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From authorisation to asset qualification: How authorisation design shapes market access, pricing, and sovereign risk

Key messages

This brief shows how the design of national authorisation frameworks influences investment in carbon markets under Article 6 of the Paris Agreement. After reading this brief, readers should understand that:

Authorisation is more than an administrative approval. It determines whether verified mitigation outcomes become internationally transferable financial assets eligible for compliance-linked markets.

The design of authorisation frameworks directly affects investment. Clear and predictable rules improve market access, financing conditions and investor confidence, while uncertainty increases perceived sovereign risk and the cost of capital.

Policy clarity matters as much as policy direction. Markets can price clear rules – even restrictive ones – but struggle to invest where authorisation processes are uncertain or subject to unpredictable change.

Well-designed authorisation systems preserve sovereign discretion while supporting market participation. Transparent eligibility criteria, sequencing and transition arrangements reduce uncertainty without limiting national policy choices.

Authorisation is now part of core financial market infrastructure. As Article 6 markets mature, its design will increasingly determine which countries attract compliance-linked carbon finance and on what terms.

Executive summary

As compliance carbon markets mature under Article 6 of the Paris Agreement, authorisation has become more than a regulatory requirement. It is now part of the financial infrastructure that determines whether verified mitigation outcomes can participate in international carbon markets and attract investment.

Verification confirms that mitigation has occurred. Authorisation determines whether those mitigation outcomes qualify for international transfer and compliance use. This distinction has important financial consequences. Where authorisation frameworks are clear, predictable and durable, developers can secure long-term purchase agreements, lenders can assess future revenue streams with greater confidence, and investors can structure projects around lower perceived risk. Where authorisation is uncertain, financing becomes more expensive, contracts shorten and investment slows.

This brief examines how authorisation design influences five areas that shape market participation:

- Asset qualification
- Accounting certainty
- Policy durability
- Market eligibility
- Transition and sequencing

Across each of these areas, the central finding is that markets respond not simply to policy choices, but to the clarity and predictability with which those choices are implemented.

The brief does not advocate a particular approach to authorisation or corresponding adjustments. Rather, it demonstrates that well-designed authorisation frameworks allow governments to preserve sovereign discretion while creating the certainty needed for carbon markets to function effectively.

For policymakers, development partners and financial institutions, authorisation should therefore be viewed not as an administrative process, but as market infrastructure that shapes investment, pricing and sovereign credibility.

> Markets respond not simply to policy choices, but to the **clarity and predictability with which those choices are implemented.**

Context and purpose

This brief builds on *From Ambition to Bankability*, published by FSD Africa and the Climate Action Platform for Africa (CAP-A), which identified three sovereign design choices that influence carbon market investability:

- NDC positioning
- Authorisation architecture
- Institutional capability

Together, these elements determine how markets assess sovereign credibility and allocate capital. While the first brief in this series examined how NDC positioning shapes market perceptions of sovereign ambition, this paper focuses on authorisation architecture – the institutional framework that determines whether verified mitigation outcomes become eligible for international transfer under Article 6.

The brief approaches carbon markets from a financial systems perspective. Rather than treating authorisation as a regulatory approval, it examines how its design influences market access, risk allocation and the mobilisation of capital.

It is intended for senior policymakers, development partners and financial institutions engaged in carbon market design and Article 6 implementation.

How authorisation shapes investment

Authorisation influences investment through five interconnected dimensions.

Authorisation is the mechanism that determines whether verified mitigation outcomes can participate in compliance-linked carbon markets. Its design influences how markets assess risk, structure transactions and allocate capital.

This section examines five dimensions of authorisation that shape investment decisions. While each addresses a different aspect of market design, together they determine whether carbon market projects can attract long-term finance on competitive terms.

1. **Asset qualification: where mitigation becomes a market asset**

   Authorisation is the institutional step that determines whether verified mitigation outcomes can participate in compliance-linked carbon markets. Verification confirms that mitigation has occurred under an approved methodology and standard. Authorisation determines whether that mitigation outcome qualifies for international transfer under Article 6.2 as an **internationally transferred mitigation outcome (ITMO)**. These are distinct functions with different financial implications.

   For compliance-linked markets operating under Article 6.2—and schemes such as the **Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)**—verification alone is not sufficient.

Host-country authorisation, together with a commitment to apply corresponding adjustments where required, establishes the legal and accounting basis for international transfer. Without authorisation, a verified mitigation outcome may demonstrate environmental performance, but it cannot be used in compliance-linked transactions.

Many countries are also introducing registration and oversight requirements for carbon market activities. These systems improve visibility of national project pipelines and preserve governments' ability to determine which mitigation outcomes may ultimately be authorised for international transfer. While they do not necessarily require corresponding adjustments for voluntary market activities, they are becoming an increasingly important part of national carbon market governance.

The distinction between verification and authorisation has direct implications for investment. Authorised mitigation outcomes can support long-term offtake agreements, project finance and blended finance structures because their transfer rights are recognised within compliance markets. Where authorisation is unavailable or uncertain, projects may still generate voluntary carbon credits, but future revenues remain contingent on policy decisions rather than contractually secured market access. This limits revenue visibility and narrows the financing options available to project developers.

> Authorisation transforms verified mitigation into an internationally transferable financial asset.

2. Accounting clarity: qualifying mitigation outcomes for market participation

Authorisation establishes the basis for international transfer, but **accounting clarity determines whether mitigation outcomes qualify for participation in compliance-linked markets**. A clear accounting framework provides assurance that transferred mitigation outcomes will be recognised consistently and will not be subject to double counting.

A **Letter of Authorisation (LoA)** is an important milestone, but it does not complete the authorisation process. Effective authorisation also requires corresponding adjustments to be implemented and authorised transfers to be reflected in **Biennial Transparency Reports (BTRs)** under the Paris Agreement. Together, these elements provide the accounting integrity that underpins compliance-linked transactions.

Corresponding adjustments are central to this process. They ensure that **internationally transferred mitigation outcomes (ITMOs)** are not counted towards both the host country's **Nationally Determined Contribution (NDC)** and another country's climate commitment. Without clear arrangements for when and how corresponding adjustments will be applied, counterparties may question whether mitigation outcomes will ultimately qualify for compliance use.

Accounting clarity is also becoming increasingly important in voluntary carbon markets. While voluntary credits do not require corresponding adjustments, buyers are paying closer attention to how mitigation outcomes are reflected within host-country accounting frameworks and how potential double-claiming risks are addressed. As a result, accounting approaches are increasingly shaping buyer confidence beyond compliance markets.

Accounting clarity determines market qualification rather than market value. It provides the foundation for confidence in authorised mitigation outcomes, enabling counterparties to structure transactions around clearly understood transfer rights and accounting obligations. Where accounting treatment is unclear, additional contractual safeguards, enhanced due diligence and more conservative transaction structures may be required before market participants are willing to proceed.

> Accounting clarity does not guarantee higher prices. It establishes the conditions under which mitigation outcomes qualify for compliance-linked markets.

3. Policy durability and sovereign discretion: providing confidence over time

Authorisation frameworks influence more than today's transactions. They shape expectations about how mitigation outcomes will be managed over the life of a project and whether governments will maintain a stable and predictable approach to international transfers.

Markets therefore look beyond whether authorisation is available today. They also assess how authorisation decisions interact with **Nationally Determined Contributions (NDCs),** and under what circumstances authorisations may be reviewed or revised. These factors influence confidence that transfer rights will remain durable over time.

Where these arrangements are clearly defined, policy risk can be assessed and incorporated into contracts. Where they remain uncertain, policy decisions could change previously anticipated transfers. Rather than withdrawing from the market altogether, investors typically respond by recalibrating deal terms to manage uncertainty. Over time, these adjustments accumulate and become visible in transaction structures:

- Contract tenors shorten, as counterparties limit long-term exposure to policy volatility.
- Purchase commitments become phased or conditional, with pricing structures adjusted to reflect timing and revision risk.
- Contingencies widen, with expanded termination clauses, conditions precedent and milestone-linked payment structures.

- Leverage ratios decline, as lenders discount projected revenue streams or apply higher risk premiums, reducing the debt that can be supported against expected cash flows.
- Pipeline scale becomes harder to sustain, as reduced leverage and higher equity requirements constrain project replication and aggregation across portfolios.

This does not mean governments should limit their discretion. On the contrary, sovereign discretion is central to Article 6 implementation. The challenge is ensuring that discretion is exercised within transparent and predictable parameters. Clear eligibility criteria, defined review triggers and published revision mechanisms allow governments to adapt policy as circumstances change while giving markets confidence that future decisions will follow understood rules.

Policy clarity does not just impact investors. For community-linked mitigation programmes, the absence of clarity on other carbon policy aspects such as safeguard integration or benefit-sharing arrangements can compound perceived policy durability risk. In these contexts, developers may struggle to estimate and communicate these obligations to buyers and financiers when structuring transactions.

> Markets can price policy risk. They struggle to price policy uncertainty.

4. Sequencing implementation: building markets while strengthening institutions

Carbon markets do not require fully mature institutional systems before investment can begin. What markets need is a credible pathway showing how authorisation frameworks will evolve over time.

Phased authorisation allows governments to strengthen institutions through learning-by-doing while maintaining market confidence. Initial implementation may focus on specific sectors, project types or pilot volumes before expanding as administrative capacity grows. This enables systems to be tested and refined without delaying market participation.

This supports continued project development while institutional capacity matures and allows capital mobilisation to expand alongside administrative readiness, rather than waiting for every element of the framework to be in place.

By contrast, suspending authorisation until every element of the framework is complete shifts uncertainty from standards to timing. Phased implementation can be incorporated into investment decisions. Indefinite delays are far harder to assess, affecting financing decisions, contract structures and project pipelines.

> Markets can adapt to gradual implementation. They cannot invest against indefinite timelines.

5. Managing transitions: maintaining confidence as markets evolve

Carbon markets will continue to evolve as Article 6 guidance, accounting rules and crediting methodologies mature. Revisions to baselines, methodologies and programme design are a normal feature of market development. The challenge is not change itself but ensuring that markets understand how change will be managed.

Transition arrangements are particularly important for **legacy projects**—activities or credit vintages developed under earlier methodologies or before Article 6 implementation. As national frameworks evolve, governments should clearly define how these projects will be treated, including whether they remain eligible, require revision or transition into new authorisation arrangements.

Without predefined transition pathways, technical changes can be interpreted as broader regulatory uncertainty. What begins as project-level adjustments may expand into wider perceptions of sovereign risk if counterparties cannot determine how existing projects, methodologies or credit vintages will be managed.

Clear transition pathways help contain uncertainty before it spreads beyond individual projects. By explaining how legacy activities will be managed as frameworks evolve, governments can reduce transaction delays, support continued market participation and strengthen confidence in the overall authorisation framework.

> Well-designed transition pathways contain uncertainty before it becomes systemic risk.

6. Scope clarity: defining eligibility and market access

Governments determine which mitigation activities may be authorised for international transfer under Article 6.2 and under what conditions mitigation outcomes become eligible for corresponding adjustments. These scope decisions influence not only which activities can participate in carbon markets, but also how markets assess liquidity, tradability and investment potential.

Authorisation operates at two distinct levels. First, governments determine whether a project activity falls within the scope of the national authorisation framework. Second, they decide whether the verified mitigation outcomes generated by that activity qualify for international transfer as **internationally transferred mitigation outcomes (ITMOs).** Distinguishing between project eligibility and mitigation outcome eligibility is essential for understanding how carbon markets function.

Clear scope definitions also help market participants distinguish between mitigation outcomes that are:

- Eligible for international transfer and those intended for domestic or voluntary use;

- Authorised for compliance-linked transactions and those that are not;
- Immediately eligible for corresponding adjustments and those requiring additional approvals
- Capable of transitioning into compliance markets and those that remain within voluntary market pathways

These distinctions have practical implications for market liquidity. Secondary markets depend on assets whose eligibility and transfer rights are clearly understood. Where governments clearly define eligible sectors, methodologies, vintages and transfer conditions, investors can assess risk, structure transactions and price mitigation outcomes with greater confidence. Restrictive frameworks can still support investment if their boundaries are transparent. Ambiguous frameworks are significantly harder to underwrite.

The same principle applies to participation in schemes such as the **Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).** General support for Article 6 does not automatically indicate whether mitigation outcomes will be authorised for CORSIA compliance. Where governments clearly communicate whether—and under what conditions—CORSIA-linked transfers will be authorised, counterparties can structure transactions with greater confidence and reduce uncertainty around future market access.

> Markets respond less to how broad eligibility is than to how clearly it is defined.

Recommendations for policy and market design

The analysis in this brief suggests that authorisation frameworks should be designed as **financial market infrastructure**, not simply regulatory approval processes. The recommendations below translate these findings into practical actions for governments, development partners and market participants.

1. **Governments and regulators**

   Treat authorisation as market infrastructure. Design frameworks that support market participation while preserving sovereign discretion and environmental integrity.

   Governments should:

   - **Design transparent authorisation frameworks.** Clearly define eligibility criteria, accounting treatment, durability provisions and scope while maintaining safeguards against risks, which can undermine environmental integrity, capital mobilisation and impact the cost of finance.
   - **Anchor discretion within clear rules.** Define review triggers, revision mechanisms and transition pathways so governments retain policy flexibility without creating unnecessary market uncertainty.
   - **Sequence implementation deliberately.** Use phased authorisation, pilot activities or category-based approaches to strengthen institutional capability through learning-by-doing while maintaining market confidence.
   - **Clarify transition arrangements early.** Explain how existing projects, methodologies and credit vintages will be treated as Article 6 frameworks evolve to prevent project-level adjustments from becoming broader perceptions of sovereign risk.
   - **Differentiate market pathways.** Clearly distinguish between authorised activities, internationally transferred mitigation outcomes (ITMOs), eligible vintages and supply that may—or may not—transition into compliance-linked markets.

2. **Development partners and technical assistance providers. Strengthen national systems before scaling transactions.** Long-term market participation depends on durable institutional architecture as much as early market activity.

   Development partners should:

   - **Prioritise institutional architecture alongside transactions.** Support the design of durable authorisation systems as the foundation for long-term market participation.
   - **Support implementation, not substitution.** Ensure pilot transactions and early market activity reinforce—rather than substitute for—national authorisation systems. Avoid creating parallel approval or eligibility processes that fragment market interpretation.
   - **Invest in sequencing and transition design.** Support interim procedures, pilot phases and transition pathways that allow markets to develop while institutional capacity matures.

3. **Financial institutions and market participants Assess authorisation as a system, not a signal.** Investment decisions should consider how the overall authorisation framework allocates risk, not simply whether authorisation has been granted.

   Financial institutions and market participants should:

   - **Assess policy architecture alongside project quality.** Consider accounting clarity, eligibility rules, policy durability and transition arrangements alongside project integrity.
   - **Differentiate between uncertainty and restrictiveness.** Clear frameworks—even where participation is selective—generally present lower investment risk than broad but unpredictable systems.
   - **Incorporate policy design into transaction structuring.** Understanding how authorisation frameworks allocate risk can improve pricing, contract design and long-term investment decisions.

Design checklist: is your authorisation framework fit for purpose?

Whether designing a new authorisation framework or strengthening an existing one, use these principles to assess whether it supports market participation while preserving sovereign discretion and environmental integrity.

Treat authorisation as market infrastructure	Authorisation determines whether mitigation outcomes become investable financial assets rather than simply verified emissions reductions.
Prioritise clarity over breadth	Markets can accommodate different policy choices. What they need are clear rules on eligibility, accounting treatment and transfer conditions.
Structure sovereign discretion through transparent rules	Governments should retain full control over authorisation decisions. Clearly defined eligibility criteria, review triggers and revision mechanisms allow markets to understand how that discretion will be exercised.
Build systems through phased implementation	Learning-by-doing, pilot activities and phased authorisation allow institutional capacity to develop while maintaining market participation.
Design transition pathways from the outset	Clearly defined arrangements for legacy projects, evolving methodologies and changing eligibility rules help prevent project-level uncertainty from becoming systemic risk.

Conclusion

As Article 6 markets mature, authorisation has become more than a procedural requirement. It is part of the institutional architecture that determines whether verified mitigation outcomes can participate in international carbon markets, attract investment and support long-term climate finance.

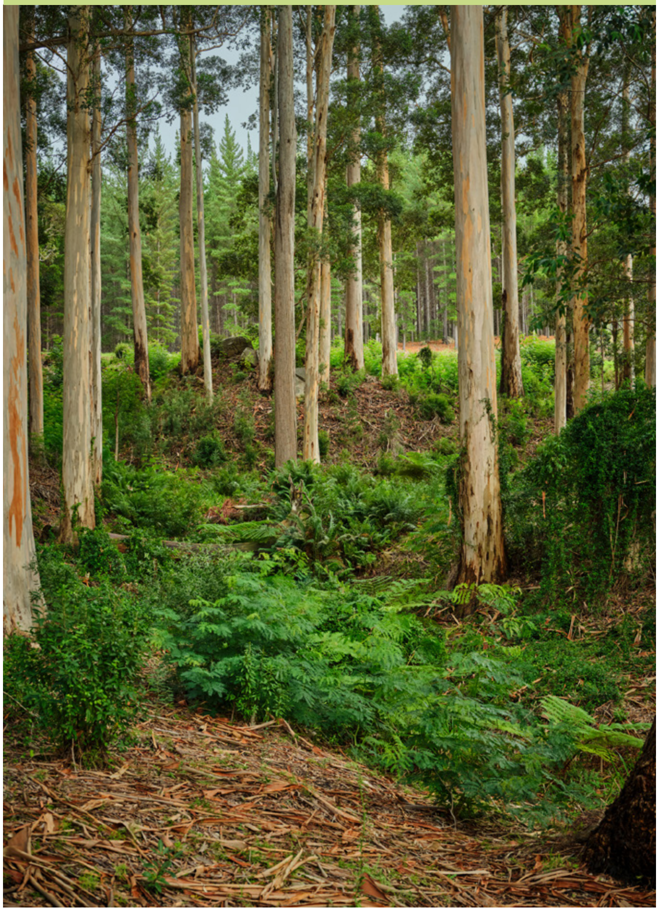
The analysis in this brief demonstrates that markets respond not simply to policy choices, but to the clarity, predictability and durability with which those choices are implemented. Clear authorisation frameworks reduce uncertainty, strengthen confidence and create the conditions for investable carbon markets.

The decision on how to design an authorisation framework remains sovereign. The opportunity lies in designing systems that preserve policy flexibility while providing the transparency and predictability needed for markets to function effectively.

> Authorisation does not simply govern participation in carbon markets. It helps determine whether climate ambition can be translated into investable opportunity.

Glossary

Article 6	The part of the Paris Agreement that enables countries to cooperate through international carbon markets.
Authorisation	Government approval for mitigation outcomes to be transferred internationally under Article 6.2.
Corresponding adjustment	An accounting mechanism that prevents the same emissions reduction being counted by more than one country.
ITMO	An internationally transferred mitigation outcome authorised under Article 6.2.
Letter of Authorisation (LoA)	The formal document confirming a government's approval for international transfer.
Nationally Determined Contribution (NDC)	A country's climate commitment under the Paris Agreement.



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