MAKING CARBON MARKETS WORK FOR AFRICA: A 7-POINT PLAN

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Executive summary

The African carbon market is expected to grow, mostly driven by the articulation of Article 6 of the Paris Agreement and the Voluntary Carbon Markets (VCM). In this policy brief, we present an action plan for key stakeholders on how to integrate good governance into the development of carbon markets on the continent to ensure equity and justice in the climate transition. The 7-point action plan includes: (1) Restructuring carbon markets to achieve poverty and vulnerability reduction; (2) Enabling cross-border carbon market development; (3) Embedding resource rights into the development of carbon markets; (4) Accelerating the transition to regulated carbon markets; (5) Strengthening domestic resource mobilisation for carbon market investments; (6) De-risking domestic investments to attract domestic investors; and (7) Linking the development of the VCM to the implementation of Article 6. The recommendations are for different sets of actors willing to work in partnership with national governments to ensure integration of equity and justice criteria into the governance of carbon markets.

Introduction: Africa on the forefront of carbon markets

Africa is the hub for carbon markets in the world, due to the uniqueness of its social, economic and environmental contexts.[1] For example, Africa's growing population and high proportion of young people presents an opportunity for the uptake of low carbon technologies that are also central to the development of carbon markets. Overall, this has generated global and regional interest in developing and deepening both the Article 6 of the Paris Agreement and the VCM in Africa. Institutions such as the Africa Carbon Markets Initiative (ACMI) have

[1] ACMI, 2024. Africa Carbon Markets: Status and Outlook Report 2024-25.

committed to supporting African countries to achieve the projected high growth potential in their carbon markets.[2]

Governance has emerged as the key issue in discussions on how Africa can achieve its carbon markets potential while ensuring justice and equity in the continent's climate transitions. This policy brief builds on work conducted on this topic in Kenya[3] and provides a 7-point plan and actor-specific recommendations on how different stakeholders can make carbon markets work better for Africa and its development aspirations.

A plan for making carbon markets work for African countries

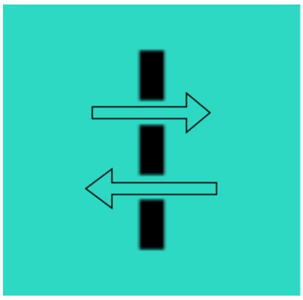
1. Restructure carbon markets to reduce poverty and vulnerability

Carbon markets can be instrumental in ensuring that action on reducing carbon emissions and increasing carbon removals on the continent also contributes towards the reduction of poverty and vulnerability to climate change risks. Research suggests that carbon markets have not made a meaningful contribution to sustainable development, particularly in Least Developed Countries.[4] However, there is still potential to turn the tide and ensure that carbon markets are not only aligned with but actively contribute to reducing poverty and vulnerability.

Ensuring that carbon markets contribute towards reducing poverty and vulnerability requires strong social and environmental safeguards at the national level to ensure that new and existing carbon credit projects demonstrate their alignment with national development and resilience priorities. These safeguards represent *beyond-best-practice* interventions for carbon projects. At the minimum, these safeguards would ensure that carbon projects do no harm to the development and resilience of local communities. At the maximum, the safeguards would be an opportunity for developers and other stakeholders to think about mechanisms that can be implemented to ensure that projects provide material benefits to resilience and development, such as through stable income generation and implementation of risk management measures that protect communities against short and long-term climate change risks. When designed right, these safeguards can also contribute towards national poverty and vulnerability reduction for those who are most in need. National governments should also develop strong national and local

[2] ACMI (n.d.) Our objectives.
[3] Omukuti, J., Njoroge H. et al., 2024. Governance levers for ensuring equity and justice in carbon markets in Kenya.
[4] UNCAD, 2024. Least Developed Countries Report 2024.

institutions to enable the implementation of these safeguards. These institutions are critical in determining what is important for poverty and vulnerability reduction and holding investors and developers accountable to this goal.



2. Enable cross-border carbon market development

The potential for carbon markets does not rest on one country alone but is instead spread across the continent. However, past research has shown that only a handful of African countries represent the vast majority of Africa's carbon credit portfolio.[5] Our work in Kenya highlights the desire by some carbon market stakeholders to tap into the regional landscape to expand their operations and increase the generation of credits. Achieving this requires greater regional coordination for a stronger and more interdependent market infrastructure. This is critical for leveraging the massive carbon market potential of the region and reducing its fragmentation.[6]

The African Continental Free Trade Agreement (AfCFTA) is a good basis for encouraging regional cooperation in the development and sale of carbon credits. African experts have called for the establishment of a common pan-African carbon market, where entities are accredited to develop regional projects.[7] Even in the absence of such a common market, there are many opportunities for cross-country collaboration, particularly between countries with comparable carbon market regulations. Regional institutions such as the African Union and national governments should therefore accelerate the operationalisation of the AfCFTA to allow market stakeholders to tap into these new regional markets.

3. Embed resource rights into the development of carbon markets

Resource rights are central to the African climate justice movement and to the effective development of carbon markets on the continent.[8] Resource rights refer to who owns and uses resources at the local and national level. For example, land rights in some African contexts belong to the

[5] ACMI, 2022. [Africa Carbon Markets Initiative (ACMI): Roadmap report]().
[6] The World Bank, 2024. [State and Trends of Carbon Pricing: International Carbon Market]().
[7] Economic Commission for Africa, 2023. [Experts call for the establishment of an African carbon market to effectively reduce greenhouse gas emissions]().
[8] Say No to Gas in Mozambique, 2024. [Maputo Declaration Against Corporate Impunity For Human Rights And Climate Justice]().

men who own the land and the women who use this land for subsistence farming.[9] Resource rights therefore determine who bears the costs and benefits of carbon projects. Resource rights should be at the heart of the development of carbon markets. A good example of this resource is land. Our work in Kenya found that resource ownership and use is deeply gendered; typically men own the land on which nature-based carbon projects are implemented, while women are the main users of this resource for subsistence production. The use of land to develop carbon projects not only affects the owners of this land, but also those whose customary uses are displaced. Inter-generational dimensions of resource rights raise similar equity concerns.

Integrating these differential resource rights into carbon markets is important in ensuring that markets recognise the diverse impacts that projects have on different local groups, and account for these in market and project design. Achieving this requires strong regional and national frameworks for resource management focused not only on owners but also on users. A (sub-)continental approach to strengthening resource governance policies and structures in favour of clearer allocation of resource rights for local population groups is likely to create a trickle-down effect in governance at the national and local levels. These should be led by regional institutions such as the African Union, regional economic commissions and national governments.

4. Accelerate the transition to carbon market regulation

National carbon market regulations are necessary to ensure that these mechanisms are aligned with national priorities, while creating clarity on how projects and other market related activities are to be conducted. According to the Gold Standard Carbon Market Regulations Tracker, nine African countries have developed and implemented carbon market regulations (Egypt, South Africa, Rwanda, Kenya, Tanzania Uganda, Zambia, Zimbabwe, and Ghana).[10] Other countries are yet to develop these regulations, which indicates a significant opportunity for countries to develop formal requirements and guidelines for market stakeholders to follow.

Countries that have not developed carbon market regulations should therefore consider processes to develop them in a participatory and consultative manner. Our work in Kenya has highlighted that once these regulations are formulated, countries should quickly move to implement them. However, implementation

[9] For a more detailed description of how resource rights determine engagement with carbon credit projects, see Omukuti, J., Njoroge H. et al., 2024. Governance levers for ensuring equity and justice in carbon markets in Kenya.
[10] Gold Standard, 2024. The Carbon Markets Regulations Tracker.

requires financial and human resources, as well as functional institutions across different sectors. National governments should take the lead in developing national regulations for carbon markets and the necessary institutions for their implementation.

5. Strengthen domestic capacity for carbon market governance

Even with the recent upheavals in the global carbon markets, the African carbon market has continued to grow.[11] This is due to the increasing demand for credits internationally, accompanied by sustained supply and the availability of high integrity credits in the continent. To ensure that carbon markets benefit local economies, regional actions need to focus on increasing domestic actor participation in these markets.

Domestic carbon market stakeholders (e.g. local communities, private sector, project developers and buyers of credits) are needed for an equitable and just market. This is because they have a better understanding of the contexts they work in, and can therefore develop projects that make a meaningful contribution to reducing poverty and vulnerability. Increasing the participation of domestic developers in carbon markets contributes towards increasing the proportion of returns that are re-invested into local economies.

Our work in Kenya has shown that institutions have limited knowledge and capacity to meet their mandates for a fully functioning carbon market. For instance, although national and sub-national government sectoral entities are expected to provide oversight on these markets, they have limited knowledge on how the market works and how they can perform their roles.

Cross-continental efforts are therefore needed to ensure that countries increase their domestic stakeholder participation in carbon markets. Countries need to implement targeted capacity development of institutions and stakeholders to enable them to meet the needs of a growing market. These interventions can be supported by regional partners such as the African Development Bank (AfDB), and philanthropies who can provide grant funding for capacity development at the national and sub-national levels.

[11] ACMI, 2024. Africa Carbon Markets: Status and Outlook Report 2024-25.

6. De-risk investments to attract domestic investors

Domestic finance is one key ingredient missing from the carbon markets currently operating in the continent. The cost of entry into functioning markets is high, as project development and implementation has been found to be quite costly. These high costs limit entry for domestic developers, who also struggle to acquire credit from domestic financial institutions. The involvement of domestic financial institutions in carbon markets across the continent has historically been low, even as the market expands. This is due to the high perceived and real risks associated with these investments. Our work in Kenya has revealed that most domestic financial institutions do not understand how carbon markets can provide investment opportunities, and how they can eliminate or reduce investment risks for carbon markets.

Regional-based risk management mechanisms are needed to remove or transfer the risks from investors to other actors such as Multilateral Development Banks (MDBs) and insurance companies who can bear and absorb those risks to enable investors to provide the capital that is needed to support domestic actors interested in participating in the market. Mechanisms such as guarantees, which can be provided by regional multilateral development institutions or national governments, will be critical in unlocking this domestic private sector participation in the carbon markets.

7. Link the development of the VCM to the implementation of Article 6

At COP29, Parties finalised negotiations on Article 6 of the Paris Agreement which covers regulated carbon markets and exchanges between countries.[12] Parties should therefore ensure that agreements and further implementation builds on the progress made and lessons learned from the voluntary carbon markets, clean development and REDD+ mechanisms. Our work in Kenya has revealed that there is need to ensure that accounting methodologies cover reductions and removal of emissions e.g. through Direct Air Capture by both Article 6 trading and the VCM. This will be important if countries are to maintain accurate and up to date knowledge of their stocks and functioning of the market.

[12] COP29, 2024. Letters to Parties and Constituencies.

Recommendations

Different sets of stakeholders can contribute towards developing a strong continental carbon market in Africa and ensuring that these markets benefit local communities that have contributed the least to climate change but are affected the most by climate change risks. Our key recommendations are listed below (see table 1). Most of these relate to regional actors working in partnership with national governments to strengthen the governance of national carbon markets. For example, ACMI should work with national governments to develop safeguards to ensure that carbon markets contribute towards reduction of poverty and vulnerability. National governments should ensure that they develop and implement national regulations of carbon markets. Lastly, the AfDB should work with national governments to ensure that project and investment risks are transferred away from investors. This will encourage more domestic investments into national and regional carbon markets.

Action plan	Recommendation	Lead stakeholder
1. Ensure carbon markets reduce poverty and vulnerability	Develop safeguards to ensure that projects can demonstrate how they contribute to poverty and vulnerability reduction	
	Encourage carbon market actors to work with SMEs to spur innovation	
2. Enable cross-border carbon market development	Accelerate the implementation of the AfCFTA	
	Develop guidelines on how carbon market actors can develop and implement cross-border carbon market projects	
3. Embed resource rights into the development of carbon markets	Develop recommendations to country governments on how to integrate resource rights into carbon credit projects.	
	Provide guidance to carbon market stakeholders on how projects can recognise resource rights and ensure that they do not disadvantage some groups	
	Continue to provide oversight on the functioning of the markets and escalate concerns to the relevant parties when needed	
	Develop conflict resolution mechanisms that address potential resource rights conflicts	
4. Accelerate the transition to carbon market regulation	Support national governments to develop and implement carbon market regulations	
5. Strengthen domestic capacity for carbon market governance	Provide grant funding to support capacity development at key sections of the carbon credit value chain e.g. domestic financial institutions who are potential investors	
	Implement capacity development programs that target key carbon market stakeholders in countries with significant capacity gaps	
	Seek out information from reputable sources on the nature and structure of national and regional carbon markets and where private sector involvement is needed	

6. Develop risk transfer mechanisms to attract domestic investors	Collaborate with national governments to develop and implement mechanisms that transfer project and investment risks away from domestic investors.	
7. Link the development of the VCM to the implementation of Article 6	Ensure that COP negotiations acknowledge the progress made in the development of the VCMs.	

Key

- ACMI
- National governments
- African Union and Regional Economic Commissions
- NGOs
- Main role
- Domestic financial institutions and other institutional investors e.g. pension funds
- AfDB and other multilateral development finance institutions
- African Group of Negotiators
- Philanthropies
- Supporting role

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