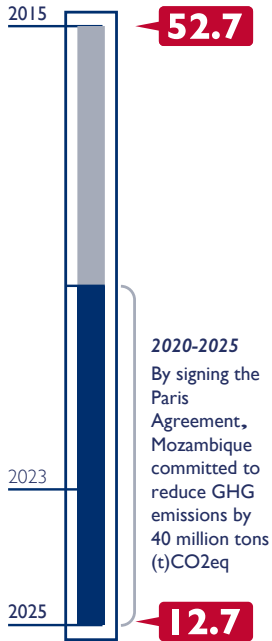


Carbon Finance in Mozambique

The emerging investment potential of Mozambique's carbon market



Mozambique is one of the 197 countries to sign the Paris Climate Agreement, which commits the Government of Mozambique to reduce GHG emissions by 40 million tons (t)CO₂eq, between 2020 and 2025, through adaptation and mitigation.

This reduction will require

\$7.6 billion in investments

to reduce emissions for adaptation (infrastructure, agriculture and coastal protection) and mitigation



Ecosystem Potential

Forests: Covering a total of 32 million hectares (ha) of forest. Human pressure is responsible of an annual loss of 267,000 ha/year, which corresponds to emissions of 38.9 tCO₂/year.

Mangroves: covering around 266,000 ha, estimated at \$2,400/ha/year. Deforestation, pollution, and climate change contribute to an estimated annual loss of ~350 ha/year of mangrove areas, however no information is available on GHG emissions.

Marine area: threatened by overfishing, pollution and climate change. No data available on GHG emissions. Carbon Finance has the potential to tackle climate threats, and provide positive incentives for the adoption of sustainable practices for fisheries management, pollution, and addressing ocean acidification and coral bleaching.



Community Potential

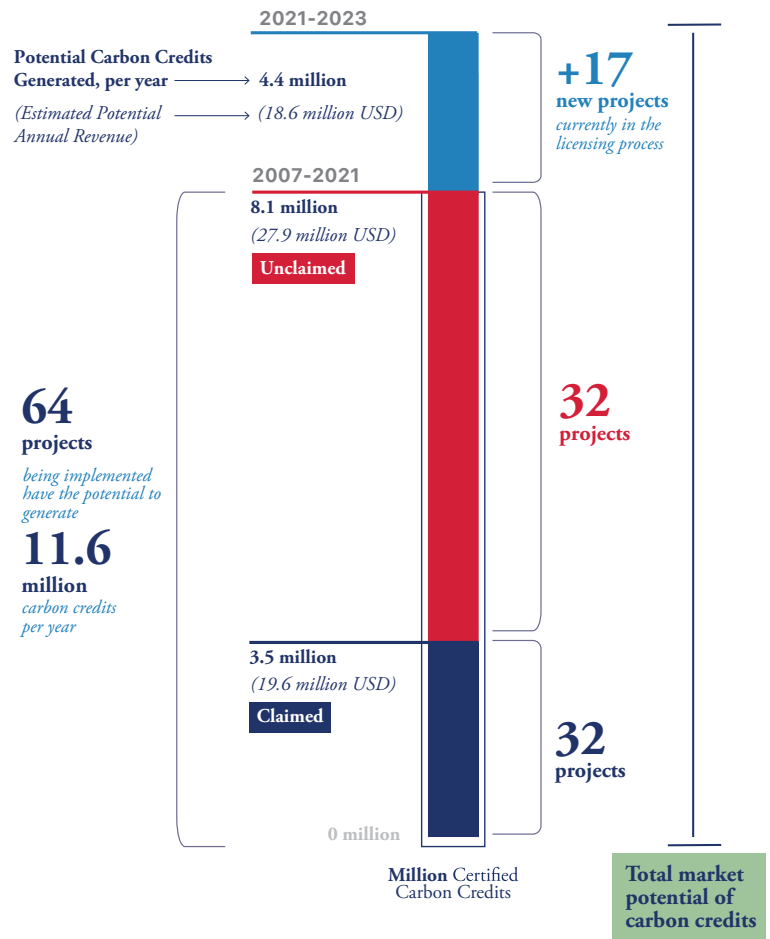
Carbon finance also has huge potential to generate numerous community benefits including the generation of 500,000 jobs in project development and carbon generation monitoring by 2030, and additional incomes for community members.



Economic Potential

In Mozambique, there are more than 60 carbon projects working across the three primary sectors and markets (i.e. Forest Carbon Partnership Facility (FCPF), Voluntary Carbon Markets (VCM), Clean Development Mechanism (CDM)). Although only about 50% of the active projects have certified carbon credits (32 projects, 2007-2021).

Current Carbon Projects in Mozambique



64 projects
being implemented have the potential to generate
11.6 million carbon credits per year

Considering the estimated potential revenue from certified carbon credits, Mozambique could generate up to **32.5 million/year for communities.**

Legal Framework

Currently, there is no clear pathway for carbon project development and implementation in Mozambique except for Reducing emissions from deforestation and forest degradation (REDD+) programs. The REDD+ Decree is the only official decree that guides the design and implementation of REDD+ projects. It does not include energy, waste and direct industrial processes. The decision to prioritize REDD+ legislation was influenced by its international significance in climate change mitigation and sustainable development, and funding and technical support from the World Bank.

Key Challenges

1. **Lack of robust regulatory frameworks** for Carbon Projects except for the REDD+ Projects
2. **Lack of detail and guideline on the REDD+ Decree**
3. **Limited institutional capacity** within key Government of the Republic of Mozambique (GRM) bodies on carbon processes
4. **Lack of awareness and perception of carbon projects among GRM, civil society and local communities**
5. **No national database on Carbon Projects + Measurement and verification (MRV) systems not in place**
6. Current Carbon finance initiatives **do not address distributional equity, social and environmental benefits**
7. **Carbon credits price is subject to significant fluctuations**

Recommendations

1. **Establish a clear and robust regulatory framework** for other GHG sectors
2. Review and update **the current REDD+ regulation** to provide clarity on the missing issues
3. Provide **capacity building** programs to enhance the knowledge on climate change and carbon processes
4. Develop a strategy to **raise awareness to improve GRM, civil society and communities' understanding of carbon projects**
5. Create a central **MRV system/database** to capture information on all carbon projects
6. Develop clear and robust **guidelines on benefit-sharing arrangements**
7. Develop **tax and financial incentive packages** for programs and projects to reduce emissions

Reasons For Optimism

Mozambique: First Mover Status, Political Will and Organizational Capacity

- Mozambique is one of the first countries worldwide to develop a REDD+ decree. Many countries are implementing carbon projects without a regulatory framework.
- National institutions (National Fund for Sustainable Development [FNDS] and Fundo de Energia [FUNAE]) are interested in mobilizing international climate finance to invest in green/low carbon solutions.
- The Ministry of Economy and Finance established a Climate Finance Unit in March 2023.
- Increased political awareness of climate change issues and the benefits of carbon finance since the first payment from emission reduction in 2021.
- Numerous financial institutions are exploring financing products for green/low carbon projects (BCI, NEDBank, ABSA, etc).

Global: Market Boom

- Positive signals from growth of VCM (global increase in transaction volumes from \$500 million.