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Q&A on Nigeria's Emerging Carbon Market Framework

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A. INTRODUCTION

Carbon markets are trading systems which operate on the principle that greenhouse gas (GHG) emissions can be quantified, traded, and offset. This market functions through two primary mechanisms: (a) compliance systems, where companies must meet regulatory emission reduction targets, and (b) voluntary markets, where organisations voluntarily purchase carbon credits in order to offset their emissions. A carbon credit is a tradable permit or certificate which grants its holder the right to emit one tonne of carbon dioxide (CO_2) or an equivalent amount of another GHG. According to the World Bank, one carbon credit represents one metric ton of carbon dioxide equivalent (CO_2e) that has been reduced or removed from the atmosphere through various projects such as renewable energy, reforestation, and energy efficiency initiatives.[1]

As the global momentum towards net-zero intensifies, developing economies increasingly seek to leverage carbon markets as both a climate change mitigation mechanism and a development tool for sovereigns. Nigeria, Africa's most populous nation and a major oil producer, is beginning to position itself as a key player in this transition. As of 2025, the country has made significant strides, including finalising its Carbon Market Activation Policy[2] and launching related initiatives aimed at unlocking substantial investment flows.

Nigeria's progress reflects a growing recognition of carbon credits not only as climate instruments but also as vehicles for attracting finance, fostering technological innovation, improving its sustainability credentials and diversifying its economy, which is currently heavily dependent on fossil fuels. This article examines the evolution of Nigeria's carbon market and evaluates how emerging legal and institutional frameworks can enable the country to attract climate finance while advancing its decarbonisation goals.

[1] World Bank, "State and Trends of Carbon Pricing 2023,", Available at: https://carbonpricingdashboard.worldbank.org).

[2] Nigeria's Carbon Market Activation Policy (NCMAP), is a national framework to structure its carbon market, aiming to generate $2.5 billion by 2030 from high-integrity carbon credits, fund its energy transition, attract green investment, create jobs (up to 2.3m), and support local communities, especially farmers, by linking sustainable projects (like agriculture and clean energy) to international standards under the Paris Agreement's Article 6.

B. WHAT LEGAL FRAMEWORKS GOVERN CARBON MARKETS IN NIGERIA?

(i) The Climate Change Act

The legal and institutional basis for a carbon market in Nigeria is rooted in the Climate Change Act, 2021 (the "**CCA**"). The CCA establishes the National Council on Climate Change (the "**Council**") as the chief regulator of climate-related matters in Nigeria. Notably, sections 4(i) & (j) of the CCA empower the Council to develop mechanisms for carbon taxation and carbon emissions trading.

The CCA further establishes a Climate Change Fund ("**Fund**") for financing, among other things, climate change advocacy, climate change mitigation and adaptation projects, and assessing climate change impact. The Fund will be partly funded by carbon tax and emissions trading.[3]

Section 19 of the CCA establishes a carbon budget, setting national and sectoral emission caps that form the groundwork for an emissions trading system ("**ETS**"). These carbon budgets are crucial to a functional carbon trading system. Under a carbon trading system, the Council allots carbon allowances to regulated companies. Such carbon allowances depend on the carbon budget for a particular period, as the aim of carbon allowances is to ensure that the collective allowances issued by the regulator do not exceed the carbon budget for the relevant period. This linkage between carbon budgets and carbon allowances establishes the foundation for a credible emissions trading scheme, signalling Nigeria's readiness to integrate market-based mechanisms into its broader climate strategy.

In line with the above, section 20 of the CCA requires the formulation of a Climate Action Plan. This identifies key mitigation activities to ensure that national emissions remain consistent with carbon budget goals and Nigeria's Nationally Determined Contributions ("**NDCs**").

(ii) The NCCC Regulatory Guidance on Nigeria's Carbon Market Approach 2023

[3] Section 15 of the CCA.

On the 24th of June 2023, the National Council on Climate Change published a notice titled "Regulatory Guidance on Nigeria's Carbon Market Approach" (the "**Regulatory Guidance**"). This Regulatory Guidance reinforces Nigeria's commitment to the global efforts to reduce emissions that contribute to climate change. Under the Regulatory Guidance and the CCA, Nigeria reiterated its alignment with the Paris Agreement, particularly in relation to Article 6.2 of the Paris Agreement.

This was reflected in the recognition of voluntary cooperation in the implementation of NDCs and the international transfer of carbon credits under the Regulatory Guidance, further agreeing with the need to apply robust accounting to ensure the avoidance of double-counting. However, the CCA presently does not contain explicit provisions or guidance concerning participation in the voluntary carbon market. This regulatory gap permits self-regulation and the development of standards by independent bodies for carbon credit projects. In recognition of the vital role played by domestic private sector participants in Nigeria's carbon market development, the NCCC, under the Regulatory Guidance, confirmed that regulatory clearance in the form of a 'No-Objection' is not compulsory for the issuance and trading of certified credits generated across various sectors, thereby aligning with the directives set out in Article 6.2 of the Paris Agreement.

(iii) The Nigeria Carbon Market Activation Policy 2025 (the "CMAP")

The Nigeria Carbon Market Activation Policy 2025 (the "**CMAP**") seeks to strengthen Nigeria's carbon market architecture by providing a coordinated framework for emission reduction, investor confidence, fiscal incentives, and alignment with national climate targets. It also aims to facilitate low-carbon investment, enhance transparency, and generate revenue from climate finance.

In line with the above, the CMAP further establishes Nigeria's stance under the Regulatory Guidance to explore international cooperation and a voluntary carbon market. This will involve entering into voluntary cooperative relationships with other willing countries, particularly signatories to the Paris Agreement. Further to this, Nigeria is looking to become an active participant in the Paris Agreement Crediting Mechanism ("**PACM**").[4]

[4] Part 3, paragraph 15 of the CMAP.

The CMAP is a key step to future regulatory clarity in the carbon trading space. It examines fiscal incentives and policies, institutional arrangements, and the regulatory framework for Nigeria's carbon market. The CMAP also expresses the government's intentions, through the Council, to issue regulations relating to carbon trading, providing market participants with a predictable and stable regulatory environment, particularly defining market mechanisms, institutional frameworks, how to change the use purpose of Internationally Transferred Mitigation Outcomes ("**ITMOs**")[5], ownership and rights to such ITMOs, benefit sharing, and dispute resolution mechanisms, and fiscal incentives, among other things. Such fiscal incentives will include tax incentives and other related benefits.

In addition, the CMAP also presents an overview of Nigeria's carbon market ecosystem. Under this ecosystem, market participants will include:

(a) Project / mitigation activity developers;
(b) Project owners;
(c) Validation and verification bodies;
(d) Buyers;
(e) Intermediaries;
(f) Carbon registries and standard bodies;
(g) Government and regulators;
(h) Environmental NGOs;
(i) Investors; and
(j) Startups and universities.

It also outlines other guiding principles for Nigeria's carbon market, besides voluntary participation, which include adopting crediting mechanisms under the PACM, approving emission reduction and removal activities (also "**A6.4ERs**")[6] for ITMOs, and encouraging non-market approaches or mechanisms. Non-market approaches refer to collaborative actions between countries aimed at reducing GHGs and improving the climate, but that do

[5] IMTOs are measurable and quantifiable results that reflect any reductions in GHG emissions achieved through projects or initiatives designed to mitigate climate change, and which can be transferred internationally amongst sovereigns or private sector players. Such transferred ITMOs are placed within the purchasing country's ledger under ITMOs, or other International Mitigation Purposes (OIMP), for private sector participants.

[6] A6.4ERs are Article 6.4 Emission Reductions, which are high-integrity carbon credits generated by projects under the Paris Agreement's Article 6.4 mechanism, a UN-supervised international carbon market designed to help countries meet their climate goals (NDCs) through emission reductions and removals, recorded in a registry and authorized for specific uses like offsetting emissions or supporting other mitigation efforts.

not involve trading carbon credits. This includes knowledge sharing, infrastructure development or mitigation projects, and technology transfer. It may also, broadly, include carbon credit-worthy projects that project owners decide not to claim carbon credits for.

(iv) Decarbonising Infrastructure in Nigeria Summit Report (2025)

The Decarbonising Infrastructure in Nigeria Summit was convened on July 2nd 2025, under the theme "Unlocking Climate Finance for Sustainable Development" and hosted in Abuja, Nigeria.

The summit confronted a fundamental challenge that extended beyond simple policy coordination: how to simultaneously close Nigeria's staggering $3 trillion infrastructure gap by 2050, while achieving net-zero emissions by 2060, all within a context of rapid demographic growth, urbanisation pressures, and intensifying climate impacts. With infrastructure accounting for nearly 79% of global greenhouse gas emissions, the transformation required transcends incremental improvements and demands systemic reimagining of how infrastructure is conceived, designed, financed, and valued in an era of climate urgency.

Perhaps most critically, the summit exposed fundamental institutional coordination challenges. While comprehensive policy frameworks exist, including the Energy Transition Plan, Nationally Determined Contributions, and the Nigeria Climate Change Act 2021, their implementation remains fragmented due to poor integration into Nigeria's budgetary and fiscal planning processes. Much of the existing climate finance flowing into Nigeria has been debt-based, raising serious sustainability concerns in an already constrained fiscal environment where over 80% of government revenue services existing debt obligations.

The summit achieved concrete outcomes that positions Nigeria for accelerated climate action implementation. One of the key decisions from the summit is the establishment of a National Decarbonisation Coordination taskforce within 90 days, chaired by the Vice President with representation across ministries, states, private sector, and civil society. The taskforce will mandate climate risk screening for all infrastructure projects exceeding ₦10 billion and coordinate implementation of nationally determined contributions across all sectors.

C. WHAT TYPES OF CARBON MARKET MECHANISMS EXIST IN NIGERIA?

As previously noted, carbon markets are fundamentally based on two main mechanisms – compliance and voluntary carbon markets.

The compliance-based carbon market is typically government-regulated and mandated, as participants are mandated by law to leverage the market to limit or offset emissions. Under this structure, participants who perform emission-related activities, especially when such activities exceed their carbon allowances, can offset such activities by undertaking emission reduction and removal activities certified by the relevant regulator or buy available carbon credits. Under compliance markets, entities that exceed their emission allowances must offset the excess through verified mitigation projects or by purchasing certified credits from others. By contrast, voluntary markets allow private actors to offset emissions in pursuit of corporate climate goals or environmental, social, and governance ("ESG") commitments. Essentially, compliance-based markets are based on a strong-arm approach to reduce carbon emissions and ensure climate adaptation.

Voluntary carbon markets, though subject to government regulation, typically involve private parties and organisations voluntarily trading their carbon credits to offset their emissions, even if below their carbon allowances. Companies and organisations that participate in the voluntary carbon market either have climate goals they seek to achieve or aim to improve their ESG rating.

Based on the CMAP, Nigeria appears to lean towards building a viable voluntary carbon market ("**VCM**").[7] The Nigerian government recognises that VCMs are "…*a key instrument in mobilising resources to combat climate change and contribute to Nigeria's unconditional commitment*," and "…*presents the best route for Nigeria to unlock its carbon credit potential (estimated between 87.2-124.7MtCO2e) by providing a flexible and market-driven approach*."

[7] Page 24 of the CMAP.

However, this does not preclude the possibility of an extensive compliance-based market, especially since Nigeria's GHG emissions are on the high side. Nigeria intends to launch a National Carbon Registry to "provide a centralised repository of information on existing and future carbon market activities, both voluntary and compliance-based."

D. WHAT ARE NIGERIA'S KEY CLIMATE COMMITMENTS?

Nigeria has been a party to the Paris Agreement since 2017, submitting successive NDCs to the United Nations Framework Convention on Climate Change Secretariat, to outline its climate commitments. The latest, NDC 3.0, was submitted in September 2025 and represents an enhanced ambition compared to previous versions, shifting from relative reductions below business-as-usual to economy-wide absolute emissions reductions from a 2018 baseline of 573.5 Mt CO_2e. It covers all Intergovernmental Panel on Climate Change ("**IPCC**") sectors, Energy, Industrial Processes and Product Use ("**IPPU**"), Agriculture, Land Use, Land-Use Change and Forestry ("**LULUCF**"), Waste and key GHGs.

The NDC aligns with limiting global warming to 1.5°C, incorporates outcomes from the 2023 Global Stocktake, and supports Nigeria's net-zero emissions goal by 2060.

Mitigation Commitments:

(a) By 2030: 168.2 Mt CO_2e reduction (29% below 2018 levels), resulting in approximately 405 Mt CO_2e emissions.

(b) By 2035: 184.9 Mt CO_2e reduction (32% below 2018 levels), resulting in 388.6 Mt CO_2e emissions.

(c) Long-term: Net-zero emissions by 2060, aligned with Nigeria's Long-Term Low-Emission Development Strategy (2024) and Energy Transition Plan.

These commitments underscore the need for robust carbon-finance mechanisms. A well-regulated domestic carbon market could serve as a primary vehicle for mobilising capital toward these mitigation goals.

E. WHO ARE THE KEY PARTICIPANTS IN NIGERIA'S CARBON MARKET?

As earlier highlighted, key carbon market participants in Nigeria, include: Project/mitigation activity developers, project owners, validation and verification bodies, buyers, intermediaries, carbon registries and standard bodies and government and regulators, amongst others.

F. IS THE CARBON MARKET IN NIGERIA OPERATIVE?

The National Council on Climate Change Secretariat (the "**Council Secretariat**") reports that, as of December 2023, project developers and investors have registered a total of 57 projects under the VCM, and the Council has issued 5.8 $MtCO_2$ of carbon credits, with 2.7 $MtCO_2$ of the carbon credits having been retired.[8] It is expected that this trend will continue to grow. This confirms that the Nigerian carbon market is operative. However, until existing regulatory gaps are substantially addressed through comprehensive reforms that align Nigeria's carbon market framework with international standards and best practices, this may continue to impact the growth and efficiency of carbon markets in Nigeria. The elimination of these regulatory gaps is essential to enhance market credibility, attract investment, and ensure Nigeria's carbon market operates at par with global benchmarks.

G. WHAT ARE THE CAPACITY GAPS THAT EXIST IN NIGERIA'S CARBON MARKET INFRASTRUCTURE?

(a) **Regulatory & Institutional Uncertainty:** While Nigeria has made commendable progress in terms of the legal framework for carbon credits, there are still regulatory gaps and uncertainties. For example, we are not aware that the Council has issued an operative regulation regulating the carbon markets in Nigeria, particularly as outlined under the CMAP.

(b) **High Up-Front Project and Transaction Costs:** Feasibility studies, project design documentation (PDD), baseline establishment, ensuring additionality, etc., are often

[8] *Ibid*.

expensive. Emission reduction activities are typically cost-intensive. For many developers, especially those in small businesses, securing the necessary financing to fund such activities can be challenging. In addition, Monitoring, Reporting & Verification (MRV) costs are high and recurring. This cost burden is particularly heavy in remote or community-led projects. As a result, it may be challenging for certain participants to participate effectively in the carbon market. However, with fiscal incentives like tax credits, this may improve such chances, but without more, this concern may remain.

(c) **Data Gaps & Technical Standards:** Nigeria's carbon market development faces significant challenges due to the limited availability of baseline data across various emission sources and sectors. The availability of reliable and granular emissions data, particularly in industries outside of the energy, agriculture, industrial processes, and waste (the "**Core Sectors**"), remains poor, making it difficult to accurately assess emission levels or design credible offset projects. While these Core Sectors generate substantial emissions, the other sectors outside of these Core Sectors remain noteworthy and deserve consideration.

There also exists a lack of standardised methodologies and protocols for different project types, which may hamper consistency and comparability in carbon accounting. According to the Natural Resource Governance Institute (NRGI), these data and verification weaknesses are exacerbated by the fact that only a small proportion of projects undergo independent audits, and verification processes often remain inconsistent or incomplete.[9] This undermines transparency, credibility, and investor confidence in Nigeria's emerging carbon market framework. Addressing these technical and data-related gaps is crucial to ensuring that Nigeria's carbon market evolves into a transparent, verifiable, and investor-grade ecosystem that can sustain long-term private sector participation.

Addressing these gaps will require coordinated institutional strengthening, standardised methodologies, and international technical partnerships to enhance transparency and investor confidence.

[9] https://resourcegovernance.org/publications/strengthening-methane-emissions-reduction-nigerias-oil-and-gas-sector

H. HOW WILL CARBON TRADING HELP NIGERIA ACHIEVE ITS 2030 CLIMATE GOALS?

Carbon trading offers Nigeria a market-driven pathway to achieve its 2030 climate goals by linking economic growth with emission reduction. It incentivises industries to cut greenhouse gas emissions below set limits, encouraging investment in cleaner technologies, renewable energy, and energy efficiency. Through the sale of verified carbon credits, Nigeria can attract international climate finance and private investment to support low-carbon projects such as reforestation, waste-to-energy, and sustainable agriculture. The system also provides a cost-effective means of meeting Nigeria's NDCs under the Paris Agreement, reducing emissions by 20% unconditionally and up to 47% with global support. Additionally, carbon trading can generate government revenue for adaptation programmes and strengthen Nigeria's role in international climate cooperation.

Overall, it transforms climate ambition into economic opportunity, supporting both sustainable development and national emission reduction targets by 2030.

I. WHAT LESSONS CAN NIGERIA LEARN FROM SUCCESSFUL CARBON MARKETS IN OTHER DEVELOPING COUNTRIES?

(a) **Chile** integrated its carbon pricing and crediting mechanisms under one MRV framework. Companies that overperformed on emission reduction targets could generate tradable credits. The country linked its MRV to a central emissions registry and open data portal.

(b) **Colombia** introduced a carbon tax in 2017, allowing companies to offset their tax liability by purchasing verified carbon credits from domestic projects. This immediately created domestic demand for carbon offsets. It also verified projects (mostly forestry and clean energy) could register in the government's national registry. The system produced a stable carbon price around US$5–7/tonne. Colombia also integrated its domestic system with international carbon markets under Article 6 of the Paris Agreement.

Collectively, these examples illustrate how integrating clear systems, fiscal incentives, and registry transparency can accelerate market maturity. Nigeria can apply these lessons to design a credible, investor-friendly carbon market that aligns with international

treaties that address climate change, such as Article 6 of the Paris Agreement. Incorporating these lessons into Nigeria's regulatory design could help avoid the pitfalls of fragmented implementation and build a harmonised MRV framework, which is critical for fostering transparency, investor confidence, and long-term market stability.

J. CONCLUSION

Nigeria's emerging carbon-market framework represents an essential step towards aligning economic growth with climate ambition. Continued progress and improvements will depend on translating existing policy commitments into enforceable regulations, strengthening verification systems, and incentivising private-sector participation. With sustained clarity and credibility, Nigeria can position itself as a regional leader in carbon finance and sustainable development.