SANDRA GREINER, ANDREW HOWARD, EL HADJI MBAYE DIAGNE, GIZA GASPAR MARTINS

WILL CARBON PRICING EMERGE IN AFRICA AS WELL?

Many African countries are considering how carbon pricing and carbon markets can benefit their continent and foster their participation in climate action.

This interest in moving forward exists despite Africa's mixed history with the Kyoto Protocol's Clean Development Mechanism (CDM), from which many countries in Africa missed the opportunity to benefit. The signals are now more positive, however, with Africa's share of CDM Programmes of Activities (PoAs) surging to a third of the global total, the political embrace of international carbon markets as an important means of accessing climate finance, and the emphasis on markets in Africa's national plans under the Paris Agreement.

African leaders are committed to international markets that display high environmental integrity, contribute to sustainable development and build on the achievements of the CDM[1]. African countries were keen supporters of markets in the Paris Agreement and have been a driving force behind many recent reforms to the CDM. While details are still evolving, many countries in Africa appear supportive of carbon pricing and interested in participating in international carbon markets.

AFRICA IS ENGAGING

The "intended" Nationally Determined Contributions (NDCs) under the Paris Agreement demonstrate that a majority of African governments desire to use international markets in some form to help finance their mitigation (see Table 1). Most African countries are positioning themselves, unsurprisingly, as sellers of carbon credits.

Fourteen intended NDCs from Africa referenced the CDM, and this signals a desire for continuity in the approaches underlying the CDM. However, there is also a clear wish to move beyond today's CDM. Many African countries are interested in moving to sectoral approaches through standardized baselines and streamlined monitoring. Some countries, for example Morocco and Tunisia, wish to go further by implementing their own sectoral crediting schemes for high emission-intensity industries.

TABLE 1:
CARBON PRICING REFERENCES IN AFRICAN INTENDED NDCS

TYPE OF CARBON PRICING	REFERRED TO IN THE INDCS OF
Emission trading	2 COUNTRIES: Côte d'Ivoire, Egypt
Carbon tax	2 COUNTRIES: Côte d'Ivoire, South Africa
International market mechanisms (general references)	34 COUNTRIES: Angola, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Ethiopia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, South Sudan, Sudan, The Gambia, Togo, Tunisia, Uganda, Zambia, Zimbabwe
Fossil fuel subsidy reform	7 COUNTRIES: Burkina Faso, Egypt, Ethiopia, Ghana, Morocco, Senegal, Sierra Leone,

Source: IETA INDC Tracker and individual submissions
Note: Of 54 countries in Africa, one has not submitted an intended INDC (Libya).

Uncertainties still remain of course. It is not clear how countries will use markets, in particular whether they will be used for existing commitments on climate action or only to enable further action – in UNFCCC-speak whether they will be used towards the non-conditional or conditional targets of African NDCs. It is also not clear if Africa will only be a supplier of offset credits or will also create its own demand or use other carbon pricing mechanisms. We can expect the formal NDCs, which will be submitted upon ratification of the Paris Agreement, to further define what action Africa will undertake and how this will be financed.

Several African countries are implementing domestic carbon pricing mechanisms. South Africa is the clear front runner with its proposed carbon tax. As an integral policy instrument for reaching South Africa's goal of reducing emissions by 34 percent below business-as-usual (BAU) by 2020 and by 42 percent below BAU by 2025, the tax will start at 120 Rand (approximately US $8.80) per tonne of CO2 equivalent in January 2017 and increase over time. The tax will promote crediting mechanisms by allowing covered entities to reduce their carbon tax liability by purchasing credits generated by South African projects that are verified under international standards.

The draft South African Carbon Offsets Regulation indicates carbon offsets verified under the CDM, the Verified Carbon Standard and the Gold Standard will be eligible for use in the program.

Egypt is also considering a national market for carbon trading, which it says could later grow to serve the Arab and African regions. Côte d'Ivoire is exploring carbon taxes and emission trading for energy and agriculture. Some countries also list measures to raise carbon prices through reducing fossil fuel subsidies, of which Egypt's plans are the most detailed.

African countries have signed up to a number of international initiatives. Morocco, Ethiopia and Côte d'Ivoire have joined the Carbon Pricing Leadership Coalition, an initiative of the World Bank to expand the use of carbon pricing globally, while Senegal and Ethiopia have joined the Carbon Market Platform initiated by the G7. Morocco, Tunisia and South Africa receive technical assistance through the World Bank's Partnership for Market Readiness. Senegal was part of the Ministerial Declaration on Carbon Markets initiated by New Zealand, under which 17 countries made a political commitment to carbon markets in the wake of the Paris Agreement. Finally, Ethiopia and Kenya have signed partnership agreements with Japan to develop projects under its Joint Crediting Scheme.

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CARBON PRICING AT DIFFERENT SPEEDS

There is no one-size-fits-all approach to carbon markets in Africa. But it is fair to expect that most African countries in the near and medium terms will focus on supplying credits to the international market, driven by their emission profiles, industrialization levels and institutional capacities.

Technologies well-suited to a widely-distributed rural poor, such as improved cookstoves, biogas digesters and solar home systems, will remain appropriate for large areas of Africa for some time. These technologies can be effectively targeted by crediting systems, especially with greater standardization and aggregation through PoA-type structures. Such crediting is also amenable to climate finance, which can help leverage private investment and create a proportion of reductions that will not be later used as offsets.

As Africa's development continues to raise emissions from energy and industry, opportunities for other forms of carbon pricing will emerge. Opportunities for carbon pricing at a regional level may arise, especially in integrated sectors such as energy. Overall, African countries are expected to announce a wider range of carbon pricing policies in their NDCs for 2025 or 2030 onwards.

BRINGING THE PROGRESS WITHIN ARTICLE 6

Article 6 of the Paris Agreement envisages both UNFCCC-wide market mechanisms and bottom-up, country-driven market systems. It will be important that Article 6 caters to the range of African development realities.

Space is needed for countries with the least capacity to access global carbon markets through crediting mechanisms that are simple to work with and that operate under global standards. Africa has much to gain from the quick operationalization of the UNFCCC crediting mechanism under Article 6.4, especially if the new mechanism retains and extends some key elements of the CDM such as PoAs, standardized baselines and micro-scale additionality.

But Africa may also gain from creating its own approaches, especially as the Article 6.4 mechanism has not yet been developed. Many developed countries are looking to secure credit supplies as soon as possible and will look for international crediting partnerships under Article 6.2. If Africa can manage to harmonize standards under its Article 6.2 activities, this will help governments and market participants alike, and may contribute to their expansion regionally or across the African continent. Maybe such standards could one day be incorporated into the Article 6.4 mechanism itself. A proliferation of too many cooperative approaches would necessitate building capacity to manage several sets of standards and procedures.

The extent to which African countries will utilize carbon markets remains mostly speculation for now. Most African states are still in the early days of developing their intentions for markets on the continent and beyond. The place to watch will be the submission of formal NDCs by African countries as ratification instruments are prepared and their implementation plans are finalized.

__Sandra Greiner__ is lead consultant at Climate Focus; __Andrew Howard__ is director of Koru Climate; __El hadji Mbaye M. Diagne__ is a Senegalese representative at the UNFCCC; __Giza Gaspar-Martins__ is an Angolan delegate to the UNFCCC.

(1) Marrakesh Call for Climate Action, as adopted by African Ministers during the 2015 Africa Carbon Forum (http://newsroom.unfccc.int/unfccc-newsroom/african-ministers-marrakesh-conclusions).