



Creating an enabling environment for a Voluntary Carbon Market in Kenya

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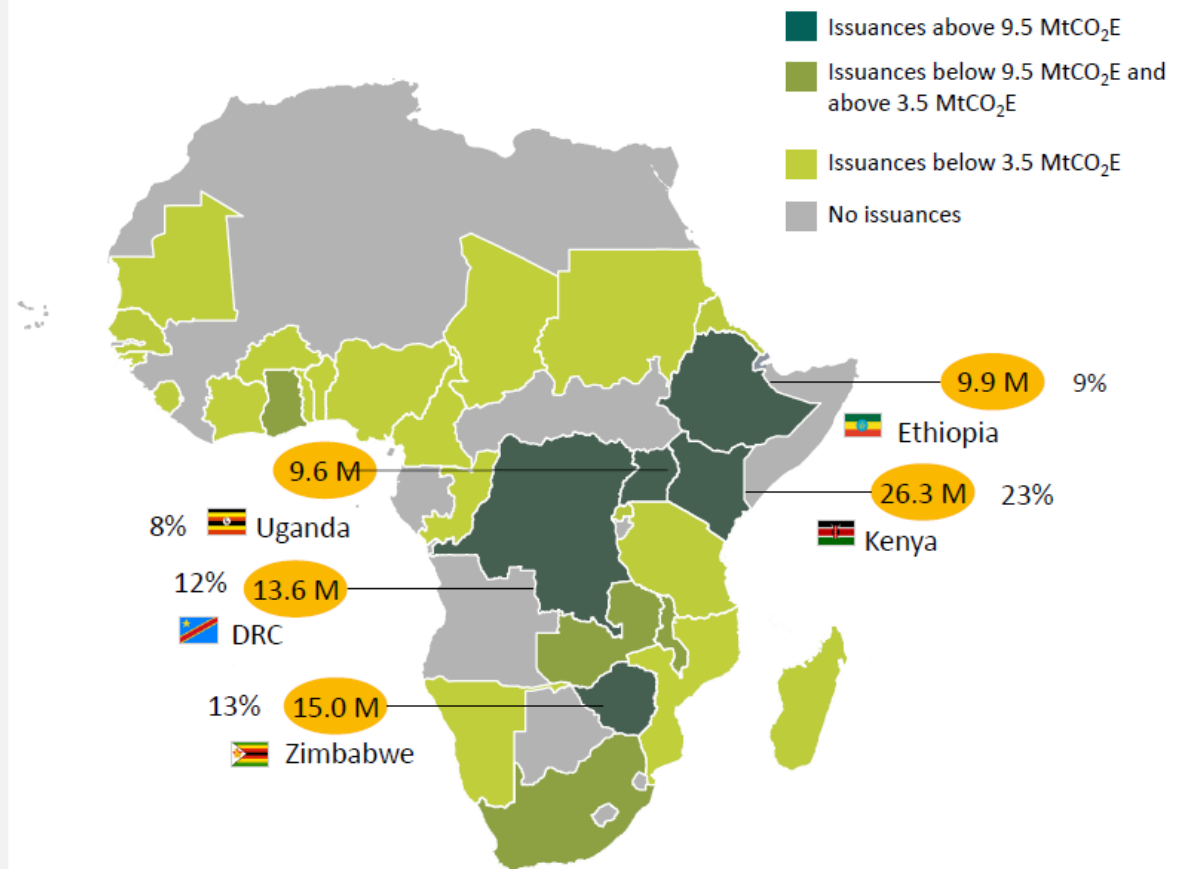
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The Opportunity

- Voluntary carbon markets grew at a compound annual growth rate of **over 31%** from 2016 to 2021 (based on carbon credit retirements).
- As companies increasingly commit to net zero, the market is expected to **grow 15x** to 2030.
- **Prices** are expected to rise given supply constraints and lead time to generate credits.
- Kenya is already a market leader, responsible for **23% of the value** of carbon credit issuances in Africa.
- Kenya produces a fraction of its total maximum annual potential.

2016-2021 carbon credit issuances, by country, MtCO₂E



Source: [Africa Carbon Markets Initiative: Roadmap Report](#), November 2022

There are 10 significant types of carbon credit projects

NON-EXHAUSTIVE

Indicates active projects in Kenya

Renewable energy (incl. energy efficiency)



- Biomass
- Geothermal / Hydro / Solar / Wind
- Energy efficiency
- **Waste heat recovery**
- **Fossil fuel decommissioning**
- Distributed renewable energy

Household devices



- Clean cookstoves
- Solar home systems

Industry gases (including industrial manufacturing)



- N2O from nitric acid and adipic acid plants
- Ozone-depleting substances
- Carbon capture and storage
- Coal mine methane

Waste management



- **Waste management**
- Landfill gas (e.g., landfill methane)
- Wastewater treatment

Engineered Carbon Dioxide Removal (CDR)



- **Direct Air Capture (DAC)**
- **Bio-Energy with CCS (BECCS)**
- **Biochar**

Nature-based solutions

Transport



- EV charging
- Synthetic fuels

Livestock



- **Rotational grazing**
- **Food additives**

Agriculture and soil sequestration



- Cover crops
- Fertilizer / N2O
- Grassland and sustainable land management
- No- and low-till agriculture
- Agroforestry

Forestry and land use



- Afforestation / Reforestation
- Revegetation (ARR)
- Improved Forest Management (IFM)
- Conservation (REDD+, other)
- **Peatlands**
- **Savannah fire management**

Blue carbon



- **Saltmarsh**
- **Mangrove**
- **Seagrass**
- **Kelp forests**
- **Bottom-trawled sediments**
- **Seaweed farms**

Key challenges in the enabling environment

- FSD Kenya is supporting the creation of a carbon exchange in Kenya.
- There are factors informing the enabling environment for carbon trading in- country.

Supply factors

- **Limited number** of project developers.
- **Methodologies** for carbon credits not always relevant to Kenya/Africa.
- **High cost and long lead times** for certification, validation and verification
- **Fragmented ownership** of/ access to credit generating assets.
- **Low economic viability** for many projects due to insufficient carbon credit revenues and high opportunity costs
- High degree of local relationships and/or **community buy-in and commitment** required to ensure project success

Demand factors

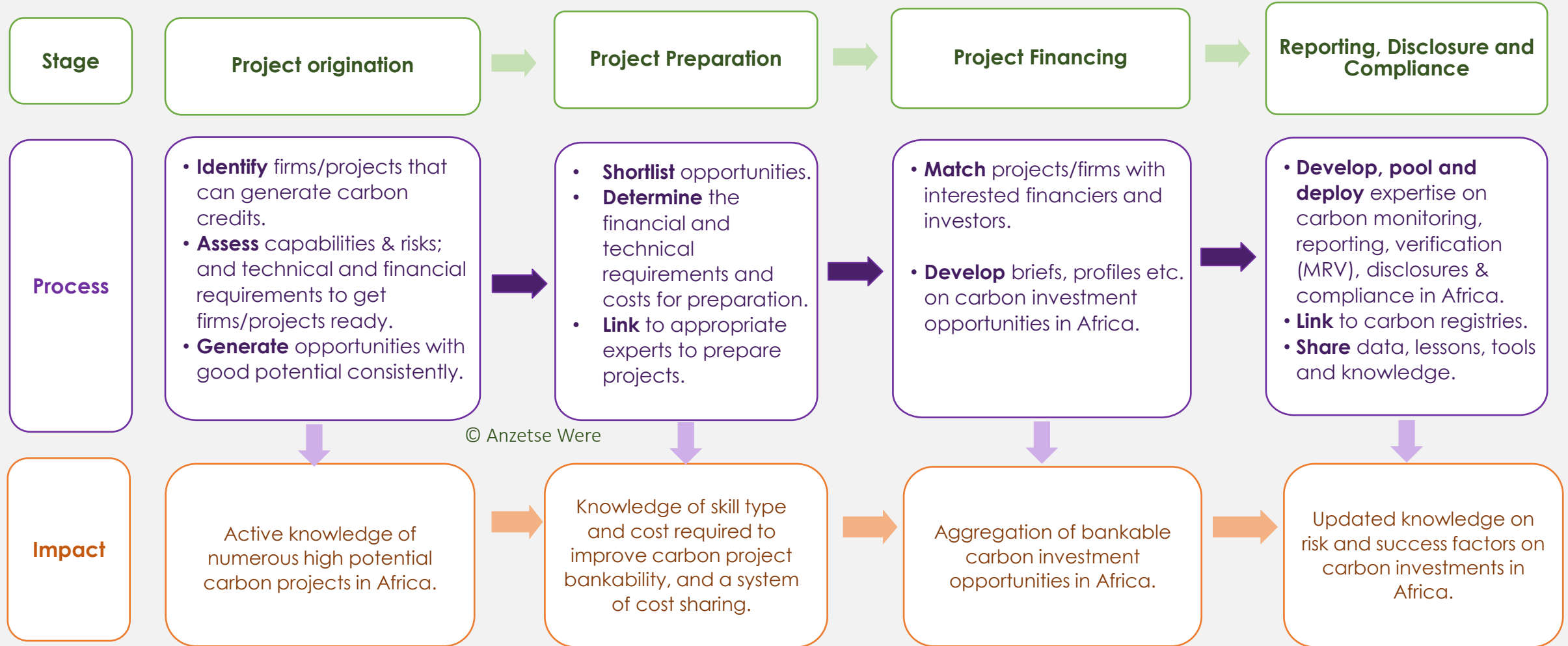
- Concerns on the **integrity of certain carbon credit** types
- Shifting & confusing **demand trends**
- Pricing **may not accurately reflect the value** of Africa carbon credits and their co-benefits (e.g., energy access, biodiversity gains etc.)
- **Limited local demand**

Key challenges in the enabling environment

Intermediation and Ecosystem factors

- **Weak regulatory framework** including on carbon market trading rules and regulations; links to fiscal policy/ incentives; land rights; carbon asset registry; and relationship between VCM and Article 6 NDC commitments.
- Carbon market data and analysis generated with **inconsistent methodologies and frequency**.
- Insufficient local **validation/verification capacity** including lack of Kenya/African-based bodies and expertise.
- **No standardized processes** for rating/assessing important **carbon credit co-benefits** (e.g., community impact).
- **Limited mechanisms to enable investment** in project development and supply.
- **High cost of capital**

The Financial Architecture needed to generate carbon credits at scale



Pillars for a Conducive Environment for Carbon Trading in Kenya

- There is an opportunity to be deliberate in taking an **ecosystem view**.
- The recommendation is that the initial focus be on **building a dynamic carbon trading market** rather than an extractive focus that sees carbon trading as an immediate source of revenue.

Government Roles: Access, Efficiency and Stability

Government Carbon and Carbon Finance Policy Coordination

Carbon-related Legislation, Law and Reform

Carbon-related Financial and Fiscal Incentives

Government Carbon Finance and Sector Technical Capacity Building and Upskilling

Enablers

Awareness Raising: Supply and Demand Side

Carbon Finance and Sector Specific Data Infrastructure (i.e. a Carbon Exchange)

Deepen Local Climate Financiers, Capital Markets and Institutions

Scaling and Retaining Carbon Finance

Institutions for Carbon Project Origination and Preparation to generate carbon credit supply

Carbon Finance Professional Service Providers
(i.e. Carbon registries, Verifiers/ Accreditors, MRV experts, Carbon Finance Data collection & analysis)

Blended Finance at Institution and Transaction level

Creating Value through Financial Inclusion
FSD Kenya.



**FSD Kenya | Creating value through
inclusive finance**

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