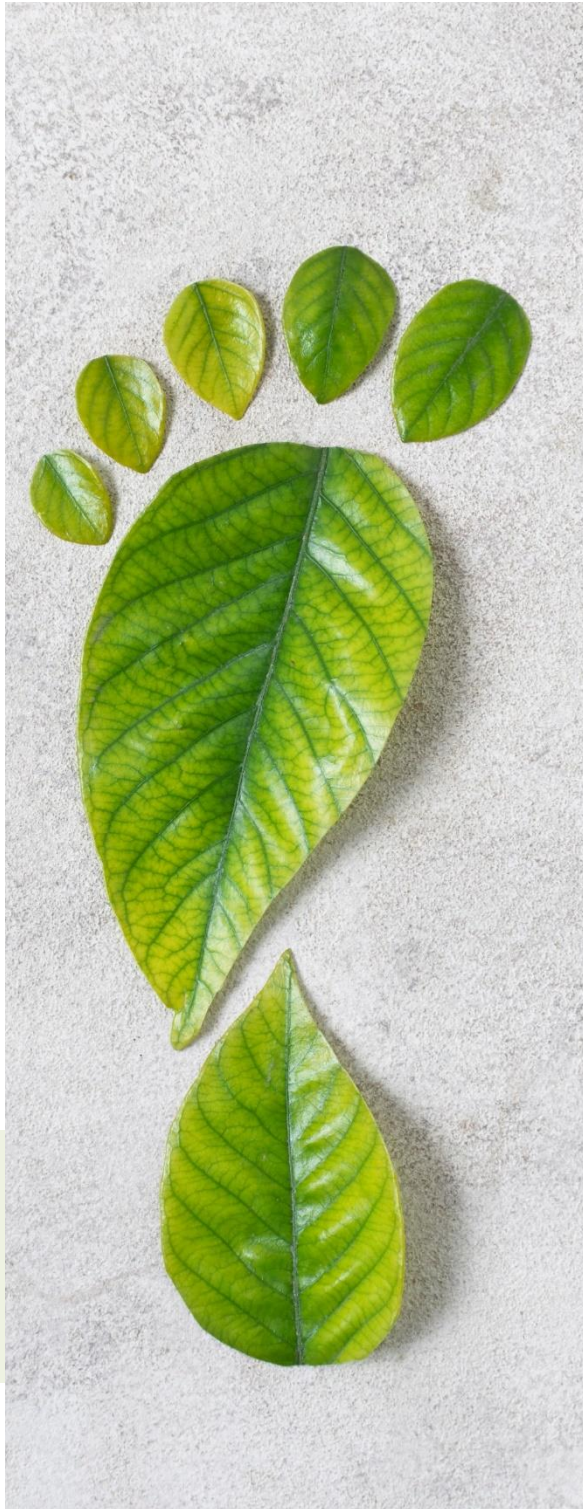


# Operationalisation of the Nigerian Carbon Market

Policy Foundation And Market  
Implications

JANUARY 2026



## Introduction

Carbon markets have become a central pillar of global climate finance, offering countries and corporations a mechanism to reduce emissions cost-effectively while mobilising significant investment toward low-carbon development. As nations accelerate efforts to meet their net-zero commitments, market-based instruments, particularly carbon credit generation and trading are increasingly recognised as critical tools for bridging the financing gap required for deep decarbonisation. This global shift has also intensified the demand for high-integrity carbon credits, creating new opportunities for jurisdictions with substantial mitigation potential, especially across Africa.

Nigeria sits at the forefront of this opportunity. The country is highly vulnerable to the impacts of climate change, facing rising temperatures, desertification, flooding, coastal erosion, and declining agricultural productivity. These climate risks threaten livelihoods and economic stability, underscoring the urgency of implementing effective mitigation and adaptation measures. Nigeria's energy transition agenda, articulated through its Nationally Determined Contributions (NDCs), sets ambitious targets to reduce emissions by 20 percent unconditionally and up to 32.2 percent with international support by 2035. Achieving these goals requires significant investment far beyond the capacity of public financing alone, making market-based mechanisms an essential component of Nigeria's climate strategy.

In a decisive move to establish a high-integrity carbon market in Nigeria, President Bola Ahmed Tinubu, at the recently concluded Abu Dhabi Sustainability Week, approved the operationalization of the Nigeria's Carbon Market Framework (the Framework). The Framework is intended to serve as the primary policy instrument for building a robust regulatory architecture for carbon market operations in the country. Its approval signals more than political commitment, it reflects Nigeria's readiness to accelerate action toward achieving its NDCs. The speed and effectiveness of implementation, however, remain critical questions.

**This newsletter examines the Nigeria's Carbon Market Framework with the aim of identifying its key policy elements, assessing challenges that may hinder successful execution, and proposing practical solutions to support an efficient and credible carbon market ecosystem.**

# Overview of Nigeria's Carbon Market Framework

## Policy Background and Rationale

The Nigeria's Carbon Market Framework is anchored on the Federal Government's broader commitment to achieving net-zero emissions and aligning national climate action with global standards. The Framework makes this explicit by identifying Nigeria's participation in the Paris Agreement and its NDCs as foundational drivers of the carbon market policy. It emphasizes that carbon markets are essential instruments for meeting national climate targets while attracting much-needed climate finance to support the transition to a low-carbon economy.<sup>1</sup>

The Framework also highlights that Nigeria requires a harmonised and credible national carbon market to unlock investment opportunities and drive emission-reduction projects at scale. It notes that the absence of a verified approach to carbon market activities has constrained investment flows, while a structured framework would enhance transparency, integrity, and market coordination across sectors.

In addition, the Framework situates Nigeria's carbon market development within the legal obligations created under the Climate Change Act 2021 (CCA), which mandates emissions budgeting, carbon budgeting, and the establishment of market-based mechanisms to support mitigation efforts. The Framework further underscores the relevance of Article 6 of the Paris Agreement as a pathway for international cooperation, cross-border credit trading, and mobilisation of global climate finance.

Taken together, these policy foundations demonstrate the Federal Government's intention to build a high-integrity carbon market that aligns domestic priorities with international climate obligations while positioning Nigeria as a competitive hub for sustainable finance in Africa.

## Objectives and Scope of the Framework

The objectives of this policy are to:

01

provide the guidelines and procedures that will enhance Nigeria's objective to reduce greenhouse gas (GHG) emissions while promoting sustainable development (such as creating decent green jobs) through carbon market mechanisms;

02

inform Nigeria's efforts to provide a well-defined system that will enhance coordination on GHG emissions reduction, address fiscal related issues (taxes, subsidies etc.), build investors' confidence, establish a detailed institutional arrangement that clearly defines the roles and responsibilities of key stakeholders and ensure the generation of high integrity credit and enhanced transparency;

03

enhance Nigeria's ability to achieve primarily the conditional emission reduction targets indicated in the NDCs by attracting investments in low-carbon and clean energy, facilitating carbon financing, fostering sustainable economic growth, and generating revenue for climate finance; and

04

support Nigeria's broader climate goals, in line with the Paris Agreement and future NDCs commitments.<sup>2</sup>

1. See the Executive Summary and Part 1 (Background) of the Framework.  
2. See Paragraph 20 of Part 1 of the Framework.

## Core Components of the Framework

This Framework establishes a comprehensive architecture for the development, regulation, and oversight of a high-integrity carbon market. Its core components are summarised below.

### The Design of the Nigeria Carbon Market<sup>3</sup>

The Framework is designed to establish a coherent, forward-looking architecture that positions the country to participate competitively in national and international carbon markets. The Framework identifies a blend of current and future market instruments to mobilise climate finance, incentivise mitigation activity, and support the attainment of Nigeria's NDCs. The following analysis outlines these elements, drawing on the governance, regulatory, and market activation priorities highlighted in the policy document. Nigeria envisions a hybrid carbon market architecture, combining immediate participation in the Voluntary Carbon Market (VCM) and Article 6 mechanisms with the gradual introduction of an Emissions Trading System (ETS) and a carbon tax.

We shall consider these in turn below.<sup>4</sup>



#### Voluntary Carbon Market

The Framework identifies the VCM as a major pathway for unlocking Nigeria's carbon credit potential. By leveraging the rising global demand for high-integrity voluntary credits, Nigeria aims to expand its participation and support its conditional NDC commitments.<sup>5</sup>

The VCM's appeal lies in its flexibility. It allows private corporations, international buyers, and financial institutions to participate in climate action through the purchase of verified carbon credits. For Nigeria, this creates a powerful platform to attract diverse investors, accelerate project implementation, and stimulate innovation across multiple sectors. Nigeria has already recorded substantial progress in VCM project development. As of December 2023, the country had 57 registered voluntary carbon projects, dominated by the Household & Community sector (91%), followed by Renewable Energy (7%) and Forestry & Land Use (2%).<sup>6</sup> This early momentum provides a baseline for scaling the market and increasing carbon credit issuance volumes. Therefore, Nigeria's objective is to deepen its participation, attract new capital, and generate additional climate actions beyond its existing NDC targets.



#### Guiding Principles of the VCM<sup>7</sup>

To establish Nigeria as Africa's leading hub for high-integrity carbon credits, the Framework outlines clear principles governing participation in the VCM. These include:



Nigeria will grant authorisations and apply corresponding adjustments to VCM credits where project developers meet the eligibility criteria consistent with Article 6.2 of the Paris Agreement requirements. Even where corresponding adjustments are not applied, all VCM projects must obtain a "No-Objection" letter from the Federal Government. This reinforces oversight and ensures national alignment.

3. Part III of the Framework.

4. Paragraph 2 of Part III of the Framework.

5. Paragraphs 27 and 28 of Part III of the Framework.

6. Paragraph 29 of Part III of the Framework.

7. Paragraphs 31 – 34 of Part III of the Framework.



Developers must comply with globally recognised standards such as

- Verified Carbon Standard (VCS);
- Gold Standard;
- Climate, Community & Biodiversity Standards

This aligns Nigeria with global expectations for credit quality and integrity.



Although the VCM is voluntary, all projects implemented in Nigeria must comply with domestic laws, obtain necessary permits, and conduct Environmental, Health, and Social Impact Assessments.



Projects must adopt a do-no-harm approach, demonstrate community involvement, and show that project activities improve livelihoods and support sustainable development.



The Framework requires strict quantification, monitoring, reporting, and verification to ensure environmental integrity and prevent inflated or unverifiable credit claims.



Developers are required to embed safeguards into project design to protect ecosystems and vulnerable communities.



Revenue and other benefits must be shared fairly among stakeholders, including local communities, project owners, and other contributors to emissions reductions.

### Nigeria's Strategy for Scaling VCM Activities <sup>8</sup>

To accelerate its VCM participation and attract higher investment volumes, Nigeria outlines several market-building strategies as follows:

#### Fiscal and Economic Incentives:

The Nigeria Revenue Service (NRS) will design incentives such as tax breaks, carbon pricing mechanisms integrated with the VCM. These tools will stimulate project development and credit purchases across sectors..

#### Launch of Nigeria Carbon Registry

:Nigeria will establish a centralised national registry that tracks all voluntary and compliance market activities, provides real-time information on project status, credit issuance, transfers, and retirements, ensures compatibility with international systems to facilitate cross-border transactions, enhances transparency and boosts investor trust.

#### Capacity Building and Awareness

Market oversight bodies will conduct education programmes to build expertise among government officials, developers, investors, and verifiers.

8. Paragraph 35 of Part III of the Framework.

### Public Private Partnerships (PPPs)

Nigeria plans to mobilise PPPs to scale emissions reduction and removal projects, reduce stakeholder risks, and attract blended finance.

### International Partnerships:

The government will strengthen relationships with global institutions, roadshows, and technical partners to attract investment and remain aligned with evolving market norms.

### Technology-Driven MRV Enhancements

Nigeria will collaborate with emerging technology providers to improve monitoring, reporting and verification (MRV) accuracy using digital tools, remote sensing, AI, and other innovations.

### Market Integrity Mechanisms

Nigeria will implement mechanisms to prevent double counting through registry controls, encourage the retirement of credits, promote use of International Carbon Reduction and Offset Alliance (ICROA) best practices, integrate ICVCM guidelines into national processes.

### Engagement with Global Integrity Initiatives:

Nigeria will align with organisations such as Voluntary Carbon Market Integrity Initiative (VCMI) and Integrity Council for the Voluntary Carbon Market (ICVM). This will promote adherence to Core Carbon Principles (CCP) and position Nigeria as a trusted supplier of high-quality credits.



## Article 6 of the Paris Agreement Mechanism

The Framework outlines a detailed strategy for engaging in the full suite of mechanisms under Article 6 of the Paris Agreement.<sup>9</sup> These mechanisms; Articles 6.2, 6.4, and 6.8 provide the legal and operational pathways through which Parties can cooperate voluntarily to achieve higher climate ambition, strengthen sustainable development, and unlock climate finance. Nigeria adopts a firm, sovereignty-grounded approach that aligns all engagements under Article 6 with its NDC commitments and long-term climate objectives.

### Nigeria's Overarching Position on Article 6 Participation

The Framework affirms that Nigeria will participate in both market-based (Articles 6.2 and 6.4) and non-market-based (Article 6.8) mechanisms. As a sovereign state, Nigeria retains absolute discretion to determine the extent, nature, and conditions of its participation.<sup>10</sup> All Article 6 engagements must promote higher ambition in mitigation and adaptation, advance sustainable development outcomes, uphold environmental integrity and transparency, comply with Nigeria's regulatory requirements and eligibility criteria.<sup>11</sup>

This principled approach ensures that Article 6 participation does not compromise national climate goals and instead amplifies the country's decarbonisation trajectory.

9. Article 6 of the Paris Agreement allows countries to voluntarily cooperate with each other to achieve emission reduction targets set out in their NDCs.

10. Paragraph 5 of Part III of the Framework.

11. Paragraph 7 of Part III of the Framework.

## Article 6.2 - Cooperative Approaches and ITMO Transfers Guiding Principles <sup>12</sup>

Article 6.2 establishes a decentralised framework that allows countries to cooperate bilaterally or plurilaterally by transferring Internationally Transferred Mitigation Outcomes (ITMOs).

ITMOs are a mechanism under Article 6 of the Paris Agreement used to help countries meet their NDCs. They are units of measured greenhouse-gas emission reductions or removals that one country transfers to another for use towards the buyer country's NDC or another authorised international purpose. ITMOs can be traded internationally, providing financial benefits to the country while contributing to global climate action.

Nigeria adopts a structured and integrity-based approach to participation in the ITMO mechanism which will be guided by the following principles:

Nigeria aligns with the Paris Agreement requirement that all ITMO transfers must be accompanied by corresponding adjustments to avoid double counting. This includes adjustments applied at issuance, transfer, and retirement.

Mitigation activities under Article 6.2 will only be approved when they:

- align with Nigeria's NDC priority sectors;
- support low-carbon development, climate resilience, and community livelihood improvement; and
- comply with the Manual of Procedures governing project approval

Nigeria will authorise mitigation outcomes for transfer only when such transfers:

- do not jeopardise the country's ability to meet its NDC; and
- originate from its conditional NDC target.

Where authorisation is not granted, the underlying reductions will be counted toward Nigeria's NDC.

Nigeria will develop an institutional arrangement in line with Part VI of the Framework for authorizing the use of ITMOs and will have arrangements in place for tracking ITMOs.

## Article 6.4 – UNFCCC-Supervised Crediting Mechanism (PACM) Guiding Principles <sup>14</sup>

Article 6.4 establishes the Paris Agreement Crediting Mechanism (PACM), a United Nations Framework Convention on Climate Change (UNFCCC)-supervised system for generating high-integrity emission reductions and removals. Both public and private sector entities may implement activities that generate A6.4ER units, which the host country may authorize for use as ITMOs. Nigeria intends to approve participation in Article 6.4 activities, including transitions from Clean Development Mechanisms projects, only where such participation supports its NDCs. Nigeria will also set clear rules governing any change in the authorized use of A6.4ER-based ITMOs. All mitigation activities generating A6.4ERs will follow the full activity cycle overseen by the Article 6.4 Supervisory Body. Nigeria confirms that the National Council on Climate Change (NCCC) will serve as the Designated National Authority (DNA) for all Article 6.4 engagements.

## Article 6.8 – Non-Market Approaches Guiding Principles <sup>15</sup>

Article 6.8 enables voluntary international cooperation that does not involve carbon credit generation. Nigeria defines non-market approaches broadly as all instruments outside credit-based mechanisms, focusing on climate resilience and nature-based solutions such as mangrove restoration, conservation, protection, and other public or private GHG-reduction initiatives that do not involve trading emission reductions. Nigeria will determine which activities qualify as non-market approaches and may publicly recognize them only after issuing a Letter of No Objection confirming their alignment with national priorities.

13. Paragraph 9 of Part III of the Framework.

14. Paragraphs 16 – 23 of Part III of the Framework

15. Paragraphs 24 – 26 of Part III of the Framework.



## Emission Trading System and Carbon Tax<sup>16</sup>

Nigeria is taking decisive steps to address climate change through the implementation of carbon pricing mechanisms, as mandated by the CCA. The CCA requires the establishment of both a carbon tax and an emission trading system (ETS). These mechanisms are designed to drive measurable reductions in GHG emissions while ensuring economic competitiveness and social equity.

In line with its medium- to long-term climate strategy, Nigeria will prioritize the development of an ETS and carbon tax, initially targeting high carbon-emitting sectors identified in the country's NDCs. The companies operating within these sectors will be required to report their GHG emissions and comply with emissions reduction targets as set by Nigeria's designated authorities. Reporting will adhere to strict integrity and standardization principles, consistent with IFRS S1/S2 standards, to ensure accuracy, reliability, and transparency.

The government emphasizes that carbon pricing mechanisms will be structured to deliver tangible emissions reductions without imposing undue financial burdens on businesses or transferring costs to consumers. Revenues generated from both the carbon tax and ETS will be deposited into the Climate Change Fund (CCF), to be applied as specified in the CCA.

### Reporting Requirements for Covered Entities

The entities that are covered under Nigeria's carbon pricing regime must:

- report their total annual GHG emissions in CO<sub>2</sub>-equivalent;
- disclose detailed emission source data, including fuel combustion, electricity and heat use, and process or fugitive emissions;
- obtain independent third-party verification of reported data and emission factors;
- maintain complete records of all data, methodologies, and supporting documentation; and
- adhere strictly to prescribed annual reporting deadlines to ensure transparency and accountability.

### Enforcement Mechanism

The government will ensure that obligations under the carbon pricing schemes are fully enforceable. Non-compliance, whether through failure to report emissions or make payments under the carbon pricing system, will attract penalties. These penalties will be adequate to deter non-compliance and, in accordance with the CCA, will be paid into the CCF.

### Use of Voluntary Carbon Credits

Entities may use voluntary carbon market credits to meet their carbon tax obligations if they satisfy defined requirements. Credits must be issued under government-approved standards and verified by qualified third parties, with the DNA publishing the list of acceptable standards. Entities must also secure independent validation and verification to confirm the authenticity of reductions for the reporting year. All credits must be recorded in a government-approved registry to ensure transparent tracking from issuance to retirement. Entities must maintain full documentation of credit purchases, transfers, and supporting verification reports. Their annual GHG reports must clearly show how credits were applied to offset emissions, with the government determining whether eligible credits may come from domestic sources, international sources, or both.

### Use of Funds

Revenues generated from the ETS and carbon tax will be paid into the CCF and allocated in line with Section 15 of the CCA. Eligible uses include; financing the operations of the NCCC and its Secretariat; supporting climate change advocacy and public education; funding mitigation and adaptation projects that enhance environmental and socio-economic resilience; commissioning research to guide climate policy; providing incentives for public and private entities transitioning to clean energy and reducing GHG emissions; and covering any other expenditures necessary for the NCCC to fulfil its statutory functions.

Through this comprehensive Framework, Nigeria is positioning itself to actively participate in the global carbon market while fostering a sustainable, low-carbon economy and ensuring that climate action does not compromise economic growth or societal welfare.

16. Paragraphs 36 – 55 of Part III of the Framework.

## Governance Structure and Institutional Roles of the Nigerian Carbon Market



The effectiveness and long-term credibility of any carbon market rests on the strength of its governance architecture. Nigeria's emerging Carbon Market Framework recognises this reality and places significant emphasis on building a regulatory system that provides clarity, predictability, and confidence for investors, buyers, and project developers. The governance structure outlined in the Framework is therefore designed to respond directly to the needs of market actors while aligning with international expectations for transparency and integrity.

The Framework begins by acknowledging that scaling carbon market activity depends on the confidence of market participants. Investors must be assured of the financial prospects and security of their capital; buyers require certainty regarding the environmental integrity of credits; and project developers need clear rules, processes, and obligations to guide project design and implementation. Governance, therefore, is not merely administrative, it is a foundational element for unlocking climate finance and ensuring market integrity.<sup>17</sup>

A central feature of Nigeria's governance approach is the establishment of a clear legal and institutional framework that defines how the market operates, who exercises authority, and how rights and obligations are allocated among participants. The Framework notes that the absence of such clarity can hinder investment, reduce confidence, and expose the market to disputes, project failures, and reputational risks.

To address this, Nigeria is developing its Carbon Market Regulations pursuant to Section 32 of the CCA, which will serve as the primary instrument guiding the market's governance. Under this emerging governance system, the NCCC the central coordinating role<sup>18</sup> As mandated by the CCA, the NCCC is responsible for issuing regulations governing carbon market activities, supervising the national carbon registry, providing authorisations under Article 6 of the Paris Agreement, coordinating MRV processes, and ensuring alignment between carbon market activity and Nigeria's NDCs. The NCCC is thus positioned as the apex institution with strategic oversight and regulatory authority.

The forthcoming Regulations will further clarify institutional responsibilities across government and the private sector. They will identify which ministries, departments, and agencies (MDAs) have specific functions in project approval, verification oversight, authorisation processes, environmental and social safeguards, benefit-sharing, and dispute resolution. This delineation is essential for preventing mandate overlaps, regulatory conflict, and bureaucratic delays challenges that have historically weakened environmental and energy governance in Nigeria.

The governance framework also addresses the need for clear rules on market mechanisms, affirming that Nigeria will operate in both the VCM and under Article 6 mechanisms. By providing clarity on the interaction between these two systems especially the conditions under which VCM credits may be authorised and correspondingly adjusted the governance structure ensures that market actors understand the compliance pathways available to them and the implications of cross-border credit transfers.

17. Paragraph 2 of Part IV of the Framework.

18. The National Council on Climate Change (NCCC or the Council) is the foremost body mandated to ensure a robust carbon market in Nigeria, given the composition of the Council, which is as follows: The President of the Federal Republic of Nigeria; The Vice President of the Federal Republic of Nigeria; The Chairman of the Council; The Vice Chairman of the Council; The Minister responsible for Environment Member; The Minister responsible for Petroleum Resources; The Minister responsible for Budget and National Planning; The Minister of Justice; The Minister responsible for Mines and Steel Development; The Minister responsible for Finance; The Minister responsible for Agriculture and Rural Development; The Minister responsible for Power; The Minister responsible for Women Affairs; The Minister responsible for Transportation; The Minister responsible for Water Resources; The Governor of the Central Bank of Nigeria; The National Security Adviser; The Chairman of Nigeria's Governors' Forum; The President of the Association of Local Governments in Nigeria; A representative of the private sector on climate change or environment related matters; A representative of women, youth, and persons with disabilities; A representative of environment related civil society organisation, and The Director-General / Chief Executive Officer as Secretary.

## The Secretariat<sup>19</sup>

At the heart of Nigeria's climate action framework is the Secretariat of the NCCC, established under the CCA. Serving as the administrative, scientific, and technical arm of the NCCC, the Secretariat ensures cohesion and synergy in mainstreaming climate action across all sectors of the Nigerian economy, including ministries, agencies, the private sector, and individual actors. Additionally, it functions as Nigeria's Designated National Authority to the UNFCCC and is headed by a Director General.

The Secretariat plays a central role in establishing and managing Nigeria's carbon market. Its functions include approving the carbon market activation policy and procedural manuals, and pursuant to Section 32 of the CCA, issuing regulations governing market-based climate mechanisms, including the Nigeria Carbon Market, Carbon Tax, and Emissions Trading Regulations. It oversees carbon market implementation, ensures alignment with national climate goals and international obligations, and develops supportive policies and regulatory frameworks. The Secretariat also approves carbon trading structures and platforms, accredits auditors, validators, and verifiers, and authorises ITMO transfers, No-Objection letters, corresponding adjustments, and all related credit-generation and retirement actions. It is responsible for maintaining the national carbon registry, approving methodologies and standards, and authorising carbon reduction project development as well as approving the financing of these carbon reduction projects.

The members of the Intergovernmental Committee on Carbon Market Activation (IGCCMA) shall in conjunction with relevant ministries, departments and agencies shall jointly lead negotiations related to carbon project development on behalf of Nigeria. The Secretariat is to ensure that MDAs are well prepared in all areas concerning this function.

The Federal Ministry of Justice, in collaboration with the Ministry of Foreign Affairs, will advise on proposed bilateral agreements under Article 6 voluntary cooperation, and the NCCC, through the Ministry of Justice will sign such approved bilateral agreements on behalf of Nigeria.

## Roles of Other Market Participants<sup>20</sup>

### Mitigation Activity Proponents (MAPs) / Project Developers

MAPs or Project Developers are pivotal to Nigeria's carbon market, responsible for designing, developing, and implementing mitigation activities. Their obligations include developing projects that reduce or avoid GHG emissions; ensuring compliance with approved certification standards and methodologies; accurately measuring and reporting emission reductions; securing third-party verification of project data; and demonstrating meaningful stakeholder engagement and SDG co-benefits to guarantee social and environmental integrity.

### Validation and Verification Bodies (VVBs)

VVBs safeguard the credibility and integrity of carbon market activities. They must be accredited under recognised standards and possess relevant experience. Their functions include validating projects before registration, reviewing documentation and methodologies for compliance, providing impartial assessments of project adherence to standards, verifying reported emission reductions, certifying verified reductions for credit issuance, submitting detailed reports to certification bodies and stakeholders, and ensuring ongoing compliance throughout the project cycle through periodic validation and verification activities.

19. Paragraph 3 of Part VI of the Framework.

20. Paragraphs 6 & 7 of Part VI of the Framework

# Strengthening Nigeria's Carbon Market through Fiscal Incentives and Green Policies

Complementing the development of Nigeria's carbon market, the government is introducing explicit green fiscal policies designed to provide clear economic signals that promote greenhouse gas emission reductions (GHG ERs) and support the growth of carbon market activities. While the carbon market regulations define the creation, operation, and oversight of carbon trading, green fiscal policies are intended to incentivize private sector participation and encourage investments in projects that reduce emissions.

Nigeria will develop a transparent green fiscal policy that leverages tax incentives to economically encourage mitigation actions. This policy will guide market participants, including investors and project developers, by providing clarity on potential returns and other financial benefits associated with carbon market activities. Importantly, all fiscal incentives will align with Nigeria's existing tax laws and structures, ensuring smooth implementation without legal or administrative bottlenecks.<sup>21</sup>

## Design Considerations for Fiscal Incentives

To stimulate private sector engagement, Nigeria will adopt a clear green tax and fiscal policy for carbon market participation. Appropriate incentives will be provided for project developers and investors, ensuring that they are aligned with national mitigation goals. Transparency will be enhanced through accessible information on both tax and non-tax incentives related to carbon projects and carbon credit activities. Additionally, the government intends to implement measures to stabilize domestic carbon markets, protecting investors and buyers against price volatility.<sup>22</sup>

## Taxation of Carbon Credits and Projects<sup>23</sup>

The fiscal policy provides clear guidance on the direct and indirect tax treatment of carbon credits, revenues, and related investments. Key measures under consideration include:

VAT and tax exemptions on carbon credits and income from their sale for a period of up to ten years, aimed at encouraging market participation.

Accelerated capital allowances (ACA) for assets tied to carbon reduction projects, such as renewable energy installations and energy-efficient technologies. The provision of ACA will be evaluated to ensure it results in real emissions reductions.

Capital allowances for qualifying Research & Development (R&D) expenditures for carbon reduction projects.

Allowing companies to deduct R&D expenses for carbon reduction technologies from their taxable income.

These incentives will be structured to meet the financial additionality requirements of carbon markets, ensuring that government support leads to genuine emissions reductions. Clear information on taxes and incentives will be made available to market participants, supported by legislative and regulatory frameworks as necessary.

21. Paragraphs 1 – 3 of Part V of the Framework

22. Paragraphs 4 – 7 of Part V of the Framework.

23. Paragraphs 8-10 of Part V of the Framework..



### Carbon Market Financial Mechanisms<sup>24</sup>

Nigeria will implement Article 6.4 activities in line with the Paris Agreement, including requirements for the share of proceeds (SOP) and overall mitigation in global emissions (OMGE). Guidelines will be established for both Article 6.2 activities and VCM, defining SOP types, rates, and methods of collection. The SOP may take the form of either in-kind shares of generated credits or financial proceeds from credit sales.

The SOP will be distinct from benefit-sharing arrangements, which govern how benefits from carbon market activities are distributed to local communities and other stakeholders. The government will provide guidance on equitable benefit-sharing, factoring in costs, roles, and contributions to emissions reductions and removals. To ensure transparency and mitigate market risks, including overselling, Nigeria will introduce a fee system and provide a negative list to guide market participants. Revenues from carbon market activities will be accurately tracked and allocated, informing the level of financial and other support required under Article 13 of the Paris Agreement.

Through these policies, Nigeria is laying the groundwork for a robust and transparent carbon market that incentivizes sustainable investment, drives measurable emissions reductions, and supports equitable benefits for all stakeholders.

24. Paragraphs 11 – 15 of Part V of the Framework.

# Benefits Of The Carbon Framework For Nigeria

## Economic and Financial Benefits

A well-regulated carbon market provides Nigeria with a powerful engine for economic growth. High-integrity carbon credit creates new revenue streams for both the public and private sectors, enabling project developers, state governments, and communities to monetise verified emission reductions. The strengthened regulatory environment also enhances the country's attractiveness to climate finance institutions, foreign direct investors, and private capital seeking scalable mitigation opportunities in emerging markets.

Clear, predictable regulatory rules significantly reduce transaction risks, giving investors and developers the confidence to commit long-term capital. As carbon activities expand, the economy stands to benefit from job creation across project development, auditing, verification, carbon accounting, data science, and ecosystem restoration. This stimulates the emergence of specialised local industries ranging from nature-based project design firms to MRV technology providers driving innovation and encouraging the uptake of modern climate-tech solutions across Nigeria's value chains.

## Environmental and Climate Mitigation Benefits

The Framework is designed to incentivise decarbonisation across traditionally high-emitting sectors such as energy, oil and gas, transport, agriculture, and waste. By establishing a price on carbon and creating mechanisms that reward emissions reductions, the regulations encourage industries to adopt cleaner production methods and invest in low-carbon technologies.

At the same time, the framework supports the expansion of nature-based solutions—reforestation, mangrove restoration, improved cookstoves, regenerative agriculture which are pivotal to reducing emissions while enhancing biodiversity and community resilience. Renewable energy deployment is also accelerated through crediting opportunities for solar mini-grids, clean energy replacements, efficient lighting, and other mitigation activities.

## Governance, Transparency, and Accountability Benefits

Nigeria's carbon framework enhances the governance of climate action by institutionalising rigorous MRV systems. Standardised MRV protocols and certification procedures ensure the environmental integrity of carbon credits and align Nigeria's market with global best practices. These systems reduce information asymmetries, eliminate policy uncertainties, and strengthen market discipline.

The emphasis on transparency also reinforces accountability among project developers, validation and verification bodies, and participating entities. This improves the credibility of Nigerian-origin credits in the global marketplace and strengthens compliance across both voluntary and compliance-driven transactions.

## Market Confidence and International Competitiveness

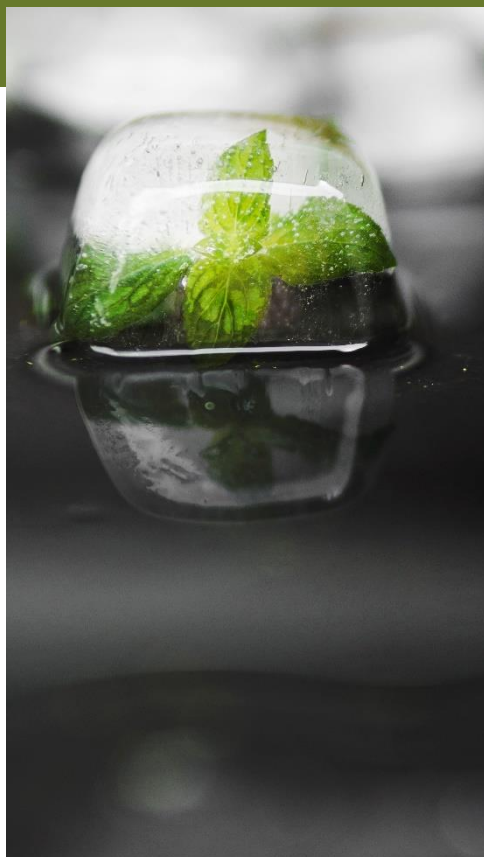
By adopting a unified and credible regulatory architecture, Nigeria elevates the international profile of its carbon credits and positions itself as a leading carbon market hub in Africa. The framework improves the country's eligibility for international transactions, particularly under Article 6 of the Paris Agreement, enabling Nigeria to engage in bilateral cooperation, sell ITMOs, and integrate with cross-border carbon trading systems.

These developments directly support the implementation of Nigeria's NDC and broader climate commitments by accelerating emissions reductions and enabling measurable progress toward GHG targets. Furthermore, the Framework enhances public awareness and participation, ensuring that citizens, communities, and private actors understand the opportunities and responsibilities associated with carbon market engagement.

## Key Challenges That May Undermine The Effective Implementation Of The Framework

A well-regulated carbon market provides Nigeria with a powerful engine for economic growth. High-integrity carbon credit creates new revenue streams for both the public and private sectors, enabling project developers, state governments, and communities to monetise verified emission reductions. The strengthened regulatory environment also enhances the country's attractiveness to climate finance institutions, foreign direct investors, and private capital seeking scalable mitigation opportunities in emerging markets.

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### Regulatory and Institutional Gaps

A critical implementation challenge arises from the complexity of Nigeria's institutional landscape for climate governance. The Framework vests overarching regulatory authority in the NCCC, supported by the Secretariat acting as the Carbon Market Office, while simultaneously assigning complementary responsibilities to multiple MDAs across energy, environment, finance, and trade. While this multi-actor structure reflects the cross-cutting nature of carbon markets, it also introduces risks of fragmented decision-making, overlapping mandates, and regulatory inefficiencies if coordination mechanisms are not rigorously enforced.<sup>25</sup>

Historically, Nigeria's environmental and energy governance frameworks have been characterised by sectoral and jurisdictional overlap. In the absence of harmonised operational procedures, carbon project developers may be required to engage with multiple authorities for approvals, permits, and compliance reviews, particularly for projects spanning energy generation, land-use change, and industrial activity. Such fragmentation could increase transaction costs, delay project timelines, and erode investor confidence, especially among international counterparties accustomed to streamlined and predictable regulatory environments.

In addition, while the Framework anticipates the issuance of detailed subsidiary regulations under the CCA, delays in translating policy intent into binding rules may create interim uncertainty. Questions relating to authorisation thresholds, carbon rights, benefit-sharing obligations, and enforcement powers may remain unresolved during early market phases, potentially constraining project development and slowing market activation

### MRV and Technical Capacity Weaknesses

The integrity of Nigeria's carbon market is heavily dependent on the effectiveness of its MRV systems. The Framework appropriately emphasizes rigorous MRV requirements, third-party validation, and alignment with international standards under Article 6 of the Paris Agreement and recognised voluntary carbon standards.<sup>26</sup> However, the domestic technical capacity required to operationalise these systems at scale remains uneven.

25. Paragraphs 1, 2 and 3, Part VI of the Framework

26. Paragraph 3, 34, Part III of the Framework

Nigeria continues to face challenges in emissions data availability, consistency, and sectoral granularity, particularly in agriculture, forestry, waste management, and distributed energy systems. These data limitations complicate baseline development, additionality assessments, and long-term monitoring, thereby increasing the cost and complexity of project preparation. Without targeted interventions, project developers may remain reliant on a narrow pool of international consultants and verification bodies, limiting domestic participation and constraining the development of local carbon-market expertise.

### **Integrity, Quality Assurance, and Credibility Risks**

Nigeria's ambition to position itself as a continental hub for high-integrity carbon credits inevitably exposes it to heightened scrutiny from international buyers, regulators, and civil society actors. Weaknesses in quality control, grievance redress mechanisms, or enforcement could result in the issuance of low-quality credits, disputes over benefit-sharing arrangements, or allegations of double counting and greenwashing. Such outcomes would not only undermine individual projects but could also damage the credibility of the national carbon market as a whole.

Although the Framework provides for authorisation requirements, corresponding adjustments, registry oversight, and safeguards to prevent overselling and misreporting, the effectiveness of these measures will depend on their consistent enforcement. Inadequate enforcement capacity or unclear remedial processes may weaken deterrence and reduce confidence in the government's ability to protect market integrity, particularly in the context of international transactions under Article 6.

### **Financing and Transaction-Cost Barriers**

From a market-development perspective, high upfront costs present a further constraint. Carbon project development typically requires significant early-stage expenditure on feasibility studies, baseline assessments, MRV system design, validation, certification, and registry fees. For local developers, community-based initiatives, and small and medium-sized enterprises, these costs may be prohibitive, limiting participation and slowing the diversification of project pipelines.

While the Framework outlines fiscal incentives<sup>27</sup> and the use of carbon revenues through the CCF, access to concessional finance and risk-mitigation instruments remains critical. Without targeted financial support mechanisms to absorb early-stage risks, Nigeria's carbon market may become concentrated among large, well-capitalised actors, reducing inclusiveness and limiting the socio-economic benefits envisaged under the Framework.

### **Technological and Infrastructure Constraints**

The successful implementation of the Framework is also contingent on the timely development of robust technological infrastructure. Central to this is the establishment of a secure, interoperable national carbon registry<sup>28</sup> capable of tracking project registration, credit issuance, transfers, retirements, and corresponding adjustments. Any delays in registry deployment, interoperability challenges with international systems, or weaknesses in data security could undermine transparency and expose the market to operational and reputational risks.

In addition, while the Framework recognises the potential of digital MRV technologies including satellite monitoring<sup>29</sup>, remote sensing, and data analytics the adoption of such tools across Nigeria remains limited. Without deliberate investment in digital infrastructure and skills development, Nigeria may struggle to fully leverage technological efficiencies that are increasingly standard in global carbon markets.

27. Paragraph 4, Part V of the Framework

28. Paragraph 35, Part III of the Framework

29. Paragraph 35(vii), Part III of the Framework

## Strategic Solutions And Pathways For Strengthening The Framework

Addressing these challenges requires a deliberate, sequenced, and implementation-focused strategy that builds on the strengths of the Framework while reinforcing its institutional and market foundations. The following pathways outline practical measures for strengthening Nigeria's carbon market ecosystem in a manner consistent with the Framework and international best practice.



### Regulatory Harmonization and Institutional Coordination

Strengthening institutional coordination should be a primary implementation priority. While the Framework designates the NCCC as the apex authority, its effectiveness can be enhanced through formalised inter-ministerial coordination mechanisms, including joint technical committees, standardised approval timelines, and unified guidance for project developers. Sector-specific rules particularly for energy, agriculture, forestry, and industrial emissions would further reduce ambiguity and ensure consistent regulatory interpretation across MDAs.

Equally important is the timely issuance of subsidiary regulations under the Climate Change Act, including the Nigeria Carbon Market Regulations, Carbon Tax Regulations, and Emissions Trading Regulations. These instruments should provide legal clarity on carbon rights, authorisation procedures, benefit-sharing principles, and enforcement powers. Also, phased implementation, supported by pilot programmes, may allow authorities to refine regulatory processes before full-scale deployment.

### Building Local Capacity Across the Value Chain

Enhancing domestic technical capacity is essential to ensuring long-term market sustainability. A coordinated national capacity-building programme—led by the NCCC Secretariat and supported by development partners should target project developers, validators, verifiers, financial institutions, and relevant MDAs. Such initiatives may combine structured training, accreditation pathways, and partnerships with recognised international standards bodies.

In parallel, investment in emissions data systems and sector-specific baselines would improve data quality and accessibility, reducing project development costs and strengthening MRV credibility. Over time, these measures would support the emergence of a robust domestic ecosystem of carbon-market professionals and service providers.

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## **Financing and Investment Mobilisation**

To address financing constraints, Nigeria may consider partnering with domestic institutions that can facilitate the issue of green bonds or the provision of green dedicated financing, complemented by partial credit guarantees and blended-finance structures to de-risk early-stage projects. Strategic use of the CCF to co-finance feasibility studies, MRV systems, and certification costs could further crowd in private capital and broaden participation across sectors and regions.

Additionally, clear and predictable fiscal incentives such as time-bound tax exemptions, accelerated capital allowances, and reduced certification fees would improve project bankability while maintaining compliance with financial requirements under carbon-market rules as envisaged under the Framework.

## **Enhancing Technology, MRV Systems, and Digital Infrastructure**

The accelerated deployment of a secure, interoperable national carbon registry should remain a cornerstone of implementation. The registry should be designed to integrate seamlessly with international platforms under Article 6 and leading voluntary standards, while incorporating strong cybersecurity and data-governance safeguards.

Beyond the registry, Nigeria should actively promote the adoption of digital MRV technologies, particularly for distributed energy projects. Also, strategic partnerships with technology providers and research institutions can help embed these tools into national systems, improving efficiency, transparency, and scalability.

## **Strengthening Integrity Safeguards and Market Confidence**

Maintaining market integrity requires not only clear rules but visible and credible enforcement. The NCCC and relevant authorities should operationalise grievance-redress mechanisms, publish enforcement actions where appropriate, and issue regular guidance on credit quality and disclosure standards. The continued engagement with international integrity initiatives would further reinforce Nigeria's commitment to high-quality credits and enhance its standing in global markets.

Likewise, sustained public engagement and investor outreach will also be critical. Transparent communication on regulatory developments, market performance, and the use of carbon revenues can strengthen trust among domestic stakeholders and international partners alike.

## Conclusion

Nigeria's Carbon Market Framework represents a pivotal step in the country's climate and sustainable finance trajectory. It signals a clear policy intention to move beyond fragmented mitigation efforts toward a structured, market-based system capable of mobilising private capital, supporting Nigeria's NDCs and positioning the country as a credible participant in global carbon markets. The Framework's alignment with the Climate Change Act 2021, the Paris Agreement, and evolving international integrity standards reflects an appreciation of both domestic legal obligations and global market expectations.

The Framework's design is notably comprehensive. It integrates voluntary and compliance-based mechanisms, provides pathways for participation under Article 6 of the Paris Agreement, anticipates the introduction of carbon pricing instruments, and establishes a governance architecture centered on the NCCC and its Secretariat. Together, these elements provide a strong policy foundation for the emergence of a high-integrity carbon market capable of delivering environmental, economic, and developmental benefits.

However, as the analysis in this newsletter demonstrates, the success of the Framework will be determined less by its conceptual ambition than by the effectiveness of its implementation. Regulatory coordination challenges, technical capacity constraints, integrity and credibility risks, financing barriers, and technological infrastructure gaps each pose material risks that could undermine market confidence if not addressed deliberately and early. These challenges are not unique to Nigeria, but their impact is amplified in an emerging market context where investor trust, institutional capacity, and data systems are still consolidating.

Encouragingly, the Framework itself provides many of the tools required to mitigate these risks. Through timely issuance of subsidiary regulations, disciplined institutional coordination, targeted capacity-building, strategic use of fiscal and financial mechanisms, deployment of robust digital infrastructure, and credible enforcement of integrity safeguards, Nigeria can translate policy intent into a functioning, investment-grade carbon market. The strategic pathways outlined in this newsletter are therefore not departures from the Framework, but logical extensions of its architecture, designed to strengthen execution and preserve market integrity.

If implemented with clarity, consistency, and transparency, Nigeria's carbon market has the potential to evolve into a cornerstone of the country's climate finance strategy. Beyond supporting emissions reductions, it can catalyse innovation, generate green jobs, unlock new revenue streams, and enhance Nigeria's standing as a regional hub for sustainable investment. Achieving this outcome will require sustained political commitment, coordinated institutional action, and active engagement with domestic and international stakeholders.

Ultimately, the Framework offers Nigeria a rare opportunity to align climate ambition with economic development through market-based mechanisms. The task ahead is to ensure that implementation matches aspiration, so that Nigeria's carbon market is not only operational, but credible, scalable, and resilient in the face of growing global scrutiny and demand for high-integrity climate solutions.



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