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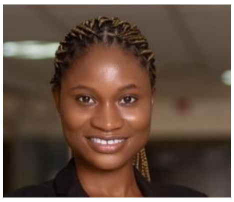

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The Nigerian Carbon Market: Still in Ideation?

Introduction

At the heart of the mission to combat climate change lies the concept of carbon markets, a dynamic tool that enables countries and businesses to reduce their carbon footprint while driving economic growth.

Nigeria, despite its relatively modest emissions has a rapidly expanding economy, bold development ambitions, and booming population which are set to significantly increase energy demand in the coming decades. Developing a robust Nigerian carbon credit market is essential for aligning the continent's development path with a just and sustainable energy transition. However, the right policies must be in place to achieve this vision.

This article delves into the current landscape and future prospects of the Nigerian carbon market. It provides valuable legal and practical insights for stakeholders navigating this emerging and crucial field.

The Nigerian Carbon Market

A carbon market is a system where carbon units representing emission reductions are exchanged within a defined framework.[1] The market is established by governments for policy compliance and by businesses for voluntary greenhouse gas (GHG) emission reductions. Essentially, a carbon market is a platform for trading carbon credits.

The market place limits on emissions and/or allow the purchase or trading of emission units or equivalents. A compliance carbon market requires the industry to reduce emissions (demand side) and allows for the purchase and/or trading of carbon emissions through the creation of carbon credits (supply side).[2] In a voluntary carbon market, entities with a requirement to reduce their carbon emissions may do so directly, for example, by installing

[1] https://carbonmarketinstitute.org/app/uploads/2021/06/CMI_Fact_Sheet_2_Carbon-Markets-101.pdf (accessed on 9 July 2024)
[2] The most active compliance carbon offset program is the United Nations Clean Development Mechanism, the source of offsets for Kyoto Protocol Signatory Counties and buyers in the European Union Emissions Trading Scheme.

low emissions technology to reduce their emissions or purchase carbon credits that may offset their GHG emissions. Entities that sell carbon credits do so by undertaking projects or deploying new technologies that reduce, store, or avoid GHG emissions. Governments or regulatory bodies may also buy carbon credits and sell them to industries, managing emission reductions efficiently. The trading between the demand side (those needing to reduce emissions) and the supply side (those providing carbon credits) sets a price for carbon, forming the basis of the carbon market.

The Nigerian carbon market is still in its early stages; however, the 2021 Climate Change Act lays a foundation for transitioning to a low-carbon and climate-resilient economy. Current initiatives, such as renewable energy projects, large-scale tree-planting efforts and methane abatement, highlight the market's potential. Nigeria demonstrated its commitment by launching the Nigeria Carbon Market Initiative at COP28 by joining the African Carbon Market Initiative.[3]

Carbon Credits 101: What is it, Exactly?

A carbon credit is a token representing the avoidance or removal of greenhouse gas emissions, measured in tonnes of carbon dioxide equivalent (tCO2e).[4] This credit is generated through projects aimed at reducing or eliminating greenhouse gas emissions, such as renewable energy initiatives, afforestation projects, energy efficiency improvements or dedicated carbon sinks in the ocean (blue carbon) and carbon capture technology. By investing in these projects, entities can earn carbon credits, which can be sold on the carbon market or used to offset their own emissions.

Legal Landscape of the Nigerian Carbon Market

We have below highlighted key legislative milestones, such as the Climate Change Act and Nigeria's participation in international agreements, to unravel the regulatory fabric guiding carbon trading activities in the country.

1. The Climate Change Act,2021

Until 2021, Nigeria lacked dedicated legislation addressing the pressing concerns of climate change until the enactment of the Climate Change Act (the "**Act**") in the same year. The Act provides a framework for mainstreaming of climate change actions and also provides for a system of carbon budgeting and the establishment of the National Council on Climate Change (the "**NCCC**").[5]

One of the objectives of the Act is to facilitate the coordination of climate action needed to achieve long-term climate objectives.[6] While the Act does not explicitly mention the establishment of a carbon market, its overarching objective of coordinating climate actions to achieve long-term climate objectives lays a strong foundation for the development of carbon market in Nigeria.

2. The Paris Agreement of 2015[7]

Nigeria signed the Paris Agreement[8] in September 2016 and ratified it in March 2017 committing to reducing its greenhouse gas (GHG) emissions.

Article 6.2 of the Paris Agreement requires parties that voluntarily participate in cooperative approaches involving the use of internationally transferred mitigation outcomes to fulfill their nationally determined contributions (NDCs).[9] These parties must promote sustainable development, ensure environmental integrity, and maintain transparency, including in governance. They must also apply robust accounting measures to avoid double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the parties.

3. The Regulatory Guidance on Nigeria's Carbon Market Approach[10]

While Nigeria currently lacks a clear framework for marketing carbon credits, the Federal Government has reaffirmed its commitment to Articles 6.2, 6.4 and 6.8 of the Paris Agreement through the Regulatory Guidance on Nigeria's Carbon Market Approach issued by the NCCC (the "**Guidance Note**"). The NCCC has already conducted a preliminary analysis to develop an appropriate governance framework and processes for implementing cooperation mechanisms under Article 6.

The NCCC acknowledged the pivotal role that domestic private sector operators play in enhancing the appeal and success of Nigeria's carbon market and hopes to foster greater participation of private sector players.

The Guidance Note highlights the evolving nature of voluntary carbon markets and Nigeria's strategic participation, guided by government policies and development priorities for credibility and predictability. A significant component of this strategy is the "No-Objection" which will be required by regulation to approve the issuance and transfer of certified credits generated across all sectors, in accordance with Article 6.2 of the Paris Agreement.

Stakeholders are still expectant of how the "No-objection" process will play out. We believe that when the regulation is enacted, the needed clarity would be provided in the regulation. From a practical perspective, we expect that the "No-objection" process will require the project developers to submit proposals for carbon credit projects which we expect would undergo rigorous review and evaluation by the NCCC. Where the NCCC deems it fit to approve the project, a "No-objection" would be communicated to the project developer. Where this is the case, the process will enhance the credibility of carbon credits, support market transactions, and uphold environmental integrity and sustainable development goals.

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[3] Africa, With Nigeria Leading, Can Become World's First Green Manufacturing Hub, President Tinubu Writes in CNN Exclusive Op–ed – The Statehouse, Abuja (accessed on 9 July 2024)
[4] What are carbon offsets? - Grantham Research Institute on climate change and the environment (lse.ac.uk) (accessed on 21 May 2024)
[5] See the Explanatory Memorandum of the Climate Change Act, 2021.
[6] Section 1(b) of the Climate Change Act, 2021.
[7] UNFCCC: english_paris_agreement.pdf (unfccc.int)
[8] The Paris Agreement is a legally binding international treaty on climate change adopted in Paris, France on 12 December 2015 and entered into force on 4 November 2016.
[9] These are the outlined efforts by which the signatory-countries of the Paris Agreement, such as Nigeria and Ghana, embark on to achieve the long-term goal of the commitments made on reducing carbon emission and impacts of climate change. Signatory-countries outline and communicate their NDCs (which may be positively adjusted as their level of ambition increases) every 5 years, to assess the set global targets.
[10] NCCC Regulatory Guidance on Nigeria's Carbon Market Approach.pdf (natccc.gov.ng) (accessed on 17 May 2024)

Recent Developments in the Carbon Market in Nigeria

In the 2050 Long-Term Vision for Nigeria ("**LTV-2050**") formulated by the Department of Climate Change within the Federal Ministry of Environment in November 2021,[11] several strategic steps were highlighted to guide Nigeria towards a long-term decarbonization pathway. One of the strategic steps was promoting the decarbonization goal through the carbon market. The vision also emphasized the need for subsidy reform, carbon tax, eco-labelling, and a robust carbon market to send long-term policy signals. Since the formulation of the LTV-2050, Nigeria has made significant moves that are indicative of a desire to create a sustainable carbon market. In the paragraphs that follow, we highlight some of these moves.

On 15 May 2023, the Nigerian Sovereign Investment Authority ("the **NSIA**") and the NCCC signed a Memorandum of Understanding (MOU) to address climate risks urgently and ambitiously.[12] The MOU outlines potential collaboration areas, including developing a climate change framework, implementing a carbon emissions trading mechanism, and managing a national carbon registry and Climate Change Fund. In our view, the development and management of a carbon registry will help track and record carbon credits ensuring legitimacy, transparency, and accountability while the development and management of a Climate Change Fund will aid in financing projects aimed at reducing GHG emissions. Both mechanisms will enable efficient carbon market operations and provide crucial financial support for combating climate change.

On 16 June 2023, Carbon Vista, a joint venture between the NSIA and the Regional Voluntary Carbon Market Company (RVCMC), a subsidiary of the Public Investment Fund (PIF) of the Kingdom of Saudi Arabia (KSA), signed an MOU.[13] The MOU which signals a partnership, aims to supply Nigerian carbon credits to KSA and co-invest in projects that generate high-integrity carbon credits. The collaboration between Carbon Vista and RVCMC is designed to foster the adoption of voluntary carbon credits and promote low-carbon economic growth. The MOU also underscores the commitment of both Nigeria and KSA to addressing the adverse effects of climate change and promoting sustainable development. The carbon credits generated through this partnership will contribute to both countries' climate targets and support the global transition to a carbon-neutral economy, ultimately promoting a sustainable future for all.

In February 2024, the NCCC hosted a training workshop on implementing Article 6 of the Paris Agreement[14], responding to COP28's call for concrete action. This initiative aims to advance Nigeria's climate commitments and establish the country as a leader in carbon market development, marking a pivotal step towards practical implementation.

On 7 March 2024, the Intergovernmental Committee on Carbon Market Activation Plan was set up,[=] to develop a blueprint aimed at fostering an efficient and sustainable carbon market ecosystem.[15]

[11] Nigeria_LTS1.pdf (unfccc.int) (accessed on 22 May 2024)
[12] NSIA Signs MoU With NCCC & Publishes Maiden Edition of its Development Impact Report - NSIA (accessed on 8 May 2024)
[13] Carbon Vista Signs an MoU with Regional Voluntary Carbon Market Company (RVCMC) for the offtake of its High Integrity Carbon Credits - NSIA (accessed on 21 May 2024)
[14] Nigeria Gears Up For Carbon Trading: NCCC Hosts Training On Article 6 Implementation | Science Nigeria (accessed on 22 May 2024)
[15] VP Shettima Inaugurates Intergovernmental Carbon Market Activation Plan Committee – The Statehouse, Abuja (accessed on 17 May 2024)

Insights from Africa's Leading markets

Ghana: Ghana has witnessed remarkable growth in its carbon market in recent years, marked by notable achievements. In January 2023, Ghana's framework on the international carbon market and non-market approaches was published following the approval to pave the way for implementing voluntary cooperation under Article 6 of the Paris Agreement. The framework outlines operational guidelines for various aspects of Article 6 of the Paris Agreement, covering cooperative approaches, the sustainable development Mechanism, and voluntary carbon markets. It includes provisions for institutional arrangements, eligibility criteria, methodology and standards, authorization procedures, project development steps, digital infrastructure, fees, and reporting.

The establishment of a Carbon Market Office (the "**CMO**") under the Climate Change Unit of the Environmental Protection Agency (EPA) has played a pivotal role in facilitating voluntary initiatives under Article 6 of the Paris Agreement in Ghana. In 2023, the CMO received a total of thirty-five (35) project requests under Article 6, out of which nine (9) were successfully integrated into the Ghana Carbon Registry (GCR) and allocated mitigation activity participation identification numbers (MID).[16] On 27 May 2024, Singapore and Ghana signed a carbon credit implementation agreement on carbon credits under Article 6 of the Paris Agreement. This agreement aims to enhance climate ambitions, direct financing towards mitigation efforts, and support sustainable development.[17]

Rwanda: On 2 December 2023, Rwanda took a significant step towards a greener and more sustainable future by launching its National Carbon Market Framework (the "**Framework**")[18]. The Framework establishes guidelines for carbon credit trading, urging businesses and industries to embrace cleaner practices and sustainable technologies. It was designed to support Rwanda's involvement in international cooperation under the Paris Agreement, leveraging opportunities outlined in Article 6, which include utilizing internationally transferred mitigation outcomes (ITMOs) towards NDCs. The Framework also aims to help to increase the transparency and trust among carbon traders.[19]

The Clean Development Mechanism (CDM) and the Voluntary Carbon Market (VCM) are the two key operational mechanisms under the Framework. In Rwanda, carbon credits are predominantly generated from improved cookstove projects, which account for 87% of the total Certified Emission Reductions (CERs) issued. Lighting and solar projects contribute 9% and 4%, respectively.[20]

On 2 December 2023, Singapore and Rwanda signed an MOU to collaborate on carbon credits and related market initiatives. This agreement includes exchanging best practices and knowledge on carbon market mechanisms and identifying mutually beneficial Article 6-compliant carbon credit projects. These efforts aim to support both countries in achieving their NDCs.[21]

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[16] Article-6-Annual-Progress-Report-2023_final.pdf (epa.gov.gh) (accessed on 23 May 2024)
[17] https://www.mse.gov.sg/resource-room/category/2024-05-27-press-release-singapore-signs-implementation-agreement-ghana-carbon-credits (accessed on 28 May 2024)
[18] Rwanda_National_Carbon_Market_Framework_updated_1_.pdf (rema.gov.rw) (accessed on 27 May 2024)
[19] Rwanda Environment Management Authority (REMA): Rwanda launches Carbon Market Framework to advance Climate Action for a Sustainable Future (accessed on 27 May 2024)
[20] Carbon Market (climatechange.gov.rw) (accessed on 27 May 2024)
[21] https://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2023/12/Press-Release---Signing-of-Singapore-Rwanda-MOU-on-Carbon-Credits-Collaboration.pdf (accessed on 27 May 2024)

South Africa: South Africa has a history of involvement in the international carbon market through the Verified Carbon Standard (VCS)[22] and the Clean Development Mechanism (CDM)[23]. The national carbon market is robust, bolstered by the carbon tax, which includes a 5–10% carbon offsets allowance. This allowance lets tax-liable entities reduce their tax by purchasing and retiring carbon offsets per the Carbon Offset Regulations (the "**Regulations**")[24]. The Regulations allow the use of offsets from the CDM, VCS, Gold Standard[25], and approved domestic standards. Offsets must be generated in South Africa, meet eligibility criteria, and cannot involve activities already subject to the carbon tax. Certain activities are also listed as ineligible for offsets under this allowance which includes certain renewable energy projects; HFC-23 and N_2O destruction projects; nuclear, geological carbon capture and storage activities, and a temporary CDM-certified emission reduction.[26]

In November 2023, the Johannesburg Stock Exchange (JSE) launched a new carbon market in partnership with Xpansiv, a leading infrastructure provider for global environmental markets, through its subsidiary JSE Ventures. This market enables local participants to trade carbon credits and renewable energy certificates from both local and global registries, offering a new tool to combat climate change.[27]

Insights and Recommendations

Progress has undoubtedly been made in laying the groundwork for a sustainable carbon market in Nigeria. However, there are still significant steps to take, some of which are highlighted below:

(i) There is a pressing need for a unified framework on carbon markets in Nigeria. This responsibility falls on the legislature to enact targeted legislation or on the NCCC to issue comprehensive regulations, as highlighted in the Guidance Note. This unified framework will provide clarity and direction for the development of carbon markets in the country.

(ii) Additionally, the establishment of a carbon registry is essential. This centralized platform will play a critical role in recording, tracking, and verifying carbon credits, ensuring transparency, accountability, and market integrity. It will also facilitate compliance monitoring and certification processes, enabling effective enforcement of environmental regulations and the achievement of emissions reduction targets.

[22] The Verified Carbon Standard is a leading framework for voluntary carbon offsetting, offering straightforward criteria to ensure the integrity of the voluntary carbon market.
[23] The Clean Development Mechanism is a market-based tool aimed at reducing greenhouse gas emissions.
[24] The Regulation sets out the procedure for claiming the carbon offset allowance and for the use of carbon offsets by taxpayers to reduce their carbon tax liability.
[25] Gold Standard is used to evaluate the sustainability credentials of CDM and Joint Implementation projects.
[26] Climate Change Regulation 2023 - South Africa | Global Practice Guides | Chambers and Partners (accessed on 27 May 2024)
[27] Johannesburg Stock Exchange launches Voluntary Carbon Market | Climate Neutral Group (accessed on 27 May 2024)

Conclusion

With the inauguration of the Intergovernmental Committee on Carbon Market Activation Plan, there is anticipation of increased carbon trading, despite the market being in its nascent stage.

The development of Nigeria's carbon market presents substantial advantages, including the possibility of promoting economic growth through investment in low-carbon technologies[28], facilitating emission reductions to meet international commitments, attracting foreign investment, diversifying revenue streams, fostering technology transfer and innovation, enhancing environmental protection, and strengthening institutional capacity and governance. The economic growth underscores the opportunity to unlock climate finance needed for Nigeria's Energy Transition Plan[29] while promoting sustainable growth, economic development, and climate change mitigation.

[28] The Africa Carbon Markets Initiative already stated that with a developed carbon market, there is a possibility of annual earnings surpassing US$500 million by 2030.
[29] Nigeria Energy Transition Plan (accessed on 23 May 2024)