CLIMATE FINANCE INNOVATORS

POLICY BRIEF

AFRICA IS GETTING READY FOR ARTICLE 6

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KEY MESSAGES

- The rulebook on Article 6 has to be inclusive and designed to encourage participation from all countries and private sector stakeholders.
- Engagement by African countries in Article 6 should be facilitated from the very start by leveraging the existing domestic Clean Development Mechanism (CDM) pipeline and related infrastructure.
- Initiatives that build on successful CDM reforms such as scaled-up programmatic crediting approaches with high sustainable development impacts are particularly promising for Africa.
- Article 6 offers opportunities to tap into new finance streams, but also defines a new set of potentially challenging requirements.
- African countries are actively participating in a number of initiatives related to market readiness and possible Article 6 pilot activities.

MAKING ARTICLE 6 WORK FOR AFRICA

Many African countries are keen to participate in Article 6 mechanisms under the Paris Agreement. In order to ensure strong African participation, cooperative approaches under Art. 6.2 and the mechanism under Art. 6.4 should be inclusive and ensure environmental integrity. In particular, accounting and market-related guidance should be robust without being overly complicated.

As Africa is especially vulnerable to the effects of climate change, Art. 6-based cooperation should enhance mitigation ambition e.g. by using baselines and other methodological tools that safeguard environmental integrity. Additionally, a balance between Art. 6.2 and Art. 6.4 is central to African countries, as this can ensure a level playing field between the different mechanisms and prevent a race to the bottom in global markets.

It is worth highlighting that Africa's views, interests in and priorities for Article 6 are also shaped by countries' experiences with the CDM. Reforms that were geared toward African circumstances resulted in innovations such as Programme of Activities (PoAs) and simplified methodologies. These reforms have significantly boosted Africa's CDM pipeline. This has created not only a vested interest in relevant CDM reforms in Africa, but also mobilized capacities and entities on which Art. 6 can build and thereby accelerate practical implementation.

The success of certain CDM reforms demonstrates that improved multilateral rules can make a practical difference. A well-designed multilateral rulebook is therefore a necessary condition for the successful use of carbon market mechanisms in Africa. These are also more likely to translate into practical climate action when implemented alongside improved access to finance and a conducive domestic institutional set-up. These elements and lessons need to be considered when finalizing the negotiations on Art. 6 guidance and rules.

ONGOING ARTICLE 6 READINESS AND PILOTING ACTIVITIES IN AFRICA

With the changing climate regime comes the need to enhance domestic capacities and readiness to participate in new market mechanisms and financing instruments from the start. African countries are getting ready for the emerging Paris Agreement carbon market landscape. As Article 6 cooperation moves towards pilot implementation, an increasing number of buyer and host countries are pro-actively engaging to set up institutional structures and improve capacities. Moreover, a critical number of pilot activities are emerging to simulate different ways of cooperation in light of the emerging Art. 6 guidance and rules.

Nigeria and Togo for instance, are currently being supported by the West African Alliance on Carbon Markets and Climate Finance in preparing for Art. 6. For Nigeria, this means addressing how carbon markets can support NDC implementation, what institutional set-up will need to be established including MRV capacities, and how the future of CDM activities can look. Togo, in turn, is actively screening energy access activities for Art. 6 potential and working on its institutional readiness. A similar initiative to support the sub-regional dialogue and coordination on Article 6 issues is being formed in Eastern Africa to support in-country readiness activities.

At the same time, Senegal and Rwanda are testing the Standardized Crediting Framework (SCF) concept commissioned by Word Bank's Ci-Dev. The SCF builds on the CDM project cycle and integrates additional reform elements that simplify the project approval process, in particular for decentralized energy access technologies. The SCF concept also strives to achieve greater host country ownership of the crediting program through a governance set-up that relies on existing domestic infrastructures and capacities. The SCF operates outside of the UNFCCC framework.

Virtual Article 6 pilots are also being designed through the Swedish Energy Agency (SEA) in several developing countries. This includes assessing the country context of specific African countries and simulating how their recent experiences with green bonds may be combined and further leveraged by Art. 6. While the virtual nature of the SEA pilots implies that the analysis does not involve on-the-ground implementation, this exercise can establish a blueprint for possible future Art. 6 cooperation in Africa and beyond once the Paris Agreement rulebook is agreed.

Further support is also provided to a number of African countries through the World Bank's Partnership for Market Readiness (PMR) which focuses on improving the technical and institutional readiness of countries. Morocco, for example, is examining different market-based instruments that can help the country (over-) achieve their mitigation goals, including the possibility of using scaled-up (sectoral) crediting baselines in sectors with high mitigation potential including electricity, cement, and phosphate production.

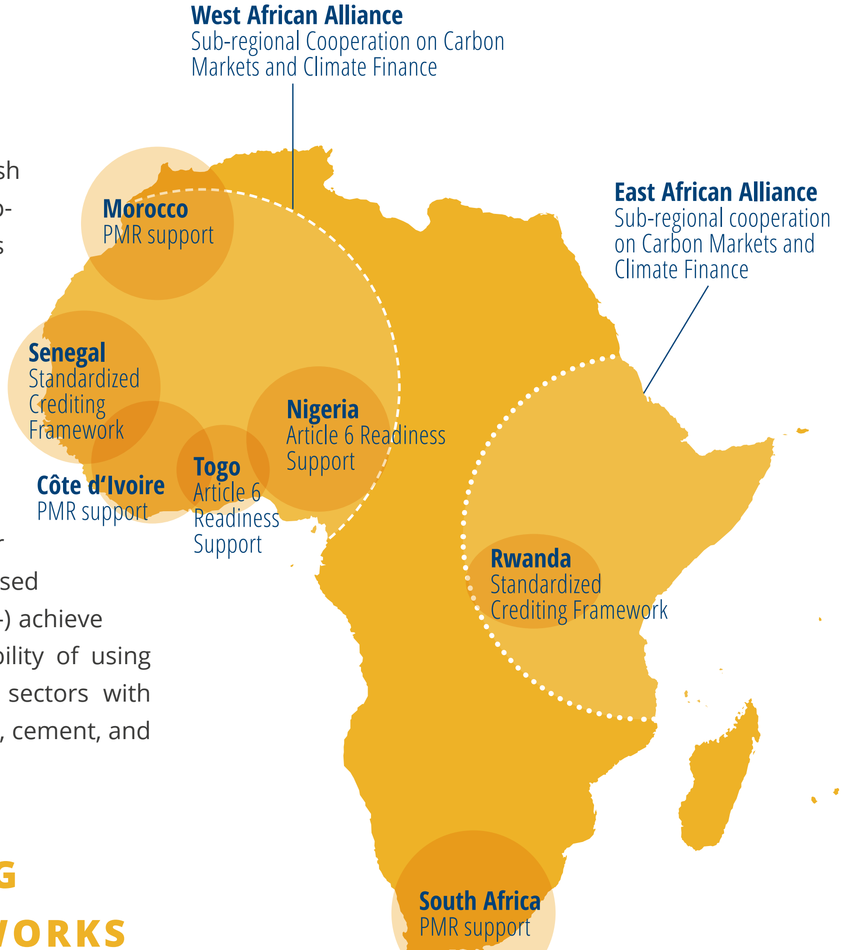

Table 1: Examples of Article 6 readiness initiatives in Africa

BUILDING ON EXISTING CDM-RELATED FRAMEWORKS AND CAPACITIES

Making Article 6 work for Africa means enabling African countries to selectively build on the institutions, capacities and activities already established under the CDM. Therefore, it is paramount to retain those improved CDM elements that have been the epitome of longstanding efforts to promote market mechanisms in underrepresented countries.
Article 6 rules need to specifically acknowledge the circumstances of African countries, LDCs and SIDS. This should involve a systematic process of assessing which existing elements can accelerate early Article 6 action with high sustainable development impacts. In the sustainable energy access space, for instance, there has been important progress both in simplifying methodologies (e.g. through standardizing baselines) as well as in building a portfolio of scalable programmatic CDM activities. These activities are often fully aligned with national priorities and deliver on sustainable development. Calls for preventing any type of CDM activity to become part of Article 6 does not do justice to the diversity of existing mitigation actions under the mechanism.

Only such a smooth transition from CDM to Article 6 can prevent low-income countries from being initially left out of the new market mechanisms yet again. A key precondition for building on existing CDM experience is that this becomes formally recognized under Art. 6. But even in the absence of such formal recognition, there is merit in effectively preserving existing in-country CDM institutional capacities and activities, and using these as a foundation and stepping stone to develop Art. 6-compatible activities. This could be achieved by ensuring that:

- **Country level institutions** for Article 6 can directly build on existing CDM institutions, in particular DNAs.
- A **fast-track approval process** enables CDM activities, in particular PoAs, to demonstrate that they meet Art. 6 requirements.
- Transitioned activities are fully integrated into **NDC accounting** processes, and where applicable, corresponding adjustments for any internationally transferred mitigation outcomes (ITMOs) are made.
- Crediting mechanisms are used in an innovative manner, including through **results-based climate finance** that involves canceling units rather than offsetting or

domestic crediting through programmatic, as well as sectoral approaches aligned with domestic policy priorities and Sustainable Development Goals (SDGs).

- **Simplified CDM baseline and monitoring methodologies** and related parameters are directly applicable for Art. 6 activities.

DESIGNING INCLUSIVE ARTICLE 6 GUIDANCE AND RULES

Past experiences with market mechanisms and competition for climate finance show that a one-size fits all approach may disproportionally benefit emerging economies. When designing Article 6 guidance and rules, therefore, the circumstances of African countries and LDCs need to be fully taken into account.

Particularly important elements for African countries include linking Article 6 to ambition raising, ensuring both Art. 6.2 and Art. 6.4 achieve similar (high) standards of environmental integrity and sustainable development, and promoting inclusiveness by developing methodologies and accounting rules that are robust, yet flexible. International oversight of these elements is key to ensure that the new carbon market landscape supports the achievement of NDC targets while contributing to an increase in global mitigation ambition.

Moving from rule-setting to implementing Article 6 should begin by expanding the cooperation with selected African host countries and private sector organizations that have demonstrated their ability to deliver, but that would benefit greatly from improved access to finance and enhanced capacity in order to meet Article 6 requirements. Piloting activities in Africa based on existing programmatic frameworks has the potential to quickly unlock large-scale investments and build confidence that Article 6 has learned its lessons from the Kyoto Protocol's CDM in order to build a more effective set of policy instruments. This way, it will help to achieve the transformative ambition of the Paris Agreement.

The active participation of African countries in designing Article 6 guidance and rules as well as the early onset of piloting activities are at the core of fostering Africa's long-term position in the emerging carbon markets.

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