Mangrove forest in Gambia

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29 April 2024

African leaders eye carbon market potential

Decarbonisation push and shifting multilateral trade policy sharpens continent's need for carbon trading

The expansion of carbon markets across Africa might still be in the early phase, but industry advocates hope the launch of Nigeria's domestic market could be the spark for wider adoption. In March, Nigerian Vice-President Kashim Shettima announced a committee tasked with creating a $2.5b blueprint for the new market.

The clock is ticking to wean Africa's most populous nation and largest economy off fossil fuels. Back in 2021, then-President Muhammadu Buhari made a pledge to reach net zero by 2060. This ambition was then further strengthened at COP28, in December, when the country's current president, Bola Tinubu, laid out plans for a domestic carbon market.

"The federal government has tasked the committee with the principal mandate of ensuring that the plan offers a roadmap for making Nigeria an attractive hub for investors," said Adeniyi Duale, partner at Nigerian law firm Duale, Ovia & Alex-Adedipe. "This will be achieved by focusing on driving investments in innovative, green and sustainable initiatives across diverse sectors and establishing high-integrity and credible carbon credits."

$500m/yr – Potential value of Nigeria's carbon credits

Nigeria, together with several other African countries, was a founding member of the Africa Carbon Markets Initiative (ACMI), launched during the COP27 summit in November 2022. The initiative was conceived with the aim to help incentivise private investment and participation in African carbon credit markets.

"Nigeria is notably one of the pioneers of a voluntary carbon market programme termed the ACMI," said Viyon Ojo, senior associate at Duale, Ovia and Alex-Adedipe. "According to ACMI's projections, Nigeria has the potential to produce up to 30m carbon credits per year by 2030, which at $20/credit would earn Nigeria more than $500m annually."

Expanding the market

Five African countries account for around 65% of carbon credit issuances made across the continent, with more than 70% of those projects in forestry and land use. Kenya leads, with a 23% share, followed by Zimbabwe, on 13%, the Democratic Republic of Congo, with 12%, Ethiopia, on 9%, and Uganda, narrowly behind on 8%. Combined, total credit issuances in Africa stand at 116.2mt CO_2e, according to the ACMI's latest report.

If everything goes according to plan, the sector is poised for tremendous growth. The ACMI plans to mobilise $6b in capital to help retire 300mt CO_2e by 2030, before increasing that figure from 1.5 to 2.5gt CO_2e by mid-century. The initiative estimates that $120–200b in funding would likely be required. The 2030 goal is equivalent to the total number of credits issued globally across all voluntary carbon markets in 2021.

Duale said the ACMI hopes to achieve this by launching activation plans for multiple countries, advancing market commitments with an ambition of up to $1b for the purchase of high-integrity African credits, as well as developing projects based on new methodologies and the realities of Africa such as diesel replacement credits and biodiversity credits.

"Despite the ambitious nature of the ACMI's goals, it is believed that Africa is well-equipped to achieve this," said Duale. "According to estimates, African carbon markets have [already] reached almost 54mt of credits issued. By way of example, the Gabon rainforest is known as the second lung of the earth and in September 2021 passed a law to trade carbon credits."

Ghana is a carbon credit pioneer and only the second country in Africa to receive payments from the World Bank for reducing emissions from deforestation and forest degradation. "The Ghana Carbon Market Office was established under the Ghana Carbon Market Framework and mandated under the Environmental Protection Agency Act," said Ojo.

In 2021, Mozambique became the first African country to receive payments from the World Bank. Speaking at COP28, in Dubai, President Filipe Nyusi emphasised that his government had already begun plans to activate a domestic carbon market.

Charting a course

Net-zero ambition is one motivating factor persuading African governments to start thinking about carbon markets, but the impact of the European Green Deal (EGD) could soon be another. In 2020, the EU approved the multifaceted policy instrument which aims to help the bloc achieve carbon neutrality by mid-century.

Today, the EU is Africa's most important trading partner and represents around 35% of all the continent's exports. Failure to decarbonise and introduce climate neutral policies could soon have a significant impact on African economies and their combined GDP.

"Nigeria has the potential to produce up to 30 million carbon credits per year by 2030" Ojo, Duale, Ovia and Alex-Adedipe

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In December, a report from the economic research institute Trade & Industrial Policies Strategies (TIPS) estimated that as much as $135b of African exports could be exposed to the EGD. This figure represents 84% of all African exports shipped to the EU, as well as a quarter of all African exports.

"Within this context, Africa needs to react to the introduction of these climate-trade policies, or the development of the continent will continue to suffer at the expense of policies introduced elsewhere," said Seutame Maimele, sustainable growth economist at TIPS. "The continent needs to advance climate-resilient developmental regionalism, through the creation of an African green industrial policy."

The continent established a regional carbon market to capitalise on the biodiversity and availability of high-quality carbon credits. "This market could be used to collect revenue to finance climate action on the continent. Also, the market could be used to get carbon border tax incentives, such as a carbon border tax discount for exporting goods covered under the carbon border adjustment mechanism into the EU," he said. The CBAM is a carbon tariff issued in the EU for carbon intensive products such as steel and cement.

Overcoming barriers

European policy change will clearly encourage greater focus on decarbonisation and carbon pricing, but the shift will not be entirely without challenges. Scarcity of climate data and insufficient analytical capabilities across Africa is a significant problem.

"The lack of accurate information on critical factors such as deforestation rates, renewable energy potential, and greenhouse gas emissions impedes the identification of viable carbon offset projects," said Ojo. "Additionally, data scarcity obstructs project feasibility assessments, effective intervention design and the quantification of potential carbon reductions."

Limited availability of data complicates verification of actual carbon credits generated by projects, making it difficult to rigorously monitor progress. This could raise concerns about project effectiveness and transparency, making it difficult for carbon buyers to assess the credibility and impact of offset projects as well as potentially justifying investor support in the region.

"Another constraint is limited oversight and accountability in the industry," said Duale. "The absence of robust mechanisms for monitoring and enforcement of standards across many West African countries creates opportunities for unethical practices, such as misrepresentation of emission reduction claims, inaccurate reporting and greenwashing."

The consequence of this could be loss of trust within the market and diminished credibility for carbon offset projects, further deterring domestic and international investors. Another challenge that Duale pointed to is limited awareness and understanding of carbon markets among policymakers, businesses and communities. "This hampers adoption and implementation of carbon market initiatives, as stakeholders may not fully comprehend the potential benefits or mechanisms involved," he said.

No doubt laying down the groundwork for successful carbon markets comes with plenty of challenges but considering the exposure of many African economies to oil and gas, as well as extractive agriculture and deforestation, governments will be keenly aware of the economic implications of not moving quickly enough.