Themes of the Africa Climate (Finance) Summit: Loans, Taxes, Credits

Gita Briel

The inaugural Africa Climate Summit, hosted in Nairobi, Kenya, concluded on the 6th September. The summit was, by design, centred around climate finance. Its resounding key message, reflected in the 'Nairobi declaration'[1] adopted at the event's conclusion, is that Africa can take a leading role in the global fight against climate change if it can mobilise climate finance at the necessary scale and pace to unlock the continent's vast renewable energy potential.

The declaration included a call to reform the international financial system, aiming to address the green finance gap. This includes tackling debt distress in many African nations, reducing exorbitant borrowing costs, and increasing concessional lending to low-income countries. Furthermore, it urged developed nations to fulfil their longstanding commitment, made nearly 14 years ago, to mobilise $100 billion annually for developing countries by 2020. Regrettably, this pledge remains largely unmet, with the promised amount falling far short of what developing countries require. African states alone estimate a need for $277 billion each year to implement their 'nationally determined contributions' toward meeting the 2030 climate goals. Currently, the continent receives a mere 11% of this amount, with a disproportionate share directed to just 10 African countries.

Interestingly, the summit concluded with a call for the introduction of a global carbon tax covering fossil fuel trade, maritime transport, and aviation. Currently, 39 countries have implemented an explicit carbon pricing mechanism (either through an emissions trading system or a carbon tax). In Africa, South Africa is the only country to do so, but several countries are considering introducing carbon pricing initiatives including Botswana,

[1] The African Leaders Nairobi Declaration on Climate Change and Call to Action

Nigeria, Gabon, Senegal, and Morocco. Most African countries put an implicit price on carbon in the form of fuel excise taxes. While these taxes create an incentive to abate emissions, the tax rate is not generally targeted at the carbon content of each fuel and it may not be principally climate-related. Economists have long advocated for a global (explicit) carbon pricing mechanism as the most effective approach for cost-efficient mitigation and eliminating free-riding concerns. Setting uniform carbon prices worldwide would address issues like carbon leakage and obviate the need for carbon border taxes. However, implementing such a system has largely been deemed unrealistic due to the high level of international cooperation and coordination required, debates over equity considerations (e.g., should low historical emitters pay the same rate as major historical emitters), and the need for all countries to have robust institutional structures, monitoring systems, and greenhouse gas inventories. While discussions on a global carbon tax may resurface at COP28, resolving these issues seems improbable.

Carbon credits emerged as a contentious topic at the summit. Carbon credits are tradable permits or certificates representing specific quantities of greenhouse gas emissions, usually one metric ton of carbon dioxide equivalent (CO2e). They are utilised in various emissions reduction and mitigation programs, including cap-and-trade systems and carbon offset projects. The Africa Carbon Markets Initiative (ACMI), launched during COP27, operates in the voluntary carbon market, in which individuals or organisations buy carbon credits issued by privately organised certification schemes. The initiative, which aims to produce 300 million carbon credits annually by 2030, garnered significant support at the summit. On the first day of the summit, Investors from the United Arab Emirates (UAE) pledged $450 million to purchase carbon credits from ACMI.

Nevertheless, outside the summit, protestors voiced concerns that expanding Africa's carbon credit market enables wealthier countries and corporations to evade their responsibility for ongoing pollution when they should address their "climate debt" by providing direct compensation and debt relief. Scepticism regarding the environmental value and credibility of carbon offset programs has grown due to mounting evidence that many credits do not genuinely represent carbon reductions. Responding to this, the Carbon Trust, a leading environmental certification agency, discontinued its 'carbon-neutral' labelling, and several companies are distancing themselves from offset programs. Shell, a prominent advocate for carbon offsets, recently abandoned its goal to invest up to $100 million annually in carbon credit schemes and purchase 120 million nature offsets per year by 2030.

For ACMI and other voluntary carbon market initiatives in Africa to succeed amid rising doubts about carbon offsetting, integrity is paramount. The voluntary market must supply carbon credits that adhere to rigorous global standards of quality and transparency. This entails aligning with the 'Core Carbon Principles,' encompassing criteria related to governance, emissions impact, sustainable development, and credit attributes. To meet these criteria, project developers in Africa must operate within robust institutional and governance frameworks, utilising effective monitoring, reporting, and verification systems. Historically, this has been a challenge for most African countries, resulting in missed opportunities to participate in the Clean Development Mechanism (CDM) established by the Kyoto Protocol.

Renewed efforts from alliances like the ACMI and the East African Alliance on Carbon Markets and Climate Finance, collaborating with international partners, could be pivotal in ensuring greater African involvement in the next phase of carbon market development. It is critical that projects operating in voluntary markets contribute to national sustainable development and align with the rules and framework of the Paris agreement to ensure that they support rather than undermine government efforts to meet Nationally Determined Contributions (NDCs).

tralac gratefully acknowledges the support of its Development Partners

Sweden
Sverige