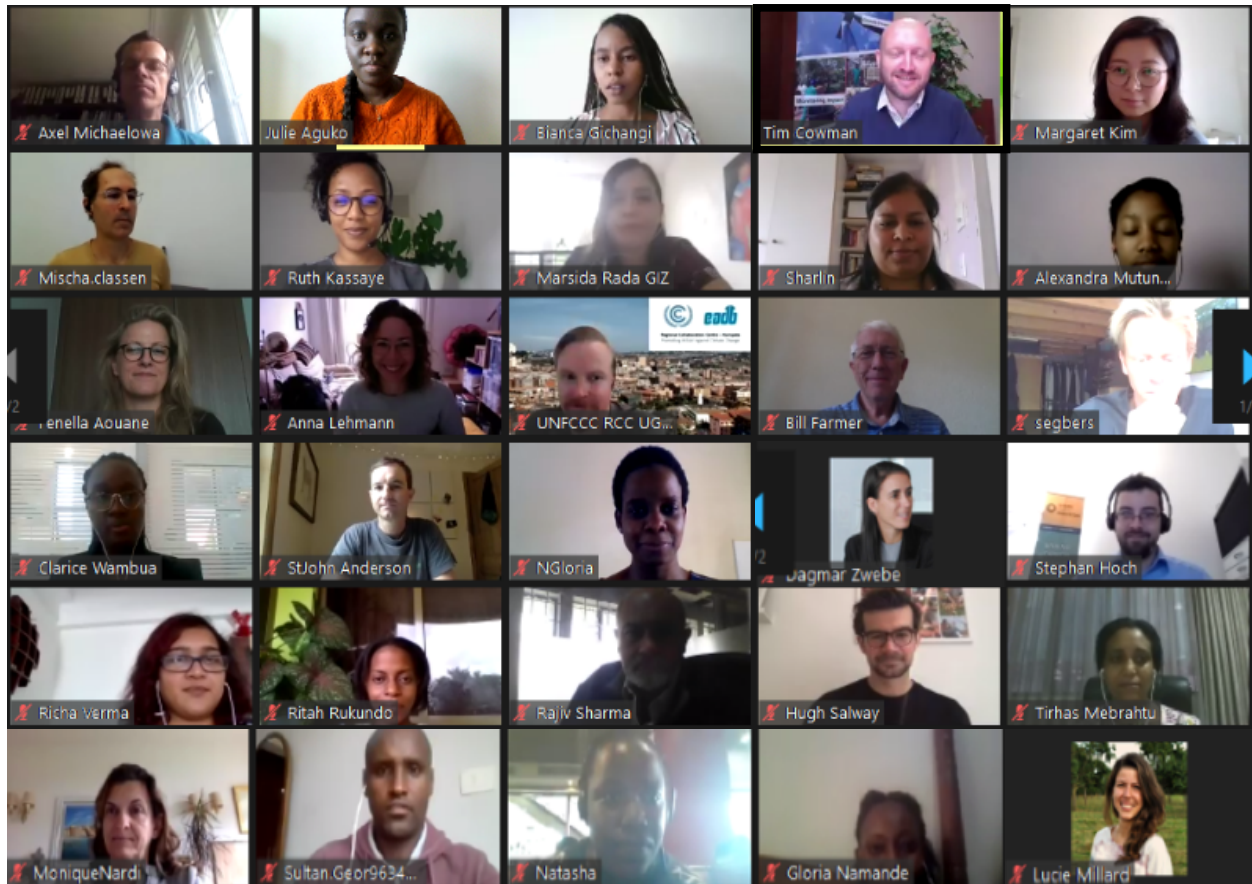


## Thematic Report

# Eastern Africa carbon market engagement: Regional foundations for Article 6 implementation

*An online dialogue and peer to peer exchange for regional carbon project developers*



*This report presents the key take-aways, base information about the online interactions, summarised session insights and recommendations for potential future actions.*

Dates: 21, 23 & 25 September 2020

Host: GIZ Global Carbon Markets Programme Uganda- East Africa (GCM), supported by the German Federal Ministry of Environment, Nature Conservation and Nuclear Safety (BMU)

Organizers: The Eastern Africa Alliance on Carbon Markets and Climate Finance (EA Alliance), UNFCCC Regional Collaboration Centre Kampala (RCC Kampala) and the Climate Finance Innovators Project.

Co-organisers/Facilitators: Perspectives Climate Group and Carbon Africa

## 1. Key Take-aways

The key take-aways from the three sessions are:

- The lack of clarity at the UNFCCC Intergovernmental level is viewed as an extremely serious market concern that, coupled with postponement of COP 26, means there is a real risk of having a CDM regulatory gap after 2020. In response, certain project developers in the region are already stalling on verification investment decisions and considering a shift to the voluntary carbon standards. This has the potential to fundamentally undermine international confidence, in particular of the private sector, in multilaterally governed market mechanisms;
- The carbon market is living through a dynamic transition period and it is increasingly challenging to keep track of developments that potentially have an impact on both existing and planned assets;
- Emerging significant initiatives developed under the potential future provisions of Article 6 have raised interest in regional carbon asset developers even though there remains a lack of clarity on the exact role they could play. In that regard there is growing pressure on host Governments across the region to ramp up, with urgency, the creation of long term politically mandated governance structures that will enable confident engagement under Article 6.

## 2. The Event<sup>1</sup>

### Program Overview

Session	Topic	Date	Time
I	Carbon market engagement & CDM Transition	Monday, 21/09/20	14:00 - 16:00
II	Key features of the Paris Agreement and NDCs	Wednesday, 23/09/20	14:00 - 16:00
III	Piloting Article 6	Friday, 25/09/20	10:00 – 12:00

### Participants, Moderation and Panellists

The online dialogue targeted carbon market participants with carbon assets across Eastern Africa, the EA Alliance focal points, financing institutions, development agencies, carbon standards, the UNFCCC and other interested parties. The sessions averaged approximately 60 participants, peaking at 75.

- Opening & Closing - Sven Egbers (GIZ, Global Carbon Market Project Uganda - East Africa)
- Moderation - Bianca Gichangi (EA Alliance), Tim Cowman (Carbon Africa)
- Platform Management – Ruth Kassaye (Perspectives Climate Group), Julie Aguko (Carbon Africa)
- Facilitation - Ritah Rukundo and Suri Mues (RCC Kampala), Stephan Hoch and Axel Michaelowa (Perspectives Climate Group)
- Q&A - Gloria Namazzi and Marsida Rada (GIZ, Global Carbon Market Project Uganda - East Africa)
- Presenters and Panellists – UNFCCC, UK Government, Climate Finance Innovators Project, Perspectives Climate Group, VERRA, The Gold Standard, PD Forum, ClimateCare, KilK Foundation, National Treasury of South Africa and the Global Green Growth Institute (GGGI).

### Key outcomes

The participants:

- Gained access to input from high level presenters and panellists from around the globe;
- Developed a base understanding of the current status and outstanding core issues relating to the negotiations on Article 6 under the UNFCCC on the road to Glasgow (COP 26);
- Secured an appreciation for the details and updates pertaining to the three core topics – CDM transition, NDCs and corresponding adjustments and piloting Article 6;
- Further improved their understanding of CDM transition and future implementation of Article 6;
- Took part in peer to peer learning within a regional community of practice;
- Enhanced their awareness of the EA Alliance, the GIZ Global Carbon Market Project Uganda - East Africa and the UNFCCC Regional Collaboration Centre in Kampala as critical regional platforms.

<sup>1</sup> The online dialogue and peer to peer exchange concept note and all presentations are accessible on Eastern Africa Alliance on Carbon Markets and Climate Finance website - <https://easternafricaalliance.org>

### 3. Summarised Session Insights

#### Session I: Carbon Engagement and CDM Transition

##### **Negotiating Article 6**

##### **Status of the Negotiations, core Article 6 issues and the road to COP26**

*UNFCCC - Perumal Arumugam, Leads the methodological work of quantifying mitigation actions in non-energy sector and supports negotiations on Article 6 and Kyoto Protocol related market mechanisms.*

*UK Government - Hugh Salway, Senior Adviser Article 6 & Response Measures Negotiations, incoming COP26 presidency team*

The first session addressed negotiations on Article 6 as we move towards the COP in Glasgow 2021:

- The UNFCCC negotiations in Madrid (CMA-2) failed to produce an agreement leaving a limited number of significant issues, including avoidance of double counting (6.2), CDM transition, baselines and additionality (6.4), share of proceeds (6.2) and overall mitigation in global emissions (OMGE);
- Each of the Article 6 elements (6.2, 6.4 and 6.8) have drafted text with the SBSTA working to recommend a decision for consideration of adoption by CMA-3. Intense efforts are required to identify workable compromise solutions;
- Despite the unfortunate postponement of COP 26 work is ongoing through preparatory consultations with all parties in an inclusive and safe way. On Article 6, core actions include tracking of how markets are reflected in updated NDCs and undertaking informal technical meetings (e.g. CDM transition);
- The UK Government, drawing on the willingness of Parties, is committed to work towards a consensus-based and comprehensive agreement balanced between mitigation, adaptation and finance.

##### **CORE TOPIC I - CDM Transition**

##### **The Regional Carbon Market Profile and the potential transition**

*Climate Finance Innovators Project – Tim Cowman, Director, Carbon Africa*

*UNFCCC - Perumal Arumugam, (see above).*

*Perspectives Climate Group / Climate Finance Innovators Project - Stephan Hoch, Managing Director*

The second session presented an overview of the Eastern Africa carbon project pipeline followed by a deep dive into the core issues of the CDM transition and potential practical implications:

- The EA Alliance countries host over 500 mitigation activities which have issued 25 million+ emission reductions to date (CDM 9 million+ CERs, Gold Standard 15million+ VERs), with the main sectors being run-of-river hydro power and cook-stoves. Though the majority of the mitigation potential remains locked in the pipeline, with 320 million+ tCO<sub>2</sub>e available under the CDM alone up to 2030;
- The CDM transition can be viewed as three interlinked components – (i) Infrastructure (e.g. methodologies, accreditation etc) ii) Activities iii) Units. There is general agreement on the first two at the negotiations, though they are considered a package. Transition proposals include:
  - Infrastructure – CDM methodologies under 6.4, Supervisory Body to review the methodologies, accreditation standards and procedures with a view to applying them with revisions as by 2021;
  - Activities – after an eligibility check (SBSTA develops criteria and procedures), host party communication and Supervisory Body constitution. To be completed no later than 2023 with activities applying the CDM methodology until the end of its current crediting period or 31/12/2023;
  - Units - business as usual for CDM emission reductions up to 31/12/2020, though there are potential implications to CDM operations beyond 2020 caused by the postponement of CMP 16. For use of pre-2020 CERs for post-2020 NDC targets conditions need to be agreed.
- The African Group of Negotiators successfully pushed for CDM reform, though African countries accessed the CDM late and after the CER price crash;
- The lack of transition rules is causing market concerns, further complicated by the COP postponement. This regulatory gap may lead to a shift to the voluntary carbon standards, with Eastern Africa project developers reflecting that this is already impacting investment decisions e.g. stalling of verifications.

## Session II: Key Features of the Paris Agreement and NDCs

### CORE TOPIC II – NDCs and Corresponding Adjustments

#### Key NDC features and their relevance for the carbon market

UNFCCC - Bernd Hackmann, Programme Officer, CGE/ETF Support Unit

Climate Finance Innovators Project- Stephan Hoch, Managing Director, Perspectives Climate Group

The third session presented to participants the global status of the updated NDC submissions, the central components of NDCs and their potential implications on carbon projects:

- NDCs are at the heart of the Paris Agreement with a mandatory process established to i) have updated submissions by 2020 and ii) enhanced ambition submitted every 5 years. In communicating their NDCs, all Parties shall provide the information necessary for clarity, transparency and understanding;
- As of September 2020, 18 Parties had communicated an updated NDC in the (interim) registry. The UNFCCC secretariat is requested to prepare a synthesis report for COP 26 with all Parties additionally invited to communicate long-term low emission development strategies until 2050;
- The issue of double counting can take different shapes, being issuance, claiming and use. This means Internationally Transferred Mitigation Outcomes (ITMOs) require a corresponding adjustment, with infrastructure and institutional frameworks required to support this, e.g. registries, procedures etc.
- This context is relevant for the Eastern Africa Private Sector as:
  - Technical implementation of corresponding adjustments remains unclear;
  - Host country NDC targets overtime could fundamentally transform the incentive structure of the carbon market – i.e. Kyoto Protocol: identification of cheapest mitigation options for export, Paris Agreement: cheapest mitigation options could remain in country, with exceptions for LDCs;
  - Differentiation of rules on NDC requirements could result in preferential treatment for LDCs with a higher share of conditional NDC elements.

#### Implications of the voluntary carbon market

Gold Standard - Sarah Leugers, Director of Communications,

VERRA - Naomi Swickard, Chief Program Officer,

PD Forum - Sven Kometz, Chairman

ClimateCare - Patrick Colas, Operations and Commercial Director

The fourth session focussed on the current practical steps being taken in the voluntary carbon markets in relation to the transition and treatment of corresponding adjustments within an emerging Article 6 context:

- Scale –the voluntary standards and project developers reported an increase in service demand over the past 18 months from corporate entities. As a symbol of this the Taskforce on Scaling Voluntary Carbon Markets was recently launched;
- Labelling for transparency –an emerging differentiation between the types and destination of emission reduction units, e.g. domestic market offsets, Article 6 ITMOs, a corresponding adjustment as an attribute;
- Clear regulatory timing - a potential CDM policy gap (31/12/2020 to 11/2021) is emerging, which could i) promote a shift to voluntary standards and/or ii) reduce corporate interest.

## Session III: Piloting Article 6

### CORE TOPIC III – Piloting Article 6

#### African Article 6 piloting and market developments - Panel

Climate Finance Innovators Project- Axel Michaelowa

KliK Foundation - Mischa Classen, Director, Carbon Procurement

Gold Standard - Margaret Kim, CEO

National Treasury South Africa - Sharlin Hemraj, Director Environmental and Fuel Taxes

GGGI - Fenella Aouane, Principal Green Finance Specialist

The fifth session tackled the topic of Article 6 piloting, the role of voluntary carbon standards under Article 6 and the potential role of domestic carbon pricing initiatives in stimulating offsetting demand:

- A recent study of the Article 6 piloting landscape shows that Africa is actively involved from the onset. There are though key changes for the pilots compared to the Kyoto Mechanisms, e.g. CDM was mainly driven by private sector companies generating credits for “export” whereas Article 6 has a potentially larger role for Governments through corresponding adjustments and links to NDC accounting. Practical experience is being driven by a small number of host and buyer countries with continued links to existing mechanisms and portfolios though successful upscaling is critical;
- The importance to establish internal host country Governance structures that are politically mandated. *On 18th October, the KliK Foundation will sign its first bi-lateral agreement with Peru that contains provisions on accounting obligations and corresponding adjustment commitments;*
- Host country preparation for transfers in order that Governments can have a comprehensive view of what can be accessed under various markets. *The South Africa carbon tax offsetting provision led to the development of domestic infrastructure used to track the offsets being utilised;*
- Recognition of the CDM transition and how to treat the existing pipeline. *Gold Standard is working with the German Government on assessment criteria for transition of existing projects;*
- Upscaling and project level transactions. Efforts under Article 6 require significantly increased level of impact though ultimately transactions may still take place at the activity level. *KliK Foundation bi-lateral country level agreements acts as a framework for commercial interactions with the project owners;*
- The lead time for the design and agreement on ITMO contracts could take two years with a further year for implementation therefore there is a need to move now and work to continually share learnings and discuss challenges. *The South Africa Carbon Tax had a 10-year consultative process.*

### Peer to Peer Exchange

The final session allowed for the participants to engage in breakout groups considering the questions: *What regulatory developments are needed from host country governments for carbon asset/project developers to: 1. ensure a smooth transition for CDM activities/assets? and 2. initiate Article 6 piloting in Eastern Africa?*

- Lack of certainty at the intergovernmental level is a concern and an outcome on Article 6 is needed;
- Important that the Private Sector remains free to choose between the CDM, voluntary standards and/or Article 6 ITMO pilots, with a shift to the voluntary market standards already materialising;
- Need to find ways to avoid a catch 22 situation where the public sector awaits private sector demand and the private sector awaits sector de-risking. Hence the need for clear institutional set ups and political mandates in host countries with regards to Article 6 implementation;
- The Private Sector needs to get to a familiar place as regards participation in Article 6, including capacity enhancement through pilot activities;
- Important to have public-private roundtables to align the activities to the needs and reporting frameworks.

### 4. Recommendations

The key recommendations from the three sessions are:

- Given all of the points above it appears clear that further enhancement of regional dialogues and platforms is an important and worthwhile development in order to:
  - share the latest information and understandings of the potential impact of the same;
  - promote the exchange of ideas and experiences throughout this period;
  - continue to draw off early experience's and lessons learnt from Article 6 engagements;
  - Provide inputs to finalizing rules on Article 6 and CDM transition based on regional experience and circumstances.
- Governments across the region should endeavour to create politically mandated governance structures at the earliest to encourage swift and scaled engagement under Article 6;
- With the sustained impact of COVID-19 and the regional nature of the EA Alliance it is highly recommended to continue regular use of online interactions, with thought given to the sliding scale of options between broad reaching webinars to targeted interactive workshops;
- Further consolidate the Eastern Africa Alliance on Carbon Markets and Climate Finance, the GIZ Global Carbon Market Project Uganda - East Africa and the UNFCCC Regional Collaboration Centre in Kampala as the regional base for these engagements, and additionally begin to further link such developments to any related efforts under NDC support programmes.