoral activities with high mitigation reduction potential identified as eligible for Article 6 Participation formalities fulfilled and modalities for domestic readiness implemented
MEDIUM TERM	<ul style="list-style-type: none"> Setting up accounting, tracking, and reporting infrastructure for ITMOs National guidelines for commercial negotiations and participation of private sector Legal and institutional readiness for implementing Article 6 cooperative agreements 	<ul style="list-style-type: none"> Map capacity and training needs and opportunities for strengthening Implement joint stakeholders' workshop for the development of guidelines Map regulatory and institutional needs Implement legislative advocacy activities to secure legislative buy-in 	<ul style="list-style-type: none"> Relevant ITMO tracking and reporting infrastructure institutionalized Criteria guidelines for commercial contracts private sector participation developed Regulatory and legislative frameworks developed
LONG TERM	<ul style="list-style-type: none"> Implementation of Article 6 cooperative activity(ies) Authorisation, transfer, accounting, and reporting Re-negotiation of ITMO agreement Renewal of NDC implementation cycle 	<ul style="list-style-type: none"> Formalize an Article 6 cooperative activity agreement either as ITMO acquirer or seller party Implement activities including capacity building on corresponding adjustments Implement methodologies for accounting, NDC reporting, BTR reports Implement CDM transitioning 	<ul style="list-style-type: none"> Article 6 cooperative activity successfully implemented Host country has enhanced capacity for reporting, ITMO authorisation, use and accounting ITMO cooperative agreement re-negotiated

Source: Espelage, A et al. 2022

⁴⁶ Espelage, A. et al. (2022). Blueprint for Article 6 Readiness in member countries of the West African Alliance. Available [here](#)

⁴⁷ Espelage, A. et al. (2022). Blueprint for Article 6 Readiness in member countries of the West African Alliance. Available [here](#)

5.2 The case for a Caribbean Alliance: enhancing regional synergies

Based on experiences with Eastern and West African Alliances, the proposed Caribbean Alliance could foster the cooperation of the OECS MS to promote carbon market access and to mobilise climate finance. The proposed Caribbean Alliance would be a platform for countries to engage and work through common challenges together, facilitating more focused regional peer exchange and tailored capacity-building efforts aimed at strengthening institutional capacity and synergies across the region to attract carbon and climate finance.

A proposed **initial set of objectives and benefits of the Caribbean Alliance** may include:

- Enhance understanding of carbon markets and climate finance mobilisation and access in the region as it relates to the implementation of member countries' NDC;
- Provide technical support and capacity building to member countries through South-South peer exchanges and production of knowledge resources for Article 6 readiness and pilot activities in the region;
- Identify and address specific country and regional needs considering the specific circumstances of OECS MS, including further cooperation with other SIDS.

Specific objectives for the Alliance may evolve based on member country priorities and do not need to be exhaustively defined in advance. Additional objectives may, for example, include coordination at climate negotiations on carbon markets and climate finance.

Stakeholders' interviews, conducted to gather insights on the potential of a Caribbean Alliance, pointed to several overlapping regional cooperation initiatives. Interviewees expressed caution regarding the creation of another, potentially competing, forum, which would have to carve a space for itself and forge relations across the region ex-novo. For this reason, it may be more appropriate to establish such an Alliance as a project hosted by the OECS, which would allow the Alliance to benefit from pre-existing networks, and

potentially more easily take advantage of funding opportunities.

There are both new and long-established initiatives and organisations that focus their capacity-building efforts on strengthening the Article 6 readiness of market actors. Hence, it is important to understand and coordinate any prospective efforts of the Caribbean Alliance with ongoing or planned Article 6 capacity-building initiatives. The UNFCCC established Regional Collaboration Centres (RCCs) have supported national climate action through capacity building, technical assistance and strategic networking for Article 6 activities. These efforts had an initial focus on the CDM, which gradually expanded over time and are now increasingly focusing on Article 6.⁴⁸ For the Caribbean, RCC Grenada works to identify appropriate types of capacity-building needs and enhances technical capacity for Article 6 implementation. To do this, the RCC engages the parties together in dialogues and exchanges that strengthen the knowledge of Article 6 activities, as well as ensures the availability of well-structured and understandable information on Article 6 infrastructure. These activities are aimed at equipping relevant government representatives and policy-makers with knowledge and technical expertise to make decisions related to their country's participation in Article 6.

Capacity building is fundamental both to achieving the objectives of the Paris Agreement and host country NDC implementation. As already mentioned, engaging in international carbon markets and accessing international climate finance requires strengthening institutional capacities both of governments to regulate and incentivise carbon market activities and of private sector actors to engage in such activities. Recognising this need, COP26 not only agreed on multilateral Article 6 rules, but also recognised and mandated a capacity-building program for developing countries to enable them to participate in these instruments.⁴⁹ Moreover, the COP26 Presidency also facilitated a comprehensive outreach effort on capacity building needs that also provided key lessons learned and recommendations for Article 6 capacity-building.⁵⁰ This capacity building program will be implemented by UNFCCC Regional Collaboration Centres, but also bi- and multilateral development partners. Additionally, sustainable capacity building activities need to be country-driven,

⁴⁸ UNFCCC (n.d.). Regional Collaboration Centres. Available [here](#).

⁴⁹ UNFCCC (2021). Decision -/CP.26 Glasgow Climate Pact. Available [here](#)

⁵⁰ COP26 catalyst (2021). Action Recommendations on Capacity Building for Participation in Carbon Markets. Available [here](#).

anchored with national stakeholders, and relevant to development institutions and international partners.

The African sister Alliances (WAA/EAA) have been established in very close cooperation with the African RCCs based in Kampala and Lomé. OECS MS can benefit from a broader reflection on the Eastern and West African Alliances' past experiences and future requirements, through a dialogue with regional peers that have been able to generate more comprehensive experience with carbon market activities. The Alliances are well placed to facilitate peer exchanges to discuss views, experiences and best practices among their member states. Since most African countries and OECS MS face similar challenges and open questions, leading frontrunner countries (such as Uganda and Ghana) can offer significant capacity-building experience and lessons, while also benefiting from the technical assistance and expertise on Article 6 activities which a potential Caribbean Alliance can mobilise.

The three Alliances (i.e., EAA, WAA and a potential Caribbean Alliance) could co-host and partner side events at international conferences. There, the Alliances could help shape multilateral rules by providing inputs on global processes based on their regional experiences. Participation at such conferences could also help attract financing and practical initiatives to help countries achieve conditional NDC targets and enhance their overall ambition.

Synergies with other bi- and multilateral Article 6 readiness and implementation-focused initiatives (e.g., the KliK Foundation in Dominica, the Swedish Energy Agency in the Dominican Republic) could bring technical assistance for Article 6 readiness and implementation.

Conclusions and recommendations

06

Though they are especially vulnerable to climate change impacts, Caribbean countries have significant mitigation potential that is reflected in their ambitious NDCs. It is only through adequate finance flows that OECS MS will be able to achieve their NDC goals. However, the current climate finance going to the region is insufficient. Further, alternative funding instruments such as carbon markets have not yet been exploited to their full potential. Engaging with carbon markets requires significant capacity building, especially considering Article 6's requirement for corresponding adjustments and its various accounting and reporting rules. The need for capacity building is especially true for OECS countries, which have considerable capacity gaps.

The African sister alliances have set precedents over how regional cooperation can be achieved while constructively involving various stakeholders such as the UNFCCC RCCs, Alliance coordinators, technical partners and development partners in providing capacity building as well as highlighting the importance of private sector engagement. As the Article 6 implementation activities gain momentum, it is crucial that the OECS MS establish regional cooperation to achieve scale through aggregation, in addition to facilitating peer exchange on common challenges and best practices.

We, therefore, provide the following recommendations to OECS MS to gain another instrument in their NDC implementation toolbox:

1. Using the existing structures of the OECS

The creation of a Caribbean Alliance, situated within the OECS structure, would avoid duplication of efforts and leverage existing resources. The Caribbean Alliance would appear to be best positioned under OECS, which primarily focuses on smaller Eastern Caribbean Islands. The OECS aims to create a single economic and financial space and benefits from an administrative and technical body providing policy direction to its members. While there is overlap in membership and objectives, CARICOM and other fora have a broader geographical scope and role that might not adequately address regional needs, challenges and the specific OECS MS circumstances.

2. Harnessing synergies through a Caribbean Alliance

A Caribbean Alliance will aim at supporting the implementation of the regional and national carbon market strategies and provide regular monitoring and evaluation of progress towards these objectives.

a. Providing country-tailored capacity building activities

The Caribbean Alliance could steer a tailored capacity-building programme to enhance the technical expertise and knowledge of government representatives and policy-makers to make informed decisions related to their country's participation in Article 6, identify sectors with high mitigation potential, unlock finance for the scale-up of carbon mitigation projects and share best practices from member states and sister Alliances. Concretely, a Caribbean Alliance could, for instance, develop templates for carbon market frameworks and Article 6 transactions, harmonising procedures across the region.

b. Pooling resources for infrastructure needs

OECS MS have limited resources, which can be maximised by pooling them. The Caribbean Alliance would provide a regional platform to pool regional resources for infrastructure needs (such as for a regional carbon registry and/or for regional GHG data collection), reducing the costs for individual member states.

c. Testing the ground for a regional NDC

The Caribbean Alliance could open more opportunities for regional climate cooperation, by serving as a stepping stone towards a regional NDC under the UNFCCC.

3. Develop a regional Article 6 strategy

a. Taking advantage of PoAs

The small size of OECS MS poses a significant challenge for them to effectively leverage carbon markets. However, by implementing inter-OECS MS Programme of Activities, the mitigation potential of OECS MS can be unlocked through the scaling up

of micro/small-scale activities supporting common NDC priorities.

the achievement of the OECS MS NDC targets and broader sustainable development goals.

b. Marketing OECS ITMOs as high-quality

The focus would be on marketing Internationally Transferred Mitigation Outcomes (ITMOs) as high-quality and high-impact, resulting in higher prices. ITMOs (and VCM credits) generated in the OECS should become synonymous with high integrity and adaptation benefits. OECS MS could engage with buyers to design Article 6 cooperative approaches that reduce emissions and increase resilience.

4. Focus on high-impact mitigation activities

a. Increasing adaptation and resilience

One way of strengthening adaptation benefits from Article 6 transactions would be for OECS MS to approve activities with strong adaptation co-benefits, such as decentralised renewables, microgrids, cycling infrastructure and retrofitting buildings. In addition, the revenues earned from carbon markets could also be earmarked for local adaptation activities via fees on registration, issuance and authorisation of credits through an adaptation share of proceeds.

b. Making the tourism industry greener

Integrating carbon markets and sustainable practices into the tourism sector in OECS MS can bring multiple benefits, including environmental conservation, economic advantages, enhanced reputation and increased attractiveness to eco-conscious travellers. This could be achieved by implementing activities for more sustainable sea-transport, e-mobility and waste management, to protect and preserve the natural resources and landscapes of the islands and further improve their reputation as a top tourist destination, supporting a key sector in OECS MS.

Overall, the establishment of a Caribbean Alliance focused on Article 6 implementation and VCM participation could strengthen regional and international cooperation and coordination, enhance technical expertise and knowledge and contribute to

Annex

Annex I: Breakdown of unconditional and conditional NDC targets

OECS MEMBER STATE	NDC YEAR	ARTICLE 6	UNCONDITIONAL MITIGATION TARGET(S)	CONDITIONAL MITIGATION TARGET(S)	SECTORS COVERED BY THE NDC
Antigua and Barbuda	2021	Yes	-	86% renewable energy generation from local resources in the electricity sectors (2030) 100% all new vehicles sales to be electric (2030)	Energy (including transport) Waste Agriculture, Forestry and Other Land Use (AFOLU)
Dominica	2022	Yes	-	-45% GHG emissions by 2030 below 2014 levels 100% renewable energy by 2030	Energy Industries Agriculture Transport Manufacturing & Construction Commercial/Institutional, Residential, Fishing Solid Waste LULUCF
Grenada	2020	Yes	-	-40% GHG emissions by 2030 below 2010 levels	Energy (including domestic transport) Forestry Waste Industrial processes and product use (Cooling sector)
Saint Kitts and Nevis	2021	Yes	-	-61% GHG emissions by 2030 below 2010 100% renewable energy in power generation by 2030	All sectors, with a focus on the energy sector (power generation and transportation)
Saint Lucia	2021	-	-7% by 2030 below 2010 levels (energy sector)	-	Energy: electricity generation and transportation
Saint Vincent and the Grenadines	2016 (INDC)	Yes	-22% by 2025 below BAU	-	Energy (including domestic transport) Industrial processes and product use Agriculture Land use, land use change and forestry Waste

Source: authors, based on [NDCs](#)

Annex II: Main tasks to be undertaken by the host Party to establish and formalise an institutional framework.

Table 2: Actions to build Article 6 readiness.

ARTICLE 6.2	ARTICLE 6.4 MECHANISM
Designate the relevant authorities and mandates to engage in cooperative approaches	Designate a national authority to the mechanism
Preparing, communicating, and maintaining NDC	Preparing, communicating, and maintaining NDC
Setting approval criteria for activities to ensure they contribute to achievement of NDCs and LEDS	Setting approval criteria for activities to ensure they contribute to achievement of NDCs and LEDS as well as to sustainable development
Compiling and submitting the most recent NIR	Communicate which methodological approaches are deemed appropriate (optional)
Negotiating and concluding bilateral agreements	Approving crediting period and renewal of crediting periods
Approving methodologies, standards, and guidelines	Approval and authorization of public or private entities to be activity participants
Reviewing and registering activities (registry)	Authorizing A6.4ERs and their uses
Authorizing ITMOs	Ensuring the application of Article 6.2 guidance, including reporting requirements, when A6.4ERs are authorized for international transfer
Certification and issuing ITMOs	
Maintaining a registry to track ITMOs	
Executing transfer of ITMOs	
Application of corresponding adjustments	
Reporting of BTRs, Initial report, annual information, and regular information (also applicable for A6.4 units authorized for international transfer)	
Accrediting independent third-party reviewers to perform validation and verification	
Setting up an appeal and grievances process	

Source: Espelage, A et al. 2022

