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African voluntary carbon markets: Boom or bust?

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The global climate finance gap, estimated at $2.4 trillion per year until 2030, will be at the heart of many COP29 discussions. Adequate climate finance is particularly critical for the Global South, where limited fiscal space and sovereign debt crises hinder investments in low-carbon transitions. Direct carbon pricing, which can take the form of carbon tax, voluntary carbon markets or compliance carbon markets, has emerged as a promising solution.

In this paper, we zoom in on voluntary carbon markets which, despite past controversies, are increasingly seen as an opportunity to harness natural capital and attract private investment for green growth, particularly in Africa. Framing voluntary carbon markets within broader carbon market dynamics, we highlight the differences between compliance and voluntary markets, as well as controversies surrounding voluntary markets. We then analyse the development of voluntary carbon markets in Africa, outlining challenges and opportunities. We conclude by offering high-level recommendations for African policymakers based on the current context and political ambitions.

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Acronyms

ACMI	Africa Carbon Markets Initiative
AFM	Autoriteit Financiële Markten (Dutch Authority for the Financial Markets)
CCM(s)	Compliance Carbon Market(s)
COP	Conference of the Parties to the UNFCCC
ETS	Emissions Trading System
EU	European Union
GHG	Greenhouse Gas
REDD+	Reducing Emissions from Deforestation and Forest Degradation
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar
VCM(s)	Voluntary Carbon Market(s)

1. Recommendations

The current gap in climate finance needs the exploration of all potential avenues for attracting public and especially private capital, including voluntary carbon markets (VCMs), which could serve as a valuable tool for climate mitigation finance in both the EU and Africa. For African initiatives to revive VCMs they will need to fundamentally reframe them and instil confidence. This brief provides some recommendations on how this could be done in practice:

	African governments and institutions should help create an enabling environment for the African carbon market initiative (ACMI), by helping strengthen its integrity and transparency.
	Besides boosting ACMI and the VCM's framework, African governments should also look at ways they can foster the supply of high-quality carbon credits.
	Working with national and regional public development banks such as the AfdB, (and their collaboration/partnerships with international financial institutions for development), can also help generate a strong and robust supply (and demand) of carbon credits.
	Besides the supply, a key crux that may shape the extent to which the potential benefits of VCMs materialise, is to better understand the demand, where it comes from and what drives its interests.
	African governments should also push for an international framework for carbon credits trading.

Yet, VCMs are not a cure-all and should not distract governments and corporations from reducing their own emissions. Instead, they are part of the climate finance toolbox, and their merit should be benchmarked against other carbon pricing models (CCMs and carbon taxes) and more especially other financing instruments aiming to mobilise climate mitigation finance.

2. Background

Mobilising sufficient climate finance is a major and unresolved global challenge. Discussions are ongoing to set up new financing targets as part of the COP29 to address a current climate finance gap estimated at $2.4 trillion per year until 2030 (IEG 2023). This is to take place in a context of geopolitical tensions, and where the Global South and especially least developed countries are confronted with a sovereign debt crisis and limited fiscal space, which jeopardise their ability to invest in, and achieve a low-carbon transition - i.e. a transition that contributes to emissions' reduction, climate impact mitigation and sustainable economic growth.

Direct carbon pricing has gained traction amongst governments and private sector actors. It is considered one of the innovative options that can help incentivise investments in low-carbon transition and create jobs, as witnessed during the COP28. Direct carbon pricing can take the form of i) carbon tax; ii) voluntary carbon markets (VCMs); and iii) compliance carbon markets (CCMs) (see Annex 1 for more details). Given its renewed and increasing political traction in both Europe and Africa - both at regional and national levels, this brief focuses more specifically on the VCMs.

Historically, VCMs have been mired in controversy and scepticism, scandals involving low-quality or outright fraudulent carbon credits and the perception that they were driven primarily by corporate interests without adequate oversight. A 2016 EU-commissioned study concluded that 85% of carbon projects in the UN's Clean Development Mechanism were found to have raised global emissions, while countless cases of human rights abuses, (for example Kasigau Corridor REDD+ Project in Kenya, Hengeveld 2023), and forceful eviction of local communities, (the Tradelink scandal in The Democratic Republic of the Congo (DRC), Mavambu 2022), have emerged. This had an impact on VCMs development: while some expected VCMs to reach $50 billion by 2030, annual transaction value fell to $723 million in 2023 (Mundy 2024).

In recent years, however, there has been a renewed focus on VCMs, this time led by the public sector and developing countries. African governments, which are confronted with sovereign debt sustainability and/or limited fiscal space issues, recognise their potential to attract climate finance by leveraging the continent's vast natural capital. VCMs are also an opportunity to tap into private capital, which would flow from North to South (and to a lesser extent South to South), and support developing countries' green economic growth. As a result, VCMs are increasingly dominating conversations about climate finance, such as the COP27 in 2022, where the Kenyan President William Ruto promoted VCMs as a key tool for sustainable development in Africa, and where the African Carbon Market Initiative was launched. Discussions on VCMs were also part of the 2023 Africa Energy Forum held in Kenya and the inaugural 2023 Africa Climate Summit (ACS), where $450 million were pledged for African carbon credits. African leaders see in voluntary carbon markets the possibility to mobilise funding for green growth - or in the words of Ruto: "a fountain of multi-billions dollar economic opportunities that Africa and the world is primed to capitalise" (Miriri 2023).

This calls for a closer examination of VCMs in which developing nations take the lead, and raises the question of whether stronger ties between the African governments and the private sector can result in more dependable, transparent, and functional VCMs that can serve as a steady source of funding for initiatives aimed at combating climate change.

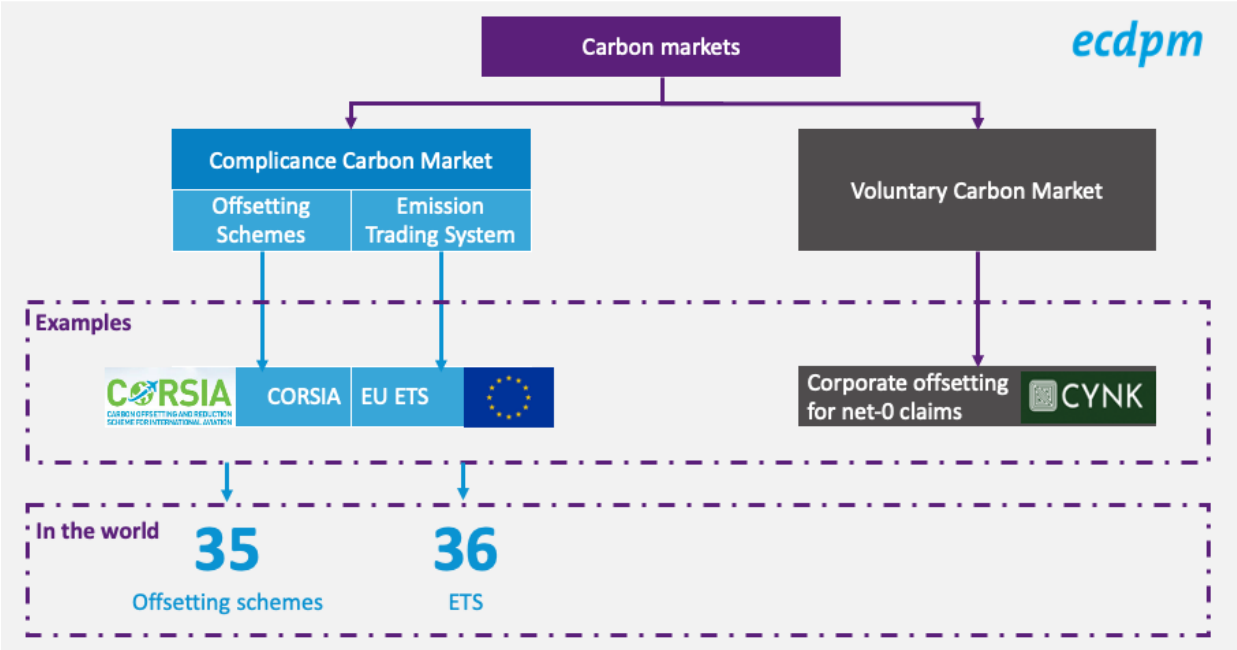
However, debate on VCMs is often polarised, between proponents who see them as effective tools for attracting large investments, and critics who argue they offer false climate solutions and perpetuate economic and social injustices. There is also a lack of in-depth understanding of what carbon markets are and how they work, with some semantic confusions about different types of carbon pricing mechanisms. In this context, this brief aims to:

- **frame VCMs within the broader carbon market dynamics**, zooming in on the differences between CCMs and VCMs, as well as some of the controversy around VCMs, and highlighting their different features and trends and drawing implications for policy-makers;
- **analyse the development of VCMs in Africa**, and in doing so highlighting key challenges and opportunities; and
- **provide high-level recommendations** of where policy-makers' efforts should be focusing given the current context and stated political ambitions.

3. Distinguishing between CCMs and VCMs

Carbon markets aim to control and reduce GHG emissions through economic incentives, i.e. putting a price on carbon emission. They help mobilise public and private resources through the sale of allowances or carbon credits, to help nations and businesses to transition to a low-carbon economy and reach net zero emissions (WB 2022). Yet, for policy discussions it is important to distinguish between compliance carbon markets (CCM) such as the EU Emissions Trading System (ETS), and voluntary carbon markets (VCM) such as the New York-based Xpansiv CBL or the Cynk in Kenya (figure 1).

Figure 1: Carbon markets mechanism.



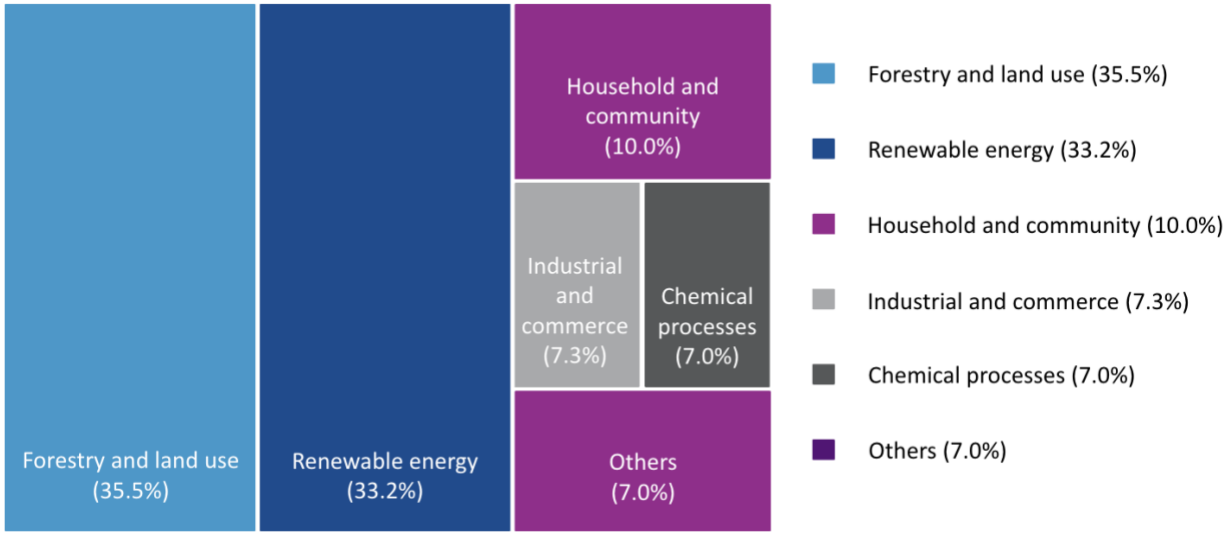
Source: From the authors, based on WB 2024 and ICAP 2024.

CCMs are one type of compliance instrument that governments can put in place to help reduce emissions. CCMs operate under mandatory regulatory frameworks covering specific sectors and actors, most often under the form of cap-and-trade system. CCMs allow the targeted entities to buy and sell these emissions (as permits or allowances) amongst themselves, to ensure that their emissions meet the government's set limit. An example of CCM is the European Union Emissions Trading System (EU ETS). With this system, the EU has set a limit (cap) on the total amount of GHG that can be emitted in the energy, manufacturing and aircraft sectors, which is reduced annually. Within the cap, companies i) primarily buy allowances on the EU carbon market from member states ii) receive some allowances for free and ii) also trade allowances with each other as needed (companies with a surplus of emission rights can then trade with companies with a deficit of emission rights). EU member states get most of the revenues (from the sale of auctions, worth €38.8 billion in 2022, Appunn and Wettengel 2024), while firms can make profits when selling their allowances (an estimated €1.6 billion of allowances were sold in the 2008-2019 period, Stoefs 2021). Member States are required to dedicate at least half of the ETS revenues for climate and energy purposes.

In contrast with CCMs, VCMs allow governments, businesses and individuals to purchase carbon credits on a voluntary basis to mitigate their greenhouse gas emissions. Buyers purchase these credits to offset emissions and meet internally set voluntary goals. However, VCMs do not encourage companies to reduce their own emissions, as opposed to compliance markets, and revenues are not systematically/automatically controlled/do not flow to governments (see below). Voluntary carbon markets are currently not subject to any direct government or regulatory supervision (AFM 2024). Credits are generated by diverse types of projects globally that reduce or remove carbon emissions, certified by a variety of independent organisations. Examples of projects falling under the scope of VCMs include renewable energy,

reforestation, methane capture, and energy efficiency initiatives such as clean cooking stoves. Credits from projects in the areas of forestry and renewable energy projects collectively account for nearly 70% of the over 720 million units in circulation (figure 2).

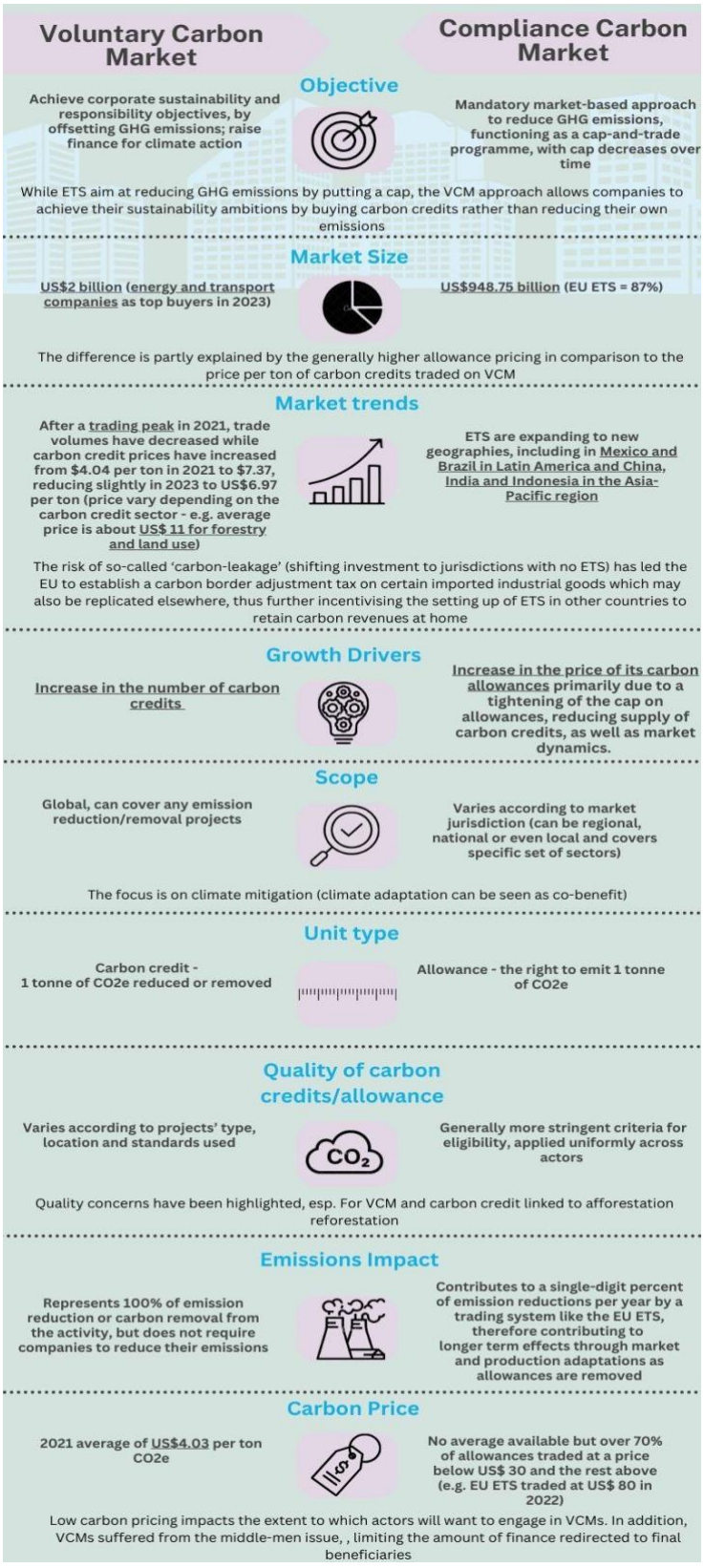
Figure 2: Distribution of credits in circulation by project type.



Source: From the authors, based on Veyt data from American Carbon Registry, Climate Action Reserve, Gold Standard, and Verra (Wulandari and Zelljadt 2024).

Figure 3 provides a simplified overview of the main differences between these two types of markets. This comparison reveals the quite different objectives of VCMs and CCMs as well as the difference in scale of the markets, even if the bulk of the compliance carbon market is made up by the EU ETS. But perhaps the key difference between the two systems is that VCMs i) do not systematically generate revenues for governments, except when the latter is one of the market participants; ii) offers relatively lower carbon pricing than CCMs, which may act as a disincentive for some actors to engage in such a mechanism; and iii) seems to suffer from the progressing yet less mature and developed standards applying to carbon credits, undermining its credibility.

Figure 3: Overview of the key differences between CCMs and VCMs.



Source: From the authors based on Ecosystem Marketplace 2023b and 2023c, Twidale 2024, Jennifer L 2023b, ICAP 2024 and Tamme 2022.

Figure 3 reveals that despite the potential of carbon markets raising revenues, a few considerations should be taken into account by governments and the private sector before engaging in carbon markets:

1. Contrary to CCMs, VCMs allow carbon credit buyers to keep polluting without making an effort as such to reduce their own emissions - (though for quite a few firms, VCM can represent a first effort in engaging on climate, and is part of a more comprehensive decarbonisation strategy) (Ecosystem Marketplace 2023a). **In that sense, while VCM can play a role in the short to mid-term, they should not be part of long-term solutions tackling climate change.**
2. Both VCMs and CCMs focus primarily on climate mitigation. Yet while VCMs fund emission reduction/removal projects, part of the revenues generated through CCMs by governments can be used to fund climate mitigation AND adaptation projects. While the climate mitigation financing gap is important, climate adaptation is the area where such a financing gap is mostly felt ($194-366 billion per year in 2023, UNEP 2023), and where least developed economies are most concerned with, given their exposure to climate change shocks (Flynn 2023). **So, while VCMs are one of the tools available to support countries' climate mitigation efforts, their contribution towards climate adaptation is limited**
3. Beyond the focus of VCMs on climate mitigation, **the low carbon pricing** is likely to make it one of the contributors (rather than the main contributors) to addressing the climate mitigation financing gap. In addition, carbon pricing also has an impact on the capacity of participating actors to generate high integrity climate projects.
4. More importantly, VCMs suffer from intermediaries or carbon credit brokers taking an important cut - sometimes more than goes in the pocket of the carbon credit issuers - undermining the business case for issuing carbon credits in the first place (Barratt and Sandler Clarke 2022). **In turn, this questions the extent to which VCMs are fit for delivering additional climate (mitigation) finance flow to developing economies.**

While they have different objectives and functioning, there is increasing attention to the extent to which CCMs and VCMs could be combined. This is driven by the following factors:

- VCMs and CCMs are not necessarily mutually exclusive: The California ETS for instance allows the private sector to meet up to 8% of its compliance obligation using specific offset credits issued by the California Air Resources Board (Jennifer L 2023a).
- VCMs are increasingly regulated: CORSIA quality criteria (used traditionally in compliance carbon markets) have been incorporated by the Voluntary Carbon Markets Integrity Initiative, and are particularly valued by carbon credits buyers (Ecosystem Marketplace 2023d).
- Compliance market interests in carbon removal: The scope of CCM is expected to increase under the Paris Agreement, to include not only emission reduction but also carbon removal projects (currently existing only under VCMs) (Tamme 2022). In addition, Art. 6 of the Paris agreement reflects this issue, whereby it is meant to be a structured framework for governments to engage on a voluntary basis, but it is oversighted by the UNFCCC to support the credibility of the mechanism.

Yet, further thinking and analysis should be carried out to understand the added value and risks of combining these two types of markets from a climate, environmental and financial perspective. It is important to note that such an approach does not benefit from any traction from what the biggest CCM is, i.e. the EU ETS. While it used to allow carbon credits, these were fully discarded in 2020. In 2026, the Commission will assess the possibility of including permanent carbon removals (a specific segment of carbon credit) in the EU ETS.

4. Moving from theory to practice: carbon markets in Africa

a) Strong political momentum around African carbon markets

Carbon pricing in Africa is getting increasing traction. While a few African countries have already or are considering adopting carbon taxes (South Africa, Botswana, Senegal and Morocco) and CCMs such as South Africa, most attention and actions from governments and private sector seems to be focusing on VCMs (Baker et al. 2024). At the same time, the value and share of African carbon credits remains low (slightly over 10% of carbon credits issued globally over the 2016-2021 period, listed by about 15 firms (Mukpo 2023), for a value of approx. $127 million in 2021, ACMI 2022). However, its value has been growing at a compound annual rate of 36% between 2016 and 2021, of which 65% is taking place in five countries (Kenya - the leader in this field, Rwanda, South Africa, Tanzania, and Zambia), with Kenya dominating (Africa-Europe Foundation).

Other countries and sub regions (especially in West[1] and East Africa, Pagop and Savard 2024) have since positioned themselves on VCMs, including Nigeria, which seeks to present itself as an investment-friendly destination for a high integrity (in terms of the quality of the carbon credits) VCM: one that ensures that carbon credits represent real, additional, and permanent emission reductions through rigorous standards, transparency, third-party verification, and robust oversight. This should translate into unlocking billions ($) for the Nigerian and African private sector to engage in their low-carbon transformation (in addition to other potential social, economic and environmental benefits) (Nkwocha 2024).

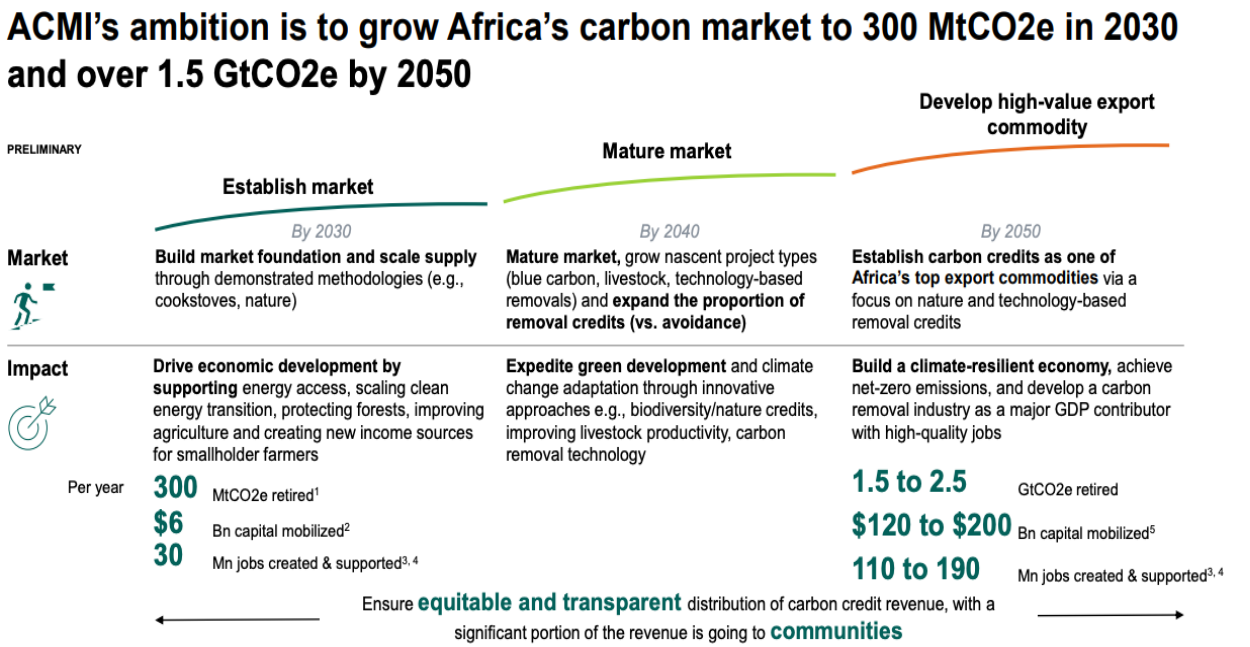
In particular, projects relating to renewable and clean energy access (according to the International Energy Agency – IEA, 2022), Africa has 60% of the world's best solar resources) and the continent's expansive forests **present very high carbon credit potential** (e.g. the Congo Basin which crosses eight African countries is the largest carbon sink in the world. The Republic of Congo absorbs 1.5% of the world's entire annual carbon emissions). This led some African leaders such as Kenya's President Ruto - one of the most vocal on VCMs - to declare that Africa's carbon sinks were an "unparalleled economic goldmine", that have the potential to absorb millions of tons of CO2 annually, which should translate into billions of dollars flowing from the Global North to the South (AFP 2023). In combination with other solutions, VCMs hence have the potential to reduce the current climate mitigation financing gap.

[1] This includes inter alia: Gabon, Togo and Ghana. Other regions (North Africa, Central and Southern Africa have shown more of a cautious approach thus far - even though they have been active with e.g. Egypt establishing its VCM).

Yet, to achieve the potential of VCMs in supporting a low carbon transition and the reduction of GHG emissions, policy makers including in Africa recognise the need for i) more transparent and credible VCMs; and ii) achieving scale. Sharing Ghana's experience in voluntary carbon markets, Alexander Ampaabeng, Ghanaian Deputy Minister of Finance, emphasised the need for countries to enhance transparency through strategic investments in technologies, highlighting how through "digital monitoring, reporting, and verification, Africa will attract better carbon pricing" (AfDB 2024). As put by Bogolo Kenewendo, Special Adviser Africa Director, The Climate Champions Team, a voluntary carbon market (in reference to ACMI) "operating with integrity, equity and transparency, could help Africa deliver on three fronts: nature, climate and development" (SEforALL 2023).

Aware that scale is a key factor in determining VCM effectiveness, a range of more recent (and probably one of the most noticeable) carbon market initiatives is shifting the focus from the national to regional/continental levels. That is the case of the West African carbon market hub and the Africa Carbon Market Initiative, launched during COP27, which aims to accelerate Africa's participation in the global VCM with a view to raise over USD120 billion by 2050 to the continent, and will create up to 100 million jobs (Figure 4). So far seven countries (including Kenya, Malawi, Gabon, Nigeria, and Togo, Saptakee 2024) have supported the initiative and ACMI claims to have secured $650 million in advanced market commitments from global corporations (Carbon Units 2024). To do so the ACMI will particularly focus on i) increasing market integrity, equity, and transparency; ii) supporting governments, project developers, and local communities through targeted assistance; iii) acting as a reference point and iv) advocate for diverse carbon credit demands, including compliance, voluntary markets, and international trading under Article 6 of the Paris Agreement (ACMI 2024).

Figure 4: Overview of ACMI's objectives.



Source: ACMI 2023.

At the same time, because **VCMs benefits are based on countries' resources (forest and renewable energy potential)**, this also means that not all African countries have the same potential when it comes to leveraging VCMs to attract climate finance. This also helps explain why only a few countries have joined the ACMI. The merit for VCMs should hence be based on a i) thorough analysis, which would look at inter alia country-level GHG emission profiles, national policy objectives, sectors at risk, economies' size, and other national circumstances; and ii) benchmark against other instruments with similar objectives that may be more efficient or more effective. In any case, VCMs are only one option to address the climate financing gap, and needs to be combined with other mechanisms such as direct regulation, debt instruments, innovative financing instruments or result-based payment to effectively reduce GHG emissions and foster a low-carbon transition (UNFCCC 2024).

b) …Yet a difficult start

Despite the enthusiasm around VCMs - as a means to attract billions of investments that would support the low-carbon transition - the reality is sobering. At the political level, the African civil society is rather critical of the development of VCMs which are perceived essentially as an excuse for polluters to continue harmful practices, and a false climate solution (see the statement of +500 African civil society organisations in this regard; Power Shift Africa 2023). In particular, they see this agenda as being largely influenced by the Global North, and multinational companies (Mukpo 2023) - including those operating in the energy sector (as carbon credits buyers), rather than an African led-agenda, for Africans, with some talking about carbon colonialism (Adebayo and The Associated Press 2024). In this context, African governments should have a clear understanding of the political economy factors that shape VCMs, and hence the potential winners and losers. Beyond the political level and narrative around VCMs, a few serious challenges should be considered:

a) Attracting investments in climate finance - towards billions?

Evidence on the potential for VCMs to attract climate finance in Africa is limited. Though some positive examples exist such as the CYNK platform in Kenya, several stakeholders including the Zimbabwe Minister of finance are said to be concerned about the lack of fair pricing on VCMs that would undermine the rationale for deploying such an instrument in the first place: "carbon trading must be at a fair price to reap the rewards" (Zenda 2024.) Beyond the pricing, the demand for African carbon credits is also low especially for some segments such as biodiversity credits, according to some experts (Ferraglioni 2024).

b) Effective instrument to support climate mitigation efforts?

VCMs face significant challenges that undermine their effectiveness in contributing to climate mitigation. The quality and credibility of carbon credits are often questioned, with projects failing to deliver genuine and permanent emissions reductions. Additionally, structural weaknesses, such as insufficient institutional capacity, political instability, and corruption, further complicate the implementation of reliable carbon offset projects. These challenges make it difficult to attract investments, and sell carbon credits at a fair price.

- **Quality and credibility of carbon credits**: Low-quality carbon credits that fail to deliver genuine, additional, and permanent emissions reductions is a significant criticism against VCMs. Recent analysis deemed more than 90% of rainforest carbon offsets by the biggest certifier, Verra, as worthless (Greenfield 2023). Recently, Verra in fact suspended the issuance of credits from a major project in Kenya in the midst of questions over its methodology and implementation. There is also an ongoing debate about how long carbon needs to be stored in order to be qualified for carbon sequestration through credit. The 'permanence' of credits is often exaggerated and difficult to guarantee, particularly in case of REDD+ initiatives, which underestimate the risk of trees dying or land changing ownership. In several African countries, unclear land tenure practices pose a risk to development of REDD+ projects as suppliers cannot make credible commitments about carbon offsets (Makhado et al. 2011). Last, projects often underestimate the extent of leakage, particularly for forest related projects, where deforestation avoided in one area simply shifts to another location instead of being completely prevented.
- **Structural issues**: At present, African countries do not have sufficient institutional capacities for measurement, reporting, and verification of carbon offset projects. This makes some of these processes costly and slow, which can delay revenues and hence interest from potential private sector issuers. Relatedly, the volatile political landscape and frequent changes in government regimes across various African nations present a risk to carbon projects, which is compounded by the scarcity of available insurance policies for such projects (Bowmans 2023). Corruption related issues also affect the credibility of these schemes, as seen in the cases of Congo, Nigeria, and Cameroon (Pagop and Savard 2024). Last, market supply and demand are yet to be built: on the supply side, private sector actors often lack awareness and understanding of VCMs, as well as the ability to navigate complex regulatory frameworks and a lack of standardisation in carbon-credit issuance and trading (USAID and Power Africa 2023). On the demand side, foreign rather than domestic multinationals seem to be the key drivers, given their obligations and corporate sustainability ambitions. Yet, relying exclusively on foreign demand can be considered risky.

c) What are the financial benefits for issuers?

In addition to the low price of carbon credits, VCMs benefit middlemen at the expense of African actors. The claimed $2 billion market value (global VCMs) mainly reflects transaction prices, but the actual payments to clean energy or nature-based projects are much lower due to multiple parties taking a share. VCMs are essentially an unregulated space, which is exploited by numerous intermediaries who benefit from its lack of oversight (Power Shift Africa 2024). Projects in Africa may receive less than a third of what Western companies pay for carbon credits (ibid). In turn, this makes the business case for issuers much weaker and acts as disincentive to engage in VCMs. This is even more important as building a carbon project is often expensive (often excluding MSMEs who cannot afford project preparation costs) (USAID and Power Africa 2023).

d) Social and sustainability issues

The actual impacts of carbon offset projects on local communities and jobs is uncertain at best, and in some cases negative. There is criticism that the number of jobs claimed by ACMI are overestimated as it inflates the relationship between number of jobs created and carbon credits generated. There is also a risk of carbon projects undermining land rights, as foreign companies end up owning the land used for forest carbon offsets and other large projects (hydro), creating new forms of 'green colonialism'. A draft contract between the Liberian government and Blue Carbon, a UAE-based firm, showed that the company aimed to convert 10% of Liberia's land into a carbon credit-generating landscape (Mupko 2023). Local communities claimed they were not consulted or informed about the deal's terms. Prioritising land and resources for carbon offset projects can put livelihoods of communities at risk, and undermines other development needs of people. In 2023 conflict arose in Uganda over land seized for carbon-generating plantation development by AFIP, prompting the Swedish Energy Agency to freeze a $4 million deal to buy credits generated by the plantation (Giraud 2020). Relatedly, verification agencies have weak safeguards to protect communities from harm, and there is an incentive to rubber stamp projects with proper checks.

e) Diverging interests - risks for a fragmented approach?

Despite the ambition to set up a regional or even continental VCM with the ACMI, countries tend to approach the issue of carbon pricing from a national (and in only a few cases from sub-regional) perspective, based on their own set of assets and interests. In this context, collective action and endeavour including the ACMI is expected to be challenging, yet necessary to achieve scale and make an African VCM efficient.

While VCMs provide one more means to attract private and public capital for the low-carbon transition, the reality check indicates that to reach the intended goals will require significant efforts (e.g. to build the regulatory framework and market), which are not likely to materialise in the short-term. The benefits pursued through their establishment are not likely to concretise in the current condition, and so the question is whether VCMs should be one of the key climate mitigation finance tools in the mid-to long-term, or should African countries' governments focus on alternative mechanisms to finance their low-carbon transition?

5. Conclusion and recommendations

The current gap in climate finance necessitates the exploration of all potential avenues for attracting public and especially private capital, including VCMs, which could serve as a valuable tool for climate mitigation finance in both the EU and Africa.

Despite their significant potential, as evidenced by the $2 billion market size, **VCMs are accompanied by several challenges that must be addressed to reap their potential benefits** (KPMG 2024). Evidence on the potential for VCMs to attract climate finance in Africa is limited, with concerns raised about the extent to which they are and will be able to mobilise climate finance. In this context, proper benchmarking should be conducted to ensure that VCMs are

the most efficient and effective (complementary) means for countries to attract private finance for their low-carbon transition, in comparison to inter alia debt instruments, innovative financing mechanisms (including risk sharing) and result-based financing.

For African initiatives to revive VCMs they will need to fundamentally reframe them and instil confidence through i) improving the quality and credibility of carbon credits ii) strengthen institutional capacity for verification of carbon credits, and iii) reducing the number of multiple middlemen, including by increasing transparency and tapping into digital technologies and processes, including blockchain. This will enhance carbon credit pricing, provide financial benefits for African actors, and help create positive impacts on local communities.

ACMI's scale is key to boost the efficiency and standardisation efforts at the continental level. In this regard, more African countries (those that manifested their interest in VCMs as a means to provide additional sources of climate finance to boost low carbon transition) should join the ACMI, using existing infrastructures, standards and processes that ACMI is helping develop. ACMI remains essential for making VCMs more efficient and potentially more effective than national efforts and its capacity to mobilise actors - African governments, private sector, CSOs, climate experts and verification organisms - will be crucial for sustaining momentum and developing a solution that benefits a wide range of interests. The message to potential investors would also be more attractive.

In this regard, African governments and institutions should help create an enabling environment for the ACMI, by shaping its development regarding its scope, and its integrity and transparency. This means:

a) Upscaling ACMI's scope to include, beyond the VCM, mechanisms supporting bilateral carbon trading agreements - the so-called internationally transferred mitigation outcomes under Article 6.2 of the Paris Agreement - should be considered. These which benefit from strong political traction, as illustrated in the 2023 Africa Climate Summit (Jaspal 2024), with a few African countries involved in them (Kenya, Ethiopia, Ghana etc.). This would have two major benefits: i) ACMI could facilitate transactions in the short to mid-term (whilst establishing a VCM would require more time; ii) ACMI's work on boosting the integrity and transparency of voluntary carbon trading would also serve its potential work on internationally transferred mitigation outcomes.
b) Aligning to, and working with methodologies and reporting and verification mechanisms to recognised international standards by the Integrity Council for the Voluntary Carbon Market core carbon principles that supports the supply side) and the Voluntary Carbon Markets Integrity Initiative (which address the demand side) and;
c) Help develop the technological backbone infrastructure to foster the transparency and efficiency of the ACMI. This could include for instance investing in satellite imagery and AI for forest mapping for monitoring the impacts of REDD+ projects and enhancing technological capacities of project developers and verification organisations. This should be geared towards improving the quality and

transparency of carbon credits, but also cutting the number and share of middle-men in carbon credit issuance.

Besides boosting ACMI and the VCM's framework, African governments should also look at ways they can foster the supply of high-quality carbon credits. This includes conducting a mapping and analysis of the supply (which is often part of the unknowns), and providing technical assistance (including in collaboration with development partners) to VCMs actors (from potential issuers to reporting and verification organisations), and designing conducive policy framework touching several dimensions, from tax benefits (which could vary depending on the type of assets being issued) to land rights. Importantly, governments should steer the supply in a way that helps them achieve their NDCs.

Working with national and regional public development banks such as the AfdB, which is part of the ACMI (and their collaboration/partnerships with international and European financial institutions for development), can also help generate a strong and robust supply (and demand) of carbon credits. Innovative models include the Althelia Climate Fund[2]. This is even more relevant given the increasing/deeper objectives and targets of financial institutions for development regarding climate action.

Besides the supply, a key crux that may shape the extent to which the potential benefits of VCMs materialise, is to better understand the demand, where it comes from and what drives its interests. While some alluded to the potential of a strong European demand by selling carbon credits to European businesses through the ETS, the sobering reality is that this has very limited political traction at the European level, as it goes against the logic of the ETS, which does not allow for offsets to be counted to emissions. Yet, European and international investors may be interested in specific segments such as permanent carbon removals and carbon removal technologies, following the adoption of the provisional agreement on Carbon Removals and Carbon Farming (CRCF) Regulation (EP and CoEU 2022), and more generally because these assets are seen as far more reliable (in terms of measurement methodology and approach) than e.g. biodiversity credits. ACMI could be used as a platform for a stronger and regular dialogue with private investors. Actors beyond Europe will have different interests and demands, which should be explored.

African governments should also push for an international framework for carbon credits trading. Although discussions on this framework collapsed at COP28 due to disagreements between the EU and the US, it remains relevant for African partners to work towards and advocate for an international framework that can help ensure the credibility and quality (and hence pricing) of carbon credits, in line with the efforts pursued through the ACMI. Given the increasing traction of (permanent) carbon removals, African governments should also aim to influence multilateral processes to ensure that they can help shape and benefit from the carbon removals market and revenues.

2 See *https://www.fmo.nl/project-detail/48029*

VCMs are not a cure-all and should not distract governments and corporations from reducing their own emissions. While they offer potential for increasing climate mitigation finance flows to developing countries, it remains unclear whether their cost-benefit analysis is more competitive in comparison to other carbon pricing models (CCMs and carbon taxes) and more especially other financing instruments aiming to mobilise climate mitigation finance. Yet, given the leadership of African countries, and the potential for ACMI to help mobilise essentially private capital (flowing mostly from North to South) to foster a low carbon transition whilst creating jobs, helping improve VCMs and their functioning is essential in order to deliver environmental, climate and social impacts. This work will require time, and so African countries should see VCMS as one of the instruments in their toolbox, whilst exploring and engaging in other processes.

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