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LINKING CARBON MARKETS WITH CLIMATE FINANCE IN AFRICA

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Conditionality and Article 6: An Analysis of African Countries' updated NDCs

Stephan Hoch, Managing Director, Perspectives Climate Group
Moderator

I4C virtual workshop
May 25-27, 2021





NDC conditionality and Article 6

Context

- **2021 key year:** first year of NDC implementation, first updated NDC targets (still ongoing)
- **Conditional and unconditional targets** broadly used in NDCs, but **lack of UNFCCC guidance** regarding their meaning and applicability
- NDC updates show **different interpretations of conditionality by UNFCCC Parties:** potential consequences for **access to Article 6?**

Goals of the workshop

- ✓ Present the study “**Conditionality and Article 6: An Analysis of African Countries’ updated NDCs**”
- ✓ **Discussion** on how **conditional/unconditional NDC targets** may impact **Article 6 eligibility**



Speakers

Study launch:
Conditionality and
Article 6 in African
NDCs

**Sandra
Greiner**
Climate Focus

Experience with
Senegal's NDC
update and impact
on Article 6

**El Hadji Mbaye
Diagne**
Afrique-Energie-
Environnement
Senegal

Experience with
Kenya's NDC
update and impact
on Article 6

**Anne Nyatichi
Omambia**
NEMA Kenya

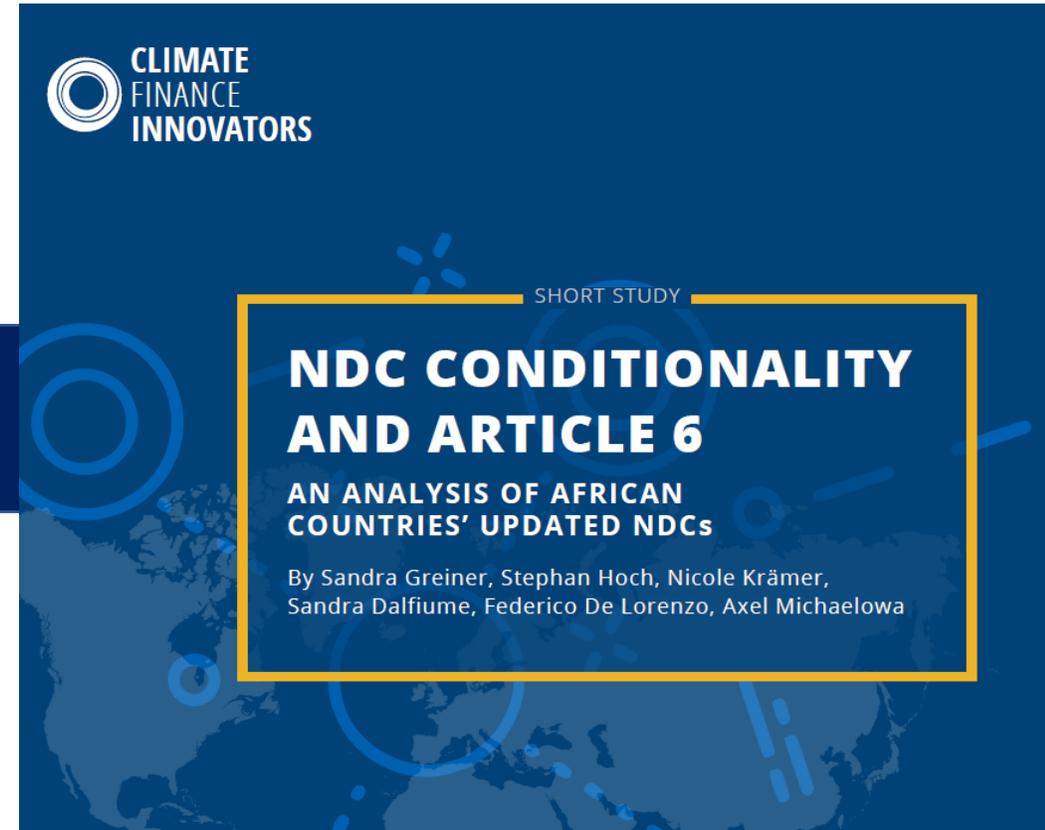
Experience with
African NDC
updates from
buyer's perspectives

**Mischa
Classen**
Klik Foundation
Switzerland

NDC Conditionality and Article 6: An Analysis of African Countries' updated NDCs

Available at www.climatefinanceinnovators.com in May 2021

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NDC CONDITIONALITY AND ARTICLE 6

**AN ANALYSIS OF AFRICAN
COUNTRIES' UPDATED NDCs**

By Sandra Greiner, Stephan Hoch, Nicole Krämer,
Sandra Dalfiume, Federico De Lorenzo, Axel Michaelowa



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NDC conditionality and Article 6

An analysis of African countries' updated NDCs

Sandra Greiner, Climate Focus

I4C Virtual Workshop

25 May 2021, 17:30-18:20pm CET



Interpretations of conditionality

Conditionality in 1st generation NCDs:

- 78% of countries included a conditional component
- Out of them, 1/3 relied only on a conditional target

General understanding:

- Conditional mitigation targets are dependent on international support, including finance, technology transfer, and capacity building
- Unconditional targets comprise the targets that a country aims to achieve using its domestic resources

Types of NDC conditionality observed in literature (based on 1. NDCs):

1. Conditional on international financial and/or technical support
2. Conditional on climate-related policies pursued by other countries
3. Conditional on the rules of engagement (i.e. availability of market based approaches to fulfil contribution)
4. Conditional on national circumstances

Key question: Impact of NDC conditionality on participating in Article 6?

Interpretations of conditionality and links to Article 6

- **Art. 6 pilots** provide hints on how NDC conditionality may impact Art. 6
- **Art 6 buyers** prefer to buy from conditional components of host countries' NDCs only (e.g. KliK, SEA, TCAF, Future for Carbon Market Foundation)

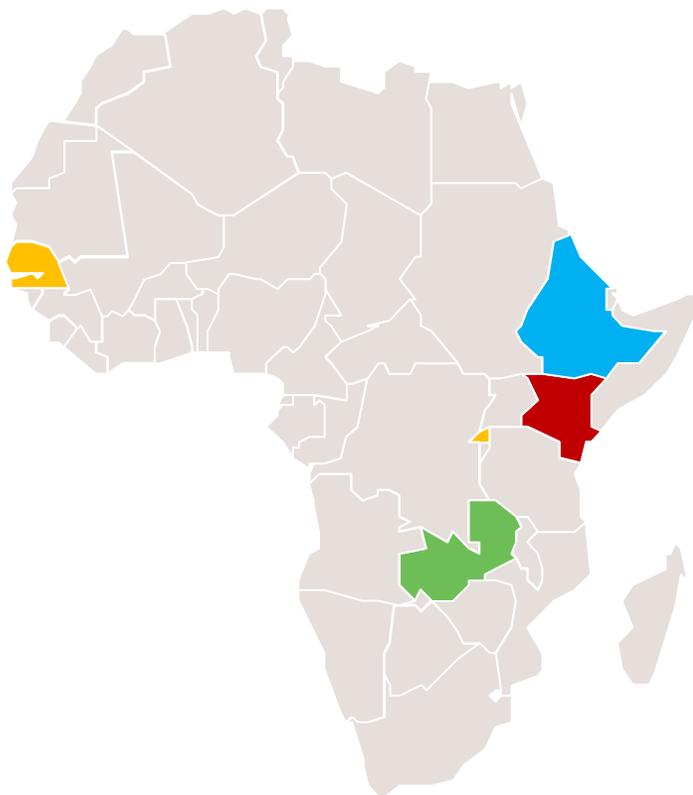
Links to Article 6

- A clear understanding of how NDC conditionality impacts the use of carbon markets remains elusive
- In the absence of UNFCCC guidance, countries developed their own interpretations of how to use carbon markets to achieve their updated NDCs.

UNFCCC synthesis report on updated NDCs (February 2021):

- Most countries communicated that they plan/will likely use **voluntary cooperation**
- Numbers of updated NDCs intending to use voluntary cooperation **more than doubled** compared with first NDCs
- Some parties communicated the **use of voluntary cooperation as a condition** for achieving their mitigation targets
- A few have limited voluntary cooperation to achieve conditional mitigation targets, others seek to achieve **unconditional targets primarily through domestic efforts** but partially through voluntary cooperation

Conditionality and Article 6 in updated African NDCs



Case Study 1 : Zambia

A fully conditional mitigation pledge



Case Study 2 : Rwanda and Senegal

Use of Art. 6 for both unconditional and conditional elements



Case Study 3 : Ethiopia & Cabo Verde

International carbon markets exclusively in support of conditional targets



Case Study 4 : Kenya

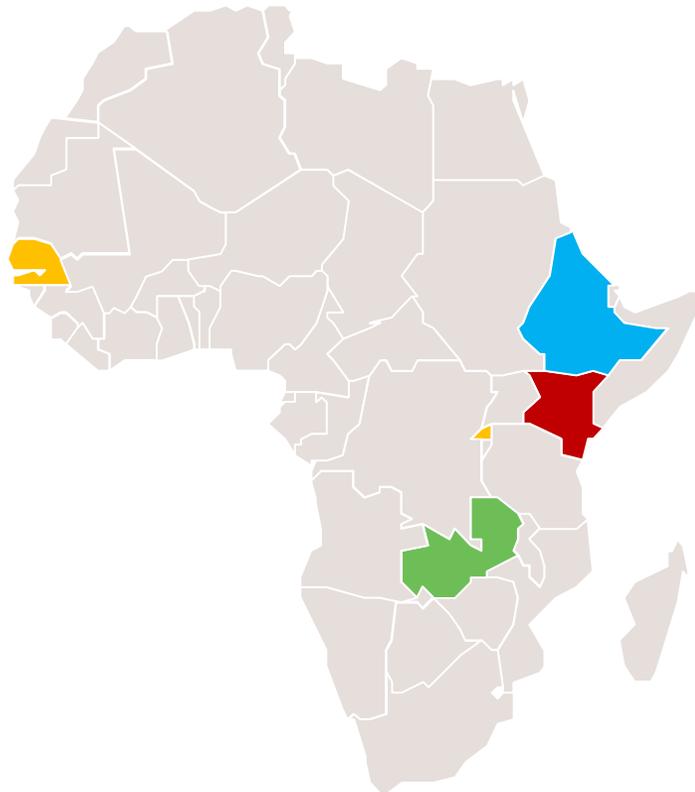
Conditionality based on implementation costs

Conditionality and Article 6 in updated African NDCs



Case Study 3 : Ethiopia

International carbon markets exclusively in support of conditional targets



Ethiopia

- Clear demarcation and explanation of conditionality interpretation and application
- Unconditional target: reducing GHG emissions by 14.5% (2030) financed with national resources (not eligible for ITMO exports)
- Conditional target: additional reduction of 50.1% (combined 64.6% by 2030) dependent on international support, including carbon markets (flexibility on which specific activities supported by Art.6)
- Conditionality linked to financial and other types of support and seen as an enabler of enhanced mitigation ambition
- This approach requires demonstrating eligibility at activity level and sectoral accounting

Towards a typology of NDC conditionality for carbon markets

Key highlights based on case study analysis

- In updated African NDCs, all conditional targets expect a provision of international financial and technical support
- NDC updates do not offer a clear distinction between conditional and unconditional NDC targets

A first typology of how the conditionality of NDC targets relates to Art. 6

Full conditionality

- Fully conditional NDC targets
- Justified for LDCs

Clear demarcation

- Unconditional targets achieved exclusively with domestic resources
- Conditional NDC elements can generate ITMOs

Dual approach

- Conditional and unconditional elements may generate ITMOs

Conditionality of investments

- Conditionality applies to cost (not to mitigation activities)

Conclusions

NDC conditionality is an important, but insufficient reference point for Article 6

Key highlights

- NDC conditionality and Article 6 eligibility cannot be equated
- Lack of UNFCCC guidance has inevitably led to different interpretations by Parties
- Prerogative of countries to define the space for voluntary cooperation (nationally determined)
- Activity level checks and balances need to ensure environmental integrity and ambition:
 - Stringent baselines & activity level additionality
 - Corresponding adjustments
- Working towards a shared understanding of NDC conditionality increases certainty of expectations by both buyers and sellers in Art. 6 cooperation and enhance transparency

Open question

- How will countries report on their conditional targets if ITMOs have been transferred?

SHORT STUDY

NDC CONDITIONALITY AND ARTICLE 6

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Thank you



www.climatefinanceinnovators.com

Contacts:

Sandra Greiner | Climate Focus
s.greiner@climatefocus.com
www.climatefocus.com

Stephan Hoch | Perspectives Climate Group
hoch@perspectives.cc
www.perspectives.cc



Innovate4Climate
25th May 2021



Conditionality and Article 6 Reflections from buyer's perspective



I - Full conditionality

Full scope for action

Reservation: eligibility in acquiring country

→ Role of Corresponding Adjustment?

→ Do Nothing Baseline accepted?

→ Treatment of LDC under Paris Rulebook?

Need to await guidance from countries

II - Clear demarcation

Preferred set up

Avoid overselling risk: no low hanging fruits

Demarcation is no Authorisation!

→ Translate into requirements (eg Additionality)

→ Need to establish competent authority

→ Transparent processes and decision taking

III - Dual approach

Challenging attribution of MO (Transfer/NDC)

Joint operation of activity to align interests

Attribution on basis of commensurate efforts

Consider specific needs

→ Attenuation of NDC (transferring country)

→ Predictable MO generation (buyer)

IV - Conditionality of investments (MAC)

Similar to «Clear Demarcation», guided by MAC

But: cost not only determinant:

e.g. Low cost, but difficult enforcement

Cost is important tool to guide demarcation,
may need complementary consideration

Typology of conditionality in NDCs

Take away

Preferred approach: Clear Demarcation

Translate sectors to activity level:

Need bodies for rule / decision making

Operationalisation: Complex with cross-cutting

Attribution, crediting baseline, additionality, financing structure, responsibilities

Thank you



Mischa Classen
KliK Foundation

international.klik.ch