

## Carbon markets under the Paris Agreement for African Private sector and NGOs

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### Summary

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The Paris Agreement, adopted in 2015, aims to limit global warming to well below 2°C and to continue efforts to limit it to 1.5°C above pre-industrial levels. Article 6 of the agreement emphasises the role of non-state actors, including the private sector, NGOs and local governments, in achieving this goal.

It encourages the participation of the private sector, NGOs and local governments in efforts to reduce greenhouse gas emissions and adapt to the impacts of climate change. It stresses the importance of engaging with non-state actors in the development and implementation of climate policies and encourages partnerships between governments and non-state actors.

This brief provides insights for the private sector on the carbon mechanisms under the Paris Agreement, the implications for the African private sector and NGOs, opportunities, benefits, risks, and necessary steps for engagement in carbon markets, emphasizing the importance of leveraging Article 6 to achieve both corporate sustainability goals and national climate targets.

### Key aspects of Article 6

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In the Paris Agreement, there are two mechanisms and approaches based on cooperation and the market - "cooperative approaches" and "mechanism for mitigation and sustainable

development" and one non-market approach, the framework for non-market approaches.

#### Article 6.2:

Establishes guidelines for countries to engage in "cooperative approaches", involving the international transfer of carbon credits, (known as Internationally Transferred Mitigation Outcomes, or ITMOs) between countries.

#### Article 6.4:

Establishes a centralized United Nations-supervised mechanism to generate emissions reductions that can be used by countries to meet their NDCs, sometimes referred to as the "Sustainable Development Mechanism or 6.4 Mechanism.". Its official denomination is the *Paris Agreement Crediting Mechanism (PACM)*.

#### Article 6.8:

Focuses on *non-market approaches* for climate action, allowing countries to cooperate on climate actions without international transfer of mitigation outcomes. This mechanism was operationalized under the Glasgow Framework for non-market approaches.

### Implications for the African private sector and NGOs

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While in the case of Kyoto Protocol's carbon market mechanisms like the Clean Development Mechanism (CDM), any project developer can implement its project, have it registered by the

UNFCCC market mechanism or an independent standard, have certified emission reduction credits issued and sell them without authorisation from the host country. In the case of the CDM, only compliance with sustainable development criteria is ensured. In the case of Article 6 of the Paris Agreement, any international transaction involving emission reductions or removals intended to be used by another Party to meet its commitments against its NDC must be duly authorised by an authority designated by the host Party.

This makes the process much more complex for non-state actors involved in the development of projects for which the certified emissions reductions are intended for international sale or for 'other international mitigation purposes.

In these cases, the host country must have a bilateral or multilateral agreement with the country of the potential buyer, and both Parties are obliged to apply a corresponding adjustment to avoid double counting, and to track and report transactions to the secretariat of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), particularly in their initial, annual and biennial reports relating to Article 6 activities.

In order to facilitate transfers of mitigation outcomes, , these countries will have to set up or use registries, and in most cases the host country will only authorise the transfer of Internationally Transferred Mitigation Outcomes (ITMOs) once it has assessed the impact of the transfer on its ability to meet the emission reduction commitments made in its NDC.

Potential project developers from civil society, the private sector and NGOs will therefore have to follow and actively participate in the development and implementation of the rules that will govern ITMO transfer authorisations in the countries where they operate.

## The private sector

The African private sector has an important role to play in achieving the goals of the Paris Agreement.

Businesses can reduce their carbon footprint by adopting sustainable practices, investing in renewable energy and promoting energy efficiency. Article 6 encourages the private sector to take a proactive approach to climate change by setting emission reduction targets, reporting on progress and engaging in climate-resilient investments.

Many countries and regions have put in place, or are in the process of putting in place, very stringent rules regulating the carbon footprint of products entering their jurisdictions.

We have also already seen bilateral agreements on Article 6 signed between many developed and developing countries focussing on activities on the ground, meaning real project have already started.

## NGOs

Non-governmental organisations (NGOs) play a crucial role in raising awareness of climate change and promoting climate action. Article 6 recognises the importance of NGOs in mobilising public support for climate policies and encourages their participation in the development and implementation of climate strategies. NGOs can work with communities to promote climate-resilient practices, support climate education and advocate for policy reforms that address climate change.

In addition to developing projects and programmes to support climate actions in mitigation and adaptation and contributing to the achievement of the Paris agreement objectives, the civil society in general must play a sentinel role in following up the Parties' compliance with their commitments at both national and global level.

The Paris Agreement is based on an obligation of transparency, and the various reports submitted by the Parties under the enhanced transparency framework and the reporting of activities carried out under Article 6 are reviewed by experts and the outcomes must be made public and widely disseminated by NGOs.

## Benefits and opportunities for the African private sector

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Engaging in carbon markets through Article 6 offers several benefits to private entities

### a. Access to carbon markets

Article 6 allows the private sector to participate in international carbon markets, facilitating emissions trading. This gives African companies the opportunity to generate revenue by implementing emission reduction projects and selling carbon credits.

### b. Technology transfer and investment

Article 6 collaboration can attract foreign investment and facilitate technology transfer, enabling African private sector entities to adopt cleaner technologies and improve their competitiveness.

### c. Risk Management

Carbon credits offer the private sector a financial hedge against potential regulatory changes that may impose carbon pricing or mandatory emissions reductions

### d. Enhanced corporate social responsibility

Participation in emission reduction projects can enhance the reputation of African companies, demonstrating their commitment to sustainable development and climate action.

## Opportunities for NGOs

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### Project development and implementation

NGOs can play a central role in the development and implementation of emission reduction projects, leveraging their expertise and networks to access funding and technical assistance.

### Capacity building and awareness raising

NGOs can help local communities and stakeholders build capacity for sustainable development initiatives, raise awareness of climate change and facilitate their participation in Article 6 projects.

### Advocacy and political influence

NGOs can advocate for the inclusion of local priorities and interests in Article 6 projects, ensuring that they reflect the needs and aspirations of African communities.

## Challenges and Risks

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Despite the benefits, there are challenges and risks

### a. Regulatory uncertainty

The international rules for Article 6 are still *under development*, which may lead to future adjustments in how carbon markets operate.

### b. Double Counting Risk

Ensuring that carbon credits are counted only once is essential to maintaining environmental integrity. Businesses need to work with credible partners and mechanisms to avoid this risk.

### c. Quality of Carbon Credits

Not all carbon credits are equal. Companies must *ensure* they invest in high-quality credits that offer real, measurable, and additional GHG reductions.

### d. Market Volatility

The value of carbon credits can fluctuate based on *supply* and demand, regulatory changes, and market conditions, potentially affecting profitability.

## Recommendations for engagement

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To successfully navigate carbon markets under Article 6, the private sector and NGOs should

1. *Assess Emission Reduction Potential and set targets:* Conduct internal assessments to

identify areas where emissions can be reduced or offset and set emission reduction targets that are aligned with the goals of the Paris Agreement. Internal assessments of private companies can inform investments in renewable energy, sustainable agricultural practices, and efficient transportation. NGOs can advocate for these targets and support their implementation.

2. *Develop Mitigation and emission avoidance Projects:* Invest in renewable energy, reforestation, and energy efficiency projects that can generate carbon credits while contributing to sustainable development.
3. *Collaborate with Governments and Stakeholders:* Work closely with national authorities and multilateral organizations to ensure that mitigation projects align with national and international climate goals.
4. *Ensure Transparency and Accountability:* Private Sector should engage with verified carbon standards (e.g., Article 6. 4 standard, Verified Carbon Standard, Gold Standard) to ensure the legitimacy and impact of credits generated or purchased.
5. *Monitor and Adapt to Regulatory Changes:* Stay informed about evolving rules and guidelines under Article 6 and the government regulations to remain compliant and capitalize on new opportunities.
6. *Private sector and NGOs:* should work with government to invest in climate-resilient infrastructure projects, such as renewable energy, sustainable transport and green buildings.
7. *Promote climate education and awareness:* NGOs can work with communities to promote climate education and awareness. Local governments can support these efforts by providing resources and funding
8. *Advocate for policy reform:* NGOs can advocate for policy reforms to tackle climate change,

such as carbon pricing, clean energy incentives and sustainable land use policies.

## Conclusion

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Article 6 of the Paris Agreement presents a valuable opportunity for the private sector and NGOs to engage in carbon markets, contributing to global emissions reductions while achieving corporate sustainability goals. By addressing challenges such as ensuring the integrity of carbon credits and working with government, businesses can benefit financially and enhance their environmental and social governance (ESG) profile.

The time for the private sector to engage in carbon markets is now, as the global transition to a low-carbon economy accelerates.

### About the African Climate Policy Centre

The African Climate Policy Centre is a hub for demand-led knowledge on climate change in Africa. It addresses the need for improved climate information and the strengthened use of such information for decision-making in Africa by improving analytical capacity, knowledge management and dissemination activities.

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