Process to Conducting Assessments: Country Assessment
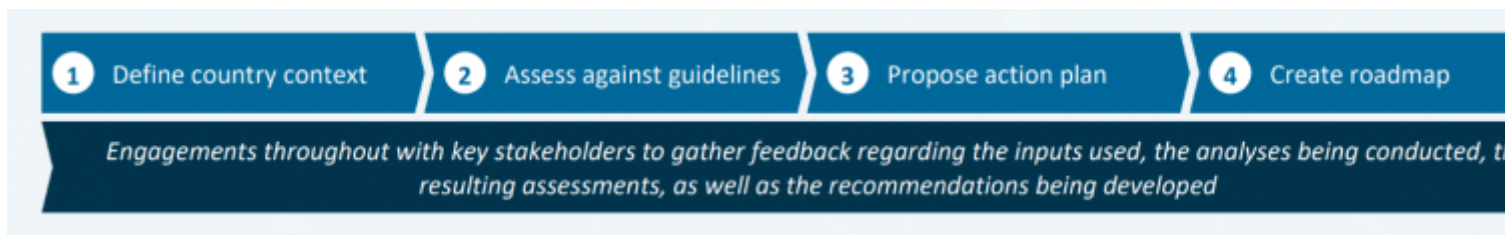
Full Description

Figure 3. Country assessment process

Step One: Define country context

Step One is to evaluate the country's policies and institutional arrangements pertaining to ERCs. This should contextualize existing policies and potential policy recommendations within the national decarbonization agenda. It includes identifying the envisioned role of ERCs—considering targets from respective nationally determined contributions (NDCs)—as well as the associated mitigation activities committed to be undertaken.

This exercise must also lay out whether the country intends to roll out its own domestic crediting mechanism. The decision to roll out a crediting system may be driven by different objectives such as to ensure the quality of the credits generated locally, to have a more robust account of the activities that may contribute towards the country's NDCs, or to facilitate the tracking of potential Article 6 transactions, to name a few. In any case, the framework components of S3. Globally accepted methodologies, V1. Robust MRV approaches, and V2. Adequate VVB capabilities will be applicable to such countries and may be less relevant to countries choosing to leverage independent crediting mechanisms.

In addition, this assessment will review the historical supply and demand of ERCs in both voluntary and compliance markets to understand current capabilities and experience in relation to project development. Lastly, a high-level timeline of policy implementation and institutional developments in relation to ERCs will be considered to understand the country's progress and efforts towards decarbonization.

Understanding the context in which a country's ERC policies and institutional arrangements are developed is crucial to evaluate the current state of the national ecosystem and identify potential areas for improvement. This comprehensive approach enables decision-makers to ensure that policy recommendations for ERC development and implementation are well-informed and aligned with the country's decarbonization goals.

Step Two: Assess against guidelines

Once the country context is defined, the next step is to conduct a comprehensive analysis of the national policies and institutions landscape. Each of the 11 Framework components will be assessed as follows:

🟢 *Best practice in place:* Best practice is in place, in that objectives for the building block are fully addressed and the guideposts for green status are present in their entirety, including those labeled as best practice guideposts

● *Good design in place:* Best practice is in place in that the objectives for the component are fully addressed and the required guideposts for green status are present in their entirety.

● *Some elements in place:* The objective is not fully met or addressed for the component because a significant portion of the sub-components are not present. The missing sub-components must be foundational to reaching the objectives for this assessment.

● *Pending development:* The policy or the institution is yet to be developed and/or have been announced as future developments by the government.

The initial implementation of this assessment will align with the simple rating scale outlined above, reflecting the current maturity of the ERP ecosystem, whereby only a limited number of markets will have comprehensive and up-to-date policies relating to voluntary carbon credits. The majority of these mature ecosystems will be located in developed markets where the political and socio-economical context, as well as policy objectives, will be markedly different from developing markets. A rating scale with more graduations and permutations may be more relevant once the global policy landscape matures, and/or reaches more substantial scale.

Furthermore, in assigning ratings to a country's policies and institutions, it is essential to frame such assessment against a number of key considerations.

First, that the assessment should primarily address if the objective of the component is addressed, and not how they directly compare to other markets, acknowledging that policy actions may take the form of different mechanisms given the specific context of each respective market.

Second, that the guidelines are designed to reflect that implementation of good policy and institutional frameworks will result in good outcomes. Country policies and institutions should be assessed against setup and design choices—and subsequent implementation mechanisms—which are within the control of the government, and not against outcomes that may be outside of the control of the government.

Lastly, that policies and institutions analyzed in this exercise are current policies already enacted, implemented, undergoing implementation, or with an existing legal basis given the political context of the country. Announced policies should still be acknowledged where possible and will be critical in the formulation of policy actions and recommendations, ensuring that the proposed actions are building on current progress of the government.

Step Three: Propose action plan

Step Three looks to build upon the initial assessment of the country's ERC policies and institutional arrangements and propose actions to address any gaps identified in Step Two, informed by the country baseline established in Step One. Actions proposed are informed by detailed analysis of potential models from other countries as applicable and will reference case studies where possible and relevant. This will include reference to known and upcoming policies within the country related to the 11 key components, and how they may be accepted as a whole, taken forward, or amended based on target objectives. This will ensure that the proposed actions are feasible, realistic, and build on the current progress of the government.

Step Four: Create roadmap

Once proposed policy actions are identified, the next step is to determine the appropriate sequencing of their implementation. This involves three key factors:

- **Impact/materiality** - To determine the optimal sequencing of proposed policy actions, the materiality of each identified gap must be carefully considered to ensure the achievement of the overall policy

landscape objectives. The range of options for sequencing can be categorized into three levels of impact:
- High: Current state may deter investments in ERC projects and/or impact credibility of local ERCs.
- Medium: Current state not optimal in achieving the overall policy landscape.
- Low: Further policy actions likely to be incremental in improving the overall policy landscape.
- **Resources needed** - The current capacity of the country to address the identified gaps and the extent of resources needed by the government to address the gap must also be taken into account. The range of options for resource requirements and current capabilities are as follows:
  - High: High resources are required, and there are currently no capabilities in place to implement the proposed policy actions.
  - Medium: Medium resources are required, and there are some capabilities and experience in place to implement the proposed policy actions.
  - Low: Current capabilities and experience are in place to implement the proposed policy actions.
  - Low to High: There is potential for lower-resource models to be implemented initially, before developing more sophisticated/high-resource models, depending on the specific context of the country.

The application of these first two factors can be broadly framed in the following manner, resulting in the classification of the 11 components of the framework into three distinct phases. See .

Phase One encompasses the foundational elements that are essential to establish a robust ERC supply market and must therefore be started immediately. Given their criticality in building a sustainable and resilient ERC ecosystem, these elements require a high level of impact. Nonetheless, they necessitate relatively low resource investment compared to the more complex elements, which may be more time-consuming to implement.

Phase Two comprises critical elements in scaling the supply of high-integrity ERCs =. These elements, like those in Phase One, require a high level of impact and are essential to the market's sustainability and resilience and must be started immediately. However, they also require more significant resources, capacity, and effort to implement effectively. The complexity of these elements means that they may take longer to establish and may even be implemented gradually (starting with basic functionalities and progressing to advanced functionalities later on), but their successful implementation will pave the way for the creation of a robust ERC market.

Phase Three encompasses the elements that are necessary for ensuring long-term viability of the ERC market. While these elements are not critical in the short term and can be deterred in terms of sequencing, they are still deemed important in the longer term and would require a moderate level of capacity and resources to implement.

When developing an action plan for a specific market, it is important to consider a third factor that provides a more nuanced view of the overall roadmap:

- **Estimated timelines** - Based on comprehensive understanding of a country's unique context, it is important to consider the potential overall timeframe for implementing the policy actions proposed, based on historical policy developments within the country. This factor should be considered in conjunction with the impact and capacity required factors to ensure that policy actions are sequenced appropriately. Generally, this timeframe can be divided into three phases:
  - Short term: This is the shortest timeframe in which policies can be realistically developed and implemented within the country context, typically ranging from 1-3 years.
  - Medium term: This timeframe may be applicable to policies requiring some level of specialized knowledge and capability and typically ranging from 3-5 years.

- Long term: This is the longest timeframe in which policies can be implemented within the country context, expected for sectors requiring specialized knowledge and capabilities and ranging from 5-7 years.

Taking into consideration estimated timelines alongside the impact and capacity required allows policymakers to create more comprehensive and realistic action plan(s) for implementing policies related to ERCs. See Figure 4.

Elements are proposed to be sequenced based on impact and or materiality to the overall ERC objectives as well as the relative ease of implementation

figure 4. Proposed sequencing of framework elements
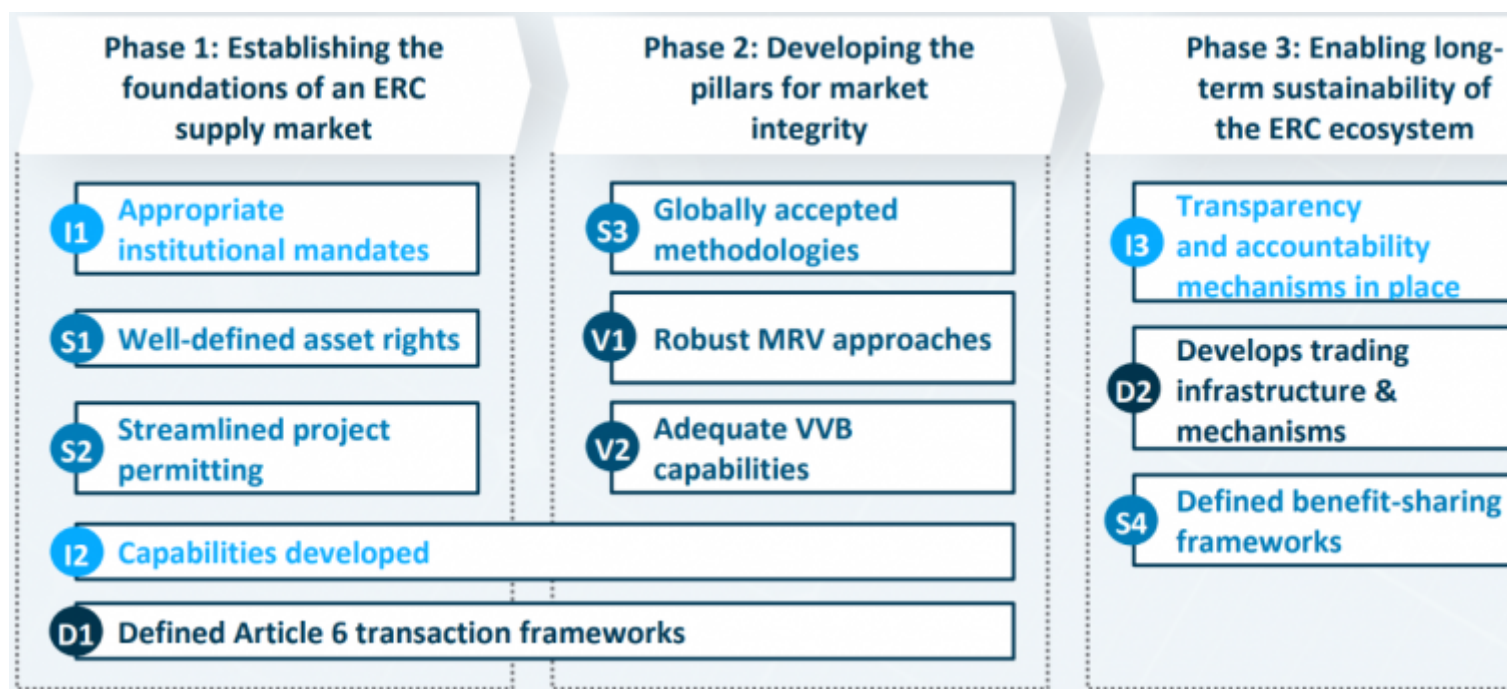
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