



# EXPLORING THE POTENTIALS FOR CARBON CREDITS IN NIGERIA: LEGAL FRAMEWORKS AND FUTURE PROSPECTS



## Introduction

As the world intensifies its efforts to combat climate change, carbon markets have emerged as a key mechanism for reducing Greenhouse Gas (GHG) emissions. Carbon credits allow companies and countries to offset their emissions by investing in environmentally beneficial projects. This concept has become central to global financial sustainability strategies, as it is designed to incentivize the reduction of carbon footprints by assigning a financial value to carbon emissions.

Nigeria significantly relies on its oil and gas sector, which has made it face considerable challenges in aligning its energy production with global environmental standards. The country's energy sector is a major contributor to its economy but also a significant source of

greenhouse gas emissions, particularly due to gas flaring and deforestation. However, Nigeria's abundant renewable energy resources offer an opportunity to shift towards more sustainable practices.

Nigeria's commitment to addressing climate change was clearly demonstrated at the 2021 United Nations Climate Change Conference (COP26) in Glasgow, where the country pledged to achieve net-zero emissions by 2060. As a signatory to the Paris Agreement, Nigeria has outlined its Nationally Determined Contributions (NDCs), which include a mix of policy reforms and sustainable energy initiatives aimed at reducing emissions. The potential development of a carbon credits market in Nigeria could play a substantial role in meeting these commitments.



## What do we understand by “Carbon Credit”?

A carbon credit is a permit or certificate that allows the holder to emit one ton of carbon dioxide (CO<sub>2</sub>) or an equivalent amount of another greenhouse gas (CO<sub>2</sub>e). These credits are earned by organizations that implement practices or technologies that reduce or avoid carbon emissions.

The system operates on the "cap-and-trade" principle, where an appropriate regulatory body sets a cap on the total allowable emissions for specific sectors or industries. Companies are then allocated a certain number of carbon credits based on this cap. Those who reduce their emissions below their allocated limit can sell their surplus credits to others who exceed their limits, thereby creating a dynamic market that values and rewards environmental responsibility.

For instance, the European Union's Emissions Trading System (EU ETS), established in 2005, is the largest and most mature carbon market in the world. By capping emissions and allowing trading, the EU ETS has driven a significant reduction in greenhouse gas emissions across the power, industrial, and aviation sectors. Companies that have successfully cut emissions through renewable energy projects or efficiency improvements have been able to sell their excess credits, turning environmental stewardship into a profitable venture.

Similarly, California's cap-and-trade program, which began in 2013, covers major industries and has played a key role in the state's efforts to reduce emissions while maintaining economic growth. The program's success lies in its ability to incentivize companies to adopt innovative technologies, such as carbon capture and storage, and to invest in renewable energy projects. The revenue generated from the sale of carbon credits is reinvested in furthering California's green initiatives, thus creating a virtuous cycle of sustainability.

These examples demonstrate how carbon credits work in practice, driving down emissions by assigning a market value to environmental preservation. The economic efficiency of this system is evident, as it enables companies that can reduce emissions at a lower cost to do so and sell their excess credits, while those for whom reduction is more expensive can buy credits to offset their excess emissions. This not only ensures that emissions are reduced where it is most cost-effective but also encourages innovation as companies strive to lower their carbon footprint and capitalize on their efforts.



## Overview of Nigeria's Carbon Credit Market.

Nigeria's carbon credit market is a relatively new but emerging component of the country's environmental and economic landscape. As a country with significant greenhouse gas emissions due to its heavy reliance on fossil fuels and a large population, Nigeria is increasingly exploring carbon credits as a tool to address climate change and drive sustainable development. Nigeria's carbon credit market is still in its early stages compared to more established markets like the we have earlier highlighted. However, the country is actively working to develop and expand this market by gravitating towards renewable energy projects which presents significant opportunities for the generation of carbon credits.

Following the ratification of the Paris Agreement in March 2017, Nigeria submitted in 2021 its final updated Nationally Determined Contribution (NDC) by which she pledged an unconditional 20% emission reduction below business-as-usual by 2030, and a 47% emission reduction conditional upon international financial support, technology transfer and capacity building.

Additionally, the Federal Government has approved the National Climate Change Policy (NCCP) 2021-2030 and signed the Nigeria Climate Change Act 2021.

Furthermore, in 2024, the Federal Government inaugurated the committee for the country's Carbon Market Activation Plan. The plan, endorsed by the Africa Carbon Market Initiative (ACMI), positions Nigeria at the forefront of creating a robust, sustainable carbon market. These active steps highlight the Federal Government's commitment towards adopting strategies to enhance Nigeria's carbon credit framework.

Upon the growth of the carbon credits market in Nigeria, companies within Nigeria's energy sector, transitioning towards cleaner energy sources will be encouraged to engage in carbon credit initiatives which can generate substantial financial benefits. These companies will strive towards adopting more renewable energy solutions and in turn, generate revenue by selling carbon credits earned upon reducing their greenhouse gas emissions.

# Nigeria's Legal and Regulatory Landscape for Carbon Credits.

- 1. Paris Agreement:** The legal landscape for carbon credits in Nigeria is significantly shaped by international treaties that address climate change, particularly the Paris Agreement. Nigeria signed the Paris Agreement in September 2016 and ratified it in March 2017 committing to reducing its Greenhouse Gas (GHG) emissions. As a signatory to this landmark agreement, Nigeria has made a commitment to reduce greenhouse gas emissions and enhance climate resilience. The Paris Agreement establishes a collaborative framework for countries to work towards mitigating climate change, with each country setting its own NDCs to achieve these global goals. A key component of the Paris Agreement is Article 6.2, which allows countries to engage in cooperative approaches that involve the use of internationally transferred mitigation outcomes (ITMOs). This provision enables Nigeria to explore partnerships with other countries to meet its NDCs while benefiting from carbon trading mechanisms.
- 2. Climate Change Act of 2021:** At the forefront of Nigeria's carbon credit market development is the Climate Change Act of 2021. This landmark legislation represents a critical step in coordinating the country's climate response and aligning national efforts with its international obligations. The Act establishes the National Council on Climate Change ("**NCCC**"), which is tasked with overseeing the implementation of Nigeria's climate policies. One of the primary objectives of the Climate Change Act is to promote the effective coordination of climate actions necessary for achieving long-term climate goals. Although the Act does not specifically mention the establishment of a

carbon market, its fundamental aim of facilitating climate action provides a robust framework for developing a carbon market in Nigeria. This foundational objective supports the alignment of various climate initiatives and paves the way for the implementation of market-based mechanisms to enhance emissions reductions and promote sustainable development.

- 3. National Council on Climate Change Regulation Regulatory Guidance on Nigeria's Carbon Market Approach (the "Regulatory Guidance"):** The Regulatory Guidance essentially outlines a strategic framework for establishing a carbon credits market in the country. This Guidance reaffirms Nigeria's commitments under the Paris Agreement, particularly in relation to cooperative approaches and mechanisms for reducing emissions. The Regulatory Guidance borders on the need to align carbon credit initiatives with NDCs, which detail the country's commitments to reducing emissions and meeting specific targets. By linking the development of carbon credits to these commitments, the NCCC aims to ensure that climate action directly contributes to Nigeria's development priorities. The Regulatory Guidance also highlights the establishment of robust monitoring, reporting, and verification (MRV) systems. These systems are essential for ensuring the credibility and integrity of carbon credits generated in Nigeria. By implementing effective MRV mechanisms, the country can accurately track emissions reductions, providing assurance to investors and stakeholders in the carbon market.



## Benefits of a Carbon Credits Market for Nigeria

### Economic Opportunities

- 1. Attracting Foreign Investment:** Nigeria's abundant natural resources and status as Africa's largest economy can draw international investors looking to offset carbon emissions through sustainable projects. A robust carbon credits market will facilitate foreign capital influx, funding renewable energy and infrastructure development, thereby positioning Nigeria as a regional leader in carbon trading.
- 2. Boosting Green Energy Projects:** A carbon credits market can accelerate green energy projects, such as solar and wind power, by providing financial incentives that enhance their viability. This shift not only diversifies Nigeria's energy portfolio and reduces fossil fuel dependence but also strengthens energy security.
- 3. Creating Jobs:** The carbon credits market is poised to create jobs across various sectors, driving demand for professionals in project management and environmental science. Growth in renewable energy initiatives will also generate employment in construction and maintenance, addressing unemployment challenges and fostering economic development.

### Environmental Impact

- 1. Reducing Carbon Footprint:** Given Nigeria's high carbon emissions due to fossil fuel reliance, a carbon credits market can incentivize cleaner technologies and practices, leading to significant greenhouse gas reductions and a cleaner environment.
- 2. Meeting International Environmental Obligations:** Establishing a carbon credits market aligns with Nigeria's commitments under the Paris Agreement, providing a structured approach to achieving its NDCs and enhancing its credibility in global climate negotiations.
- 3. Promoting Biodiversity and Ecosystem Services:** Carbon credit initiatives like reforestation can protect Nigeria's diverse ecosystems while enhancing carbon sequestration. This approach supports environmental conservation and improves community livelihoods by ensuring sustainable resource use.

# Challenges and Gaps in Establishing a Carbon Credits Market in Nigeria.

While the establishment of a carbon credits market in Nigeria holds great promise, several challenges and gaps hinder its effective implementation. Addressing these issues is important for unlocking the full potential of carbon trading and advancing Nigeria's climate goals.

- 1. Lack of Comprehensive Legal Framework:** Nigeria's legal framework for environmental protection and carbon trading is still in its infancy. Although the Climate Change Act and National Council on Climate Change Regulatory Guidance provide a foundation, the absence of detailed regulations specifically addressing carbon credits and trading creates uncertainty. This lack of clarity can deter potential investors and stakeholders from engaging in carbon credit initiatives, as they may be unsure of the legal implications and requirements.
- 2. Insufficient Infrastructure and Capacity:** Nigeria faces significant challenges related to technical capacity and expertise in carbon accounting, monitoring, and reporting. Many potential project developers lack the necessary skills and knowledge to design and implement carbon credit projects effectively. This gap can lead to suboptimal project performance and hinder the overall effectiveness of the carbon market. Also, the existing infrastructure for renewable energy and carbon credit projects is often insufficient. Reliable energy sources, efficient transportation

networks, and robust communication systems are crucial for the successful implementation of carbon trading initiatives. Without adequate infrastructure, project developers may struggle to deliver on their commitments, limiting the market's growth potential.

- 3. Need for Baseline Assessments:** Establishing credible carbon credit projects requires baseline assessments to measure the current state of emissions and environmental conditions. The absence of standardized methodologies for conducting these assessments can hinder project developers' ability to demonstrate their contributions to emissions reductions, thereby affecting the market's integrity.
- 4. Limited Stakeholder Awareness:** There is a general lack of awareness among stakeholders, including businesses, communities, and policymakers, about the benefits and mechanics of carbon credits and trading. This gap in understanding can result in low participation rates and hinder the market's growth. Educating stakeholders about the value of carbon credits, the process of generating and trading them, and the potential economic and environmental benefits is essential for fostering engagement.



## Recommendations

To effectively establish a carbon credits market in Nigeria, addressing existing challenges is key. The following recommendations can facilitate the development of a robust market:

### 1. **Develop a Comprehensive Legal Framework:**

To drive the carbon credit market in Nigeria, the Nigerian government can implement clear regulations for the carbon credits market, which would basically outline the processes for generating, verifying, and trading credits. Aligning these regulations with international best practices, such as Article 6 of the Paris Agreement will enhance market credibility and attract global participation.

### 2. **Enhance Technical Capacity and Infrastructure:**

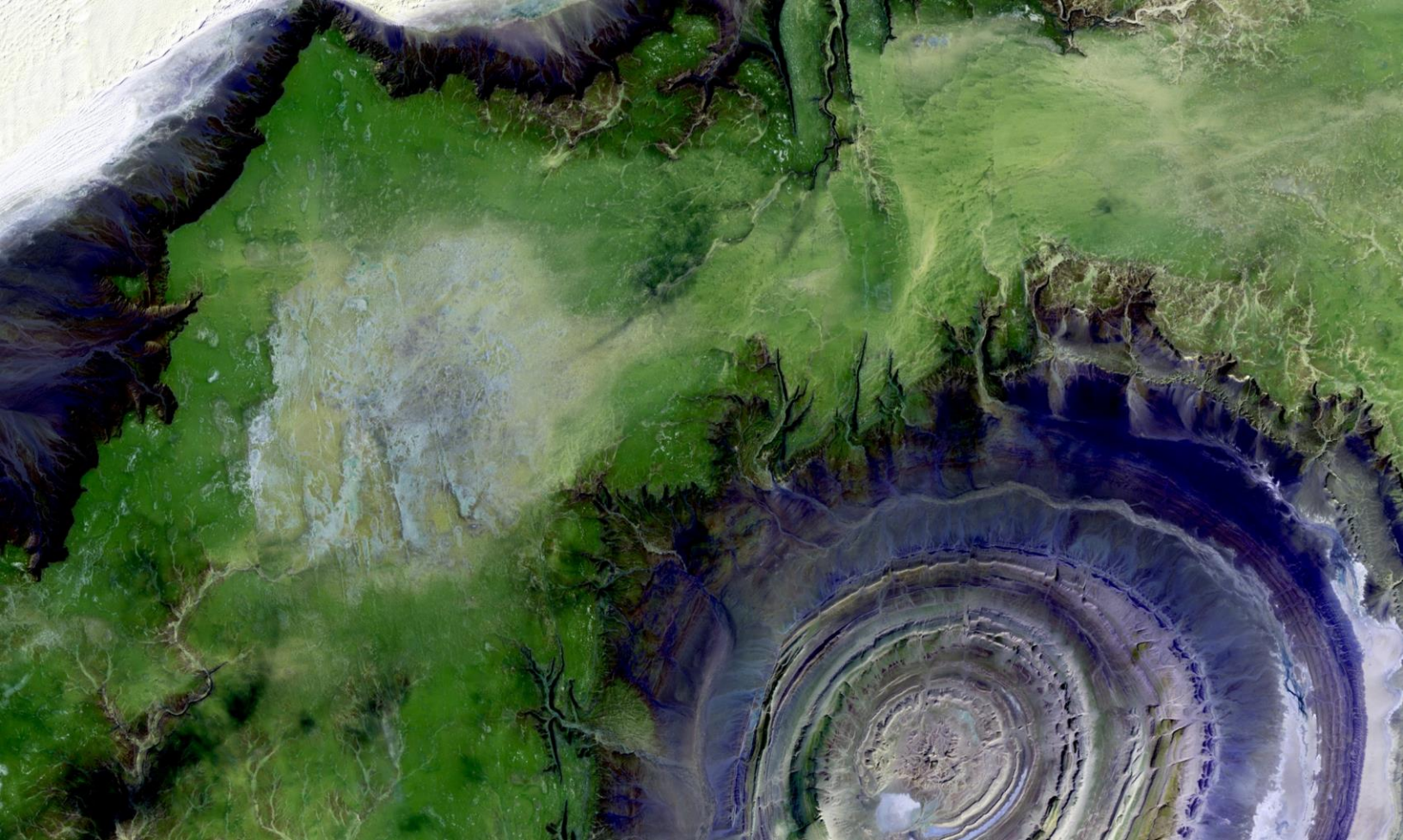
Training programs and workshops should be initiated for stakeholders, including project developers and government officials, to improve knowledge of carbon accounting and reporting.

Also, collaboration between the government and private sector is essential to enhance the infrastructure necessary for renewable energy projects and carbon credit initiatives, including energy access and transportation networks.

### 3. **Foster Awareness and Engagement:**

Public awareness campaigns are vital to educate businesses, communities, and policymakers about the benefits of carbon credits and trading. Increased understanding and engagement will boost participation rates and foster a supportive perception of the carbon market.





## Conclusion

The development of Nigeria's carbon credits market has the potential to significantly influence both environmental and economic landscapes. However, for this to be a success, a proactive approach in developing robust policies and infrastructure will be crucial. Stakeholders must prioritize collaboration to navigate challenges effectively in order to ensure that the market becomes both accessible and credible. As global demand for carbon credits grows, Nigeria's strategic engagement could lead to enhanced investment opportunities, which will ultimately position it as a leader in sustainability efforts. This shift will not only address climate change but also paves the way for long-term economic resilience and innovation. The success of this market will ultimately depend on the country's strong commitment to fostering a conducive environment for sustainable practices.

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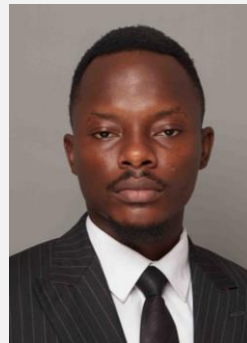
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