



# ETHIOPIA'S NATIONAL CARBON MARKET STRATEGY (2025 – 2035)



## **Foreword**

The Ministry of Planning and Development of the Federal Democratic Republic of Ethiopia is honoured to publish Ethiopia's National Carbon Market Strategy.

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## List of abbreviations

A6.4ERs	Article 6.4 Emission Reductions
AU	African Union
AUC	African Union Commission
BA	Bilateral Agreement
BRICS	Brazil, Russia, India, China and South Africa
BTRs	Biennial Transparency Reports
CA	Corresponding Adjustment
CCB	Climate, Community & Biodiversity
CCPs	Core Carbon Principles
CCS	Carbon Capture and Storage
CDM	Clean Development Mechanism
CO <sub>2</sub> e	Carbon Dioxide Equivalent
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
CRGE	Climate Resilient Green Economy
DBE	Development Bank of Ethiopia
DNA	Designated National Authority
EIH	Ethiopian Investment Holdings
ESG	Environmental, Social, and Governance
ESIA	Environmental and Social Impact Assessment
ETF	Enhanced Transparency Framework
ETS	Emission Trading System
EEX	European Energy Exchange
EU	European Union
EU ETS	European Union Emission Trading System
FPIC	Free, Prior, and Informed Consent
GHG	Greenhouse Gas
GoE	Government of Ethiopia
GS	Gold Standard
ICAO	International Civil Aviation Organization
ICE	Intercontinental Exchange
ICVCM	Integrity Council for the Voluntary Carbon Market
II-AMT	International Initiative for Development of Article 6 Methodology Tools

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ISO	International Organization for Standardization
ITMO	Internationally Transferred Mitigation Outcome
JCM	Joint Crediting Mechanism
JI	Joint Implementation
KMFRI	Kenya Marine and Fisheries Research Institute
LT-LEDS	Long-Term Low Emission Development Strategy
LUCF	Land Use, Land-Use Change, and Forestry
MCUs	Mitigation Contribution Units
MoF	Ministry of Finance
MoPD	Ministry of Planning and Development
MoU	Memorandum of Understanding
NDC	Nationally Determined Contribution
NGO	Non-Government Organisation
OIMP	Other International Mitigation Purposes
PACM	Paris Agreement Crediting Mechanism
PVCs	Plan Vivo Certificates
SAF	Sustainable Aviation Fuel
SME	Small and Medium-sized Enterprises
SBTi	Science Based Targets initiative
tCO <sub>2</sub> e	One metric tonne of Carbon Dioxide Equivalent
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
VCM	Voluntary Carbon Market
VCMI	Voluntary Carbon Markets Integrity Initiative
VCS	Verified Carbon Standard

## Definition of terminologies (Glossary)

- **Additionality** means that, at the time of the decision to implement a mitigation activity, the mitigation outcomes of that activity would not have occurred in the absence of the incentives created by the carbon credit revenues.
- A **baseline** is a hypothetical scenario for GHG emissions and/or removals that could plausibly occur in the absence of the incentives created by the carbon credit revenues, considering relevant national laws, regulations and policies. Carbon credits are quantified relative to the baseline scenario.
- A **baseline-and-credit scheme** refers to a market-based approach for issuing carbon credits against a baseline. Programmes that issue carbon credits using the baseline-and-credit approach are referred to as carbon crediting programmes.
- Bilateral Article 6 agreement refers to a **legal agreement between two countries to cooperate on the implementation of Article 6**.
- **Capacity building** refers to the process of developing and strengthening the skills, abilities, resources, and institutions that countries and non-state actors need to effectively participate in and benefit from carbon market mechanisms.
- A **cap-and-trade scheme** is a market-based approach whereby a regulator sets a cap for total emissions covered by the scheme and issues emissions allowances against this cap. Entities covered by the scheme can buy and sell these allowances in carbon markets, and they are required to cover their emissions with an equivalent amount of allowances. Cap-and-trade schemes are also referred to as emissions trading systems.
- A **carbon credit** is a tradable unit issued by a carbon crediting programme that represents one tonne of carbon dioxide equivalent (CO<sub>2</sub>e) of real, additional and verified GHG emission reductions or removals that are uniquely serialised, issued, tracked and retired or administratively cancelled by means of an electronic registry operated by an administrative body, such as a carbon-crediting program.
- A **carbon crediting programme** is a programme that issues carbon credits in line with approved methodologies. Carbon credit programmes assess mitigation activities and mitigation outcomes against the programme's criteria (e.g. on additionality, baselines, monitoring, reporting and verification).
- **Carbon markets** are market-based policy instruments which are seeking economic efficiency of delivering mitigation outcomes. Carbon markets can be created through baseline-and-crediting mechanisms, emissions-trading systems (cap-and-trade), but also through carbon taxes that allow for "offsetting" with domestic and/or international carbon credits.
- A **carbon registry** is a platform for recording carbon credits and tracking their transactions.
- **Compliance markets** refer to the trading of emission allowances and carbon credits for the purpose of using them for compliance with international or national obligations, for example

towards Nationally Determined Contributions (NDCs) under the Paris Agreement or to comply under domestic cap-and-trade or carbon tax schemes.

- A **corresponding adjustment** refers to an adjustment in the national emissions balances by host countries that have authorized and first-transferred ITMOs and countries that use ITMOs towards their NDC, to avoid double counting of the underlying mitigation outcomes between the host country and the ITMO user. Corresponding adjustments are reported as part of countries' Biennial Transparency Reports under the Paris Agreement.
- **Double counting** occurs when the same mitigation outcome is counted more than once. This issue can arise through double issuance (issuing more than one carbon credit for the same mitigation outcome), double use (using the same carbon credit more than once), or double claiming (claiming the same mitigation outcome by more than one entity).
- An **emission allowance** is a - unit issued under a cap-and-trade scheme that represents authorization to emit one tCO<sub>2</sub>e.
- **Environmental and social safeguards** are measures and policies put in place to ensure that activities are carried out in a way that minimizes harm to the environment and affected communities.
- **Host country readiness** refers to a nation's preparedness to engage in carbon market activities, particularly under the Paris Agreement's Article 6. This includes having the necessary legal frameworks, institutional capacity, and technical infrastructure to accurately account for emission reductions, transfer mitigation outcomes, and ensure environmental integrity.
- An **Internationally Transferred Mitigation Outcome (ITMO)** is a real, verified and additional emission reduction or removal that is authorized by the host country under Article 6.2 of the Paris Agreement.
- **Leakage** refers to unintended increases in emissions outside the mitigation activity's boundaries that occur due to the activity.
- A **Mitigation Contribution Unit** is an A6.4ER that is not authorized as an ITMO. MCUs can be counted by the host country toward its NDCs under the Paris Agreement. They can also be used for domestic compliance, such as in carbon tax systems, and help secure climate finance for further mitigation projects. Additionally, MCUs can be used for voluntary contributions, as part of sustainability efforts.
- A **mitigation activity** reduces anthropogenic emissions of a GHG or enhances removals by sinks relative to GHG emissions or removals in the activity's baseline scenario and seeks registration and issuance of carbon credits under a carbon-crediting program. The term refers to activities that may be implemented at different scales, including projects, programmatic approaches, policies, jurisdictional REDD+ programs, and other interventions. They may also be implemented at one or more sites.
- A **mitigation outcome** refers to the net reduction in GHG emissions by sources or net enhancement of removals of GHG from the atmosphere by sinks.

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- **Nationally Determined Contribution (NDC)** refers to the climate action plans submitted by countries that are party to the Paris Agreement.
- **Offsetting** refers to counterbalancing emissions caused by an entity with an equivalent amount of mitigation outcomes generated elsewhere.
- A **reversal** refers to the release of GHGs back into the atmosphere after they have been removed or reduced through a mitigation activity.
- **Voluntary carbon market** refers to the trading of carbon credits (and allowances) intended for voluntary use.

## Executive Summary

Ethiopia has committed to strengthening its engagement in carbon markets to support its ambitious climate goals and long-term development strategies. This carbon market strategy provides a roadmap for Ethiopia to harness the potential of high integrity carbon markets, both voluntary and compliance-based, to mobilise climate finance and advance sustainable development. The strategy is designed to ensure that Ethiopia can effectively leverage its carbon market opportunities, contributing to the achievement of its Nationally Determined Contribution and its 10-Year Development Plan 2021 – 2030 (10YPD).

The strategy aims to capitalise on the evolving international carbon market landscape established under the Paris Agreement through Article 6, which facilitates international cooperation in carbon markets. Ethiopia plans to utilize both international carbon markets and domestic market instruments to create a robust, transparent, and legally sound carbon market framework. This approach aligns with Ethiopia's NDC, the Long-Term Low Emission and Climate Resilient Development Strategy (LT-LEDS), and sectoral priorities, ensuring that Ethiopia's carbon market activities contribute meaningfully to mitigation ambition and national development objectives.

The overarching goal of this strategy is to strengthen Ethiopia's access to high-integrity international and domestic carbon markets by generating high-quality carbon credits, attract private sector investment, and establish equitable benefit-sharing mechanisms. The strategy aims to enhance Ethiopia's technical and institutional capacity, streamline regulatory frameworks, and integrate carbon pricing as a policy instrument to meet climate targets. Furthermore, the strategy emphasises the importance of transparency, environmental integrity, and social inclusiveness in all carbon market activities.

Key sectors identified for carbon market engagement are based on Ethiopia's most recent NDC and include renewable energy, the forest sector, clean cooking, energy efficiency, and electric mobility. These sectors present significant opportunities for mitigation and can benefit from carbon finance through both compliance and voluntary carbon markets. The Strategy encourages Ethiopia to build on its existing carbon market activities (CDM, VCM, jurisdictional REDD+) in addition to exploring new areas such as carbon removal practices and technologies.

The strategy also provides direction for strengthening governance and institutional frameworks for implementing carbon markets. As Ethiopia intends to engage in significant transactions, a comprehensive legal framework, including a national carbon market law, will be developed to regulate carbon market activities, ensuring compliance with international standards, and promoting confidence among investors and buyers. Ethiopia's engagement in the Paris Agreement's cooperative approaches, including Article 6.4 and bilateral agreements under Article 6.2, as well as with the VCM will be a key aspect of its carbon market strategy.

The success of this strategy will depend on Ethiopia's ability to build technical capacity, establish effective monitoring, reporting, and verification (MRV) systems, and create transparent approval, authorization, accounting and reporting procedures for carbon credits. Additionally, proactive international and regional engagement will be crucial to ensure access to finance, secure buyer demand, and establish Ethiopia as an important player in the global carbon market.

By fostering private sector involvement, ensuring social equity, and maximising the sustainable development co-benefits of carbon market activities, Ethiopia aims to become a leader in high-integrity carbon markets, advancing both climate action and socioeconomic development.

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Through this strategy, Ethiopia is committed to realizing the potential of high integrity carbon markets as a tool for sustainable development, climate finance, and the achievement of its long-term NDC targets.

## 1. Introduction

The Federal Government of Ethiopia (GoE) has been one of the leaders in international climate policy since the launch of the Climate Resilient Green Economy Strategy in 2011. Submitted in July 2021, [Ethiopia's updated NDC](#) to the long-term targets of the Paris Agreement is highly ambitious and places an important role on mobilising international climate finance, including from carbon markets. The NDC targets and measures are fully aligned with Ethiopia's 10 Year Development Plan 2021 – 2030 (10YPD), which defines Ethiopia's development targets for all sectors.

To achieve the strategic priorities defined by the NDC and the 10YPD, Ethiopia is planning to utilise carbon markets as one of the sources of climate finance. The 29<sup>th</sup> Conference of the Parties to UNFCCC (COP29) in 2024 has finalised the Article 6 rulebook, establishing a robust international framework for carbon markets and paving a way for their implementation starting in 2025. Article 6 of the Paris Agreement includes a carbon accounting and reporting framework for cooperative approaches for international transfers of mitigation outcomes (ITMOs) under A6.2, as well as the newly operationalised Paris Agreement Crediting Mechanism (PACM) under A6.4. Moreover, these carbon market approaches are being complemented by non-market approaches under A6.8. In addition, VCM have played an important role, especially in the forestry and agriculture sectors, which offer the largest mitigation potentials in Ethiopia.

Ethiopia's limited engagement in carbon markets to date can be attributed to several interconnected challenges. These include insufficient institutional capacity, fragmented governance structures, and an insufficiently developed legal and regulatory framework that has yet to fully support carbon market activities. Additionally, the complexity of aligning national climate policies – such as the NDCs and the 10YPD – with evolving international carbon market rules, including the Paris Agreement's Article 6 provisions, has posed significant barriers. Ethiopia also faces challenges in developing robust MRV systems and establishing transparent approval and authorization processes for carbon credits. Furthermore, limited access to finance, inadequate carbon market demand, and the need for stronger partnerships with international project developers, buyers and investors have constrained the country's ability to fully capitalise on carbon market opportunities.

Ethiopia is firmly committed to participate in high integrity international voluntary and compliance markets and to develop domestic carbon markets, in support of the Paris Agreement's long-term goals. Furthermore, Ethiopia has an interest to explore the potential of carbon pricing as a policy instrument to achieve national mitigation objectives. The government of Ethiopia fully recognises the potential of carbon markets and carbon pricing to support Ethiopia's national climate and sustainable development objectives. At the same time, it acknowledges the evolving developments under the Paris Agreement governs how market mechanisms contribute to the achievement of NDC targets by both buyer and seller countries.

To fully realize the potential of carbon markets, a comprehensive national carbon market strategy is essential for Ethiopia. This strategy will provide a clear roadmap to strengthen institutional frameworks, enhance technical capacity, and streamline legal and procedural requirements to facilitate active participation in both domestic and international carbon markets. It will also help Ethiopia align its carbon market activities with national climate goals and international standards, ensuring environmental and social integrity while avoiding risks such as overselling of carbon credits. By proactively engaging buyers and investors and leveraging Ethiopia's diplomatic

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strengths, the strategy aims to mobilise substantial climate finance and stimulate private sector involvement.

The **purpose of this carbon market strategy** is therefore to guide Ethiopia's future engagement in carbon markets to maximise the benefits for the country in terms of finance mobilisation and sustainable development impacts, as well as support the achievement of its NDC and long-term development plans.

**Ethiopia's vision** is that a robust and inclusive carbon market will support the achievement of GHG emission reduction targets defined in the NDC, advance sustainable development goals, attract green investments, and empower local communities to build resilience by actively participating in global climate initiatives.

## 2. Situation analysis

### 2.1. Situation assessment in terms of carbon market

#### 2.1.1. National context on carbon market

Carbon markets describe a range of market-based policy instruments including cap-and-trade, baseline-and-crediting mechanisms, and carbon taxes with offset credits. For Ethiopia, carbon markets can offer a significant opportunity to mobilise climate finance, investments and innovation in support of Ethiopia's NDC and 10YDP targets. Carbon markets are a type of carbon pricing as a means of reducing GHG emissions and mobilising financial resources for the transition to a low-carbon economy. Ethiopia is working towards a robust carbon pricing framework and where appropriate, the establishment of carbon prices (see section 4.6), with the aim of strengthening its effective engagement in international carbon markets.

Ethiopia has a long history of engaging with carbon markets for mitigation activities, such as in the renewable energy, forestry, and clean cooking sectors. Ethiopia's participation in carbon markets spans both compliance mechanisms such as the CDM and VCM. Under the CDM, the country hosts two project activities and six programmes of activities (PoAs), primarily focused on improved cook stoves, biomass energy, and solar lamps (UNFCCC n.d.). These have collectively issued approximately 1.1 million certified emission reductions (CERs) (Hoch et.al 2022). Despite this modest CDM portfolio, there is strong potential for scaling up carbon credit generation through the transition from CDM to the PACM, and to potentially further expand existing PoAs once the transition has been completed.

**Table 1: Volume of CER issuance and potential of currently registered CDM activities by sector**

Activity Type	Sub-sector	No. of PA	No. of PoA	No. of CPA	kCERs issued	Projected 2020 kCERs	Potential 2021-2025 ktCO2e
<b>Overall</b>		<b>2</b>	<b>6</b>	<b>16</b>	<b>1,119</b>	<b>4,840</b>	<b>4,145</b>
<b>Landfill gas</b>	Landfill flaring	1			-	735	<b>234</b>
<b>Methane avoidance</b>	Wastewater	1				285	<b>713</b>
<b>Reforestation</b>	Reforestation	(1)*			(255)*		
<b>EE Households</b>	Stoves	4	11	731	3,233	<b>2,412</b>	
	Solar lamps	1	3	128	215	<b>317</b>	
<b>Biomass energy</b>	Gasification of biomass	1	2	34	371	<b>469</b>	

\*deregistered

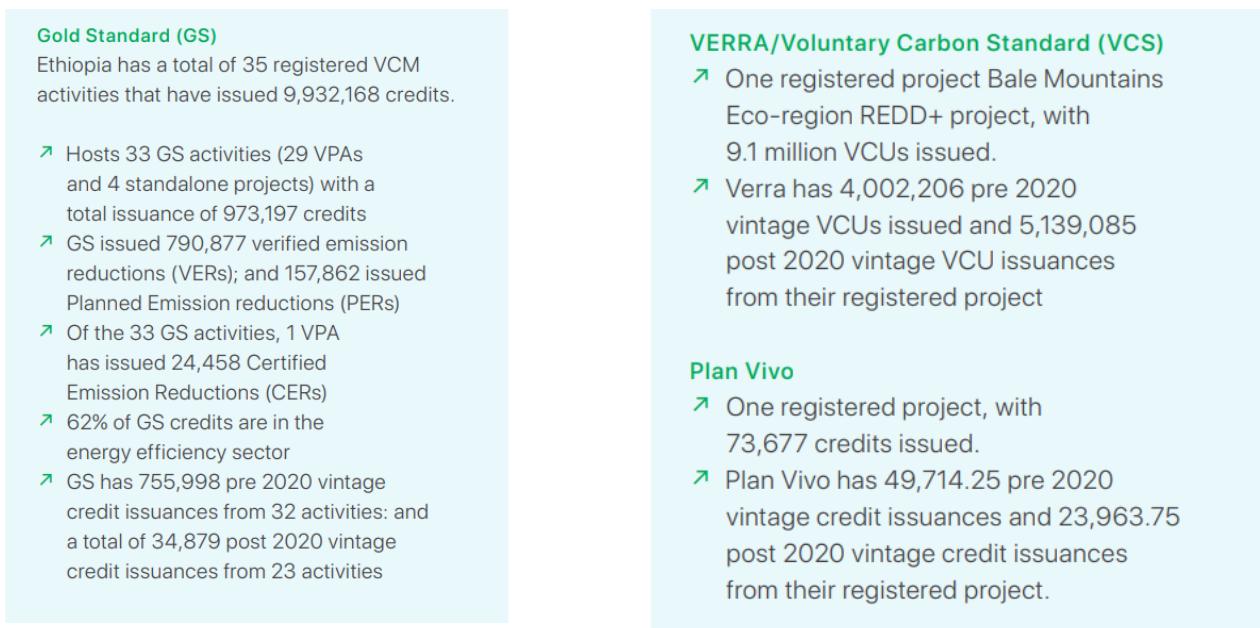
Source: Hoch et. al 2022

In the voluntary carbon market, Ethiopia has registered activities under all key independent crediting programmes such as the Gold Standard, the Verified Carbon Standard (VCS), and Plan

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Vivo (Hoch et.al 2022). The forestry sector, particularly the VCS REDD+ project in the Bale Mountains, accounts for the bulk of issued carbon credits (>9 million credits issued). Even larger additional issuances are expected under the Oromia Forested Landscape jurisdictional REDD+ Programme, supported by the World Bank's BioCarbon Fund Initiative for Sustainable Forest Landscapes (BIOCF ISFL) and Norway. This diversified portfolio shows Ethiopia has been an active participant in global carbon markets. Yet, Ethiopia's ambitious NDC targets and investment potential offer significant further carbon market opportunities and call for a more comprehensive engagement.

### Figure 1: Voluntary carbon market



Source: Hoch et. al 2022

In the updated NDC (2021), Ethiopia aims to reduce its greenhouse gas emissions by 68.8% by 2030, of which 80% is contingent on international support, including from carbon markets. This heavy reliance on external support underscores the critical role that well-functioning carbon market mechanisms such as those under Article 6 of the Paris Agreement and voluntary carbon markets can play in unlocking finance for low-emission development pathways. The NDC identifies a wide range of mitigation opportunities across key sectors, including agriculture (climate-smart practices, sustainable land management), forestry (REDD+, reforestation, and afforestation), energy (renewable energy expansion, clean cooking solutions), and transport (e-mobility and modal shift). Many of these sectors are inherently suited for carbon market participation, particularly through programmatic and jurisdictional approaches, where Ethiopia can generate high-integrity emission reductions or removals for trade.

Furthermore, the NDC's alignment with the 10 Year Development Plan (10YDPD) provides additional specificity, setting out targets for renewable energy generation, forest cover expansion, and sustainable agriculture, all of which present opportunities for carbon market-aligned project development. However, further analytical work is required to quantify the potential volumes of mitigation that could be monetised through carbon markets and to prioritise sectors for engagement based on readiness, co-benefits, and cost-effectiveness. Ethiopia's conditional NDC thus offers a clear framework for directing carbon market-linked finance to priority mitigation sectors. The strategy recognises this by seeking to operationalise market engagement in a manner

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that supports NDC implementation, particularly for the conditional targets that cannot be met with domestic resources alone.

### 2.2. Legal and policy framework for carbon market

The international legal framework for carbon markets is provided by the Paris Agreement, which includes Article 6 to regulate the voluntary use of carbon market mechanisms for cooperation between countries. The key objective is to ensure carbon markets serve as an instrument for NDC achievement. Moreover, the International Civil Aviation Organization (ICAO) has introduced the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a UN scheme that sets global rules for offsetting emissions from the international aviation sector.

Unlike during the Kyoto crediting period, national legal and policy frameworks are becoming much more relevant under the Paris Agreement. This is primarily because, unlike the Kyoto era where only Annex I countries had binding emission reduction targets, all countries now have their own NDCs. As a result, any engagement in carbon markets whether under Article 6.2 cooperative approaches, the centralised Article 6.4 mechanism, or voluntary carbon markets has direct implications for a country's ability to meet its NDC goals.

This shift places a strong emphasis on robust institutional arrangements and domestic legal frameworks that can govern authorization, oversight, and transparency of carbon market transactions. One of the most critical consequences is the need for accurate accounting of emission reductions that are transferred internationally. Countries must apply 'corresponding adjustments' to avoid double counting of mitigation outcomes adjusting their emissions balance to reflect units sold or used toward another country's NDC. Failure to do so could undermine the environmental integrity of the Paris Agreement and compromise the host country's NDC achievement.

In addition, countries are required to report on all authorized and transferred mitigation outcomes through the Enhanced Transparency Framework (ETF) in accordance with the reporting requirements of Article 6.2. This includes submitting Initial Reports, Annual Information, and Biennial Transparency Reports (BTRs) to the UNFCCC, detailing how carbon market activities contribute to or are accounted against their NDC. In this context, the legal authority to authorize ITMO transfers, maintain transaction registries, and ensure consistency with national targets is no longer optional, it is central to compliance with international obligations. Therefore, the role of national laws and policies has evolved from being supportive instruments to becoming the operational backbone for credible and accountable carbon market participation.

In response to these evolving requirements, countries engaging in carbon markets have increasingly begun to develop and adopt dedicated domestic legal and policy frameworks. These frameworks serve to clearly define institutional mandates such as the designation and responsibilities of a Designated National Authority (DNA), which serve as government counterparts to UNFCCC for carbon market related issues, and to establish standardized procedures for key functions, including the approval of mitigation activities, the issuance and authorization of Internationally Transferred Mitigation Outcomes (ITMOs), and the implementation of robust MRV systems.

Ethiopia therefore aims to establish a comprehensive carbon market law that codifies its strategic priorities and provides legal certainty for effective and credible market activities and carbon credit transactions. This foundational law will be complemented by suitable subsidiary legislations (regulations and directives) as well as sectoral regulatory frameworks. These instruments will

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address key operational and governance aspects such as benefit-sharing mechanisms, fee structures, standard operating procedures and the establishment and functioning of the institutional architecture required to support market transactions. Together they will form a coherent legal framework to guide Ethiopia's engagement in both international and domestic carbon markets (see subsequent chapters for further detail).

For voluntary carbon markets, no central international legal framework exists globally; however, the VCM is governed by non-state actors, in particular independent **carbon crediting programmes** (e.g., Verra, Gold Standard, Plan Vivo) that approve methodologies and rules for MRV and issuance into their registries that track credit ownership, issuance, and retirement. National governments are increasingly introducing regulatory oversight to align the VCM with national climate goals and avoid conflicts with NDC targets. Integrity initiatives such as the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI) are efforts to promote good practice in voluntary carbon markets, to address controversies around environmental and social integrity.

Moreover, NDCs, national climate and sector policies and regulations also provide important legal context for carbon market participation. Emerging legal considerations focus on robust accounting, carbon ownership rights and benefit-sharing mechanisms to ensure equitable distribution of carbon revenues, uphold environmental and social safeguards and provide grievance mechanisms. For instance, Kenya has fully gazetted national carbon market regulations by amending the Climate Change Act in May 2024, for the specific purpose of providing a legal framework for implementing carbon market activities. This law is supported by several specific subsidiary regulations that define the institutional framework, provisions for carbon trading, benefit sharing and other Article 6 requirements. Senegal has developed an Operational Manual that specifies carbon market institutional responsibilities and procedures but has not yet codified these into national law. Ethiopia recognises the importance of providing legal status to carbon transactions and related responsibilities and is therefore committed to developing a carbon market law.

### 2.3. Competitive analysis of carbon markets

To **competitively** position itself in the global carbon market, maximise associated benefits, Ethiopia must undertake a competitive analysis to identify sectors and activities within its national economy that are well-suited for carbon finance. This involves assessing comparative advantages in areas such as renewable energy, forestry, agriculture, and clean cooking, etc. where high-integrity mitigation outcomes can be generated at scale and with sustainable development co-benefits. Achieving this requires a strategic mix of institutional strengthening, market access, targeted project development, and proactive international engagement with buyers and investors. Establishing a clear and enforceable legal framework is central to this effort. This framework will define participation requirements and include transparent procedures for project approval, ITMO authorization, and the application of corresponding adjustments, in line with Article 6 of the Paris Agreement.

To support implementation, institutional capacity must be strengthened, particularly within MOPD, which serves as Ethiopia's DNA and sector ministries to identify activities aligned with Ethiopia's NDCs and sectoral 10YDP targets, manage MRV requirements, and oversee the allocation of benefits. Building such institutional readiness will be vital for Ethiopia to attract investment, ensure environmental integrity, and participate competitively in both compliance and voluntary carbon markets.

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To achieve this, Ethiopia will actively promote the **environmental and social integrity** of its carbon credits by adhering to international best practices and the most rigorous standards—such as the **Paris Agreement Crediting Mechanism** and other high-quality methodologies. The strategy will emphasise alignment with the SDGs, particularly those related to public health, biodiversity conservation, and climate resilience. Moreover, community participation and equitable benefit-sharing will be systematically integrated into project design and implementation to ensure social ownership and long-term sustainability.

The government of Ethiopia aims to position the country as a leading **source of high-integrity carbon credits**, targeting buyers that value environmental integrity, social equity and willing to pay a fair price for ambitious mitigation outcomes with clear sustainable development benefits. To achieve this, Ethiopia will actively promote environmental and social integrity of its carbon credits by adhering to international best practices and the most rigorous standards such as PACM and other high integrity methodologies. The strategy will emphasise alignment with the SDGs, particularly those related to public health, biodiversity conservation, and climate resilience. Moreover, community participation and equitable benefit-sharing will be systematically integrated into project design and implementation to ensure social ownership and long-term sustainability.

Ethiopia's comparative advantages in the carbon market are significant. As a large and diverse country, it possesses vast mitigation potential under its conditional NDC, which exceeds that of many other developing countries. Furthermore, Ethiopia's status as a Least Developed Country (LDC) provides additional strategic opportunities. Under UNFCCC guidance, LDCs are permitted to apply simplified methodological parameters, reducing barriers to entry for project development. Ethiopia's recognised vulnerability and special circumstances also position it favourably to access tailored support mechanisms, enhanced financing terms, and preferential treatment in carbon credit transactions. These factors collectively provide a strong foundation for leveraging carbon markets to deliver both climate and development outcomes at scale. Given the current global scarcity of A6 compliant carbon credits, Ethiopia's ability to present a clear national framework alongside a robust pipeline of mitigation activities represents a distinct competitive advantage. Establishing transparent governance structures, streamlined procedures, and well-defined institutional roles enhances investor confidence and positions Ethiopia as a credible and early mover in the evolving international carbon market. The government is keen to prioritise high impact, proven and scalable project types with demonstrated success in Ethiopia's existing carbon portfolio such as improved cookstoves, biogas systems, and forestry interventions including REDD+. These project categories not only deliver substantial emission reductions at relatively low cost but also generate multiple co-benefits, including improved health, gender equity, and ecosystem resilience. Building on these foundations, Ethiopia is also actively seeking to expand and diversify its carbon market engagement by catalysing investments in higher-cost, innovative technologies that support Ethiopia's green industrialisation ambitions. Priority areas include e-cooking, off grid renewable energy, e-mobility, green hydrogen, sustainable cooling technologies, technical and nature-based carbon removals, and climate smart agriculture. These emerging sectors offer significant mitigation potential and align closely with Ethiopia's 10-Year Development Plan and NDC targets. Accordingly, a key strategic opportunity lies in transitioning from primarily household-level interventions to larger-scale, sectoral programmes and transformative infrastructure investments. This evolution not only strengthens the country's long-term mitigation pathway but also enhances its appeal to global carbon credit buyers seeking high-integrity, high-impact investments that deliver measurable contributions to both climate and development outcomes.

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Ethiopia thus has several competitive advantages compared to other countries and will continue to tailor carbon market approaches to national circumstances. For instance, Ethiopia's clean electricity generation portfolio has prevented the country from generating carbon credits for renewable energy generation due to the baseline defined in methodologies. Many countries with more emissions-intensive energy infrastructure have benefited from carbon markets for renewable energy generation, which was not possible for Ethiopia even though it is one of the countries with highest energy access needs. In the new generation of carbon markets, Ethiopia will turn this situation into an advantage through carbon market activity types that substitute fossil fuels with clean electricity, such as in e-mobility, solar water pumping or renewable energy exports to neighbouring countries. For these type of projects, clean power is a key advantage as it increases the amount of carbon credits. Ethiopia will also identify further high priority actions in relevant sectors such as forestry (including REDD+), and green industries related to already established industrial parks.

Ethiopia also recognises the need to further strengthen its readiness for carbon markets and emphasises the value of learning from other countries in the region with similar circumstances. Since Article 6 rules have only recently been finalised, most African countries have not yet finalised their national carbon market frameworks. Many countries have begun to develop regulatory frameworks defining institutional responsibilities, and a small number of countries have already codified these frameworks into law. Ghana, Kenya, Rwanda, Senegal and Uganda are among these frontrunners for well-defined carbon market frameworks which clearly delineate the roles of various entities, including that of a DNA in charge of all for the implementation of Article 6. Ethiopia seeks collaboration with these and other countries for the mutual benefit of strengthening national carbon market frameworks, for instance, through regional platforms such as the Eastern African Alliance on Carbon Markets and Climate Finance, as well as UNFCCC Regional Collaboration Centres. Transparent and high integrity supply of carbon credits from Africa will strengthen the international carbon market demand for all countries as trust in carbon markets among buyers increases.

Ethiopia is therefore also a leader in preventing low integrity approaches in carbon markets that have eroded trust by investors and carbon buyers. Moreover, Ethiopia will continue to observe closely future carbon market trends to be a frontrunner for emerging carbon market opportunities and sources of demand for carbon credits.

### 2.4. Analysis of intermediaries

Ethiopia's strategic engagement in carbon markets is designed to incorporate all key actors across the carbon credit value chain encompassing both primary and secondary carbon markets in a manner that maximises value and integrity. In the primary market, carbon credits are issued following third party verification for emission reductions and removals. These credits are then sold directly to buyers-often through bilateral arrangements or forward purchase agreements-to mobilise finance for project implementation. While the primary market is characterised by limited price transparency, it provides strategic opportunity to negotiate higher prices for high-quality credits, particularly those demonstrating strong environmental and social co-benefits, alignment with national development goals, and adherence to rigorous standards such as the Article 6.4 mechanism or the ICVCM Core Carbon Principles. Ethiopia will therefore promote the generation and marketing of high-integrity carbon credits that can attract premium buyers and long-term

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investment partnerships, while ensuring that such transactions remain transparent, equitable, and consistent with national priorities.

In the secondary market, carbon credits are transacted between third parties, such as traders, brokers, or corporations after they have been issued in the primary markets. Unlike the primary market, transactions in the secondary market do not directly finance mitigation activities. Instead, these markets play a critical role in improving liquidity, enabling price discovery, and broadening market access to a wider range of buyers and sellers. Prices in the secondary market are determined by dynamics of supply, and demand, as well as market sentiment, regulatory developments and perceived quality of the underlying credits.

A range of intermediaries operate across both primary and secondary carbon markets, playing a role in connecting project developers with buyers, improving market efficiency, and ensuring transparency and credibility. Key intermediary functions include:

- **Brokers**, who facilitate transactions between sellers and buyers without taking ownership of the credits.
- **Traders** who buy and sell carbon credits, often speculating on price changes and help create liquidity.
- **Aggregators** who consolidate carbon credits from small-scale mitigation activities such as smallholder farms or household cookstoves into larger marketable portfolios to reduce costs and appeal to institutional buyers.
- **Consultants and independent third-party verifiers** who provide technical support for due diligence ahead of carbon transactions to ensure that projects meet formal standards or buyer expectations.

Related to this, **carbon exchanges** play a vital role by providing a formalised, transparent, and standardized platform for trading standardized contracts for carbon credits that meet specific quality and certification criteria (e.g. CORSIA eligibility), facilitating liquidity, price discovery, hedging (futures and options for carbon credits), enabling companies to hedge against future price fluctuations and manage compliance costs more effectively. Exchanges lower the barriers to market entry by offering a centralised venue with clear rules and procedures. Intercontinental Exchange (ICE) and European Energy Exchange (EEX) host trading of allowances under systems like the EU ETS, while Xpansiv CBL is an example of an exchange focused on VCM credits.

Some buyer governments have also introduced agents such as the KLIK foundation, which serves as a private sector intermediary with a formal mandate to procure ITMOs for Switzerland's NDC.

Ethiopia recognises the important role that intermediaries can play in supporting the development of a credible, efficient, and accessible carbon market. In line with this, the government is committed to actively engage in a broad range of intermediary entities – as deemed necessary – including brokers, aggregators, verifiers, and exchanges as part of its carbon trading ecosystem. These actors will be instrumental in facilitating transactions, improving market access for domestic project developers, and ensuring the environmental and social integrity of carbon credits originating from Ethiopia.

Where intermediary engagement involves cost implications, particularly in the case of brokers or aggregators, it will be operationalised through the forthcoming National Carbon Trading Benefit Sharing Framework, which will provide guidance on fair compensation structures among carbon

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market players and the beneficiary communities. The framework will ensure that the involvement of intermediaries does not compromise the equitable distribution of carbon revenues, particularly for communities, government institutions, and project developers.

This approach aims to strike a balance between market efficiency and equity, ensuring that Ethiopia's participation in carbon markets delivers maximum value for national development priorities while maintaining high standards of accountability and transparency.

Ethiopia may also undertake further analysis, whenever necessary, on the best approach to establish such intermediaries at the national level or access international leading entities.

### 2.5. Lessons from the previous carbon market mechanisms (national and international)

Ethiopia has traditionally often been a pioneer regarding participating in carbon market activities, including registering the first CDM forestry project in Africa and being among the first African countries to establish a bilateral agreement with Japan on the Joint Crediting mechanism. However, the country has struggled to build on these achievements and engage in carbon market activities at scale (Hoch et. al 2022).

Ethiopia has been practicing the World Bank's Standardized Crediting Mechanism (SCF) since 2024 in the energy sectors where two carbon market programmes are being implemented. This has helped to provide an opportunity to learn the carbon market cycles and governing the carbon crediting and trading processes.

Regarding **international lessons**, carbon markets have high potential to identify low-cost mitigation opportunities and mobilise private sector investment. However, carbon markets are politically established and operate within the sectoral circumstances in which the activities take place. Therefore, carbon market activities face the same sector-specific barriers and opportunities compared to other investments but can benefit from carbon finance as a financial incentive once all participation requirements have been met. Historically, demand for carbon credits primarily came from the European Union Emissions Trading System, leading to a crash in carbon market demand and prices when the EU decided to stop importing carbon credits in 2012. While the carbon buyer landscape is much more diverse in the era of the Paris Agreement, demand from NDCs remains insufficient but may increase as NDC targets become more closely aligned with the emissions pathways established by IPCC and the Paris Agreement.

Demand from the voluntary carbon market has been expected to grow substantially, but confidence in the market has been shaken by controversies around environmental and social integrity. Therefore, the increasingly complex carbon market landscape requires targeting different carbon market demand segments to achieve resilient and sustainable demand for Ethiopian carbon credits.

Regarding **national lessons**, Ethiopia has faced significant challenges in scaling up its participation in carbon market mechanisms. A range of structural barriers has hindered broader engagement. Key obstacles include a general lack of awareness and limited institutional capacity, exacerbated by a shortage of skilled professionals such as policy analysts, technical consultants, and certified auditors. Regulatory uncertainties and gaps in policy frameworks have further constrained carbon market development, while political instability and high investment risks in certain sectors have

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detarded potential investors and developers. In addition, sector-specific barriers such as regulatory gaps have contributed to a slow uptake of carbon market opportunities.

However, there are notable success factors that have enabled progress in specific instances. Strong and stable buyer relationships, for instance with institutions such as the World Bank and the Swedish government, have provided credibility and financial certainty for pilot initiatives. Moreover, the presence of committed "champions" – project developers and organizations with the capacity to design and implement high-quality mitigation activities – has proven critical in driving projects forward amidst a challenging landscape.

Looking ahead, Ethiopia can draw valuable lessons from its prior experience to strengthen its position in emerging carbon markets under the Paris Agreement. Several strategic opportunities exist:

**Transitioning CDM activities to the PACM:** Ethiopia can build on its legacy CDM activity portfolio by approving the transition of existing activities to the PACM if they support Ethiopia's most recent NDC update.<sup>1</sup> This includes making full use of the potential for replication and scaling up of registered programmatic activities, to which new component activities can be added.

**Ensuring Paris alignment of VCM activities:** Existing projects in the voluntary market may be reviewed and, where necessary, adjusted to ensure coherence with national climate commitments and international carbon market rules and good practice on transparency, baseline setting, double counting, and additionality to achieve Ethiopia's commitment to high integrity carbon markets.

**Updating methodological and technical tools:** The update of methodological tools such as standardized baselines and default parameters can improve the credibility, comparability, and efficiency of developing future carbon market activities. Country-specific sectoral baseline aligned with the NDC will also support the development of robust MRV as part of Ethiopia's reporting to UNFCCC on progress made towards the NDC targets. This also facilitates access to the carbon market for project developers, as it simplifies data gathering needs.

The NDC targets a full transition to 100% renewable energy, expansion of forest cover to 30%, promotion of climate-smart agriculture, electrification of transport, and industrial innovation including carbon capture and storage (CCS). Estimated investment needs for the NDC-aligned pathway are USD 154 billion over 30 years, with USD 86 billion allocated to mitigation, primarily for power generation, waste management, and transport. However, there is substantial financing gap to which carbon markets shall contribute more strongly going forward (Federal Democratic Republic of Ethiopia 2021b).

To bridge this gap, the LT-LEDS advocates for innovative finance tools such as carbon markets, green bonds, and ecosystem service payments, supported by a robust national carbon market Strategy. The strategy also emphasises institutional strengthening and the development of an MRV system aligned with Article 6 of the Paris Agreement, ensuring accountability and integration across sectors by 2030.

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<sup>1</sup> Ethiopia received 7 requests for transition to the PACM: 1 project activity and 6 PoAs. Ethiopia will evaluate and approve these requests within the 31<sup>st</sup> December 2025 deadline.

### 2.6. NDC, LT-LEDS accounting and reporting to the UNFCCC

MoPD shall be responsible for all relevant accounting and reporting requirements for ITMO transfers and carbon credit uses as per Articles 6 and 13 of the Paris Agreement. This includes ensuring that Ethiopia's Biennial Transparency Reports fully reflect all ITMO transactions from any carbon market instruments, aligned with their appropriate authorization. This also includes Ethiopia's initial report, annual information and regular information as per Article 6.2 reporting requirements for submission to UNFCCC.

### 3. Objectives of the national carbon market strategy

The overarching objective of Ethiopia's National Carbon Market Strategy is to **strengthen Ethiopia's access to high-integrity international and domestic carbon markets**, thereby contributing to the achievement of its NDC and advancing national and sectoral long term development goals. The specific objectives are to:

- generate high quality carbon credits to attract and channel finance towards priority mitigation, adaptation and sustainable development activities across key sectors
- enhance Ethiopia's mitigation ambition through effective carbon markets to support the implementation of the NDC, while ensuring alignment with national development priorities and sectoral priorities
- establish safeguards against overselling of ITMOs and ensuring that all market activities meet rigorous sustainability, transparency, and accountability standards
- promote equitable benefit-sharing mechanism to ensure fair distribution of carbon revenues among project developers, government entities and local stakeholders
- maximise sustainable development co-benefits including contribution to SDGs, adaptation, biodiversity conservation and improved livelihoods
- mobilise the private sector by creating an enabling environment that incentivises investment, innovation, and participation in carbon market activities
- direct and facilitate climate investments into sectors and technologies with high mitigation potential and suitability for monetisation through carbon markets.

Through these objectives, Ethiopia expects to achieve a significant amount of international support for achieving conditional NDC targets from the carbon market. The volume of mitigation outcomes made available for international transfers will be defined based on clearly defined ITMO authorization criteria.

#### 3.1. Guiding principles

To achieve these objectives, the national carbon market strategy relies on the following **guiding principles**:

- Ethiopia's carbon market participation shall help achieve national climate and development goals, particularly Ethiopia's NDCs, based on high environmental and social integrity that avoids double counting of mitigation outcomes and over crediting of activities.
- Ethiopia's carbon market engagement shall therefore be aligned with Article 6 rules of the Paris Agreement, transparent rules of engagement based on domestic legal and regulatory framework (e.g. Environmental and Social Impact Assessment (ESIA), forest and natural resource conservation regulations, pollution control standards etc.)

The validity and duration of the carbon market strategy shall therefore be aligned with the target years of Ethiopia's NDC. Considering the 2025 update of Ethiopia's NDC, the carbon market strategy will be valid until 2035, which is the target year of Ethiopia's NDC 3.0. The strategy would be reviewed and revised as deemed necessary with the view to accommodate new developments in alignment with the NDC cycle or the national development plans.

## **4. Strategic areas and key actions**

### **4.1. Strategic issues for carbon markets in Ethiopia**

Ethiopia intends to access both international and domestic carbon markets. One of the foremost strategic issues is the need to establish robust institutional coordination mechanisms supported by a clear legal and regulatory framework. This includes the formal recognition of carbon market roles and processes in national legislation particularly through the enactment of a Carbon Market Law and associated regulations. Based on the law, Ethiopia will engage with both international and national carbon markets, in support of the NDC and sectoral policies to mobilise resources. As a result, carbon market priorities will strategically be fully aligned with Ethiopia's NDC and will be updated regularly.

Another critical issue is the need to build and sustain technical capacity across government agencies, private sector actors, and implementing partners. This includes capacity for activity approval, ITMO authorization, emissions accounting, MRV, and compliance with international standards such as Article 6 of the Paris Agreement and emerging mechanisms like the PACM.

Ensuring stable and predictable demand for Ethiopian carbon credits is also a strategic priority. Ethiopia must strengthen its outreach to international carbon buyers including sovereign governments, private entities, and multilateral platforms and foster long-term investment partnerships. Doing so will require the establishment of transparent, efficient, and credible approval and authorization systems that inspire buyer confidence and comply with international expectations.

Another strategic consideration involves the transition from previous carbon mechanisms, such as the CDM, to next-generation frameworks under the Paris Agreement. This transition must be managed to preserve the environmental integrity, credibility, and financial value of legacy credits while ensuring that new projects meet evolving standards for additionality, permanence, and co-benefits while addressing the challenges faced in the previous regime in Ethiopia.

Another complex challenge is the integration of carbon market activities with domestic economic and fiscal policy frameworks, including the design and potential implementation of carbon pricing instruments. Ethiopia must ensure that such integration supports national development objectives, safeguards social equity, avoids unintended economic distortions, and enhances the competitiveness of its green economy transition.

Finally, Ethiopia must leverage its diplomatic presence, regional leadership, and international partnerships to enhance its visibility and influence in global carbon markets. Engagement with platforms such as the Eastern African Alliance on Carbon Markets and Climate Finance, African Carbon Markets Initiative (ACMI), the UNFCCC, and bilateral market cooperation partners will be critical to unlocking technical assistance, strategic partnerships, and preferential access to buyers seeking high-integrity carbon credits from Least Developed Countries.

Addressing these strategic issues in a coordinated and forward-looking manner will be essential to realizing Ethiopia's ambition of becoming a regional leader in carbon markets, while ensuring that market participation delivers tangible benefits for the climate and national development endeavours.

### 4.2. Ethiopia's strategic direction for carbon markets

Over the next decade, Ethiopia's strategic direction is to develop a flexible, inclusive, and resilient carbon market framework that maximises opportunities for climate finance, supports sustainable development, and contributes meaningfully to national climate commitments, including those articulated in the NDC and 10YDP. At the core of this strategic direction is the recognition that carbon markets are tools to support the achievement of NDC goals, particularly the conditional targets, which are dependent on international support while exploring avenues for a domestic carbon market mechanism. Ethiopia will therefore design its carbon market architecture to mobilise high-integrity international carbon finance, while ensuring full alignment with its domestic development priorities and climate policy frameworks.

The strategy emphasises leveraging international cooperation mechanisms under Article 6 of the Paris Agreement, including:

- Bilateral cooperative approaches (Article 6.2) to establish government-to-government mitigation transfers, as well as the Standardized Crediting Framework.
- The Paris Agreement Crediting Mechanism under Article 6.4, which offers a standardized, UNFCCC-governed international crediting platform; and
- Voluntary carbon markets, which continue to serve as an important source of private sector-driven climate finance.

Ethiopia will diversify its engagement across these instruments to enhance flexibility, manage risk, and optimise the flow of carbon revenues. Sector-specific approaches will be pursued, informed by the quantified mitigation potentials and measures presented in Ethiopia's updated NDC and its sectoral strategies. For example, REDD+ and forestry-based mitigation have historically attracted support from the VCM and bilateral donors, while emerging sectors such as clean cooking, off-grid energy, and green transport may be more suitable for crediting under PACM or bilateral arrangements under Article 6.2 of the Paris Agreement.

Domestically, Ethiopia will establish a robust voluntary carbon market ecosystem, targeting sectors with untapped mitigation and financing potential such as aviation, tourism, finance, and digital technology. This will be complemented by the development of tailored carbon pricing instruments that support market efficiency without imposing undue economic burdens. The country also plans to explore the introduction of Mitigation Contribution Units (MCUs) – innovative non-transferable units that recognise domestic mitigation efforts and contribute directly to national climate targets, thereby maintaining market integrity while broadening participation. To realize this strategic vision, Ethiopia will pursue a multi-pronged approach focused on:

- Institutional strengthening, including the operationalisation of a DNA and coordination mechanisms with ministries and other stakeholders.
- Legal and regulatory reforms, including the enactment of a national carbon market law and subsidiary instruments.
- Capacity building for public and private actors involved in project development, MRV, and carbon market operations.
- Streamlining of operational procedures for project approval, ITMO authorization, and benefit-sharing; and

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- Development of robust MRV and registry systems aligned with Article 6 requirements.

Proactive international engagement will be a cornerstone of Ethiopia's strategy. The country will actively seek to position itself as a trusted and attractive host for carbon credit investments through bilateral dialogues, regional cooperation, and participation in global initiatives such as the ACMI and the VCMI. Ethiopia will also leverage its diplomatic leadership and climate advocacy platforms to promote high-integrity market engagement and attract buyers aligned with its values and goals.

As part of its dynamic approach, Ethiopia is committed to remaining adaptive to future developments in the global carbon market landscape. The national strategy and its implementation framework will be periodically reviewed and updated to reflect evolving market conditions, emerging standards, technological innovation, and lessons learned from implementation. Chapter 8.1 outlines priority sectors with the highest mitigation potential and carbon market readiness.

### 4.3. Participation in cooperative approaches under Article 6.2

Article 6.2 of the Paris Agreement establishes the framework for international cooperation through the use of ITMOs. It serves as the accounting and reporting foundation for a wide range of carbon market instruments, including bilateral arrangements, the PACM under Article 6.4, the VCM, and market-based schemes such as CORSIA under the ICAO.

Ethiopia's strategic approach to Article 6.2 prioritises the development of a credible, transparent, and accountable system that enables the country to engage effectively in a variety of cooperative mechanisms while maintaining environmental integrity and contributing meaningfully to its NDC and LT-LEDS. To this end, Ethiopia will:

- Ensure full alignment with the Paris Agreement rulebook, including the modalities, procedures, and guidelines for ITMO authorization, issuance, transfer, tracking, and reporting.
- Establish a dedicated institutional framework and build technical capacity across key ministries and implementing agencies to manage cooperative approaches.
- Develop and operationalise robust MRV systems and accounting procedures that conform to international best practices and support accurate corresponding adjustments.
- Integrate Article 6.2 cooperative approaches into national climate planning instruments to ensure that all internationally transferred credits contribute directly to Ethiopia's climate and development objectives.

### Strategic priorities for Article 6.2 cooperation

#### 1. Bilateral agreements

Ethiopia will actively pursue and expand bilateral cooperation agreements with countries that demonstrate a strategic interest in Article 6.2-based carbon trading. Priority will be placed on:

- Strengthening existing partnerships, such as the Joint Crediting Mechanism (JCM) with Japan.
- Establishing new bilateral agreements with buyer countries including Norway, Switzerland, Sweden, Singapore, South Korea, and others that maintain compliance demand for carbon credits under their domestic carbon pricing instruments.

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- Operationalising potential partnerships with emerging economies through platforms such as the BRICS, which opens new avenues for South-South cooperation.

These bilateral arrangements offer a unique opportunity for Ethiopia to secure long-term climate finance, promote technology transfer, and share mitigation responsibilities in a way that supports its national development priorities.

Ethiopia will also leverage the technical experience gained during the CDM era, where support from partners such as Australia, the United Kingdom, Sweden, and Germany helped develop institutional readiness. This legacy will inform Ethiopia's efforts to operationalise Article 6.2 mechanisms under a wider, country-driven framework.

### 2. Standardized Crediting Framework

In 2024, Ethiopia established the SCF, a national crediting mechanism designed to enable energy access projects in the country to access climate finance using Article 6.2 cooperative approaches under the Paris Agreement. The SCF includes a clearly defined program protocol & activity cycle, a governance structure, and anchor methodologies.

The SCF could expand into additional sectors and adopt new methodologies either developed domestically or adopted from the PACM or other leading voluntary carbon market standards. Unlike some countries that are waiting for underlying governance, processes, and methodologies to execute bilateral transactions, Ethiopia, with the domestic infrastructure established through the SCF, is more ready to materialise opportunities through Article 6.2 as soon as bilateral agreements are reached.

### 3. Voluntary Carbon Market

Ethiopia will continue to participate in the Voluntary Carbon Market as a complementary channel to Article 6.2 cooperation, particularly for attracting private-sector investment and scaling up mitigation activities in sectors with high co-benefits. The government will establish:

- A transparent and rules-based approval system for voluntary carbon market projects that seek authorization as ITMOs under Article 6.2.
- Eligibility criteria for VCM credits to qualify for international transfer, including alignment with national NDC priorities and safeguards to avoid double counting.
- A process for the authorization of entities, projects, and carbon credits for international transfer that upholds both domestic standards and the requirements of the Paris Agreement.

This dual approach engaging both Article 6.2 and the VCM will allow Ethiopia to diversify its sources of climate finance, strengthen market access, and build investor confidence. Ethiopia also intends to use its participation in the VCM to build partnerships with global carbon credit buyers and financial intermediaries, while enhancing its technical capacity to track, report, and account for ITMO transactions with accuracy and transparency.

### 4. ICAO CORSIA

Ethiopia recognises the Carbon Offsetting and Reduction Scheme for CORSIA as a promising opportunity to create domestic demand for high-quality carbon credits. As one of Africa's leading airlines, Ethiopian Airlines has the potential to benefit from offsetting emissions growth against a defined international baseline.

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Ethiopia will ensure that:

- Ethiopian Airlines has priority access to a portfolio of high-integrity, CORSIA-eligible carbon credits generated from domestic mitigation activities.
- A domestic supply of CORSIA-aligned credits contributes to national sustainable development while enabling Ethiopian Airlines to meet its compliance obligations.
- Domestic carbon market infrastructure supports the generation, certification, and transfer of carbon credits eligible under international aviation standards.

Furthermore, by enabling international airlines to purchase ITMOs generated in Ethiopia, the country can expand its market reach, promote local investment, and ensure that aviation-sector's demand contributes directly to domestic sustainable development outcomes. To operationalise such transactions, Ethiopia will put in place clear procedures for the issuance of Letters of Authorization (LoAs) in accordance with Article 6.2 requirements. These LoAs will be essential for formally approving the use of mitigation outcomes for international transfer and ensuring that such transfers are properly accounted for through corresponding adjustments. In addition, the Government of Ethiopia will explore the use of risk mitigation instruments, such as guarantees from the Multilateral Investment Guarantee Agency (MIGA) through the Ministry of Finance to enhance investor confidence and reduce transaction risk for buyers and project developers.

### 4.4. Engagement with the Paris Agreement Crediting Mechanism (Article 6.4)

Article 6.4 of the Paris Agreement establishes the PACM as a centralised international platform for generating carbon credits from mitigation activities that deliver real, measurable, and verifiable emission reductions. This mechanism builds on the experience of the CDM and introduces enhanced governance, environmental integrity, and sustainable development requirements. It allows for the issuance of both authorized credits for international transfer (A6.4ERs) and MCUs, which are retained by the host country and contribute to domestic targets.

**Strategic transition from CDM to PACM:** Ethiopia's strategic engagement with Article 6.4 is anchored in a commitment to leverage and transition its existing CDM project portfolio, where appropriate, to the new framework under the Paris Agreement. This includes ensuring that eligible CDM activities, particularly Programmes of Activities (PoAs), meet the revised PACM rules, methodologies, and safeguards. The transition provides a critical opportunity to:

- Preserve the value of existing investments.
- Enable continued crediting of successful mitigation activities.
- Align legacy projects with updated standards for sustainable development and climate integrity.

Ethiopia will also explore the registration of new PACM activities, particularly in priority sectors for the updated NDC such as clean cooking, forestry, off-grid energy, and transport, which offer high mitigation potential and development co-benefits. To facilitate participation, the government will develop and make available clear procedures, templates, and guidance for navigating the full PACM activity cycle from project design to registration, credit issuance, and monitoring.

**Strategic use of Mitigation Contribution Units:** One of the distinctive features of Article 6.4 is the issuance of MCUs – a new category of credits that are intentionally not authorized for international transfer. Because MCUs are retained by the host country, they do not require corresponding

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adjustments and are counted directly toward Ethiopia's own NDC targets. MCUs can also be used for voluntary cancellation, allowing individuals, companies, or institutions to support climate action in Ethiopia without affecting the country's compliance accounting.

Ethiopia views MCUs as a strategic tool to safeguard against overselling and to bolster the credibility of its carbon market participation. The government will consider retaining a portion of credits as MCUs for:

- Voluntary domestic or international cancellation (for contribution claims rather than offsetting).
- Direct contribution to Ethiopia's unconditional NDC.
- Reputation management, particularly to address concerns related to the environmental integrity of authorized international transfers.

This approach enables Ethiopia to balance revenue generation through ITMO sales with the need to preserve emission reductions for national climate targets and international credibility.

**Governance and implementation measures:** To operationalise its participation in the PACM, Ethiopia will:

- Define clear procedures for the review, approval, and registration of PACM projects, including the authorization of A6.4ERs.
- Establish robust MRV protocols, safeguard compliance processes, and linkages with national registries.
- Promote stakeholder awareness and engagement to ensure inclusive participation in PACM opportunities.

Through this integrated and forward-looking approach, Ethiopia aims to maximize the benefits of Article 6.4, reinforce its leadership in high-integrity carbon markets, and channel climate finance into transformative mitigation and development programs.

### 4.5. Voluntary Carbon Market

Ethiopia recognises the VCM as a critical platform for expanding climate finance, accelerating mitigation action, and promoting inclusive participation in carbon market activities. As a complement to compliance markets under Article 6 of the Paris Agreement, the VCM offers Ethiopia greater flexibility and innovation potential, enabling a wide range of actors including private sector entities, community organizations, cooperatives, and civil society groups to develop and monetise high-quality emission reduction and removal projects.

Strategic engagement in the VCM allows Ethiopia to tap into market-driven demand for high-integrity carbon credits, particularly from corporations and financial institutions seeking to meet voluntary climate commitments and demonstrate leadership in sustainability. By doing so, Ethiopia can leverage the VCM to:

- Mobilise additional climate finance for priority mitigation sectors.
- Stimulate innovation in low-carbon technologies and nature-based solutions.
- Enhance community resilience and local development through inclusive project implementation.

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**Regulatory framework and governance:** To facilitate credible and transparent participation in the VCM, Ethiopia will develop and operationalise a dedicated regulatory framework for voluntary carbon market activities. This framework will define:

- Eligibility criteria, project approval and registration procedures.
- Rules for credit issuance, authorization, and international transfer.
- Safeguards and benefit-sharing mechanisms, ensuring equitable participation and alignment with national development goals.

The regulatory framework will be informed by international best practices, including the Core Carbon Principles of the ICVCM and other emerging global standards. Ethiopia will also work towards ensuring coherence between its voluntary market rules and the requirements for ITMO authorization under Article 6.2, particularly for projects seeking dual recognition.

The strategy emphasises the importance of public–private partnerships in designing and implementing VCM projects that reflect national priorities.

The government of Ethiopia will work in collaboration with private developers, financiers, and civil society to facilitate high-impact, high-integrity projects in sectors that support conditional mitigation targets of Ethiopia's updated NDC, such as:

- Clean cooking and household energy access.
- Agroforestry and regenerative agriculture.
- Forest sector development and restoration of degraded landscapes.
- Off-grid renewable energy and decentralized electrification.
- Renewable grid electricity: While renewable energy generation may not be economically attractive for carbon crediting as explained above, the availability of affordable and clean power in Ethiopia enables various further high priority mitigation potentials.
- Electric mobility: Replacing fossil-fuel-based transport with e-mobility solutions is a flagship policy priority in Ethiopia, with initial success in incentivising the uptake of electric cars, especially in Addis Ababa. Carbon markets are an incentive mechanism that can accelerate the deployment of electric vehicles. As electricity is generated domestically and is fully renewable, Ethiopia can substantially save on foreign currency spending for fuel imports while generating additional revenue streams through carbon finance. Potentially, electrified railway infrastructure may be considered if viable implementation options are available.
- Energy efficiency in a variety of use cases, ranging from industry to households (e-cooking)
- Renewable energy exports: Ethiopia exports clean power to neighbouring countries with more emissions-intensive electricity grids, therefore reducing emissions in those countries. Ethiopia's NDC 2.0 already noted this opportunity, and AfDB had supported the development of a CDM methodology for power exchanges through interconnected grids as early as 2012. Yet, such carbon market potentials are subject to bilateral agreements between power seller and buyer country, and double counting of mitigation outcomes need to be avoided.

This list is not exclusive and will continually be updated based on the NDC 3.0 and sectoral priorities.

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**Transparency, integrity, and technological innovation:** To maintain the credibility and marketability of Ethiopian carbon credits, the strategy will prioritise transparency, data integrity, and digital innovation. This includes:

- Establishing rigorous MRV protocols, reporting requirements, and data disclosure mechanisms.
- Developing or interfacing with digital platforms and national registries to track credit issuance, transfers, and cancellations.
- Promoting third-party verification and real-time monitoring tools to enhance trust and attract premium buyers.

Such measures will not only increase market confidence but also position Ethiopia as a provider of high-integrity, verifiable, and socially responsible carbon credits.

**Broadening participation and unlocking co-benefits:** Ethiopia aims to use the VCM to broaden participation in carbon markets, particularly by enabling small and medium-sized enterprises (SMEs), local cooperatives, and community-led initiatives to access carbon finance. Capacity-building programs, technical assistance, and aggregation models will be developed to ensure that these stakeholders can meaningfully participate in project development and benefit-sharing arrangements.

The VCM will also serve as a catalyst for generating non-carbon co-benefits such as improved livelihoods, biodiversity conservation, and health outcomes thereby advancing Ethiopia's SDGs alongside its mitigation targets.

### 4.6. Development of National Carbon Market Framework

Ethiopia's national carbon market approach seeks to complement international mechanisms by building a domestically anchored carbon market framework that aligns with national development goals and supports broader climate finance mobilisation. At the centre of this domestic strategy is the strengthening of the VCM as a flexible, high-impact instrument to incentivise emissions reductions from domestic economic actors, while mobilising private investment and fostering innovation across priority sectors.

The national carbon market will strategically focus on harnessing mitigation opportunities from high-emitting, high-value market segments, enabling institutions, businesses, and individuals to voluntarily offset their emissions footprint.

**Strategic targeting of key domestic market segments:** A targeted domestic VCM framework will prioritise economic sectors that combine high mitigation potential with financial capacity to participate. Priority sectors include:

- **Domestic aviation:** As Africa's largest airline and a strategic national asset, Ethiopian Airlines presents a prime opportunity to mainstream carbon market instruments. The government will explore integrating voluntary carbon offset options into the airline's booking systems for both domestic and international flights. These offsets could be sourced from Ethiopian projects in forestry, clean cooking, biogas, and e-mobility. Such integration supports the airline's sustainability branding while creating consistent demand for domestic carbon credits.

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- **Tourism and events:** Ethiopia's growing international tourism industry and its ambition to host major global conferences (e.g., African Union summits, climate and business forums) offer potential for embedding voluntary offset schemes into hotel bookings, travel packages, and event registration systems. Tailored offsetting products can serve both sustainability goals and customer preferences for climate-conscious services.
- **Emerging high-value sectors (finance and technology):** As Ethiopia continues to industrialise and attract private capital, actors in finance, ICT, and green industrial zones may voluntarily pursue carbon neutrality as part of their Environmental, Social, and Governance (ESG) commitments. Access to verified domestic carbon credits will support green branding, meet investor expectations, and position Ethiopia as a climate-responsible investment destination.

While Ethiopia does not currently plan to introduce an economy-wide emissions trading system (ETS) due to limited industrial emissions and administrative complexity, the country will explore targeted carbon pricing instruments that complement voluntary market development and maintain affordability for low-income households.

Key carbon pricing measures under consideration include:

- Ethiopia will explore to establish **mandatory carbon pricing for incoming international flights**, as practiced in the EU, Djibouti and other jurisdictions. Such an instrument generates significant revenues for Ethiopia without hurting domestic consumers and industries. The significance of Ethiopian Airlines and Addis Ababa as a regional aviation hub allows for significant scale of such an approach, which is aligned with similar instruments in other jurisdictions. Allowing for offset credits to be used for partial compliance with such a carbon pricing system creates additional demand for Ethiopian carbon credits.
- **Emissions-based import duties:** Ethiopia has already piloted differentiated import duties on vehicles based on greenhouse gas (GHG) intensity, with higher tariffs applied to high-emission vehicles. This measure discourages inefficient imports while preserving affordability of clean mobility options such as two- and three-wheeled vehicles. Similar pricing structures may be extended to diesel generators and other high-emission appliances.
- **Subsidy reform as indirect carbon pricing:** Fossil fuel subsidies, particularly on gasoline, represent a major distortion that encourages overconsumption and increases fiscal burdens. Ethiopia will consider gradual, socially sensitive reforms to reduce such subsidies, reallocating savings toward climate-resilient infrastructure, clean energy access, and targeted support for vulnerable households. Social protection measures such as cash transfers or in-kind access to electric cooking technologies will ensure equity throughout the transition.
- **Baseline-and-crediting systems for hard-to-abate sectors:** Ethiopia will prioritise baseline-and-crediting mechanisms for sectors where emissions reductions are technically viable but economically challenging, such as cement and construction materials. These sectors are not suitable for a full ETS due to their limited scale, but crediting frameworks like those previously piloted under the CDM can be revived under Article 6.4 or leveraged in voluntary markets. Firms in these sectors will be able to generate tradable credits, monetising emissions reductions through bilateral cooperation or VCM transactions.

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**Evolving toward sectoral and policy-based crediting approaches:** In addition to traditional project- and programme-based carbon market activities, Ethiopia will explore new activity types under Article 6 and the VCM that enable sectoral and policy-based crediting. This includes:

- Incentivising low-emission pathways through sector-wide regulatory frameworks integrated with crediting incentives.
- Designing performance-based incentives for achieving measurable sectoral benchmarks, such as energy efficiency in manufacturing or renewable energy integration.
- Aligning fiscal and regulatory policies with carbon market mechanisms to encourage private sector compliance and investment.

## 5. Strengthening carbon market access

To strengthen access to carbon market opportunities for both government and non-state actors in Ethiopia, the following actions will be taken:

- **Enhance institutional coordination** by implementing proposed institutional responsibilities and codifying them into a national carbon market law to provide legal status to carbon market regulations and transactions.
- **Strengthen national expertise and human capacity** focusing on government institutions and experts, carbon market activity implementers, industry representatives, service providers (consultants, third-party auditors etc.), in cooperation with development partners and relevant experts.
- Strengthen **access to finance** for carbon market activities (through awareness-raising for carbon markets in public and private financing institutions, MFIs) as well as identification of carbon market potential in development finance institutions such as World Bank, AfDB etc.
- **Proactive outreach to carbon buyers** (UK, Norway, Singapore, Sweden, Switzerland, UAE) and investors to work towards stable demand for high quality carbon credits from Ethiopia. This may require agreeing on key specific features of the carbon market activities with the potential buyers.
- **International and regional experience exchange** (e.g. through UNFCCC RCC East and Southern Africa and Eastern African Alliance on Carbon Markets and Climate Finance) to enable lesson-learning with neighbouring countries on how to best engage in international and domestic carbon markets and carbon pricing.

To promote Ethiopia's carbon market potential and carbon credit offerings, the government of Ethiopia will pursue the following key initiatives:

- **Engage in multilateral diplomacy platforms, carbon market networks and conferences.** This includes designing and hosting public and closed-door events to promote Ethiopia's carbon market potential to key stakeholders, e.g. during Africa Climate Summits, UNFCCC meetings, other international and diplomatic fora. Ethiopia has a strong tradition of leadership in climate diplomacy and has led the LDC group on carbon market negotiations. Leveraging these experiences for effective carbon market implementation and market access will benefit Ethiopia. Ethiopia will use the opportunity of hosting the Africa Climate Summit in 2025 as a platform for showcasing the potential of high integrity carbon markets for the country and the region.
- **Leverage bilateral relationships and regional diplomatic institutions** such as African Union Commission (AUC), United Nations Development Programme (UNDP), United Nations Economic Commission for Africa (UNECA), United Nations Children's Fund (UNICEF), the World Bank to generate visibility with investors and carbon buyers.
- **Encourage complementary, private sector initiatives** (e.g. solar energy, e-mobility conferences). This can be used as an important forum to facilitate new partnerships, and help government understand where market participants see bottlenecks for their growth trajectories. Related to this, Ethiopia intends to utilise carbon markets as a catalyst for incentivising investments into innovative technologies.

## **6. Governance and institutional framework**

### **6.1. Governance and institutional responsibilities**

Implementing Ethiopia's national carbon market strategy relies on a clear and robust institutional framework. Ethiopia will develop a national carbon market law which defines clear roles and responsibilities to each ministry and authority. These responsibilities enable Ethiopia to meet the participation requirements of the Paris Agreement Article 6 rulebook effectively while anchoring the institutional responsibilities and arrangements for carbon markets within Ethiopia's climate policy architecture.

The carbon market governance structure shall be based on the CRGE governance architecture, leading to the following institutional responsibilities:

#### **Roles and responsibilities of MoPD:**

The Ministry of Planning and Development serves as the lead coordinating institution for Ethiopia's engagement in carbon markets under Article 6 of the Paris Agreement. In line with its national planning and climate policy mandate, MoPD is responsible for convening and guiding a collaborative, multisectoral governance framework that ensures all carbon market activities are aligned with Ethiopia's climate and development priorities. MoPD will also be responsible for enacting necessary climate policies, strategies and laws. Specifically, MoPD shall:

- Act as Ethiopia's DNA for carbon market cooperation under the Paris Agreement and serve as the official UNFCCC focal point for engagements related to Article 6, including participation in the ETF.
- Coordinate the national carbon market governance system through a structured, inclusive, and transparent process that involves relevant sectoral ministries, regional governments, civil society, and private sector actors.
- Lead the strategic alignment of carbon market activities with national climate policy instruments, including the NDC, LT-LEDS, and 10-Year Development Plan, in collaboration with the Ministry of Finance and other key institutions.
- Serve as the secretariat for the multisectoral governance body responsible for reviewing and authorizing ITMOs, corresponding adjustments, and engagement in cooperative approaches.
- Facilitate and lead inter-ministerial consultation and coordination for the evaluation, approval, registration and monitoring of mitigation activities under Article 6.2, Article 6.4, and the Voluntary Carbon Market, ensuring that sectoral expertise and regional perspectives are fully aligned.
- Establish and operate a national carbon registry and MRV system, closely working with other line ministries and technical institutions, to ensure transparent tracking of emissions reductions, ITMO authorizations, and transfers.
- Develop national procedures and guidelines for project approval, stakeholder consultation, environmental and social safeguards, and benefit-sharing, consistent with international best practices.

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- Convene and facilitate decision-making platforms-when necessary to assess, validate, and recommend carbon market-related actions, including authorization of mitigation outcomes.
- Coordinate the preparation and submission of required international reports, including BTRs, Initial Reports under Article 6, and annual information on corresponding adjustments.
- Serve as the contracting authority for all Emission Reduction Purchase Agreements (ERPAs) on behalf of the Government of Ethiopia with international buyers, and bilateral or multilateral partners.
- Build capacity of stakeholders and institutional strengthening of sectors involving in the carbon market process including providing training, technical assistance, and overall administrative guidance to project developers and implementing agencies.

### **Roles and responsibilities of Ministry of Finance**

The Ministry of Finance (MoF) plays a central role in ensuring the fiscal and contractual governance of Ethiopia's participation in international carbon trading, in line with its mandate over public financial management, external finance, and sovereign transactions. Specifically, MoF shall:

- Facilitate the issuance of guarantees to cover contractual related risks (e.g. MIGA).
- Lead and ensure that revenues from carbon market transactions are equitably distributed, effectively utilized and allocation risk minimized, particularly by relevant public institutions.
- Ensure that carbon revenues are effectively managed, transparently reported, and directed toward climate-resilient development priorities, in line with national budget and public investment frameworks.
- Lead the mobilisation of climate finance linked to carbon market participation, including co-financing, blending arrangements, and results-based payments.

### **Roles and responsibilities of sector ministries**

Sector ministries and institutions play a vital role in the planning, implementation, and oversight of carbon market activities within their respective mandates. In alignment with Ethiopia's NDC, the national development plan, and relevant sector strategies, they contribute to a coordinated, multisectoral governance approach for Article 6 and voluntary carbon market participation.

Specifically, sector ministries will:

- Identify and prioritise mitigation actions with carbon market potential within their sectors, ensuring alignment with sectoral contributions to Ethiopia's NDC targets and long-term development goals.
- Integrate carbon market-relevant activities into sectoral strategies, budgets, and annual plans, and submit these for inclusion in the national carbon market strategy through MoPD-led coordination mechanisms. Sector ministries will aggregate the respective carbon market plans for inclusion and approval into the sector's planning cycles. Moreover, sectors will cooperate in carbon market on evaluating requests by project developers for activity approval and ITMO authorization, as well as providing access to necessary information and data.

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- Sector ministries will strengthen the sector-specific enabling environment for relevant technologies to further incentivise actors to generate carbon credits from sector-specific initiatives.

### Roles and responsibilities of relevant authorities

A range of relevant regulatory and technical authorities will support the effective implementation, monitoring, and oversight of Ethiopia's carbon market framework. These institutions, operating under their respective legal and technical mandates, play a complementary role in ensuring the environmental integrity, regulatory and compliance of carbon market activities.

Specifically, relevant authorities shall:

- Provide technical data and information required for emissions baselining, monitoring, reporting, and verification, in close coordination with the MoPD and sectoral ministries.
- Support the development and enforcement of sector-specific standards and regulations that contribute to carbon market readiness, such as:
  - ✓ Minimum energy performance standards (e.g., for appliances, vehicles, or industrial equipment),
  - ✓ Building codes, or pollution control measures that indirectly support emissions reductions.
- Participate in technical review and quality assurance processes, where applicable, by providing input on methodology selection, emission factors, or regulatory alignment of proposed carbon market activities.
- Where appropriate, the Ethiopian Environmental Protection Authority (EPA) may:
  - ✓ Serve as an independent verifier or reviewer of mitigation outcomes, particularly with respect to environmental compliance and co-benefit claims.
  - ✓ Contribute to the setting and evaluation of environmental and social safeguards, ensuring that carbon market projects do not result in adverse impacts and are aligned with national sustainability standards.

### Roles and responsibilities of regional and local governments

In Ethiopia's federal system, regional governments play a primary role in the design, approval, and implementation of carbon market activities. Specifically, regional governments shall:

- Actively participate in the initiation and design of carbon market activities involving land, forests, agriculture, and other regionally managed resources, in line with their constitutional mandates and resource governance authority.
- Serve as primary custodians of carbon assets on public and community lands and play a central role in addressing and clarifying carbon rights in accordance with federal guidance and applicable regional laws.
- Actively engage in the carbon project development within their territories, including the use of land, natural resources, and community assets for the generation of carbon credits.
- Ensure legal and social due diligence, including verifying land tenure arrangements, customary rights, and the free, prior, and informed consent (FPIC) of affected communities in accordance with international safeguards and national standards.

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- Support project developers and sector ministries by facilitating access to local data, knowledge, and engagement of the stakeholders essential for project baselining, activity design, and community mobilisation.
- Participate in validation, monitoring, and verification processes, including joint field visits, data verification, and endorsement of mitigation results for MRV and registry purposes.
- Support the implementation of local benefit-sharing arrangements, ensuring that carbon revenues are fairly distributed to communities, local institutions, and other stakeholders involved in carbon asset stewardship.
- Ensure integration of carbon market activities into regional and woreda-level development plans, forest management plans, and climate adaptation strategies.
- Strengthen institutional and human capacity at the local level through awareness raising, technical training, and coordination with federal authorities to support effective participation in carbon markets; and
- Initiate and manage community-based carbon market projects and engage in trade negotiations with buyers of the carbon credits within their jurisdiction.

### **Roles of development partners**

Given the increased complexity and compliance obligations of Article 6, Ethiopia welcomes support from partners who share its commitment to environmental integrity, social inclusion, and transformational climate action.

Development partners could play an essential role in supporting Ethiopia's carbon market development by providing technical assistance, financial resources, and investment partnerships that enhance national readiness and enable high-integrity engagement under the Paris Agreement. Specifically, development partners are expected to:

- Support national capacity-building and carbon market infrastructure arrangement through targeted technical assistance to strengthen institutional, legal, and technical readiness for participation in international and domestic carbon markets, including Article 6.2 and 6.4 of the Paris Agreement mechanisms.
- Provide coordinated financial and technical resources in alignment with national priorities, ensuring complementarity with Ethiopia's NDC, LT-LEDS, and 10YDP.
- Promote environmental and social safeguards by aligning their assistance with Ethiopia's values and principles, including co-benefit maximisation, benefit-sharing, and protection of vulnerable communities.
- Facilitate technology development and transfer and innovation, including through investments in strategic sectors such as e-mobility, green industries, clean cooking, renewable energy, and nature-based solutions, which can be supported through carbon market mechanisms.
- Engage in cooperative approaches as sovereign carbon buyers, where relevant, by entering into bilateral Article 6.2 agreements or participating in Article 6.4 programs that include long-term offtake commitments for high-quality carbon credits.

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- Combine technical assistance with investments or carbon credit purchase agreements to maximise impact, create value for Ethiopia's economy, and promote sustainable development outcomes in alignment with national development goals.
- Collaborate with the Government of Ethiopia to support transparent reporting, and accounting under the ETF, and to ensure that all carbon market activities contribute meaningfully to the country's climate and development objectives.
- Respect country ownership and policy space, by aligning support with nationally defined frameworks, systems, and coordination mechanisms established by the GoE.

### Roles and Responsibilities of the private sector

The private sector is a critical engine for innovation, investment, and delivery in Ethiopia's carbon market landscape. As project developers, technology providers, financiers, aggregators, and market participants, private entities have the capacity to mobilise resources, deploy scalable solutions, and expand mitigation efforts across multiple sectors. Ethiopia's national carbon market strategy recognises the private sector as a core partner in delivering both climate and development outcomes and seeks to create an enabling environment that facilitates productive, responsible, and transparent private sector engagement.

In alignment with Ethiopia's carbon market framework and national development goals, the private sector shall have the following roles and responsibilities:

- **Project development and implementation:** Private sector actors including companies, cooperatives, social enterprises, and service providers are expected to initiate, design, finance, and implement carbon market projects across sectors such as clean energy, forestry, transport, waste, industry and agriculture, among others. They shall ensure that projects are developed in accordance with national eligibility criteria, approved methodologies, and relevant safeguard requirements.
- **Investment and innovation:** Businesses will play a vital role in mobilising capital for climate-smart technologies and nature-based solutions that generate verified emission reductions and removals. The private sector is encouraged to explore opportunities in high-impact areas such as e-mobility, green manufacturing, clean cooking, solar irrigation, and reforestation, among others with the goal of producing tradable carbon credits that meet both compliance and voluntary market standards.
- **Adherence to environmental and social standards:** All private sector-led carbon market activities must comply with Ethiopia's ESG standards, as well as applicable safeguard frameworks. This includes conducting participatory consultations, securing FPIC where relevant, and delivering measurable co-benefits that contribute to Ethiopia's Sustainable Development Goals (SDGs).
- **Transparent Monitoring, Reporting, and Verification:** Private actors are responsible for establishing and maintaining robust MRV systems at the project level. They must ensure timely data collection, accurate reporting, and independent verification in accordance with the national MRV guidelines and any applicable Article 6 rule of the Paris Agreement or voluntary carbon market requirements.
- **Respecting carbon rights and benefit sharing:** The private sector must recognise the carbon rights and benefit sharing frameworks defined under national and regional law.

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Project developers shall ensure that benefit-sharing arrangements are fair, transparent, and fully consistent with Ethiopia's national carbon trading benefit-sharing framework.

- **Collaboration with government and communities:** Private sector actors are expected to engage constructively with government institutions at national and regional levels, ensuring alignment with sectoral policies and local development priorities. They should also work in close partnership with communities to build local ownership, enhance social legitimacy, and support inclusive project governance.
- **Capacity development and technology transfer:** Enterprises operating in the carbon market space are encouraged to contribute to domestic capacity-building by transferring knowledge, tools, and technologies to Ethiopian partners and local personnel. This includes supporting training programs, mentoring local project developers, and investing in long-term institutional development.
- **Participation in market platforms and governance dialogues:** Private sector entities are invited to actively participate in carbon market stakeholder dialogues, whenever available convened by the MoPD or other relevant bodies. This engagement ensures continuous feedback, innovation sharing, and policy responsiveness.
- **Compliance and integrity:** All private sector participants must adhere to national registration and licensing requirements, avoid fraudulent or speculative practices, and respect the integrity of the carbon crediting process. Failure to comply with legal and procedural requirements may result in sanctions, including the revocation of approvals or project eligibility. This is further elaborated in Ethiopia's national carbon market law.

### Roles and Responsibilities of market intermediaries

As Ethiopia advances the development of a high-integrity, inclusive, and efficient carbon market, the role of market intermediaries, such as brokers, aggregators, traders, trade exchange platforms, verifiers, and technical consultants, will be essential in facilitating transactions, reducing barriers to entry, and enhancing market transparency. These entities act as connectors between project developers, credit buyers, regulatory bodies, the DNA and investors, and are critical to the operational success of both domestic and international carbon market participation.

Ethiopia will establish a structured framework to regulate and coordinate the engagement of intermediaries, ensuring that their roles are aligned with international best practices, including those set out by the ICVCM, the International Emissions Trading Association (IETA), and evolving guidance under Article 6 of the Paris Agreement.

Specifically, the roles and responsibilities of market intermediaries will include:

- **Brokers** will facilitate transactions between credit sellers and buyers without taking ownership of the carbon credits. They are expected to operate under a transparent and accountable licensing regime to be established by the Government of Ethiopia. Brokers must disclose all fees and commissions, uphold fiduciary responsibility, and adhere to ethical conduct standards, including conflict-of-interest and anti-manipulation provisions. They will also be required to report transaction details to the national carbon registry to ensure transparency and traceability.
- **Aggregators** will play a key role in bundling smaller-scale carbon credit projects—particularly those involving households, smallholder farmers, or community groups—into marketable

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portfolios. Aggregators are responsible for ensuring that all aggregated activities are eligible, properly registered, and compliant with national safeguard policies. They will also support monitoring and verification activities, facilitate benefit-sharing arrangements with project participants, and reduce transaction costs for dispersed actors who would otherwise face barriers to entry.

- **Traders and market-making entities** may buy and sell carbon credits for their own account or through secondary market platforms. Their role is to provide liquidity and price discovery, helping to stabilize market conditions. Traders will be subject to capital adequacy requirements, robust internal controls, and anti-money-laundering and know-your-customer standards. They must also report market activity to ensure compliance with national surveillance rules and contribute to Ethiopia's market integrity.
- **Carbon exchanges and trading platforms**, once introduced or linked to internationally recognised platforms, will serve as formal venues for listing and trading standardized carbon credit contracts. They will be required to operate under licenses issued by the relevant financial or commodities regulatory authorities and ensure that all credits listed meet national quality criteria. Exchanges must provide secure clearing and settlement infrastructure, manage counterparty risk, and monitor for any irregular or manipulative trading behaviour.
- **Verification and consulting service providers** will offer technical, legal, and advisory services across the carbon project cycle, including baseline setting, verified emission reductions, safeguard assessments, and credit issuance documentation. These providers must obtain accreditation from recognised international bodies and the Ethiopian accreditation authority. They are expected to operate with full independence, uphold strict quality assurance procedures, and contribute to domestic capacity-building through training and knowledge transfer.

Across all intermediary roles, the Government of Ethiopia will institute a registration and oversight mechanism, requiring all market participants to register in the national carbon registry. This mechanism will include clear codes of conduct, performance standards, and disclosure requirements to uphold integrity, accountability, and market efficiency.

In addition, intermediaries will be required to comply with Ethiopia's forthcoming Legal Framework on Carbon Market, ensuring that their service structures and fee models do not undermine equitable distribution of carbon revenues to project developers, local communities, and other beneficiaries.

### 6.2. Operational procedures

Carbon market operational procedures serve Ethiopia to meet the participation requirements of the Article 6 rulebook, as well as those of carbon market approaches (bilateral cooperation, other international market mechanisms such as ICAO CORSIA, voluntary carbon market crediting programmes) in which Ethiopia participates. Ethiopia will fully establish all relevant capacities required to meet activity cycle host country requirements for different carbon market instruments. These include in particular, but not exclusively:

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- **Approval of activities:** Approval of carbon market activities generating tradable mitigation outcomes will be based on eligibility criteria established by MoPD that will be applied to activities requesting approval. The key reference point for approval of activities will be the current version of Ethiopia's updated NDC including respective sectoral targets, policies and measures. Ethiopia further specifies eligibility criteria for carbon market approval and authorization processes to reinforce alignment with national priorities and minimize the risk of overselling, thereby ensuring that carbon market transactions do not jeopardise the achievement of NDC goals.
- National eligibility criteria for international transfer of mitigation outcomes include that these:
  - o Are part of Ethiopia's conditional NDC targets and do not conflict with achieving unconditional NDC targets
  - o Emissions and/or removals attributed to the activity are reflected in national GHG inventory reports
  - o Facilitate transition towards a net-zero economy and avoid fossil fuel lock-in
  - o Contribute to sustainable development goals
- Ethiopia also intends to establish a **positive list for automatic additionality**, as well as a whitelist of activity types from which GoE seeks to authorize ITMO transfers taking into account Ethiopia's NDCs and LT-LEDS under the Paris Agreement, and sustainable development priorities.<sup>2</sup> This will be defined as part of the national carbon law.
- **Authorization of internationally transferred mitigation outcomes** based on eligibility criteria will be aligned with Ethiopia's NDC. Ethiopia will ensure the integrity of its NDC by selling only mitigation outcomes originating from the conditional NDC targets as well as the criteria specified above
- **Evaluation and approval of methodologies** if required, developed by carbon crediting programmes, including sector-specific PACM's standardized baselines for priority activity types.
- **Strengthen domestic expert service provider capacities** e.g. for validation and verification services, as well as technical experts/ consultants who can navigate the documentation requirements for relevant carbon crediting programmes. This reduces carbon project transaction costs and generates highly qualified job opportunities in Ethiopia.

**Fee structures** (administrative): GoE shall establish transparent and predictable fee structures for authorization of ITMOs, as well as additional carbon market related services as appropriate (e.g. issuance of certified mitigation outcomes, if applicable), will be elaborated in subsidiary regulation to the carbon market law. Any fees will transparently be made publicly available.

**Use of fee-based revenues:** The GoE will allocate adequate resources through the federal budget to support the effective functioning of the institutions responsible for managing and regulating the carbon market. The structure and application of carbon-market related fees will be clearly outlined in subsidiary regulations to the carbon market law and publicly disclosed to ensure transparency and accountability.

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<sup>2</sup> A positive list can provide clarity and predictability for project developers and investors when deciding whether to engage in cooperation with Ethiopia.

### 6.3. Infrastructure

MoPD shall establish the necessary infrastructure to track all ITMO transactions from any carbon market crediting programme. Ethiopia intends to make full use of existing carbon market registries established by UNFCCC, bilateral cooperation partners as well as voluntary carbon market crediting programmes infrastructure. Depending on overall carbon market development, Ethiopia shall further consider the benefits and risks of establishing a national carbon market transaction registry. Registries are crucial sources of data and information about any carbon credit transactions originating from Ethiopia. Therefore, MoPD will ensure that information from the relevant carbon market registries with activities in Ethiopia will be transparently and fully considered in accounting of carbon credit transactions in Ethiopia's Biennial Transparency Report.

### 6.4. Safeguards and grievance mechanisms

Ethiopia will apply and potentially establish appropriate safeguards and grievance mechanisms as per the Article 6 rulebook. The newly adopted A6.4 sustainable development tool<sup>3</sup> and the International Finance Corporation (IFC) Performance Standards (also applied by Green Climate Fund) provide established international safeguards to assess environmental and social risks of carbon market activities. Additional sector-specific regulatory requirements for environmental and social safeguards apply.

### 6.5. National carbon market law

Ethiopia shall establish a national carbon market law that codifies the carbon market strategic priorities described above to provide legal status. Subsidiary legislations (regulations and directives) and sectoral regulatory frameworks will complement the national carbon market law for specific purposes such as establishing a benefit-sharing mechanism which specifies the distribution of carbon market benefits among project developers, government and local communities, as well as fee structures and operational procedures.

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<sup>3</sup> Article 6.4 sustainable development tool: <https://unfccc.int/sites/default/files/resource/A6.4-TOOL-AC-001.pdf>

## 7. Benefit Sharing

**Ethiopia's National Carbon Market Legal Framework** will establish a transparent and equitable system for distributing financial and non-financial benefits, among other carbon market operation and legal procedures from carbon credits. The framework should ensure fair benefit sharing among stakeholders, including federal and regional governments, local communities, and the private sector, while promoting inclusivity, accountability, and sustainability. It will outline principles such as performance-based distribution, proportionality, and equity, and defines criteria for benefit sharing based on sectoral contributions, stakeholder engagement, and alignment with international climate commitments.

The national carbon legal framework categorises benefits into **monetary** (e.g., revenue sharing, performance-based payments) and **non-monetary** (e.g., capacity building, community investments) benefit-sharing types, with specific distribution models tailored to sectors (land use, forestry, energy, and waste management etc). It emphasises vertical (across government levels) and horizontal (among stakeholders at the same level) benefit-sharing mechanisms, ensuring that generated revenues would reach local communities and incentivise private sector participation.

Institutional roles will be clearly defined, across stakeholders involved in the carbon market engagement processes. A financial and governance MRV framework is embedded in the system to ensure transparency, while grievance mechanisms address disputes to ensure accountability.

## 8. Advancing the implementation of priority actions

### 8.1. Define sectoral priorities for carbon markets, based on updated NDC and 10YDP

Ethiopia's updated NDC and 10YDP provide a strong foundation for integrating carbon markets into national climate policy. Since the carbon market serves Ethiopia to achieve its NDC targets, carbon market priorities emerge from the most recent NDC which outlines concrete actions with carbon market potential, while the 10YDP defines clear sectoral targets and actions. Together, they present an opportunity to develop a sector-specific climate and carbon finance mobilisation strategy with carbon markets at its core.

The national carbon market strategy focuses on expanding the supply of high integrity carbon credits and the demand from domestic and international buyers, building on past CDM and VCM experiences. Key existing sectors include:

- **Clean cooking:** Transitioning households away from inefficient biomass stoves towards improved cookstoves, including biomass efficiency, fuel switch to renewable biomass, electric cookstoves, and biogas includes among the largest mitigation potentials in the NDC, and can achieve substantial co-benefits such as improved health. Ethiopia will carefully align domestic activities with international best practices on methodological parameters in order to avoid controversies around over-crediting. Moreover, specific incentives will be developed for zero-emissions technologies (in particular in the e-cooking sub-sector).
- **Off-Grid renewable energy for productive use:** Solar irrigation, solar water pumping, cold storage (both for agriculture and health sectors), and other productive technologies displace diesel use and support rural livelihoods. Ethiopia's abundant potential to generate clean electricity offers potential for high impact carbon market activities in this space.
- **Renewable grid electricity:** While renewable energy generation may not be economically attractive for carbon crediting as explained in the preceding sections, the availability of affordable and clean power in Ethiopia offers high priority mitigation potentials:
  - **Electric mobility:** Replacing fossil-fuel-based transport with e-mobility solutions is a flagship policy priority in Ethiopia, with initial success in incentivising the uptake of electric cars, especially in Addis Ababa. Carbon markets are an incentive mechanism that can accelerate the deployment of electric vehicles. As electricity is generated domestically and is fully renewable, Ethiopia can substantially save on foreign currency spending for fuel imports while generating additional revenue streams through carbon finance. Potentially, electrified railway infrastructure may be considered if viable implementation options are available.
  - **Energy efficiency** in a variety of use cases, ranging from industry to households (ex: e-cooking)
  - **Renewable energy exports:** Ethiopia exports clean power to neighbouring countries with more emissions-intensive electricity grids, therefore reducing emissions in those countries. Ethiopia's NDC 2.0 already noted this opportunity, and AfDB had supported the development of a [CDM methodology](#) for power exchanges through interconnected grids as early as 2012. While such carbon market potentials are subject to bilateral agreements between the power-selling and power-buying countries, caution will be provided to avoid double counting of mitigation outcomes.

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- **Forest sector development and restoration of degraded landscapes:** Building on the Oromia Forested Landscape Programme through a national expansion of jurisdictional REDD+, complemented by expanding forest protection and restoration can secure long-term carbon finance. The Humbo farmer-managed assisted natural regeneration project was Africa's first forestry project in the CDM and can be replicated across the country. Reforestation and land restoration may also benefit from increasing attention on carbon removals, which could also be expanded to new types of technologies such as biochar in soils. The newly promulgated Green Legacy Initiative and Degraded Land Rehabilitation Special Fund law will become a flagship for forest restoration in Ethiopia, with significant carbon crediting potential.

The GoE supports the involvement of various non-state organizations as project developers, to fully utilize their complementary strengths. Carbon markets are not separate markets from the sectors in which they operate. Therefore, the strategy recognises and empowers the potential of diverse carbon market stakeholders in their respective value chains:

- **Commercial private sector:** the government will provide regulatory clarity and facilitate market access to businesses intending to utilize carbon finance to improve their operations e.g. in agro-processing, renewable energy, forestry, waste, transport to scale operations using carbon revenue.
- **Non-Profits and cooperatives:** the government will support non-profit and local grassroots actors to lead community-based, decentralised programmatic activities — particularly in afforestation, clean cooking, off grid electrification, and sustainable agriculture.

Sectoral carbon market priorities and opportunities will be regularly updated in line with revisions to central policy documents such as the NDC and 10YDP.

### 8.2. Building on existing carbon market activities

Ethiopia has been a carbon market pioneer in different types of carbon markets, including the CDM, VCM, jurisdictional REDD+, and bilateral cooperation. Building on these experiences and foundation is a key opportunity. Ethiopia will ensure full alignment of existing activities with the Paris Agreement Rulebook (Art. 6, 13). Therefore, using the potential of the Standardized Crediting Framework (governance framework, technical committee, WB support), the transition from CDM activities to PACM are an opportunity to rapidly build a carbon market portfolio that meets all updated requirements, and can be scaled further. Ethiopia has ensured alignment with sectoral policies and programmes before and will continue the path to aligning carbon market and climate finance mobilisation with national policy. Showcase policies that illustrate this potential include:

**National Biogas Programme:** Hosted by MOWE, this programme has been the key vehicle for implementing biogas digesters supported through the carbon market, initially under the Clean Development Mechanism (CDM), and more recently as a pilot activity under the SCF. The programme plays a crucial role in promoting sustainable rural energy solutions and improving livelihoods through clean cooking alternatives.

**National Electrification Programme:** Similarly, the National Electrification Programme, which serves as the primary policy instrument for scaling up off-grid electrification technologies across the country. Also led by MOWE, the programme has benefited from carbon finance under the CDM and subsequently SCF pilot activities (solar lanterns and home systems). This programme has particular potential not only to further expand in scale, but also to move beyond the current technology focus

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to also include productive use technologies such as solar irrigation and cooling and electrifying social institutions.

Similar cases without prior carbon market support include the national **E-Mobility Strategy** and **Clean Cooking Strategy**, which can benefit from future carbon market activities. Further sectoral policies and programmes will be screened for their carbon market potential under the leadership of the MoPD and sector ministries.

### 8.3. Initiating new activities

#### 1. Scaling Ethiopia's carbon market: unlocking public and private sector potential

Ethiopia's updated NDC provides improved clarity on implementing sectoral priorities and offers a framework for advancing carbon market engagement under Article 6 of the VCM. Ethiopia leverages this opportunity by activating carbon credit supply across public enterprises, the private sector, and community-based actors.

- **Leveraging government-owned enterprises** offer significant, underutilized potential for carbon market participation. **Ethiopian Investment Holdings (EIH)** as key entity overseeing Ethiopia's public enterprises will undertake specific steps to improve the performance of these enterprises in unlocking their carbon market potential. This includes potentially providing strategic oversight, investment coordination, and carbon asset management across state-linked enterprises.
- **Ethiopian Airlines** is a leading international carrier which may participate in ICAO's CORSIA scheme for operations in participating jurisdictions as well as several other carbon pricing schemes (e.g. EU, Djibouti). EA may therefore emerge as a stable buyer of domestic carbon credits which benefit national mitigation projects (e.g. Sustainable Aviation Fuel, electrified ground transport) that generate credits for internal use or resale.
- **Development Bank of Ethiopia (DBE)** has played a central role in scaling climate technologies. Strengthening DBE's capacity to manage and expand these PoAs—particularly for productive use of rural electrification—will enable broader credit generation and open access to private actors.
- **Other strategic sectors** have further potential for carbon market participation
  - The **sugar industry** has underutilized credit generating potential from ethanol, bagasse-based energy, solar irrigation, and reforestation.
  - The **cement** sector has shown carbon market potential in clinker substitution and may be suitable for sectoral approaches to carbon crediting.
  - **Industrial parks** provide further opportunities in energy efficiency, green infrastructure, and waste-to-energy.
  - The **waste sector** provides opportunities in landfill gas management, composting and wastewater treatment

#### 2. Facilitating private sector engagement

The commercial private sector is key to scaling up both carbon credit supply and voluntary demand:

- **As project developers:** In this context, intermediaries or aggregators play a critical role in Ethiopia, where land-based emissions are substantial but largely originate from smallholder

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farming. This fragmentation makes it difficult to generate carbon credits at scale without effective aggregation. Private developers, including community organizations such as cooperatives, have been actively working to aggregate smallholder farmers and dispersed households to generate credits in areas like efficient cookstoves, agroforestry, and biogas. Private sector involvement is essential to overcome financial barriers and transaction costs as well as the challenges of monetising and aggregating credits that are typically small-scale and scattered unless properly consolidated. Many SMEs and innovators in Ethiopia also have strong potential to generate carbon credits through projects in renewable energy and e-mobility.

- To fully realize this potential, the strategy will:
  - Facilitate improved access to finance, including concessional loans and results-based financing.
  - Strengthen capacity building to enhance skills and knowledge for carbon market participation.
  - Streamline institutional procedures for project approval and registry access.
  - Level the playing field to ensure fair and inclusive participation in existing programmatic carbon market initiatives.
- **As carbon credit buyers:** To foster this potential, the strategy encourages voluntary credit purchases by businesses with international exposure and high-income clients e.g. in tourism, events hosting, and export-oriented sectors such as coffee and horticulture.

### 3. Enabling community-based and non-profit actors

Non-profits and cooperatives are essential for decentralised, socially inclusive carbon projects, particularly in rural areas with difficult investment conditions that may be unattractive to commercially oriented private sector organizations. **Clean cooking, reforestation, agroforestry, and solar adoption** are prime sectors for community-scale crediting. The strategy will mobilise support needed to cover upfront project development costs and provide technical assistance for MRV and registration. Aggregation through PoAs allows small activities to access carbon finance.

A robust, inclusive carbon market strategy for Ethiopia must integrate government-led enterprises, the commercial private sector, and non-state actors. Ethiopian Airlines can anchor demand, while DBE and EIH scale supply. The private sector brings innovation and investment, and grassroots actors ensure equity and reach. Taken together, this ecosystem can unlock carbon market finance, reduce emissions, and drive sustainable development. To this end, a more robust, ecosystem-wide support system will be provided to enable Ethiopia to become a hub for carbon credit generation and sales in Africa.

## 9. Means of implementation

Achieving Ethiopia's ambitious NDC and long-term development targets requires substantial means of implementation. Under the Paris Agreement, means of implementation are formally recognised as international support for developing countries in the form of climate finance (including carbon finance), technology transfer, and capacity building. For Ethiopia, these pillars must be tailored to the evolving needs of its emerging carbon market participation, institutional landscape, and economy.

### Capacity Building: Institutional and Market Readiness

Effective participation in international carbon markets and fulfilment of Paris Agreement obligations – particularly under Article 6 – demands a high level of institutional and human resource capacity, especially within government agencies.

- **Institutional capacity:** Central to this effort is the MoPD, which plays a coordinating role in Ethiopia's climate and carbon market governance. A dedicated and well-resourced Carbon Market Desk within MoPD is essential for managing the increasingly complex architecture of international carbon markets, including accounting, authorization, reporting, and tracking of mitigation outcomes. Staff must be trained in both international compliance rules and domestic implementation procedures to ensure Ethiopia's ability to engage credibly in bilateral and multilateral carbon trading arrangements. The technical working group will serve as an advisory forum.
- **Minimum staffing requirements:** While capacity can be expanded incrementally as the market grows, a **sufficient level of qualified personnel**—including legal experts, policy analysts, and MRV specialists—should be guaranteed from the outset. This ensures timely review of project proposals, issuance of administrative requests (activity approvals, ITMO authorizations), and fulfilment of transparency and reporting obligations under the ETF. MoPD will ensure a core team in the carbon market desk that draws on specialized expertise (e.g. legal, sectoral) as needed.
- **Private sector expertise:** Beyond government, capacity building will be extended to the domestic **market ecosystem** to ensure the availability of professional service providers. This includes **consultants, researchers, auditors, and technical advisors** who can support project developers, conduct validation and verification, and advise government agencies. A trained pool of national experts will reduce reliance on external consultants and improve cost efficiency.
- **Financing capacity through fee structures:** Cost-recovery models—such as **project registration fees, issuance charges, and service fees for authorizations or registry use**—can help sustainably finance institutional functions while reinforcing accountability and service quality.

**Technology transfer** is a critical enabler for Ethiopia's transition to a low-emission, climate-resilient economy and will be incentivised through carbon markets. It plays a dual role: supporting emissions reductions through access to advanced technologies and catalysing innovation and industrial development in strategic sectors. Ethiopia's emerging green industrial sector, especially in renewable energy, e-mobility agro-processing, industry, resource-efficient manufacturing etc., can benefit from international carbon market collaboration. Priority technologies include energy-

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efficient equipment, renewable energy-powered cold chains for perishable agricultural products, medical refrigeration (e.g. vaccines, medicines), and sustainable air conditioning.

Facilitating their transfer through public-private and technology partnerships with industrialised countries and high-tech private sector is vital.

**Access to climate finance** is a foundational component of Ethiopia's NDC implementation strategy. Carbon finance can play a significant role in attracting investment and generating **foreign currency** to support priority actions under the **NDC and 10YDP**.

- **Carbon revenue as implementation support:** Mitigation activities aligned with national targets—such as reforestation, clean cooking, electric mobility, and renewable energy—can generate high-quality carbon credits for sale at international markets, contributing directly to the financing of priority development programs.
- **Complementing public and donor finance:** Carbon finance complements other forms of climate finance from multilateral funds, development banks, and bilateral donors. It also has the potential to de-risk projects for private investors by adding a revenue stream based on performance.
- **Strengthening national systems:** Building robust financial governance systems—including transparent benefit-sharing, carbon registries, and results-based disbursement mechanisms—will be critical to ensure that carbon revenues are used effectively, equitably, and accountably.

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