Recommendations and the way forward

It is imperative that the African countries come together as a group and develop a common and clear negotiating position which reflects the vital interests of all partners, and express their expectations from the new regime. African submissions in the past have voiced the need for capacity enhancement, robust support structures, technology transfer and recognition of their national contexts, but the group should submit more nuanced ideas to incorporate these in the discussions in Warsaw and beyond. Some suggestions for consideration are outlined as follows:

- Conditional progress: Progress on NMM and FVAs should be conditional upon enhanced ambition
- Specialized funds: The African Group could consider the utility of suggesting establishment of specialized funds to address issues of access. For instance, an International Methodology Development Fund could have a mandate to support development of new/customization of existing methodologies suited to African conditions. The Fund could be supported in future through contributions from Annex I and through contributions from NMMs and in the interim, by re-routing the accumulated reserves from share of proceeds for CDM projects. Similarly, an International Seed Fund could provide the much-needed catalytic initial investment (wholly/partially) to mitigation projects, especially in the African LDCs. The fund could be funded by public or private sources.
- Share of proceeds from market mechanisms under FVA: African group should consider a strong position on the possibility of drawing a share of proceeds fee from market-based mechanisms under the FVA and suggest an appropriate figure on the percentage allocation.
- Standardization and customization: NMM must incorporate simplification and standardization of procedures. Further, African states must also be mindful of exploring opportunities for customization of the design of future markets. An example to demonstrate the need for markets to be based on customized methodologies/calculation tools is the case of grid connected renewable energy projects in East African countries. Extremely clean grids of the region disqualifies (or renders unviable) the uptake of grid connected renewable energy projects under CDM.
- Early start of the NMM: While an early piloting would be useful to estimate the readiness of emerging markets for a more complex setup of market-based approaches and to establish appropriate institutional structures, experience with Activities Implemented Jointly (AIJ) should be kept in mind when planning NMM pilots. Particularly, the inequitable distribution of investments for minimizing transaction costs and utilization of low hanging fruits in the targeted mitigation sectors and prohibition of accrual of credits during the pilot phase (Schwarze 2000; Larson & Breustedt 2009). Targeted support and focus on the continent in the NMM pilots could be flagged for better readiness of the continent.
- Administration of various approaches: A multiple mechanism future presents the risk of creating several carbon currencies, exhausting the readily available mitigation options for developing countries, jeopardizing environmental integrity of reductions and the possibility of double counting support. Hence, complementarity among the various mechanisms under various approaches is important. Party opinions range from FVA to be a set of broad guiding principles to ensure transparency to strict set of rules with regulatory control to COP, especially to ensure fungibility of the different carbon currencies generated. In COP 19, African states should argue for FVA that is closely regulated by a centralized body under COP.

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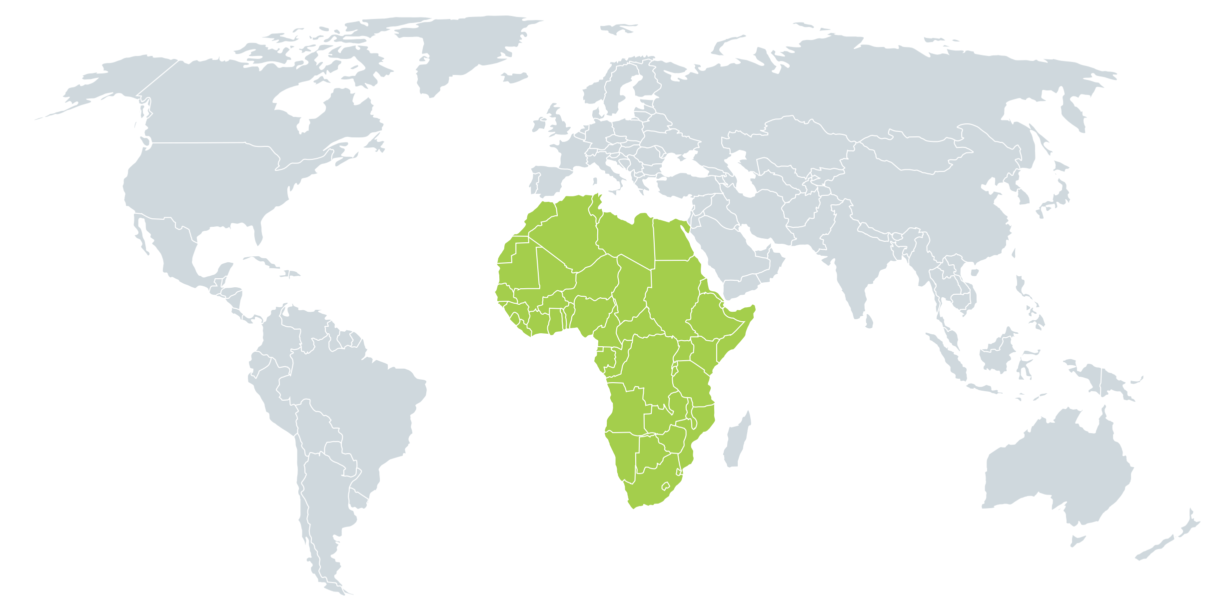

NEGOTIATING NEW MARKET BASED MECHANISMS

MAKING A CASE FOR AFRICA'S PARTICIPATION

RitikaTewari and Nimisha Pandey

The specifics of new market based approaches are still under negotiation. However, COP decisions till date categorize future market mechanisms into the following: (i) a New Market Mechanism (NMM) and (ii) market-based approaches undertaken individually or jointly by the Parties guided by a common framework, referred to as Framework for Various Approaches (FVA). This policy brief filters out key issues and main proposals on new market-based approaches[1] from the diversity of discussions and does an early reconnaissance of their utility for Africa.

Africa's Outlook

African reference for the FVA can be traced from the submissions to the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA) on the elements of Bali Action Plan (which includes various approaches for enhanced mitigation) and the subsequent work programme of AWG-LCA. The following concerns and expectations are highlighted in African submissions:

1. Balancing adaptation and mitigation
2. Prioritizing sectors crucial for development such as agriculture
3. Ambitious financial support and technology transfer including prohibiting export of sub-standard and environmental unfriendly technologies (Rwanda) and measures to improve the diffusion and development of technologies (Ghana)
4. Capacity enhancement particularly to promote access to market-based mechanisms, building upon lessons learnt from the CDM
5. Ambitious targets from eligible buying countries to create sufficient demand and incentives for Parties to participate in market-based schemes
6. Differential response, according to their national circumstances (Madagascar)

Overall, submissions from African states acknowledge that the continent is at the receiving end of climate change impacts and that mitigation actions need to be aligned to the developmental priorities of their countries. They voice the need for facilitating their

[1]For the purposes of this paper, we address NMM and Various Approaches together under the term 'New Market based Approaches'.

readiness to undertake actions. Most importantly, when assessing Africa's expectations vis-à-vis the ability to participate in a market-based mechanism, members of the African Group of Negotiators highlight that ambitious targets are precondition for implementing market mechanisms.[2]

Key issues in negotiations under new market-based approaches

Most Parties are in agreement that FVA and NMM should strive for ensuring environmental integrity and transparency, must avoid double counting and lead to emission reductions that are real and verifiable (Decision 1, CP 16), positions differ on key design features.

What should be accounted for: Differences in opinions have emerged in recent discussions on the specific meaning of some terms which have broader agreement. For instance, till COP 18, the issue of double counting incorporated only 'double counting of effort and units generated' (Para 79/decision 2/CP 17 and Para 45 (d)/ Decision 1, CP 18). Recent discussions[3] however also highlight the need to account for 'double counting support'. This illustrates an important concern of developing countries, including that of African states, that Annex I countries must be held accountable for their obligations to support.

Top–down versus bottom–up administration: Party submissions indicate varying interpretations on the governance of future market mechanisms, ranging from strictly regulated (by COP) to broadly directed/recognized as well as from centralized to party driven. Especially with reference to FVA, some Parties suggest that these mechanisms could function independently, with the framework providing some basic guidance to ensure transparency in the approaches undertaken and information shared (Japan 2012), while others advocate a stricter relation where markets are closely regulated by the COP. Discussions highlight that in the multiple market mechanism scenario, the precise responsibility framework of the mechanisms under COP would play a key role in ensuring reliability of generated units.

Relationship with CDM: Functional and structural relationship of new approaches with CDM has been an oft discussed question. Some Party submissions mention the need for new mechanisms to be complementary to CDM (Norway, LDC, and China) and propose that these should supplement existing mechanisms instead of replacing them (Japan). LDCs express their clear interest in continuation of CDM as a key market mechanism in future. Summarizing submissions by stakeholders, Svenningsen (2012) highlights the potential of utilizing/extending the institutional infrastructure of the existing mechanisms to future mechanisms. However, new market based mechanisms also raise concerns regarding the potential of overlaps between the mitigation activities undertaken within different mechanisms (double counting of reduction) and further driving down the already depressed markets by additional supply of credits.

Share of proceeds for adaptation: A new argument that has emerged recently in discussions is that of 'share of proceeds' from future market-based mechanisms towards adaptation. Decision 1/CP 18 Para 51 (i) mentions 'a share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation' as one of the possible elements of NMM. However, a possible share of proceeds from mechanisms designed under FVAs is a new addition to discussions, raised in AWG-LCA 15 informal session workshop. The recently concluded SBSTA 38 has requested Parties to submit their views on the technical design elements of FVA, and included the question, 'What could be the role of a share of proceeds for the approaches under the FVA?'

Opportunities and challenges for Africa

The submissions put forth by different Parties give varied definitions and interpretations of NMMs and differ in their degree of details. Commonalities emerge on the forms future market-based approaches could take. In Table 1, we summarize the fundamental opportunities and challenges which each form could have, with respect to Africa.

[2]This issue was highlighted in the discussions of members of the African Group of Negotiators at the Climate Change and Development for Africa -III Conference in October 2013.
[3]The authors refer specifically to proceedings of workshops under AWG-LCA 15 in 2012, technical paper by secretariat summarizing submissions till AWG-LCA 15, informal session in Bangkok in August 2012, and conclusions adopted at the recently concluded SBSTA 38.

Table:1 Proposals for NMM and Opportunities and challenges for Africa

Proposals	Description	Opportunities	Challenges
Form 1: Sectoral mechanisms (European Union AOSIS Costa Rica Switzerland)	Submissions suggest that sectoral approaches could be trading or crediting in nature. • A crediting-based mechanism: Existing emissions of a broad segment of an economy will be checked against ex-ante (no-lose) targets. • A trading-based mechanism: With an ex-ante defined absolute target for a broad segment of an economy, emissions allowances will be issued and verified against the agreed baseline.	• Sectoral mechanisms would result in a larger volume of carbon currency and thus, in principle, higher revenues. • Sectoral mechanisms have the potential to play an effective role in the implementation of the LCDSs of the region. • With higher volumes and standardized baselines, transaction costs of bringing credits to the market could decrease, at least once new market mechanisms and the necessary framework have been established.	• Scientific definition of sectors would be a challenging exercise for most African countries, considering the type of technology used, raw materials, products, vintages, and other heterogeneous factors. • Data uncertainty in the region adds to this challenge. • Sectoral mechanisms would require more regulatory control of national governments and majority of the African countries lack resources and capacity to carry out such functions. • Benefit-sharing, accountability, and monitoring issues among the units that will participate due to a large number of small and scattered units.
Form 2: Improved CDM (China Saudi Arabia Malaysia)	Some Parties support that a future market-based approach should continue to be project based and programme based, improvising on the deficiencies of CDM and building upon the learning from experience of CDM.	• An NMM built upon CDM, incorporating the required improvements would give Africa a chance to leverage on the experience of CDM and the international momentum to enhance reach of the mechanism into the continent. • It will also ensure inclusion of countries which have lower degree of readiness for reductions in broad segments of economy.	• Lack of scale in terms of projects undertaken and credits generated is a noteworthy limitation of CDM in Africa, especially if the objective is to integrate mitigation with low carbon development process. • The challenges of developing technical understanding and generating resources still remain major deterrents for mitigation projects in the region. • Lack of a market-friendly domestic environment and limited enthusiasm and commitment on part of both government and private players in many African countries.
Form 3: Credited NAMAs (Republic of Korea Papua New Guinea Peru)	Some proposals suggest that new mechanisms should enable linking Nationally Appropriate Mitigation Actions (NAMAs) with markets, providing incentives for emission reductions from large scale actions and sustainable development policies and measures.	• Implementation of NAMAs could provide African countries an opportunity to develop policies/ programmes/projects tailor-made to the needs of the host region and assist in implementation of low carbon development schemes. • In-built provisions for facilitating support for NAMAs (as supported NAMAs) and the platform created in the form of NAMA registry could play a role in meeting the resource needs of the region.	• The current ambiguity in the different forms NAMAs could take, the technology and financing requirements for them, and their relationships with other market and non-market instruments raise challenges/issues. • The larger scale of NAMAs would require international support (financial and technical) for implementation. • NAMA-based mechanisms could also face difficulty in establishing baselines and might face the risk of sectoral leakage. • The effectiveness of the registry in harnessing support is still to be seen.
Form 4: Party-driven Approaches (Japan's Joint Crediting Mechanism (JCM))	JCM aims at implementing mitigation activities that are based on bilateral arrangements between a host country and Japan. It sets a goal of facilitating diffusion of low carbon technologies, products, systems, services, and infrastructure alongside implementation of mitigation actions. Japan is undertaking substantial capacity building efforts in many countries and till date has signed bilateral agreements with 8 countries, including Ethiopia and Kenya (GoJ 2013). Feasibility studies have been undertaken in South Africa and the Angola in 2012 and training workshops are underway in 13 African countries (MoEJ 2012).	• Simplification and standardization of CDM type approaches and improved prospects for technology transfer/ adoption/diffusion (presumably Japanese technologies) at different scales of mitigation interventions • The bilateral nature of the mechanism could provide better opportunities to incorporate and address the host country contexts and requirements. • Scope for both project-based and sectoral mitigation initiatives, hence, enhanced flexibility to design and implement the mitigation initiatives.	• Decentralized approach of JCM puts much onus on the host government agencies, especially with regards to definition of host country conditions. Given the constrained resources and limited capacities prevalent in most African countries, this could prove to be a daunting task. • The implicit technology transfer requirement in JCM might crop financial constraints considering the fact that Japanese technologies are expensive, especially if no financial incentives are provided to the host country entities. • It becomes critical that host country ministries/agencies are well-informed to identify and negotiate the most essential technology-based agreements for their countries. • Avoidance of double counting and comparability of mitigation outcomes and incentives with other mechanisms would need to be ensured.