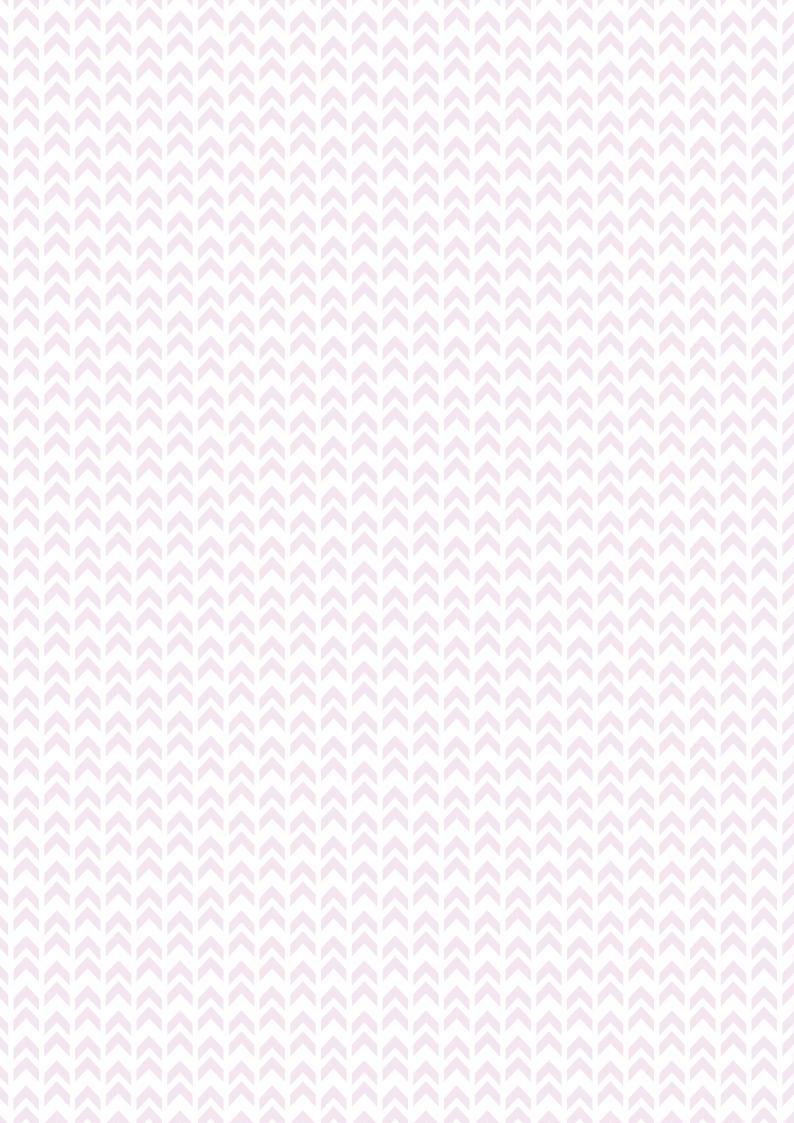
2024 The least developed countries report

Leveraging carbon markets for development

OVERVIEW





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Foreword



As the world seeks innovative solutions to address the climate and finance crisis simultaneously and achieve the Sustainable Development Goals, carbon markets have emerged as a beacon of hope. These markets are seen as enablers of climate ambition and catalysts of capital flows towards developing countries, offering a promising pathway to unlock sustainable development. As carbon markets take shape, in line with Article 6 of the Paris Agreement, and initiatives to enhance the integrity of the voluntary carbon market emerge, we are stepping into a future filled with potential and pitfalls.

At this critical stage, *The Least Developed Countries Report 2024: Leveraging Carbon Markets for Development* tackles the essential and timely questions of whether, and to what extent, carbon markets can contribute to green structural transformation in the least developed countries. These countries have contributed only marginally to the climate crisis but are among the most climate-vulnerable countries in the world. Most least developed countries are small emitters of greenhouse gases, yet they have chosen to play an active part in the global response to climate change by setting ambitious targets in their nationally determined contributions. This presents challenges and opens up opportunities for synergies and building bridges across policy areas.

This report serves as a beacon of clarity through data-driven analysis and case studies, highlighting the current state of play and the future potential of carbon markets to mobilize finance and undertake mitigation of greenhouse gases in the least developed countries. The institutional requirements and technical capacities necessary for least developed countries to benefit from these markets are examined, while associated challenges and risks are highlighted. Furthermore,

the report equips policymakers, climate negotiators and development practitioners with an evidence base and deeper understanding of the implications of participating in international carbon markets and conveys the importance of alignment with domestic policy priorities. In doing so, the report provides much needed clarity about what carbon markets can and cannot achieve in the least developed countries, empowering policymakers with comprehensive knowledge.

The analysis presented in the report shows that carbon markets are not a panacea that can solve the pressing issue of financing sustainable development in the least developed countries. They are not a substitute for official development assistance or for climate finance flows – particularly for adaptation, which is these countries' priority. Carbon markets represent one tool in the toolbox that can expand the range of options available for the least developed countries to implement their own plans for green structural transformation, while contributing to global efforts to limit greenhouse gas emissions.

This report delves into the potential of carbon markets as a catalyst for the economic development of the least developed countries. It explores how these countries can integrate carbon trading into their economic strategies, ensuring that environmental sustainability and economic growth go hand in hand. By examining case studies, best practices and policy recommendations, the report provides a comprehensive road map for the least developed countries to capitalize on the opportunities presented by carbon markets.

Rebeca Grynspan Secretary-General of UNCTAD



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Introduction

To achieve the Sustainable Development Goals in the least developed countries (LDCs), solutions are needed to bridge the divides between economic growth and climate action, between deep pools of private capital in developed countries and unmet financing needs in LDCs and between structural transformation and nature conservation. Carbon markets are seen by many as one possible response to these challenges.

Many LDCs participate in existing carbon markets and are among the early movers in emerging carbon trading arrangements under Article 6 of the Paris Agreement on climate change. This begs the question of whether and how LDCs can effectively leverage these markets to address their unique challenges and contribute to global efforts to mitigate climate change.

The Least Developed Countries Report 2024: Leveraging Carbon Markets for Development examines the opportunities and challenges LDCs face within the evolving carbon market landscape, and the potential of carbon markets to mobilize capital flows and serve as catalysts for sustainable development in LDCs. The report is timely, given that carbon markets are entering a new phase, even as climate negotiators are finalizing the detailed rules for those markets under Article 6 of the Paris Agreement. Meanwhile, amid criticisms of greenwashing, initiatives are emerging to strengthen the integrity and quality of carbon credits and related corporate claims in voluntary carbon markets.

The report highlights the current participation of LDCs in carbon markets and its future potential, identifies opportunities and risks and provides recommendations for policymakers and climate negotiators in LDCs and their development partners to consider in order to maximize the benefits of carbon markets for LDCs.

The report presents an analysis of how LDCs can effectively leverage carbon markets under Article 6 mechanisms

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Carbon markets and sustainable development: Bridging economic, environmental and technological divides

The global carbon market is fragmented and includes both private and public actors. On the one hand, carbon trading is a feature of the global climate regime under the Paris Agreement (figure 1). On the other hand, private companies are tapping into voluntary carbon markets to offset parts of their own emissions and substantiate their claims of being climate-friendly (figure 2). LDCs are also participating in various carbon markets and have plans to expand their engagement. Therefore, it is crucial to understand the role of carbon markets and how they could be leveraged to benefit LDCs.

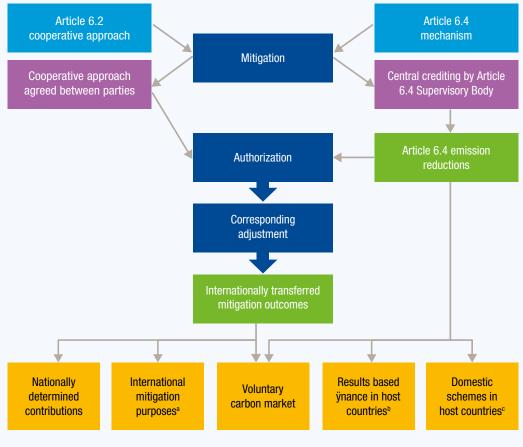
From its beginnings in the early 2000s to 2021, the voluntary carbon market witnessed rapid growth (figure 3). In 2021, issuances peaked at 362 megatons of carbon dioxide (CO_2)-equivalent, after which they dropped in two consecutive years to reach 308 megatons of CO_2 -equivalent in 2023. Volumes of carbon credits used to offset environmental impacts peaked in 2022, at 183 megatons of CO_2 -equivalent, before dropping to 174 megatons of CO_2 -equivalent in 2023. Claims of corporate greenwashing and criticism of the integrity of carbon credits contributed to the fall in demand and prices that year. Ultimately, carbon credits derive their value from the trust of buyers in their underlying projects – a trust that is based on the credibility and robustness of certification standards.

The quality of carbon credits depends on the credibility of underlying projects and the robustness of certification standards



Article 6 gives rise to two separate but related crediting schemes

Carbon crediting under Article 6 of the Paris Agreement



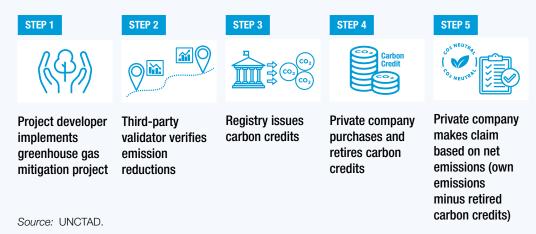
Source: UNCTAD.

Note: ^a For example, the Carbon Offsetting and Reduction Scheme for International Aviation. ^b For example, a grant agreement with a donor. ^c For example, domestic emissions trading system or carbon tax.



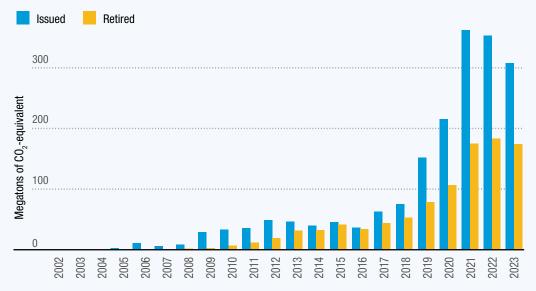
Figure 2

Companies use carbon credits to offset their own emissions



Growth in voluntary carbon markets takes a hit from ebbing confidence

Issued and retired carbon credits in the voluntary carbon market



Source: UNCTAD, based on data in the Voluntary Carbon Market (VCM) Dashboard of Climate Focus (updated 8 March 2024), available at https://climatefocus.com/initiatives/voluntary-carbon-market-dashboard/ (accessed 10 March 2024).





2.

Carbon market participation: Opportunities, challenges and pitfalls

Carbon market activities are highly concentrated within the LDC group (figure 4). As at May 2024, the six largest LDC host countries – Bangladesh, Cambodia, the Democratic Republic of the Congo, Malawi, Uganda and Zambia – jointly accounted for 75 per cent of all carbon credits issued in the voluntary carbon market from LDC-hosted projects. Concentration of participation under the Clean Development Mechanism (which accepted new projects from 2001 to 2020) was even higher, with the six largest host countries – Bangladesh, Cambodia, Malawi, Myanmar, Nepal and Uganda – accounting for 80 per cent of all credits from LDC-hosted projects.

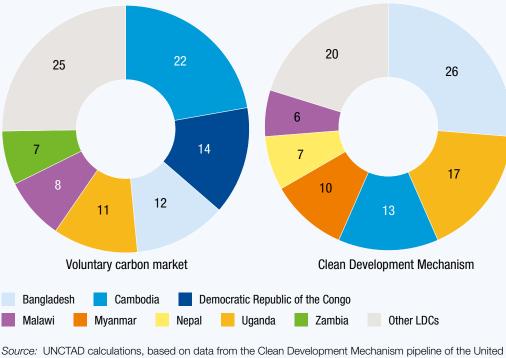
Thus far, carbon markets have not unlocked substantial financial resources for LDCs compared to other external finance flows such as remittances, official development assistance and foreign direct investment. In 2023, the estimated market value of LDC-sourced carbon credits was \$403 million. This corresponds to about 1 per cent of net bilateral official development assistance flows from traditional donors (figure 5).

LDCs have significant unused potential for land-based mitigation of greenhouse gases (GHGs) (figure 6), primarily through forest protection and sustainable agricultural practices. From 2020 to 2023, the average annual volume of land-based credits issued in LDCs amounted to just

Carbon market activities are highly concentrated among the least developed countries

Shares of major least developed country participants in total credits issued to these countries, as of May 2024

(Percentage)



Source: UNCTAD calculations, based on data from the Clean Development Mechanism pipeline of the United Nations Environment Programme and the registries of the Gold Standard, Verra, Plan Vivo and Climate Forward.

Note: Percentages may not total 100 due to rounding.

2 per cent of the cost-effective potential, due to low project feasibility and low carbon credit prices. Adjusted for feasibility, the annual cost-effective mitigation potential – assuming a price of \$100 per ton of CO_2 -equivalent, which guarantees acceptable economic rates of return on land-based carbon project investments – represents 70 per cent of the global aviation industry's CO_2 emissions in 2019 or about 2 per cent of global anthropogenic CO_2 emissions.

UNCTAD simulations suggest that, without substantial increases in carbon prices, only a small fraction of LDCs' land-based mitigation potential will be realized. For instance, if carbon credit prices plateau at \$10 per ton of CO_2 -equivalent, 97 per cent of the mitigation potential would remain untapped until 2050. This underutilization represents a significant missed opportunity for LDCs to contribute to global GHG mitigation.

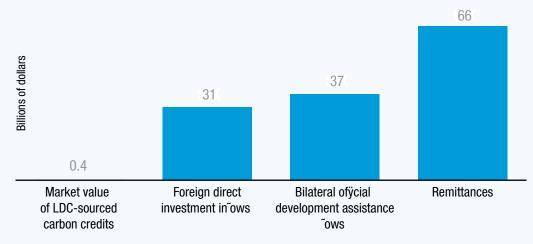
Even in a highly optimistic scenario, where the price for land-based carbon credits reaches \$100 per ton of CO₂-equivalent, carbon markets would play only a minor role in meeting LDCs' financing needs for achieving their Sustainable Development Goals (figure 7). Moreover, the market value of carbon credits does not represent the actual size of financial transfers to the LDC host countries of underlying projects, since significant shares of the value created by the mitigation activities are taken by brokers, resellers and other intermediaries operating in those markets.

A minimal carbon credit price is critical for the feasibility of potential landbased projects in forestry and agriculture in LDCs



Carbon credits have a smaller market value than other external flows to least developed countries

Value of carbon credits compared with other external flows to least developed countries, 2023

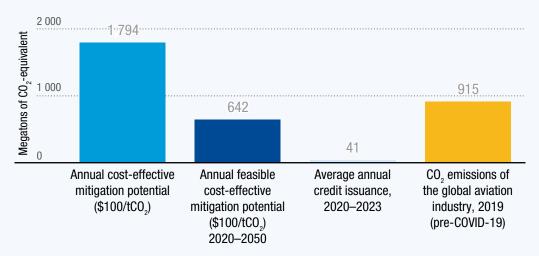


Source: UNCTAD calculations, based on data from the Clean Development Mechanism pipeline of the United Nations Environment Programme, Forest Trends' Ecosystem Marketplace, 2021, 2022, 2023, 2024, State of the Voluntary Carbon Markets 2021-2024, Forest Trends Association, Washington, DC, the Organisation for Economic Co-operation and Development, 2024, ODA Levels in 2023 – preliminary data: Detailed summary note, Paris, the United Nations Framework Convention on Climate Change, 2024, United Nations platform for voluntary cancellation of certified emission reductions (1 January to 31 December 2023), Bonn, World Bank, World Development Indicators, available at https://databank. worldbank.org/source/world-development-indicators (accessed 10 July 2024) and registries of the Gold Standard, Verra, Plan Vivo and Climate Forward.

Figure 6

Carbon markets have unlocked only a small share of the land-based mitigation potential in least developed countries

Land-based mitigation potential compared with credit issuance in least developed countries

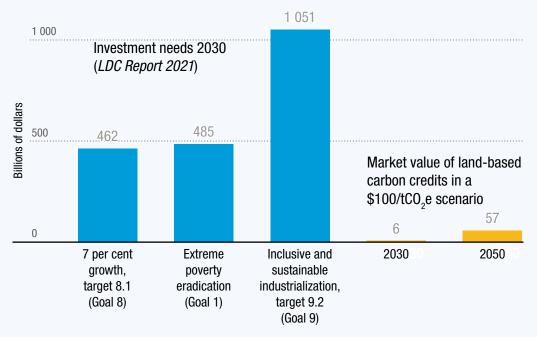


Source: UNCTAD calculation, based on data from International Civil Aviation Organization, 2022, *Environmental Report 2022*, Ottawa, Roe S et al., 2021, Land-based measures to mitigate climate change: Potential and feasibility by country, Global Change *Biology*, 27(23):6025–6058, and registries of the Gold Standard, Verra, Plan Vivo and Climate Forward



Carbon markets fall far short of the financing needs of the least developed countries

Investment needs of least developed countries to meet key Sustainable Development Goals versus projected market value of carbon credits, 2030 and 2050



Source: The simulation results shown by the yellow bars are based on a scenario where carbon credit prices for land-based mitigation increase to \$100 by 2050, with the midpoint of \$50 being reached in 2035.

Carbon projects currently provide only a minor contribution towards meeting the enormous investment needs of LDCs' energy sectors. These countries are among those with the lowest electrification rates, and they have a long way to go before they reach Sustainable Development Goal 7, which calls for access to affordable and clean energy (figure 8). For this, they will require enormous investments in energy infrastructure and supply projects. Some of those investments could be financed by carbon projects. However, there are currently few, if any, such projects in LDCs' energy sectors.

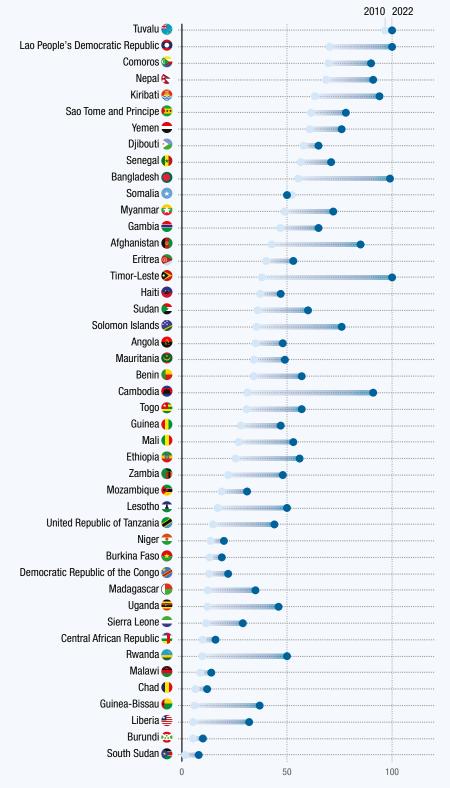
Both large potential and political ambition exist to expand renewable energy in LDCs to meet their growing energy needs. In their nationally determined contributions, the LDCs have committed to a combined 105 gigawatts (GWs) of renewable installed capacity by 2030, which is more than double the 47 GWs installed in 2023. Large investments, underpinned by a massive surge of financial flows towards the renewable energy sectors of LDCs, will be necessary to achieve these targets.

LDCs, like most other developing economies, are typically host countries of mitigation projects (i.e. on the supply side of the Article 6 carbon market), while the majority of buyers of internationally transferred mitigation outcomes are developed countries. From the buyers' perspective, the benefits are clear: they acquire internationally transferred mitigation outcomes in order to achieve nationally determined contribution targets at lower costs, because the mitigation costs in their countries are higher than in the host countries.

From the host country's perspective, the impacts are less straightforward, as internationally transferred mitigation outcomes trigger a corresponding adjustment to the host country's

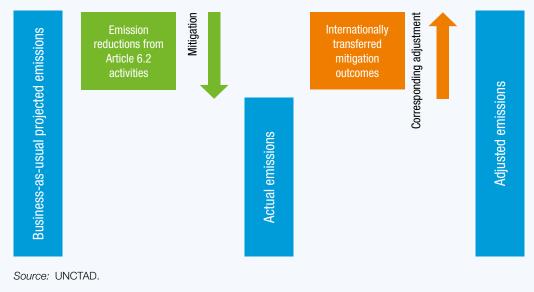
Access to electricity in least developed countries remains a major challenge despite recent progress

Percentage of the population



Source: UNCTAD, based on data from the United Nations Sustainable Development Goal Indicators Database, available at https://unstats.un.org/sdgs/dataportal (accessed 5 June 2024).

The transfer of internationally transferred mitigation outcomes leads to upwards adjustment of an exporting country's emissions



emissions. Consequently, adjusted emissions reported by the host country are higher than actual emissions (figure 9), while the opposite is true for the buyer country. This raises several questions for the host country regarding its climate policy, nationally determined contribution design and the timing of internationally transferred mitigation outcome transfers.

The host country does not have to compensate for the sale of internationally transferred mitigation outcomes. However, since the emission reductions that are transferred are not counted towards its nationally determined contribution, the transferring country has to implement additional (potentially more complex and/or more expensive) mitigation activities to achieve its own nationally determined contribution targets.

LDC participation in internationally transferred mitigation outcomes triggers tradeoffs that could entail higher costs of meeting their future mitigation targets



3.

The road to Article 6: Drawing lessons from the experiences of some least developed countries

Evidence that LDCs have accumulated valuable capabilities from hosting carbon projects under the Kyoto Protocol, which could help smoothen their transition to the new Article 6 mechanism or unlock greater flows of development finance, is lacking.

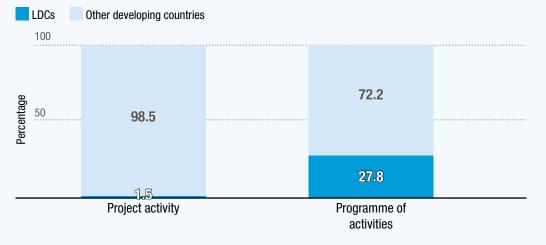
The LDCs' low stage of development and historical disadvantage in attracting foreign direct investment precluded them from equal participation in the Kyoto Protocol's Clean Development Mechanism. High project registration costs and the short commitment periods of the Kyoto Protocol imposed additional barriers to participation by these countries. This led to the uneven distribution of carbon projects across developing countries, including LDCs, throughout the implementation of the Clean Development Mechanism.

Out of a total of 7,842 Clean Development Mechanism projects registered as at 31 December 2023, the 45 LDCs remaining in 2024 accounted for only 1.5 per cent (figure 10). Some years after the launch of the mechanism, measures were introduced to encourage greater participation by the LDCs. These included, in particular, extending loans for mechanism-related transaction costs, the granting by the European Union of preferential access to certified emission reduction imports from Clean Development Mechanism projects in LDCs to the European



Participation by least developed countries in the Clean Development Mechanism has been low

Share of least developed countries in total registered projects



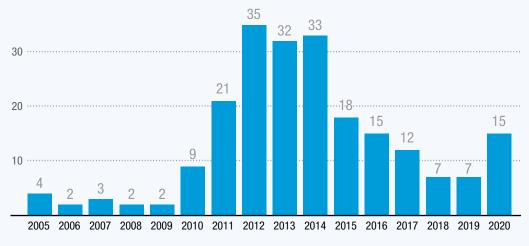
Source: UNCTAD calculations, based on data from the UNEP Copenhagen Climate Centre database, available at https://unepccc.org/cdm-ji-pipeline/ (accessed May 2024).



Figure 11

External shocks impacted the trajectory of participation of least developed countries

LDC-hosted projects registered under the Clean Development Mechanism



Source: UNCTAD calculations, based on data from the United Nations Environment Programme, Copenhagen Climate Centre database, available at https://unepccc.org/cdm-ji-pipeline/ (accessed May 2024).

Note: Programmes of activities that span more than one country are counted once.

Note: Programmes of activities that span more than one country are counted for each participating country.

carbon market, and allowing the grouping together of micro and small-scale certified emission reduction-producing activities (i.e. transforming various small-scale project activities into a single programme of activities) in order to lower transaction costs. However, these measures failed to overcome the structural biases that constrained LDC participation.

Over the lifetime of the Kyoto Protocol's Clean Development Mechanism implementation (2004–2020), LDCs registered a total of 217 mechanism projects, the majority of which they implemented during 2013–2020 – the second commitment period of the Protocol.

Three major events marked the trajectory of LDC participation in the Clean Development Mechanism. The first was the generalized ban on certified emission reduction imports from non-LDC projects registered after 2012, which was announced by the European Union in 2003. The second was the concerted efforts, beginning in 2009, which aimed at boosting LDC participation in implementing the Kyoto Protocol. The third was the "carbon panic" of 2012, when the certified emission reduction pricing mechanism broke down, causing prices to plummet from a peak of \in 25 per ton of CO₂-equivalent in 2008 to \in 0.05 per ton of CO₂-equivalent in 2012. The delayed impact of these three events is illustrated in figure 11. From 2010 through 2014, it is likely that the momentum generated by the various support measures aimed at incentivizing LDC participation since 2009 succeeded in boosting registrations for projects hosted in LDCs, despite the "carbon panic".

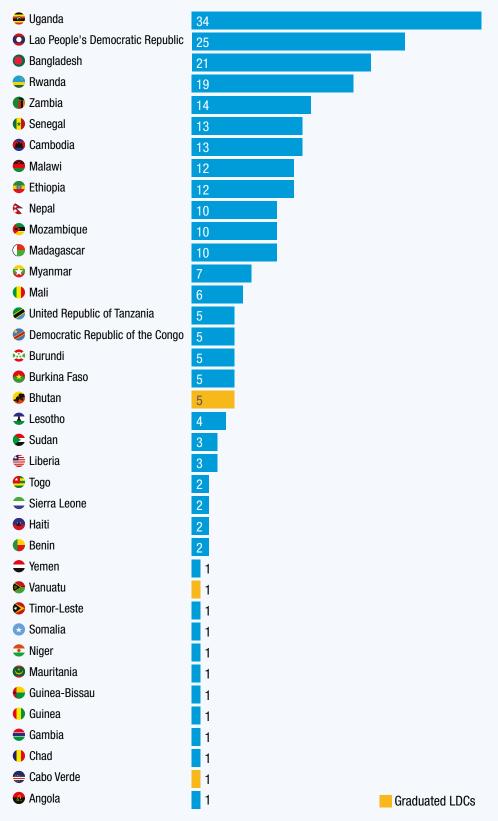
Of the 45 LDCs remaining in 2024, 71 per cent (32 countries) have some experience of Clean Development Mechanism implementation, of which 53 per cent (17 countries) registered less than 5 projects each over the lifetime of Kyoto Protocol implementation. Overall, 22 per cent of the 45 LDCs (10 countries) registered only one Clean Development Mechanism project (figure 12): four of them (Chad, the Gambia, Mauritania and Somalia) registered their project during the first commitment period (2004–2012), and the remaining six (Angola, Guinea, Guinea-Bissau, Niger, Timor-Leste and Yemen) during the second commitment period (2013–2020). Guinea and Guinea-Bissau registered their first projects in 2020. The data show that Clean Development Mechanism implementation was concentrated in 12 LDCs, accounting for over 70 per cent of all projects in the 45 LDCs remaining in 2024. Thus, only 12 of them can be assumed to have more than just a passing knowledge of mechanism processes.

A selection of case studies on the experience of LDCs as hosts of carbon projects under the Kyoto Protocol over the period 2005-2020 was prepared for the report. A review of the case studies suggests that LDCs that have hosted carbon projects are unlikely to have acquired meaningful know-how for the design, development and verification of carbon projects. This is due not only to the limited number of projects, but also to the way they have been implemented. The design of the Clean Development Mechanism and voluntary carbon markets, by default, relegated LDC national and local authorities to an arm's-length relationship with carbon projects and their developers. Project design, checking and enforcement of agreements or carbon market rules were largely outsourced to the project developer, with little or no active participation of LDC institutions.

More importantly, the case studies indicate that carbon projects do not necessarily guarantee a net injection of foreign capital into host countries, either by way of initial funds invested in carbon projects or through equitable shares in the revenues generated through the sale of certified carbon credits. The lack of a net gain in development finance is not necessarily compensated by project co-benefits, such as transfer of technological capabilities, building of institutional capabilities or contributions to meeting specific Sustainable Development Goals. Moreover, inherent weaknesses in LDC oversight institutions engender the risk of poorly implemented carbon projects that could potentially lead to abusing the human rights of population segments affected by those projects.

Past carbon project experiences have not adequately equipped LDC authorities for the evolved carbon market rules of engagement under Article 6

Number of Clean Development Mechanism projects registered by each least developed country





Note: Programmes of activities that span more than one country are counted for each participating country.



Carbon markets and implications for domestic policies and institutions

Carbon markets are a complex system, requiring the State to take a lead role in international cooperation and carbon trade Carbon markets are a complex system, requiring a State to take a leading role in international cooperation and carbon trade. This involves the State's active participation in voluntary collaboration between countries, including in relation to internationally transferred mitigation outcomes (Article 6.2) and international carbon trading under the supervision of a global oversight body (Article 6.4). The State's involvement in voluntary cooperation also extends to non-market approaches, which are crucial for scaling up the implementation of mitigation and adaptation actions, and may include cooperative actions on finance, technology transfer and capacitybuilding among Parties to the Paris Agreement (Article 6.8).

Choosing whether to participate in a compliance carbon market or a voluntary carbon market is a complex decision, as it involves significant socioeconomic trade-offs. Compliance carbon markets are regulated by mandatory national, regional or international carbon reduction regimes that aim at reducing society's GHG emissions by means of legislation and regulation. On the other hand, voluntary carbon markets are governed by independent standards developed by nongovernmental organizations and private sector institutions. While some transactions in voluntary carbon markets overlap with compliance jurisdictions governed by national or supranational regional regulatory frameworks, a large proportion of those transactions are conducted in selfregulated markets.

An analysis of the enabling legislation of developing countries that have established compliance carbon markets shows that environmental laws are critical to the institutional set-up of the carbon market. The laws provide a detailed description of the pollution, waste and GHG emissions that are regulated, the sources of GHG emissions subject to regulation, the entities covered by the regulation, and how the regulations are applied. The regulations also assign roles to specific State authorities for the smooth operation of the markets and application of the law. Compliance regimes may also use other market-based instruments such as carbon taxes, performance standards and other market-based incentives, depending on national policy goals and other considerations. Combined with a cap-and-trade system, a carbon tax may be used as a price adjustment mechanism for entities whose emission performance exceeds certain thresholds, or as policy tool to cover activities outside the cap-and-trade system.

The governance features of the crediting standards are central to ensuring the environmental integrity and accountability of major players in the carbon trade. The assortment of standards bodies that administer crediting systems in voluntary carbon markets raises issues concerning environmental integrity, the diversity of underlying methodologies and crediting approaches. As a result, it is difficult to achieve alignment between bottom-up and top-down carbon market governance mechanisms. A more stringent global mitigation framework, such as the one proposed under Article 6.4, may shrink the non-capped environment and foster an environment for more accurate carbon pricing. Negotiations among the Parties and further guidance and rules on Article 6.2 and 6.4 will have long-term implications for the transparency and quality of these markets, with potential knock-on effects on the ambitions of nationally determined contributions.

Article 6 has specific infrastructure requirements for participating members. It also demands rigorous reporting and tracking of mitigation outcomes. For instance, the national or designated national authority must publicly indicate to the Supervisory Body the type of Article 6.4 activities and sectors it would consider approving in line with national priorities. These activities necessitate a dedicated government institution to operationalize national registries for Article 6.2 and Article 6.4 mechanisms and manage reporting requirements under the mechanisms. Countries must establish robust monitoring, reporting and verification protocols that are less susceptible to manipulation; hence, there is a need to identify the prerequisites and map out pathways that strategically respond to national priorities. The necessary infrastructure and capabilities for these highly technical functions are expensive and require upfront investments and technologies that may not be readily available, or applicable, in countries with limited experience in climate change mitigation or climate policy instruments. Some LDCs have already taken action to review policies and regulatory frameworks in readiness for Article 6 implementation.

LDCs should also take advantage of the facilitation available through various mechanisms of the Agreement to assess their readiness and address gaps in policies, institutions, regulations, finance, technology and infrastructure. However, the finance generated by carbon markets should not be regarded as a replacement for climate finance, because those markets' operations are not based on the principle of common but differentiated responsibilities. Furthermore, LDCs should pursue tighter regulations of voluntary carbon markets, particularly with regard to the profits accruing to brokers and intermediaries. They should also consider adopting a regional approach to the basic institutional framework, such as establishing regional inventories, monitoring bodies and related standards, which would serve as regional hubs that provide technical support to the designated national authorities. Given the significant amount of financial resources involved in carbon markets, such an institutional investment might prove prohibitively expensive for individual LDCs. Should this be the case, countries may consider South–South cooperation at the regional level to pool skills and other resources.

Environmental laws are critical in the institutional set-up of compliance carbon markets

Government tasks under Article 6 mechanisms include authorizing, monitoring, reporting, verification, and issuing/ transfer of credits Article 6.8 has the potential to harness international support for LDCs. It defines a framework for non-market approaches, which could potentially unlock financial, technology and capacity-building support. The proposed focus areas for non-market approaches have increased since the initial focus areas were agreed upon, but so far resource pledges towards the initiatives have not matched the needs. For LDCs, further work on capacity development needs to be elaborated, particularly on the technical aspects of the Paris Agreement.



5. Policy recommendations

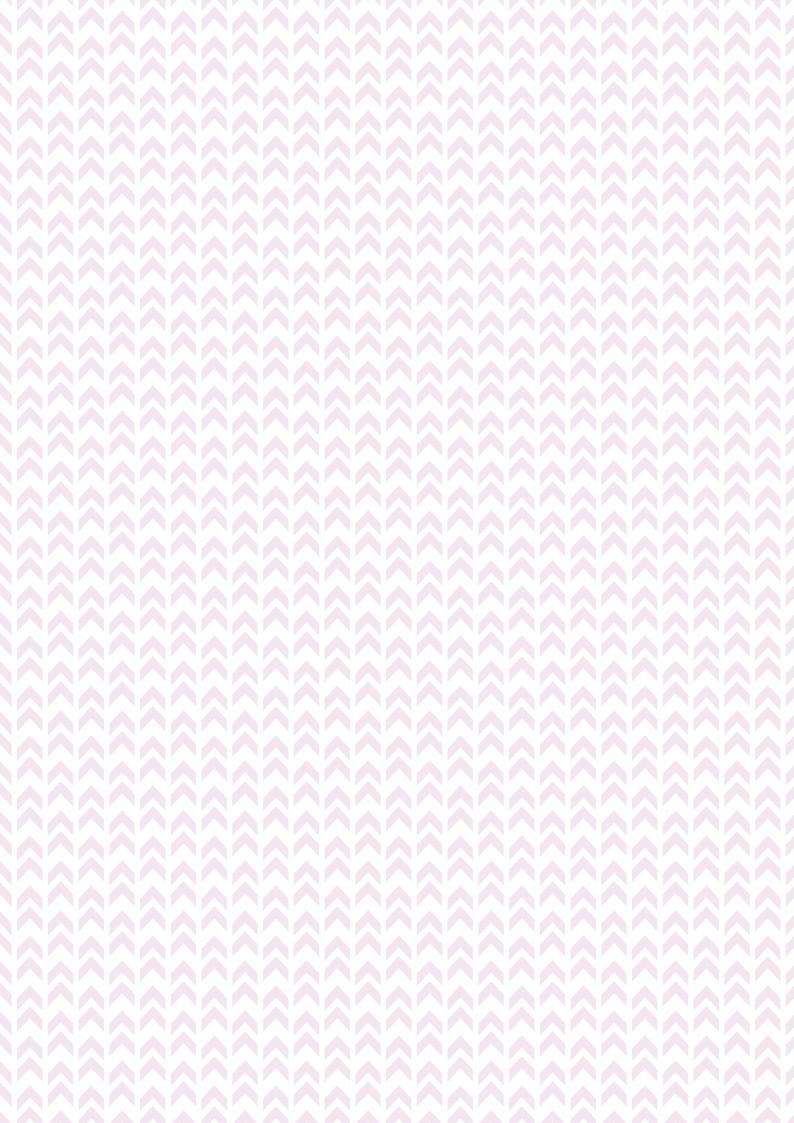
To least developed countries

- 1. Establish a proactive and independent policy framework for carbon markets that defines objectives, priorities and the scope of engagement in carbon trading.
- 2. Carefully weigh the opportunities and pitfalls related to carbon markets before deciding on how and to what extent to engage with them. Opportunities include mobilizing additional sources of development finance realized from revenues generated by the sale of carbon credits, as well as securing positive, sustainable development impacts of carbon projects. Challenges include possible long-term constraints on development and climate policy space, uncertainty about future financial flows from carbon market activities and the instability of international carbon markets.
- 3. Align carbon market policies with development goals so that the former support the realization of the latter.
- 4. Use carbon markets as a tool for structural transformation alongside other policy tools such as industrial policy, financial policy, fiscal policy and policies for science, technology and innovation.

- 5. **Build or strengthen domestic regulatory institutions for carbon markets**, including developing laws, regulations, systems for monitoring, reporting and verification and project templates, as well as the corresponding skills.
- 6. Specify, in domestic regulations, the rules for carbon project operations and benefit-sharing, including rules for sharing financial proceeds, which actors should be allowed to participate in carbon projects and the shares of emission reductions (such as from internationally transferred mitigation outcomes) that should remain with the host country.
- 7. Explore the potential of South-South cooperation at the (sub)regional level by putting in place common institutions that would otherwise be too costly for individual countries, e.g. project registries, inventories, monitoring bodies and related standards bodies, framework agreements, project templates and technical support to designated national authorities. This could strengthen the negotiating position of individual countries, reduce costs and create synergies.

To least developed countries' development partners

- 1. Enhance capacity-building in LDCs in relation to their participation in carbon markets based on their needs for human resources and skills, laws, regulations and institutions, as required by international agreements and by their own carbon market policies in order to steer carbon projects.
- 2. Support LDCs in building capabilities to integrate policies for carbon markets into their broader policies aimed at the structural transformation of their domestic economies. This supposes moving away from a compartmentalized and siloed approach to technical cooperation focused on implementing international agreements, and requires prioritizing joint efforts across different international organizations and cooperation agencies.
- 3. **Strengthen trust, integrity, transparency and credibility of carbon markets** through the collective adoption and implementation of United Nations principles for carbon markets with integrity and credibility, expected to be launched in 2024.
- 4. Apply the principle of common but differentiated responsibilities enshrined in the United Nations Framework Convention on Climate Change and in the Paris Agreement on climate change – to multilateral rules for carbon markets by, for example, setting lower institutional and financial requirements for LDCs, and allocating to them a high share of the Adaptation Fund and capacity-building activities.
- 5. **Distinguish carbon finance from climate finance** to ensure that the financial resources mobilized through the former are additional to the existing annual \$100 billion climate finance goal and the proposed new collective quantified goal on climate finance. This would enable objective measurement and accountability of development partners' long-standing pledges both on climate finance and development finance (for example, the official development assistance target of 0.15–0.20 per cent of donor country's gross national income). It would also facilitate a better assessment of how far carbon markets can be supportive of mobilizing additional development finance.





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