

# **Nairobi Framework**

## **Capacity for Carbon Market Development in Sub-Saharan Africa**

### **An Inter-Agency Program Proposal**

#### **I. Introduction**

1. The main purpose of this proposal is to develop a comprehensive capacity building program, jointly implemented by UN Agencies and Multilateral Development Banks, under the aegis of the Nairobi Framework (NF). The Nairobi Framework was formally launched through an announcement by the UN Secretary General at COP/MOP 2 in November 2006 in Kenya. NF was initiated by the United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), World Bank Group (WBG), African Development Bank (AfDB), and the United Nations Framework Convention on Climate Change (UNFCCC) with the specific goal of helping developing countries, especially those in Sub-Saharan Africa (SSA), to improve their level of participation in the the Clean Development Mechanism (CDM)<sup>1</sup>. UNFCCC would play the coordinating role of NF, while the other partners would jointly design and implement the programs ensuring that the different competencies and roles are explored in order to maximize efficiency.

2. The Nairobi Framework has five broad objectives in order to move the CDM forward in the beneficiary countries:

- (a) Build and enhance capacity of DNAs to become fully operational
- (b) Build capacity in developing CDM project activities
- (c) Promote investment opportunities for projects
- (d) Improve information sharing/outreach / exchange of views on activities / education and training
- (e) Inter-agency coordination.

3. During the two-year period of 2007-08, the partner agencies in the Nairobi Framework resolved to make a concerted effort to provide assistance to SSA countries to enable them to identify, develop, submit and process CDM projects that would eventually lead to a considerable increase in CDM penetration in the region.

#### **II. Current Status**

4. Some of the partner agencies have ongoing capacity building programs in SSA, which are now broadly coordinated under the Nairobi Framework. Two of the partner agencies – WB and UNEP -- have implemented several capacity building initiatives in the region over the last three years, with close cooperation in specific instances. UNDP also has planned a number of country initiatives during 2007, including the Partnership on Climate Change with UNEP. The other partner, AfDB, is currently in the process of developing a climate change initiative, which would address the capacity building issues in the region. Annex 1 provides a summary of the current activities and proposals of the partner agencies. Some of the key accomplishments of the partner agencies through these activities are given below:

- (a) Assisted several host countries in establishing operational Designated National Authorities (DNA) capable of approving projects that are consistent with the host country's sustainable development priorities;

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<sup>1</sup> At the beginning of 2007, Sub Saharan Africa accounted for less than 3% of the CDM market.

- (b) Built the capacity of a number of national experts and consultants in the identification, design, implementation and assessment/auditing of CDM projects;
- (c) Contributed to the creation of CDM-friendly regulatory and business environments through raising awareness of stakeholders;
- (d) Built capacity of local financial institutions in appraisal and funding of CDM projects, and
- (e) Facilitated the participation of host countries in global events such as the Carbon Expo held annually in Germany.

5. In addition to these country and regional level programs, some of the activities undertaken under NF are given below:

- (a) The partner agencies have developed a joint matrix that details the current programs and plans, which is placed on UNFCCC website for general reference.
- (b) A broad assessment of potential for carbon mitigation has been initiated by the World Bank, which looks at CDM specific technology sectors, including barriers to realizing the potential. This assessment is likely to be available towards the end of 2007.
- (c) UNFCCC in collaboration with UNEP launched the “CDM Bazaar” that acts as a platform to facilitate access to and sharing of information among all stakeholders involved in the CDM process, in particular those from developing countries. The CDM Bazaar also allows stakeholders in the CDM to post information, such as potential emission reduction projects looking for financing, CERs available for sale, buyers looking for carbon credits to purchase, services available, carbon market related events, and employment opportunities;
- (d) UNFCCC organized a DNA Forum in Ethiopia in October 2007, devoting special sessions to the Nairobi Framework (see the Box).

6. However, in spite of the ongoing capacity building activities, several gaps exist in SSA in terms of capacity, which continue to limit the participation of SSA in the fast-expanding carbon market:

- (a) There is a serious lack of awareness among the policy makers and political leadership about the carbon market and mitigation activities and integration of the CDM in overall sustainable development policies.
- (b) Some countries still have no or weak focal points (DNAs) in the government;
- (c) Several technology sectors are yet to be mapped to assess mitigation potential;
- (d) Most countries lack institutional capacity and technical resources (e.g. local consultants and experts) to be able to develop good quality mitigation projects in a cost effective manner;
- (e) Lack of knowledge of the CDM in the local financial sector and limited access to financial resources; and
- (f) Further, as the First Commitment Period (2008-2012) draws close and the emergence of a new post-Kyoto regime appears a strong possibility, there will be a need to build capacity on issues such as programmatic CDM, avoided deforestation, etc. which are likely to become important in the new regime.

### III. Rationale for a Joint Proposal

7. Through this proposal, the partner agencies seek to mobilize additional resources from potential donors in order to scale up the existing activities, and effectively address the gaps mentioned above<sup>2</sup>. The rationale for developing a joint proposal is two-fold: i) to avoid possible duplication in scope among different agencies so as to enhance the efficacy of the resource use; and ii) to ensure that the complementary strengths of different partners are brought to bear on the programs in a synergetic manner. *Thus, the proposal includes activities that have committed resources, and those which are not covered in the various existing programs*, and intends to

- (a) Demonstrate to the donor community and the SSA clients that the partner agencies in NF are able and willing to work closely with each other in a highly coordinated manner in order to achieve synergies and avoid duplication of efforts in the African continent.
- (b) Present examples for cost savings and improved efficiency and effectiveness (and other types of operational advantages) achieved when the partner agencies combine their efforts to tackle the issue of CDM regional distribution in Africa.
- (c) Show to the stakeholders the in-depth understanding the partners (especially the three active agencies) possess regarding the capacity building needs of African countries, which is based on field experience gained through implementing similar projects. Such understanding should ideally result in maximization of benefits from donor funds injected in Africa to support CDM.

#### **Nairobi Framework at DNA Forum**

AT the DNA Forum held in Addis Ababa during 4-6 October, the NF partners held extensive consultations with the country delegates from Sub Saharan Africa, members of the donor community and other stakeholders on the progress of the Framework and presented the proposed future activities. Key outcomes of these consultations are:

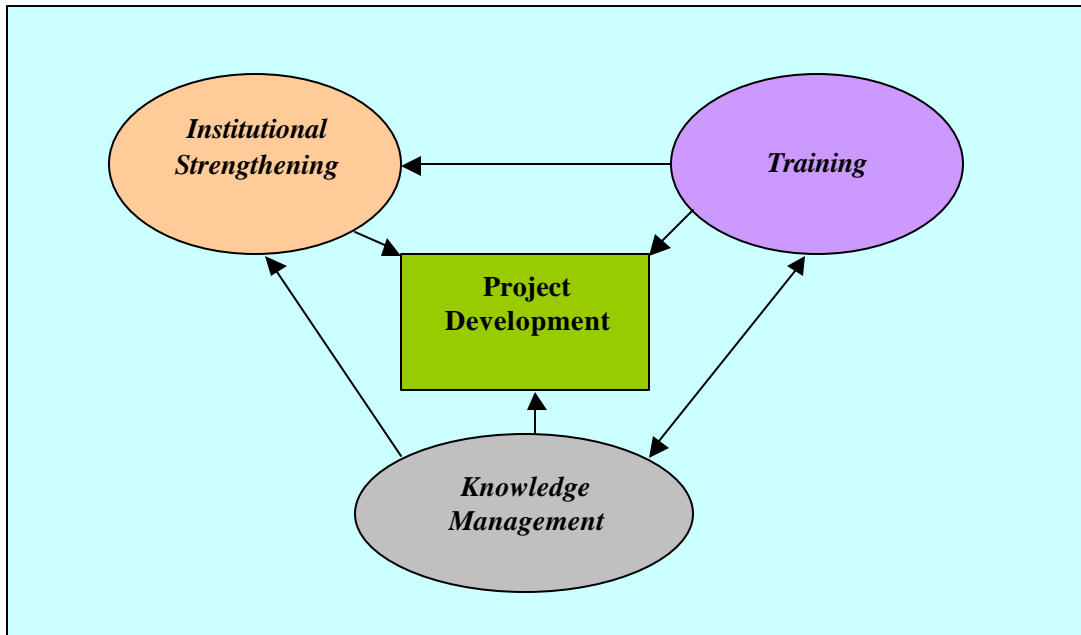
- The stakeholders endorsed the activities of NF and welcomed the joint proposal by the agencies.
- DNAs from SSA countries expressed interest in being more closely involved with NF activities. For this purpose, three representatives – from Ghana, Kenya and Gabon – have joined the Steering Committee of NF.
- United Nations Economic Commission for Africa (UNECA), which has extensive network in the region has joined as a partner in NF.
- All stakeholders have agreed that the short term focus of capacity building activities under NF should focus on project development

### IV. Capacity Building Framework

8. Typically, capacity building activities encompass four basic, inter-related themes, with project development being the primary goal, as depicted below:

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<sup>2</sup> As mentioned earlier, while three of the partners – WB, UNEP and UNDP – are presently active in CDM capacity building, it is expected that AfDB will soon join the efforts, and be a collaborator in implementing the activities listed in this proposal. UNECA, which just joined the partnership, would use its regional network, where appropriate, to assist in effective implementation.



9. Depending on the existing level of capacity (or lack thereof) in a given country, the emphasis on specific themes will vary. Further, in any country, there are several stakeholder groups, which are targeted to impart capacity building covering the above themes:

- (a) Policymakers in CDM-related line-ministries such as ministries of environment, energy, transportation, forestry, agriculture, etc.
- (b) DNA staff members and members of the national CDM project approval/advisory committees functioning under the DNA.
- (c) National experts such as local consultants, academics, and engineers from the line-ministries and government agencies such as the rural electrification authority, and the renewable energy agency.
- (d) Prospective CDM project developers from private and public sector agencies,
- (e) Members of the local financial and banking sector who could be interested in providing underlying financing for CDM projects in the country.

10. These different target groups have differentiated capacity building needs given the different roles they play in the CDM process in the host country. Therefore, tailor-made capacity development activities will have to be designed for each country, and each group in respective countries.

## **V. Joint Work Program**

11. In order to achieve the primary goal of capacity building of the country clients in SSA so as to enable their effective participation in the global carbon market, this proposal purports to undertake various tasks encompassing the four broad themes depicted in the above chart. Some of these activities will be implemented in the short term over the next 12 months (Phase I), so as to maximize the benefits from the First Commitment Period (2008-12) as much as possible. The rest of the activities, to be conducted over a period of 18-24 months (Phase II), would aim at enabling the countries to participate in various market development activities beyond 2012.

### **A. Phase I**

#### Task A1. Create/Strengthen DNAs

12. This task involves identifying and working with those client countries, which either have no formal focal points in the government so far, or if they do, suffer from lack of infrastructure and operational capacity. Currently, there are 14 countries in SSA which do not have formal DNAs (three of those have not yet ratified Kyoto Protocol and so do not qualify for CDM). As shown in the table below, the NF partners will take the responsibility of creating DNAs in the 11 qualifying countries. World Bank and UNEP have existing resources to implement this activity, while UNDP will require new resources.

<b>Countries with No DNAs</b>		
<b>Country</b>	<b>NF Partner responsible</b>	<b>Resources</b>
Angola	World Bank	v - Available
Gambia, The	World Bank	v- Available
Liberia	World Bank	v- Available
Sierra Leone	World Bank	v- Available
Burundi	UNEP	v- Available
Gabon	UNEP	v- Available
Congo Brazzaville	UNEP	v- Available
Togo	UNEP	v- Available
Cape Verde	UNDP	X - Required
Eritrea	UNDP	X - Required
Guinea Bissau	UNDP	X - Required
CAR	YET TO RATIFY KYOTO PROTOCOL	
Chad		
Somalia		

13. Under this activity, the partners will work with the specific governments in designing appropriate structures, and developing necessary procedures for project approvals and complying with sustainable development criteria, including activities on awareness creation on the CDM and the Kyoto Protocol. Where necessary, advisors/consultants will be employed to directly work with the focal points. An important aspect of creating/strengthening such focal points will be sharing international best practice in the field. In this regard, the partners will design and facilitate a South-South collaboration program where SSA countries could access the best practices that have led to strong success of CDM in countries such as India, China and Brazil.

**Action:** i) Establish DNAs in at least 11 countries within one year. ii) Facilitate South-South exchange at a minimum of two regional events.

#### Task A2 Sectoral Assessment

14. There have been few authentic studies in SSA region that explore opportunities in areas with promising potential for carbon emission reductions. Such studies could serve to lower eventual transaction costs by “economies of scale” in identifying a bundle of projects or/and CDM programs. They could also serve as tool for policy makers and private sector players to integrate carbon finance into development plans and strategies for economic sectors. Thus, this task will focus on potential assessment in specific sectors such as, *inter alia*, renewable energy, different sub-sectors of energy efficiency, household energy, forestry, waste management. The current broad assessment being carried out under NF will be helpful in identifying specific sectors and countries where such detailed assessment would be feasible and meaningful. One of the NF partners, the World Bank, has already scheduled to conduct assessment studies during 2007-08 in the cement industry; carbon capture and storage; and biofuels.

**Action:** Conduct carbon potential assessment studies at the regional level in at least 06 sectors.

#### Task A3 Project Clinics

15. Along with various capacity building programs to be conducted in different countries, this task will organize short project clinics where technical resource people will interact with project developers on specific, actual project ideas, and provide practical advice on taking the projects forward.

**Action:** Hold carbon finance project clinics in at least 12-15 countries.

#### Task A4. Mobilization of Financial Sector

16. For most CDM-eligible projects, accessing required investment is a critical barrier since such projects are deemed too 'risky' by mainstream financial institutions, due to lack of awareness and/or information. Thus, creating awareness and building capacities of local financial institutions in evaluating and funding CDM projects is crucial for carbon finance projects to have short gestation periods. Under this task, it is proposed to organize tailor-made trainings where multilateral/international financial organizations as well as project developers will participate. At the regional level, UNEP and World Bank organized a Southern African investment forum in May 2007, and a program for Western Africa is scheduled for February 2008. Similar programs will be held in other regions under this task.

**Action:** Organize at least three regional investment forums focusing on banking sector.

#### Task A5. Regional Hubs for Capacity Building

17. In order to effectively scale up the capacity building activities, and reach larger and diverse groups of stakeholders, it will be necessary to decentralize the presence of capacity providers. Under this task, the partners will identify 3-4 African organizations (e.g. academic, scientific, non-governmental, etc.), which operate regionally, are specialized in relevant sectors and have the willingness and basic qualifications to be able to provide capacity building services over long term, and work with them to build them into Regional Hubs for climate change/carbon finance. These regional centers of excellence will provide countries in sub regions with easy access to knowledge through high quality advisory/consulting services and promote regional capacity building initiatives.

**Action:** Shortlist 3-4 African organizations to develop them into regional hubs for climate change/carbon finance.

#### Task A6 Regional/Global Market Events:

18. This task envisages conducting at least one regional event per year in SSA that brings carbon sellers, buyers and other stakeholders onto the same platform so as to facilitate active carbon project transactions (on the lines of the successful Carbon Finance Forum held in Nairobi in 2006). In addition, the partners will strengthen the process in which country stakeholders are enabled to participate in global events such as Carbon Expo, so that maximum countries could benefit.

**Action:** i) Conduct an African Carbon Forum in 2008. ii) Facilitate stakeholder participation (two per country – one from government and one project promoter) from all the eligible SSA countries in Carbon Expo 2008

#### Task A7 Web-based Resource Center:

19. In this task, an online resource center will be created to focus on carbon finance issues in SSA countries. The website will function as a 'one stop shop' to access information on CDM investments, policy/regulatory issues, database on projects, lists of project developers and prospective buyers, etc. For instance, this resource center could be a subset of the CDM Bazaar, but exclusively for SSA.

**Action:** Create an online resource center for Sub Saharan Africa.

## **B. Phase II**

### **Task B1. African Carbon Facility:**

20. As discussed, one of the key barriers in CDM development in Africa is the high transaction cost in project development due to lack of local capacity. Such costs are unaffordable for many small scale project developers, which prevent them from considering CDM in spite of its benefits. Therefore, this task proposes to examine the feasibility of establishing an African Carbon Facility (ACF) that could assist in meeting the upfront transaction costs, which could then be recovered from carbon revenues over a period of time and taking into consideration existing experiences such as the MDG Carbon Facility. Such a feasibility study will look at different financial options, structure and management of the Facility, legal and regulatory aspects. In preparation of the feasibility study, African DNAs will be invited to submit proposals on how they would see such facility to be structured and how such facility would differ from existing facilities.

**Action:** Conduct feasibility study for ACF.

### **Task B2 Innovation in Capacity Building:**

21. Limited capacity in identifying, promoting, evaluating and implementing projects remains a major barrier to CDM development in Africa, despite a number of previous targeted efforts. This implies that effective training activities addressing different topics related to CDM: institutional, financial, legal, technical/methodological still need to be scaled up to reach all the key stakeholders at the country-level or regional-level. Thus, in addition to face to face trainings, new ways of delivery of effective capacity building not yet widely practiced in African countries should be considered.

22. Under this task, new methods such as distance learning tools that enable individuals, teams, and organizations around the world to communicate, share knowledge, and learn from each others' experiences in a timely and cost-effective manner will be developed. Such tools include:

- (a) Video conference based activities
- (b) E-learning based activities
- (c) Virtual networks

23. Basic manuals translated in different languages on "how to do a CDM project activity" will complement the above activities. (for those countries with limited access to electronic means)

24. Once such tools are designed, institutional mechanisms like the World Bank's Global Development Learning Network (GDLN) and UNDP's Regional Centers will be used to deliver capacity building activities.

**Action:** i) Develop innovative, modular courses catering to different capacity requirements; ii) Deliver the courses using innovative mechanisms to maximize the reach.

### **Task B3. Awareness among Policy Makers:**

25. There is a critical need to raise awareness among senior decision makers and policy makers to inform on the economic and environmental benefits of carbon finance. In Africa, knowledge on carbon finance/CDM is probably limited to a small group of individuals in the UNFCCC focal point in ministerial departments. The idea is to create general awareness amongst all decision makers and policy makers in charge of different economic sectors and ministries and enable them to mainstream carbon finance/CDM options and incentives in long-term country and sector development.

26. For this purpose, it is proposed to take advantage of the high level attendance at the regional Conferences/meetings frequently organized under the framework of the African Union, NEPAD and/or UNECA on different topics such as finance, trade, science and technology. A few of these regional events can be identified annually and specific sessions on the carbon market can be proposed to organizers to be incorporated in the agenda.

**Action:** Identify at least 2-3 strategic regional events and introduce appropriate modules/sessions covering information on carbon markets.

## **VI. Implementation Strategy**

27. In implementing the above tasks, the partner agencies will use the following set of guidelines:
- (a) In order to ensure optimal use of resources, the partner agencies will follow a structured approach in which specific needs assessment will be made in various countries with regards to the themes and stakeholder groups, and specific tasks designed according to the identified needs.
  - (b) In its role as the facilitator of the partnership, the UNFCCC Secretariat will act as the custodian and conduit for the financial resources mobilized for this joint work program. It will provide the necessary infrastructure and staff to be able to manage this function effectively. The Secretariat will also ensure proper communication, efficient work division and resource allocation, timely monitoring and reporting, and adequate liaison with donors.
  - (c) In order to oversee the functioning of the Nairobi Framework, and to monitor the implementation of the work program, an International Advisory Group will be established, which will include representatives of the African host countries, donor countries and private sector representatives.
  - (d) Following the selection of the target countries and themes to benefit from the joint technical assistance project, project activities can be split among the partner agencies by sector, function, theme or country as appropriate. For instance, for all the selected countries, UNEP could be assigned the responsibility of operationalization of the DNAs, World Bank the responsibility of preparation of national project portfolio, while UNDP could be in charge of capacity building of national experts and consultants. Similarly, World Bank could have the lead on development of innovative delivery mechanisms while UNEP could manage the web-based resources. Such division of labor would be based, inter alia, on the core competencies of each organization.
  - (e) Once the work program is agreed upon, and resources secured, the partner agencies will consult, with the help of the other members of the Steering Committee, and determine the most optimal work and resources distribution.
  - (f) As far as possible and practical, the partner agencies will work with local partners who will act as the core project implementation team while receiving direct technical and institutional backstopping from the partners. Some of these partners will eventually evolve as Regional Hubs as discussed above.

## **VII. Expected Outcomes**

- (a) Project portfolios created: Different projects/programs identified and processed at national level; new methodologies developed

- (b) Institutions Strengthened: Fully functional DNAs, Regional Hubs capable of providing climate change services, consultants capable of developing project documents like PINs/PDDs
- (c) Sectoral Studies Conducted: Assessment of potential in different sectors/technologies available at country level
- (d) Innovative mechanisms developed: Delivery tools such as distance learning techniques, web-based courses developed helping in scale up of capacity building activities
- (e) New Capacity Modules Developed: Training materials developed in emerging topics such as programmatic CDM, avoided deforestation, carbon capture and storage, etc.

## **VIII. Resource Requirements**

28. The initial budget requirements for undertaking the tasks identified in Phase I above (Tasks A1 to A7) is estimated to be around 4,5 million USD. Since this amount represents a need for new and additional financial resources to the ones already available the partner agencies will engage collectively in fund raising activities with potential donors. The budget requirements for undertaking the tasks identified in Phase II above will be identified at the beginning of the implementation of Phase I.

## **IX. Partners involved**

29. This proposal at the moment defines activities to be undertaken by UNDP, UNEP, the World Bank and the UNFCCC secretariat in accordance with an agreed work plan. The project proposal is open to existing and future partners of the Nairobi Framework that wishes to contribute to its implementation. Activities to be undertaken by other partner agencies will be included in future revisions of this proposal.

## **X. Timeline**

30. The overall duration for implementing various tasks proposed will be 18 to 24 months, conducted in parallel. A tentative time distribution is shown in the following matrix:

<i>Task</i>	<i>Quarter 1</i>	<i>Quarter 2</i>	<i>Quarter 3</i>	<i>Quarter 4</i>	<i>Quarter 5</i>	<i>Quarter 6</i>	<i>Quarter 7</i>	<i>Quarter 8</i>
<b>Phase I</b>								
A1. Create/Strengthen DNAs								
A2. Sectoral Assessment Studies								
A3. Conduct Project Clinics								
A4. Mobilize Financial Sector								
A5. Create Regional Hubs								
A6. Regional Carbon Forum/ Carbon Expo								
A7. Online Resource Center								
<b>Phase II</b>								
B1. Feasibility Study on African Carbon Facility (ACF)								
B2. Innovation in Capacity Building								
B3. Awareness among Policy Makers								

### Annex I. Current Activities/Plans of NF Partners in Sub-Saharan Africa

Country	World Bank	UNEP	UNDP	Details
Benin	*	*		
Botswana	v			DNA established
Burkina Faso	*	*		
Cameroon	#	# *		Project portfolio developed
Cote d'Ivoire		#		
D R Congo		*	*	
Ethiopia		*	*	
Gabon		*		
Gambia, The	*			
Ghana	#	# *		Project portfolio developed
Kenya	*	*		
Madagascar	v	*		Forestry projects developed
Malawi		*		
Mali	# *	# *		WB and UNEP Ph 2 planned
Mauritius		# *	*	UNEP Ph 2 planned
Mozambique	#	#	*	Project portfolio developed
Namibia			*	
Senegal	v	v *		UNEP Ph 2 planned
South Africa			*	
Tanzania		v *	*	UNEP Ph 2 planned
Uganda		v		UNEP Ph I completed
Zambia		# *		
S.Africa Regional Program	v	v		Bankers Carbon Forum held
W.Africa Regional Program	v			Bankers Carbon Forum scheduled
Sectoral Capacity Building	v			Lighting sector targeted
Sectoral Assessment	*		*	Biofuels, cement, CCS

Key: # - Completed, v - Ongoing, \* - Planned