

New Frontiers: Africa's Role in the Global Carbon Economy

Amid escalating climate risks, Africa is emerging as a key player in the evolving global carbon market. The continent's abundant natural assets, growing project pipeline, and rapidly maturing regulatory environment present a compelling opportunity for private sector actors looking to align climate action with profitability.

In this client alert, we outline critical developments across Africa's carbon landscape and identify actionable opportunities for corporates, investors, and institutions to engage meaningfully in this dynamic space.

Primer on Carbon Markets

Carbon markets allow companies to trade emissions reductions within defined standards, allowing entities to offset GHG emissions by purchasing carbon credits, each representing one metric tonne of carbon dioxide (CO₂) or equivalent. Once used, credits are retired to prevent double counting.

Credits are either voluntary: used by companies to meet sustainability or ESG targets; or compliance-based: mandated under national or regional emissions caps. The African Carbon Markets Initiative (ACMI) is driving an ambitious goal to generate an astounding \$100 billion in carbon credits annually by 2050. African carbon markets are already demonstrating robust growth, with nearly 54 million tonnes of credits already issued.

The Paris Agreement (2016) established two market mechanisms under Article 6: cooperative approaches (Article 6.2) and the Paris Agreement Crediting Mechanism (PACM) (Article 6.4). Article 6.2 allows voluntary trade of Internationally Transferred Mitigation Outcomes (ITMOs) with corresponding adjustments to avoid double counting, encouraging credits from ambitious climate targets. Article 6.4, overseen by the Supervisory Body (SBM), facilitates project validation and credit certification, with COP29 finalizing rigorous standards for emission reductions and removals.

Africa's Carbon Markets: Shifting from Potential to Performance

Africa contributes only a fraction to global emissions, yet it is home to some of the most promising carbon sequestration and avoidance opportunities. Driven by the African Carbon Markets Initiative (ACMI), countries are scaling project pipelines and unlocking investment opportunities. Launched at COP27 in 2022, the ACMI aims to produce 300 million carbon credits annually by 2030, generating US\$6 billion in revenue and creating 30 million jobs. The initiative supports 13 action programs, including capacity building, project development, and market standardisation, fostering high-integrity credits across the continent. Several African nations are pioneering efforts to align with global standards, with voluntary markets dominating due to their flexibility and private sector engagement.

Nigeria as Regulatory Trailblazer: Nigeria established an Article 6.2 framework through its Climate Change Act 2021 and the National Council on Climate Change (NCCC). Its Carbon Vista joint venture with Vitol, launched in 2023, invests US\$50 million in clean cooking and water filtration projects, targeting 200,000 devices to reduce deforestation-related emissions. Nigeria's MoU with Saudi Arabia's Regional Voluntary Carbon Market Company (RVCMC) facilitates credit exports and co-investment, enhancing market access.

Kenya's Community Driven REDD+: Kenya is advancing through projects like the Kasigau Corridor REDD+, which generates credits via forest conservation, protecting over 200,000 hectares and benefiting local communities through job creation and biodiversity preservation. Kenya's Climate Change Act underpins carbon finance integration with national development planning.

South Africa as Compliance Market Leader: South Africa's Carbon Tax Act 2019 integrates a domestic compliance market, offering credits for industrial decarbonisation. Ongoing reforms aim to broaden eligibility and harmonise with voluntary markets.

Beyond the Usual Suspects: Ethiopia's participation in the World Bank's Forest Carbon Partnership Facility supports reforestation projects, generating credits for international markets while empowering local communities through sustainable land management. Rwanda is emerging as a hub for carbon market innovation, with its National Climate and Environment Fund (FONERWA) financing renewable energy and conservation projects that generate credits. Ghana's Green Bond Programme supports agroforestry and renewable energy projects, aligning with its Nationally Determined Contributions (NDCs) and attracting international investment. Regional exchanges, such as the African Climate Asset Registry, are being developed to standardize credit trading and enhance transparency, with pilot programs in countries like Morocco and Uganda. These efforts reflect a broader trend of integrating carbon markets with sustainable development, leveraging Africa's vast potential in forestry, renewable energy, and agriculture to meet global demand for high-quality credits. Cross-border collaborations, such as the East African Community's efforts to harmonize carbon market regulations, further amplify the continent's market potential.

Opportunities for Stakeholders

Africa's carbon market presents diverse opportunities for businesses, investors, and communities, aligning climate action with economic growth:

1. **Investment in Carbon Offset Projects:** Businesses can fund reforestation, renewable energy, and methane capture projects to generate high-integrity credits. Nigeria's Carbon Vista initiative, for example, demonstrates scalable models for clean cooking solutions, reducing emissions while improving community health and reducing household air pollution.
2. **Emissions Trading Platforms:** Fintech firms can develop digital platforms for carbon credit trading, enhancing market accessibility. The African Climate Asset Registry aims to streamline trading across the continent, offering opportunities for technology-driven solutions that connect African credits to global buyers.
3. **Industrial Decarbonisation:** Heavy industries can adopt low-carbon technologies, such as carbon capture and storage (CCS) or energy-efficient processes, to generate tradable credits. South Africa's carbon tax incentivizes such transitions, creating a model for other nations to emulate in sectors like cement and steel production.

4. **Agroforestry and Conservation:** Projects like Kenya's Kasigau Corridor REDD+ highlight opportunities in forest conservation, generating credits while supporting biodiversity, creating jobs, and improving livelihoods for local communities.
5. **Climate Finance Mobilisation:** Green bonds and concessional financing, as seen in Ghana's Green Bond Programme, enable investment in low-carbon infrastructure, such as solar and wind energy projects, attracting international capital and fostering energy access.
6. **Community-Based Initiatives:** Carbon projects can deliver co-benefits, such as job creation and energy access. Ethiopia's reforestation projects, supported by the World Bank, empower local communities through sustainable land management while generating credits for international markets.
7. **Consulting and Technical Services:** Law firms, carbon market analysts, and environmental economists can provide expertise in navigating regulatory complexities, ensuring project compliance with Article 6 standards, and optimizing credit generation for clients.

These opportunities enable stakeholders to contribute to Africa's low-carbon transition while capitalizing on growing global demand for carbon credits, fostering economic resilience and sustainable development.

Strategic Considerations for Market Entry and Robust Carbon Market

Governments and private entities can accelerate market development by:

- (a) **Adopting national Article 6 frameworks:** A clear and comprehensive national policy and regulatory framework, aligned with Article 6 of the Paris Agreement, is foundational. A country might establish specific national rules for authorizing Internationally Transferred Mitigation Outcomes (ITMOs) under Article 6.2, defining eligibility criteria, approval processes, and tracking mechanisms.
- (b) **Setting up project and credit registries:** Robust, transparent, and digitally enabled registries are critical for tracking carbon projects, verifying emission reductions, and preventing double counting. Government must establish a centralized national registry system that integrates with international registries. This system would record details of all registered carbon projects, track the issuance, transfer, and retirement of carbon credits, and ensure corresponding adjustments are accurately applied for ITMOs.
- (c) **Creating incentive regimes for early project developers:** To overcome initial investment hurdles and encourage innovation, targeted incentives are crucial for pioneers in carbon project development. This could include offering preferential tax treatments or exemptions for income derived from carbon credit sales for an initial period. Governments might also provide grants or co-financing for feasibility studies, technical assistance, or capacity building for project developers in nascent sectors (e.g., direct air capture, blue carbon projects).
- (d) **Building verification and MRV (monitoring, reporting, and verification) capacity:** The credibility of carbon credits hinges on rigorous and independent MRV. Therefore, developing a skilled domestic workforce and institutional capacity in this area is paramount. This involves training local experts to become Designated Operational

Entities (DOEs) or independent third-party verifiers. Governments could partner with international organisations or accredited bodies to provide specialized training programs in greenhouse gas accounting, project methodologies, and validation/verification protocols.

- (e) Encouraging regional cooperation for scale: Carbon markets can achieve greater scale, liquidity, and efficiency through regional collaboration, leveraging shared expertise and infrastructure.

A Look into the Future of Carbon Markets in Africa

Africa's carbon market is poised for growth, supported by global frameworks and regional initiatives like ACMI. Pioneering efforts in Nigeria, Kenya, South Africa, and Ethiopia, alongside robust regulatory frameworks, signal significant potential. Stakeholders can drive sustainable development and position Africa as a leader in global carbon markets by capitalizing on opportunities in offset projects, trading platforms, and decarbonisation. Some notable trends to look out for include:

- (a) **Diversification of Offset Projects:** Beyond traditional forestry and renewable energy, Africa will see a surge in innovative offset projects. This includes nature-based solutions like blue carbon (mangrove restoration) and regenerative agriculture, alongside technological solutions such as direct air capture and carbon capture utilisation and storage.
- (b) **Rise of Digital Carbon Market Infrastructure:** The future will feature more sophisticated, blockchain-enabled carbon registries and trading platforms. These digital solutions will enhance transparency, traceability, and efficiency, reduce transaction costs and increase in investor confidence.
- (c) **Growing Domestic and Regional Demand:** While international demand currently drives much of the market, future trends indicate a growth in domestic and regional carbon pricing mechanisms and voluntary markets, especially as African economies expand and commit to their Nationally Determined Contributions (NDCs).
- (d) **Policy and Regulatory Harmonisation:** As more African nations develop their national Article 6 frameworks, there will be a trend towards greater policy and regulatory harmonisation across regions. This will facilitate easier cross-border project development and credit trading.

Parsons: Supporting Carbon Market Leadership in Africa

At Parsons, our lawyers have expertise advising governments, developers, and investors on structuring carbon offset projects, navigating compliance frameworks, and aligning with emerging international standards. Whether through Article 6.2 structuring, project diligence, or transaction support, our firm is uniquely positioned to guide stakeholders across the carbon value chain.

To explore opportunities in carbon markets across Nigeria, Kenya, South Africa, and beyond, reach out to us at info@parsons-legal.com.

Further Reading

- Michaelowa, A. et al. (2023). Integrity of Carbon Markets under Article 6. Perspectives Climate Group.
- UNFCCC (2023). COP28 Decisions on Article 6 Implementation.
- ACMI (2022). Africa Carbon Markets Initiative Roadmap.
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