



# Africa *Business Forum*

2023

Making Carbon Markets Work for Africa

## SIXTH AFRICA BUSINESS FORUM



20 FEBRUARY 2023,  
ADDIS ABABA

## CONCEPT NOTE



United Nations  
Economic Commission for Africa

## I. INTRODUCTION

The sixth Africa Business Forum will be convened on 20 February 2023 in Addis Ababa alongside the thirty-sixth ordinary session of the Assembly of Heads of State and Government of the African Union. The Forum aims to build on the positive momentum generated at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, held in Sharm el-Sheikh, Egypt, in November 2022, on the use of carbon credit markets as a means of accelerating climate action, and in particular generating investment in transformative economic action in African countries.

The Forum will be co-convened by the Economic Commission for Africa (ECA) and the African Export-Import Bank (Afreximbank). The Forum will be organized in cooperation with the African Union Commission, the Congo Basin Climate Commission, the Climate Commission for the Sahel Region, the African Islands Climate Commission, the African Development Bank and the Africa Carbon Markets Initiative. Sustainable Energy for All will be a resource partner and Climate Action Platform for Africa will be a contributor.

Since its inception, the Forum has brought together governments, private investors from around the world, African developers and civil society to facilitate investment in bankable projects that can be used to generate high-integrity carbon credits on the African continent. This will include tapping into the vast opportunity of nature-based solutions to generate credits, while also continuing to facilitate greater energy access for the continent and just energy transition by treating investment in renewable energy sources as an opportunity to generate carbon credits.

The discussions at the Forum will allow investors, developers and other participants to increase their understanding of the workings of a high-integrity regional carbon market and related co-benefits for national and regional cooperation and development. The tools contained in the regional harmonized protocol on greenhouse gases and the carbon registry produced by ECA to assist African countries, by using the best internationally available standards and practices while reducing the high costs incurred by African countries in using registries, accounting and other infrastructure, will play an important role in that regard.

## II. BACKGROUND AND CONTEXT

Despite the growing political commitment to the use of carbon markets to catalyse the transition of global economic growth into net zero pathways, keeping global warming below the 1.5° C target of the Paris Agreement on climate change and averting the worst climate disasters for society, the growing demand for the carbon credits required for the transition far exceeds the market supply.

The credits are supplied by both the voluntary carbon markets and compliance or regulatory markets.<sup>1</sup> Currently, credits from the voluntary carbon markets represent only 0.2 per cent of global greenhouse gas emissions. The compliance market remains the main supplier. Most African and many other developing countries that do not have historically large carbon emissions pursue the voluntary market, largely because they do not feel obliged to reduce their emissions, which are very marginal and contribute less to climate extremes. The demand for voluntary carbon credits, which stood at about 95 million tons of CO<sub>2</sub> equivalent (MtCO<sub>2</sub>e) per year in 2020, is expected to expand, with an increasing number of countries and corporations committed to the goal of net-zero emissions by the middle of the present century. The demand for such credits is expected to increase by 5 to 10-fold over the next 10 years, by 8 to 20-fold by 2040, and by 10 to 30-fold by 2050, whereas the weighted average price for a ton of CO<sub>2</sub>e remains marginal, in the range of \$3–5.<sup>2</sup> The market size for the entire voluntary carbon market was \$473 million in 2020. It increased to \$748 million in 2021 and is expected to exceed \$1 billion in 2022. The largest volumes of credits come from nature-based solutions,<sup>3</sup> energy efficiency/fuel switching and renewable energy credits. The all-time market total value since 2005 is approximately \$6.7 billion. The traded volumes of credits from Africa have been increasing. From 2019 to 2021, the volumes increased from 16.1 MtCO<sub>2</sub>e to 23.9 MtCO<sub>2</sub>e, which was the highest volume tracked over the past decade. Average prices increased from \$3.94 per ton of CO<sub>2</sub>e to \$5.52 per ton of CO<sub>2</sub>e over the same period.

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<sup>1</sup> In voluntary carbon markets, offsets are purchased for resale or retirement to support corporate carbon-neutral claims or targets. They are not purchased for surrender to a regulated body. Voluntary carbon markets allow flexibility and innovation in finance, and the development of standards and emission-monitoring methodologies. Compliance markets are regulated and generally cover large-scale emission reduction programmes, such as the well-known European Union Emissions Trading System. The programmes set a cap, distribute emission allowances or permits to regulated participants (emitters, financial intermediaries, and others), and allow them to trade allowances in compliance with pre-determined regulatory targets. For more details, see the ECA harmonized protocol for greenhouse gas accounting, and market integrity (2022), forthcoming, and <https://unfccc.int/process-and-meetings/the-kyoto-protocol/mechanisms-under-the-kyoto-protocol/the-clean-development-mechanism>.

<sup>2</sup> Presentation made by Donofrio Stephen at the expert group meeting on African carbon market development, held on 3 August 2022 in Addis Ababa on the margins of the United Nations roundtables on climate finance.

<sup>3</sup> Although a definition is yet to be developed and properly standardized, the term “nature-based solutions” in practice broadly refers to protection, sustainable management and restoration of natural and modified ecosystems that provide biodiversity benefits that are crucial to human well-being. Such solutions are important in mitigating the impact of climate change on economies and societies. However, the required financing is huge and current efforts to close the gaps are not yet at scale. The annual estimate for the global ecosystem alone is on the order of \$300 to \$400 billion, whereas the current annual investment is only \$52 billion.

The global supply of credits is highly dominated by the compliance market, in which the carbon price is in the range of \$60–70 per ton of CO<sub>2</sub>e. This covers almost 22 per cent of global greenhouse gas emissions, which largely come from the most industrialized countries with higher levels of emissions, including the countries of the European Union and North America and, increasingly China, India, the Russian Federation and, to some extent, South Africa.

### III. IMPLICATIONS FOR INVESTORS

The remaining 78 cent per cent of residual emissions are unaccounted for. Given that credits from areas such as nature-based solutions and energy are in high demand, they are attractive areas for investment by the private sector and other investors. Nature-based solutions consist mainly of forest conservation, including reducing emissions from deforestation and forest degradation through the REDD+ mechanism, which is focused on reducing emissions from deforestation and forest degradation in developing countries; improved agricultural cultivation and reforestation; and energy savings from fuel efficiency and fuel switching. Other important areas for investment are outlined in tables 1 and 2.

Besides the benefits associated with the trade of carbon credits for sustainable development and climate action plans, investment in nature-based solutions will allow many African countries to respond to their multilateral commitments to reverse biodiversity losses, including deforestation mainly of tropical forests, and sustain the livelihood of local communities, economies and societies. The rate of loss of tropical forest will be significantly reversed; tropical forest, which abounds in African mountains, stores 40–50 per cent of terrestrial vegetation carbon and is very rich in carbon stock, thereby significantly regulating the water cycle and the global climate. To increase the development of carbon markets in Africa, it is necessary to build human and institutional capacity, improve national and regional coordination and address financial barriers such as high preparation and due-diligence costs, long payback periods and high perceived risks. Partnerships between the public and private sectors are essential to addressing these challenges.

Investors could improve their brand name globally by greening or decarbonizing larger supply chains, while accruing sizeable returns on their investment thanks to the resulting tradable credits. Doing so will help to close the supply gap, mainly in the voluntary carbon markets, and allow these markets to effectively complement the compliance market and accelerate the sought-after transition towards net zero.

## IV. WHY INVESTORS SHOULD ATTEND THE FORUM

The main objective of the Africa Business Forum is to examine and agree on pragmatic actions, including selected projects from both private and public-sector organizations that can be financed immediately to increase the African supply of sovereign and other important credits, including from the voluntary carbon markets. This would raise significant financial resources to support sustainable development, in addition to climate mitigation, adaptation and resilience-building plans. Although the increased demand for carbon credits is projected to decline rapidly, owing to pledges to attain global net-zero emissions, there will always be unavoidable emissions that will require offsets. Continued investment in project development will therefore help to maintain an affordable price and access to high-quality credits, including those from Africa.

The Forum will showcase a new venture called the Africa Carbon Markets Initiative, launched at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change. The Initiative, which aims to shape and harness the potential of carbon markets in Africa, was formed with the support of a coalition of organizations including Sustainable Energy for All, the Global Energy Alliance for People and Planet and ECA, with the goal of growing African voluntary carbon markets to produce 300 million carbon credits annually by 2030 and 1.5 billion credits annually by 2050. Furthermore, it aims to unlock \$6 billion in revenue by 2030 and over \$120 billion by 2050, while supporting the creation of 30 million jobs by 2030 and over 110 million jobs by 2050.

With the development of these ambitious initiatives, credits related to nature-based solutions could accrue faster and play an important role in the next 10 years and beyond. Credits from clean energy could play an important role from 2030 onwards.

Participants in the Forum will also discuss ways in which African countries could close financial gaps by using more vigorously innovative financial mechanisms, such as those developed by ECA and Afreximbank over recent years, including debt-for-climate adaptation swaps, green and blue bonds, blended finance, grants and others, to build the capacity of the local communities and developers to sustain the generation of high-quality credits, focusing on large-scale nature-based solutions and clean energy projects.

## V. NEW BREAKTHROUGH: TRADING CREDITS RELATED TO REDD+

All this potential could be further accelerated with the progress achieved through the negotiations on the operationalization of article 6.2 of the Paris Agreement, relating to the use of market instruments to address climate change, which concluded at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change. Numerous countries, including those from Africa and Latin America, have successfully managed to obtain approval for trading their credits related to REDD+ globally to other countries as an international transfer of mitigation outcomes, using the corresponding adjustment measures defined by the Convention to avoid double-counting and sustain market integrity. International transfers of mitigation outcomes must be monitored and coordinated in such a manner that they are reflected correctly in the intended nationally determined contributions accounting of receiving countries. Countries can issue credits to add to (not to substitute for) a corporation's net-zero action plans. This unprecedented opportunity paves the way for a new asset class, called sovereign carbon credits, developed by the Coalition for Rainforest Nations. Briefly, sovereign credits, although they must still be classified properly, allow the reduction of emission sources and at the same time boost the absorptive capacity of the sinks for emissions. The generation of credits is coordinated nationwide, as opposed to the conventional small-scale project-level models, which have not generated meaningful returns on investment and have discouraged many developers, mainly from Africa and Brazil.

REDD+ sovereign credits will be further facilitated in Africa with the first continent's regional digital registry, which consists of a harmonized protocol for carbon accounting, reporting and verification that ECA has been supporting within the context of the Congo Basin Climate Commission and which it has planned to expand to the Climate Commission for the Sahel Region and the African Islands Climate Commission. The registry is interoperable with national and other regional and global registries and will serve as the African regional registry for facilitating fair, reasonable and transparent trade in carbon credits among African countries, including through the African Continental Free Trade Area, and beyond. Lessons learned from the use of this harmonized protocol and regional registry, which will be presented and highlighted at the Forum, will greatly inform both the public and the private-sector audiences on ways that carbon markets can boost development and optimize other joint ECA-Afreximbank initiatives, including biodiversity credits and ecosystem service economies.

The Agreement Establishing the African Continental Free Trade Area could have either a positive or a negative impact on climate policies. If implemented in a sustainable manner, the Agreement could help to transform African economies, boosting exports, imports, investment, output, industrialization, growth in gross domestic product and welfare. It could help to increase the value of intra-African trade by over 35 per cent by 2045. All critical sectors, such as agrifood, industry and services, are expected to see growth of about 40 per cent each. However, unsustainable trade could give rise to waste and emissions, contributing to global warming and increasing undue pressure on land and water ecosystems and thereby contributing to climate extremes. Such challenges could be addressed by the harmonized regional carbon market, which the Agreement could help to promote.

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## **VI. POTENTIAL AREAS FOR INVESTMENT**

Tables 1 and 2 outline the main areas in which private investment could generate tradable credits.

- The areas in table 1 are selected on the basis of the mitigation potential and comparative advantages of Africa. Notable areas are forestry, agriculture, bioenergy, and demand-side policies
- The areas in table 2 are selected on the basis of their potential to generate renewable power

**Table 1****Mitigation potential and comparative advantages of Africa, by sector**

<i>Sector/areas</i>	<i>Greenhouse gas mitigation/offset potential at \$100/tCO<sub>2</sub>e</i>	
	<i>Technical (i.e., feasible biophysically and using current technologies)</i>	<i>Economic (i.e., feasible based on current economic constraints over a price range)</i>
<b><i>Forest and other ecosystems</i></b>		
Reduced deforestation and forest degradation – conservation of existing carbon pools in forest vegetation and soil	984–2213	710–1215
Afforestation/reforestation	192–3035	101–399
Improved and sustainable forest management	205–248	179–186
<b><i>Agriculture</i></b>		
Soil carbon enrichment/management (crop management: rotation, varieties, nutrient management, water flow management, rice production, biochar deployment, etc.)	179	169
Soil carbon management in grassland	408	245
Agroforestry	921	184
Enteric fermentation	84	25
Improved rice cultivation	8–17	7–10
<b><i>Bioenergy</i></b>		
Energy generation using biomass, reducing greenhouse gases through the displacement of fossil fuels in heat/electricity generation; also included is a combination of bioenergy and carbon capture and storage to remove carbon permanently	202	44
<b><i>Demand-side policies, mainly in relation to consumption (SDG 12)</i></b>		
Shift to a sustainable diet	304	207
Reduced food loss and waste	116	65

**Note:** Investment potential is large if mitigation is greater than 1000 MtCO<sub>2</sub>e/year. It is moderate if the mitigation potential is 100–1000 MtCO<sub>2</sub>e/year. It is small if the mitigation potential is less than 100 MtCO<sub>2</sub>e/year.

**Abbreviations:** (M)tCO<sub>2</sub>e /year, (million) tons CO<sub>2</sub> equivalent per year; SDG: Sustainable Development Goal.

**Table 2****Renewable energy potential in subregions of Africa**

<i>Subregion</i>	<i>Total area/km<sup>2</sup></i>	<i>CSP/TWh/year</i>	<i>PV/TWh/year</i>
Central Africa	5 317 718	29 902	61 643
Eastern Africa	6 225 847	175 777	219 481
North Africa	6 784 934	93 544	109 033
South Africa	6 555 480	1 469 910	162 817
West Africa	5 006 014	227 47	103 754

**Abbreviations:** CSP, concentrated solar power; PV, photovoltaics; TWh, terawatt-hour.

## VII. OBJECTIVES AND EXPECTED OUTCOMES OF THE FORUM

The specific objectives of the Forum are as follows.

1. To bring together senior government officials, private and other investors, buyers and project developers to examine and agree on programmatic actions, including selected projects that can be financed immediately, to increase the supply of sovereign REDD+ and other important credits in Africa, including from the voluntary markets, to raise significant financial resources to support sustainable development, in addition to climate mitigation, adaptation and resilience-building plans;
2. To attract capital from institutional investors, including sovereign wealth funds, pension funds and insurers, for large-scale forest and ecosystem conservation and restoration projects (including nature-based solutions), concessional finance and equity investment in technology-intensive areas (including clean energy);
3. To promote intra-African trade, trade with other regions and global trade in sovereign REDD+ credits, renewable energy-related credits, credits from diesel replacement projects and other credits using corresponding adjustment measures; and promote the regional high-integrity registry for the Congo Basin Climate Commission that is to be scaled up into an African carbon registry by Afreximbank and ECA;
4. To promote mutually beneficial and sustainable cooperation between African suppliers of credits and the buyers and users of credits from Africa and other regions;
5. To promote cooperation between the three climate commissions to accelerate the generation and regional and international trade of carbon credits, including through the African Continental Free Trade Area.

**The Forum is expected to have the following outcomes:**

1. Conversation, coordination and action on the development of voluntary carbon markets in Africa will be fostered;
2. Awareness of the potential of carbon markets to combat climate change will be increased;
3. Links among senior representatives of ministries of energy, economy, forest and land, African climate commissions, project owners and developers, certification bodies, and financial and investment management institutions will be established;
4. Experiences and best practices from selected countries in the area of carbon trading will be exchanged.

## VIII. TARGET PARTICIPANTS

- African political leaders participating in the thirty-sixth ordinary session of the Assembly of Heads of State and Government of the African Union
- Representatives of the African Union Commission
- Private sector companies interested in the development of carbon markets
- Multilateral development banks that are invested in supporting such initiatives
- Sovereign wealth funds, pension funds and insurers that invest in large-scale forest and ecosystem conservation/restoration projects, providers of concessional finance, and equity investors in technology-intensive areas such as clean energy
- Civil society representatives
- Policymakers and thought leaders
- Youth representatives
- Media representatives

## IX. PRACTICAL DETAILS

<b>Date:</b>	20 February 2023
<b>Place:</b>	Sheraton Hotel, Addis Ababa
<b>Co-convened by:</b>	Afreximbank and ECA
<b>In cooperation with:</b>	African Union Commission, Congo Basin Climate Commission, Climate Commission for the Sahel Region, African Islands Climate Commission, African Development Bank, Africa Carbon Markets Initiative
<b>Resource partner:</b>	Sustainable Energy for All
<b>Contributor:</b>	Climate Action Platform for Africa

