From systems to eligibility: Why institutional performance now determines carbon market access

Key messages

This brief shows how institutional performance influences access to carbon markets.

Institutional performance has become a condition of carbon market access. Registry functionality, rulemaking authority, and operational oversight increasingly determine whether mitigation outcomes can participate in compliance-aligned markets.

Weak or ambiguous institutional signals expand perceived risk. Where responsibilities are fragmented or procedural safeguards are unclear, counterparties widen diligence to include institutional reliability, resulting in shorter contracts, conditional purchasing structures, and reduced leverage.

Strong institutional signals shift market diligence toward project integrity. Where systems demonstrate clear mandates, traceable accounting, and reliable registry operations, markets respond with longer contract tenors, clearer revenue visibility, and earlier financial close.

Institutional capability therefore shapes the scale and quality of carbon finance. Countries with credible systems are better positioned to access deeper buyer pools and mobilise larger volumes of carbon-market-linked finance in support of Nationally Determined Contribution (NDC) implementation.

Executive summary

In consolidating carbon markets, institutional performance has become a condition of eligibility. Institutions increasingly function as the infrastructure through which credibility and eligibility are assessed. Markets are not demanding institutional perfection; they are demanding operational clarity, accounting traceability, transparent governance, and legally anchored decision pathways where it matters most [1].

As demand expands through cooperative approaches under Article 6 of the Paris Agreement, compliance schemes such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), market participants increasingly assess not only project integrity and authorisation status but whether host-country systems can support reliable international transfer, accounting, and oversight in practice. Registry functionality (digital systems used to issue and track carbon credits and mitigation outcomes), traceability of corresponding adjustments, auditability of decisions, clarity of institutional mandates, and revenue transparency are therefore evaluated alongside mitigation quality.

The brief is intended for senior policymakers, development partners, and financial institutions engaged in carbon market development and Article 6 implementation. It examines how institutional performance influences whether countries can access carbon markets and at what scale.

Carbon markets are increasingly shifting from project-based transactions toward system-based finance [2], where the credibility of national institutions and accounting systems becomes as important as the quality of individual mitigation projects. When mitigation outcomes underpin forward offtake agreements, structured finance, compliance use, or voluntary claims, counterparties require confidence not only in tonnes delivered but also in the infrastructure governing their issuance, accounting and recognition.

Policies and legislation may signal intent, but operational performance determines counterparty reliability in practice. For carbon markets, institutional credibility now functions as a threshold. When systems demonstrate functional clarity, traceable accounting, and legally anchored decision pathways, transactions can scale across multi-year horizons. Where performance is opaque or fragmented, engagement narrows — reflected in shorter tenors, conditional structures, and confinement to lower-liquidity demand pools.

For governments seeking to mobilise carbon finance and support delivery of their Nationally Determined Contributions (NDCs), institutional performance is therefore not a background administrative issue but a central determinant of market participation.

This is not about institutional sophistication. Rather, it is about whether minimum credible functions operate reliably enough for mitigation outcomes to circulate as recognised financial assets.

Context and purpose

From Ambition to Bankability by FSD Africa and the Climate Action Platform for Africa (CAP-A), identified three sovereign design choices shaping carbon market investability: NDC positioning, authorisation architecture, and institutional capability.

This brief focuses specifically on institutional performance — the operational dimension of carbon market participation — examining whether national systems function reliably enough in practice to sustain durable market access. Within the broader architecture of carbon market participation, NDCs positioning influences how markets interpret sovereign ambition and price risk, while authorisation design determines how mitigation outcomes are formally qualified for international transfer and financial structuring. Institutional performance then determines whether these systems operate with sufficient clarity, traceability, and durability for mitigation outcomes to circulate as recognised, compliance-aligned assets.

Together, these elements describe the architecture through which carbon markets assess sovereign credibility and allocate capital.

FSD Africa and CAP-A approach carbon markets from a financial-systems perspective, treating them as emerging capital-market infrastructure rather than standalone climate instruments. Across sovereign advisory engagements and ongoing dialogue with market participants, a consistent pattern has emerged: institutional performance increasingly conditions eligibility, buyer participation, and the scale at which capital can be mobilised.

Why institutional performance now determines carbon market eligibility

Compliance-linked demand — particularly through Article 6 cooperative approaches and compliance schemes such as CORSIA — is projected to expand significantly through 2035 [3]. In parallel, accounting convergence under the Enhanced Transparency Framework [4] has heightened expectations around registry functionality, corresponding adjustment traceability, and reporting coherence. Taken together, these developments mean that eligibility is no longer determined solely by mitigation quality or policy intent. It increasingly depends on whether institutional systems can operationalise international transfer, accounting, and oversight in practice. Institutional capability now shapes not only eligibility, but also liquidity depth, contract tenor, leverage capacity, and the durability of revenue streams linked to NDCs implementation.

Institutional performance is now a market filter

Market screening increasingly extends beyond formal frameworks to evidence of how institutions function in practice.

In Article 6.2-aligned transactions — through which countries can transfer mitigation outcomes internationally — counterparties examine whether:

- Registries can issue, track, adjust, and publicly disclose mitigation outcomes, including corresponding adjustments [5] .
- Authorisation decisions are consistent, reasoned, recorded, and retrievable through auditable documentation.
- Accounting treatment aligns across NDCs, Biennial Transparency Reports (BTRs), and export authorisations.
- Institutional mandates and authorities are clearly grounded in binding legal instruments rather than dependent on draft regulations, administrative circulars, or informal arrangements.
- Oversight mechanisms exist for fee collection, share-of-proceeds management, and internal quality assurance.

Observed market behaviour reflects this shift. In recent transactions across emerging markets, buyer engagement has paused pending confirmation that registry systems were fully operational and technically capable of interfacing with international reporting and tracking platforms under Article 6. In other instances, eligibility screening has required clarification of who holds final authorisation authority — and under what statutory basis — ensuring that decisions reflect political buy-in and are not subject to discretionary reconsideration [6].

In parallel, intermediaries and service providers have shown increased interest in assessing jurisdictions [7] against these institutional and governance criteria, using such assessments to inform investor screening, buyer engagement, and market-entry decisions.

Where institutional performance signals are strong, diligence concentrates on project-level integrity. Where signals are mixed — for example where registry administration, rulemaking, and authorisation authority sit within overlapping chains without defined review safeguards — diligence expands to include institutional reliability.

> As a result, institutional performance increasingly determines not only whether mitigation outcomes can be authorised, but which segments of demand they are able to access in practice.

Institutional capability determines eligibility — and buyer pools

Institutional performance now shapes which segments of demand are accessible. Compliance-linked markets require not only authorised mitigation outcomes, but accounting systems capable of sustaining durable international transfer recognition. Where registry functionality, corresponding adjustment procedures, or legal anchoring of mandates lack clarity, mitigation supply may remain confined to voluntary segments.

In recent market cycles, differentiation between compliance-eligible and voluntary-only jurisdictions (due to institutional constraints) has translated into:

- Divergence in achievable price ranges
- Differences in contract tenor and price-floor willingness
- Variations in forward offtake appetite and volume scale
- Greater or lesser ability to underpin structured finance [8].

These eligibility dynamics can also influence the types of mitigation activities that attract buyers and financing. Where jurisdictions remain confined to voluntary demand segments, project pipelines may increasingly reflect prevailing buyer preferences — for example the growing focus among some voluntary market buyers on carbon removal credits — potentially narrowing the diversity of mitigation activities able to secure funding.

This segmentation is visible in transaction architecture. In higher-confidence institutional environments, multi-year offtake agreements with clearer revenue visibility have supported stronger leverage ratios and earlier financial close. Where institutional signals are weaker — for example where authorisation criteria are unpublished, registry interoperability is incomplete, or decision authority remains ambiguous — contracts have tended to be shorter, conditional, or pilot-scale.

Ambiguity transmits directly into structuring. Observed transaction responses include requests for additional legal opinions clarifying institutional authority, conditional pricing linked to regulatory confirmation, staged purchase commitments, and conservative assumptions regarding export durability.

Institutional capability therefore operates as a market allocation mechanism. It influences not only pricing, but access to buyer pools capable of sustaining larger and more durable capital commitments.

"Good enough" capability is functional, not architectural

Markets do not reward institutional complexity. They reward functional clarity, accountability, and the capacity to operate systems reliably over time.

Minimum credible capability typically includes:

- Clear separation between policy formation, rulemaking, authorisation decisions, registry operations, and accounting oversight.
- A registry solution capable of issuing and tracking mitigation outcomes with transparent audit trails.
- UNFCCC communications consistent with Enhanced Transparency Framework reporting [9], demonstrating intention and capacity to authorise and correspondingly adjust mitigation outcomes.
- Defined procedures for inventory reconciliation in case of reporting inconsistencies
- Legally anchored authority for rulemaking, decision-making, fee collection, and dispute resolution or escalation mechanisms.
- Internal quality-assurance or review mechanisms for carbon market operations.
- Sustainable funding of capacity, including staffing and training.

Different governance models demonstrate that institutional credibility depends less on organisational form than on functional separation and traceability. Interim arrangements have been accepted where roles, escalation pathways, and review processes were explicit and documented, even as systems continued to mature. In practice, observable performance signals — such as decision timeliness and operational readiness — increasingly inform how institutional effectiveness is assessed by market participants.

Operational coherence around revenue oversight is increasingly part of this assessment. Where responsibilities for fee collection, share-of-proceeds allocation, or carbon-revenue oversight are dispersed across institutions without clearly defined reporting and audit obligations, counterparties have sought additional transparency commitments or reporting covenants.

The same functional lens extends beyond technical accounting and registry systems to governance elements that affect delivery risk and durability, including safeguards and inclusion-related mechanisms. Markets do not systematically attach explicit price premia to gender or inclusion language, nor is there evidence of automatic exclusion in its absence. However, where institutional systems demonstrate operational benefit-sharing frameworks, accessible grievance mechanisms, and documented consultation processes, these features are interpreted as indicators of governance coherence and delivery durability.

Markets price delivery risk. Institutional coherence — including around social safeguards and revenue oversight — forms part of that assessment.

Sequencing institutions without losing the market

Markets do not require fully mature systems at inception; they require credible minimum functionality, assurance of political buy-in, and visible governance trajectories.

Early participation has been sustained in jurisdictions that:

- Published clear timelines for registry solutions and interoperability.
- Defined conservative authorisation categories during initial phases.
- Anchored corresponding adjustment procedures within transparent accounting frameworks.
- Communicated institutional-strengthening roadmaps with defined milestones and review points.
- Demonstrated a clear overarching institutional vision and solid oversight over the project pipeline [10].

In practice, iteration, when structured and time-bound, has not been interpreted as instability. Open-ended ambiguity has.

Where institutional evolution is bounded by published rules, audit trails, and legally defined mandates, capital engagement has progressed in parallel with system strengthening. Where sequencing lacks clarity — particularly where key functions remain questioned and dependent on draft instruments or informal arrangements — engagement has tended to contract.

Institutional development therefore interacts directly with revenue timing, pipeline continuity, and investment confidence.

Implications for carbon finance and NDC delivery

Institutional capability influences price realisation, buyer access, leverage capacity, and the scalability of carbon-market-linked finance.

Legal anchoring of mandates — particularly rule-making and decision authority — budget allocation for carbon-market operations, recruitment and retention of accounting and registry specialists, and structured coordination between carbon, climate, and finance portfolios have correlated with broader demand access and smoother transaction execution in several emerging markets.

These institutional effects are not abstract governance concerns; they translate directly into the financing conditions faced by project developers and governments. The transmission to carbon finance outcomes is direct. Where institutional systems support multi-year forward contracts and durable accounting recognition, project developers are better positioned to secure debt and concessional capital based on contracted revenue streams.

Where institutional uncertainty persists, financing structures rely more heavily on equity, increasing costs, limiting scale, and slowing deployment.

Where institutional performance constrains decision-making processes, project pipelines experience slower financial close, narrower buyer pools, and reduced leverage. Access to compliance-aligned demand — including Article 6.2-aligned transfers and CORSIA-eligible use cases [11] — may also become limited, affecting the scale and predictability of carbon finance mobilisation. This, in turn, affects governments' ability to leverage carbon markets for unconditional NDC implementation and increased mitigation and adaptation ambition.

System design implications: Institutional performance as market infrastructure

As carbon markets consolidate, institutions have become the infrastructure through which credibility and eligibility are assessed. Markets are not demanding institutional perfection. They are demanding operational clarity, accounting traceability, transparent governance, and legally anchored decision-making pathways where it matters most.

For governments, this institutional architecture is most effective when it is anchored in a clear strategic vision of what success in carbon markets should deliver at the sovereign level. This includes defining how carbon markets are intended to contribute to broader national objectives — such as mobilising carbon finance, supporting unconditional NDC implementation, strengthening mitigation pipelines, and potentially enabling adaptation benefits. A clear and shared vision across relevant institutions helps ensure that institutional design, mandates, and operational systems are structured to support these outcomes rather than evolving in fragmented or reactive ways.

The strategic task for governments is therefore not to build comprehensive systems upfront, but to identify and invest in the minimum credible institutional capability required for participation today, while designing systems that can evolve without disrupting market confidence. Institutional development, viewed through a financial-systems lens, is not administrative overhead. It is value-enabling infrastructure.

Several system-level design implications follow directly from this analysis:

1. **Treat institutional performance as an eligibility condition**, not a background variable. Market access is now conditioned on whether registries, authorisation processes, accounting systems, and oversight functions operate reliably in practice. Institutional readiness should be assessed and sequenced with the same discipline applied to mitigation pipelines.

2. **Prioritise functional clarity over institutional form**. Markets respond to clear separation of roles, traceable decision-making, and auditable processes, regardless of whether functions sit within a single entity or across multiple institutions. Interim arrangements can support early participation where mandates, escalation pathways, and review mechanisms are explicit.

3. **Anchor discretion within transparent rules.** Sovereign discretion remains central to carbon market governance, but where discretion is exercised without published criteria, predictable timelines, or documented reasoning, uncertainty is transmitted directly into transaction structure, pricing, and leverage.

4. **Sequence institutional development deliberately.** Phased participation — through conservative authorisation categories, pilot volumes, or interim registry solutions — can sustain market engagement while systems mature. Open-ended ambiguity, by contrast, narrows buyer pools and delays capital mobilisation.

5. **Design for transition and durability from the outset.** Clear provisions for how legacy activities, evolving methodologies, registry upgrades, or mandate revisions will be managed are essential to prevent project-level adjustments from escalating into systemic risk perceptions.

In increasingly competitive Article 6 and compliance-aligned markets, eligibility is operational. Institutional performance now determines not only whether jurisdictions participate, but at what scale, at what cost of capital, and with what durability of revenue streams. Strengthening institutional capability is therefore not ancillary to carbon market strategy; it is central to how countries convert mitigation potential into investable, scalable finance in support of NDC implementation and ambition.

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.
ITMO	An internationally transferred mitigation outcome authorised under Article 6.2.
Nationally Determined Contribution (NDC)	A country's climate commitment under the Paris Agreement.

References

1. United Nations Framework Convention on Climate Change (UNFCCC), Paris Agreement, Article 6; ICAO, Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), current phase design and eligibility framework.
2. See World Bank, *State and Trends of Carbon Pricing* (latest edition); IETA, Article 6 market outlook publications
3. International Civil Aviation Authority (ICAO), CORSIA demand projections; IETA, Article 6 market demand outlooks
4. The Enhanced Transparency Framework (ETF) was established under Article 13 of the Paris Agreement to strengthen transparency and accountability in climate action. It requires countries to regularly report greenhouse gas inventories, progress toward Nationally Determined Contributions (NDCs), and information on internationally transferred mitigation outcomes. These reports, submitted through Biennial Transparency Reports (BTRs), provide the accounting and reporting basis for tracking mitigation outcomes and corresponding adjustments under Article 6.
5. Corresponding adjustments are the accounting mechanism established under Article 6 of the Paris Agreement to ensure that internationally transferred mitigation outcomes are counted only once. When a mitigation outcome is transferred to another country for use toward its climate target, the host country adjusts its emissions balance to reflect the transfer, preventing double counting between national climate commitments.
6. Based on observed transaction behaviour and market participation patterns across emerging market jurisdictions, including buyer due diligence processes in Article 6.2-aligned and CORSIA-related transactions
7. See, for example, emerging jurisdictional risk and readiness assessments by carbon market analytics and ratings providers
8. Derived from analysis of recent Article 6.2-aligned and voluntary carbon market transactions across emerging markets.
9. UNFCCC, Enhanced Transparency Framework reporting requirements, including Biennial Transparency Reports.
10. Observed across multiple emerging market jurisdictions implementing phased Article 6 readiness and interim institutional arrangements.
11. Includes compliance-aligned demand under Article 6.2 of the Paris Agreement and eligibility considerations under CORSIA.

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