

INSIGHTS

Investing in the voluntary carbon markets in Sierra Leone

The voluntary carbon market is a growing global industry that offers great potential for Sierra Leone to channel climate finance to support economic development and could provide significant opportunities for investors.



Industry snapshot

Sierra Leone is in the top 10% of countries most vulnerable to the impact of climate change. Low levels of health, education and standard of living exacerbate this vulnerability and complicate the country's progression towards climate resilience. The voluntary carbon market, which is estimated to be worth US\$500 million globally and is expected to grow to US\$1.5 trillion by 2050, represents an opportunity for Sierra Leone to contribute to its climate resilience and global greenhouse gas (GHG) emission reduction goals, support livelihoods and provide long-term sustainable financing for the country.

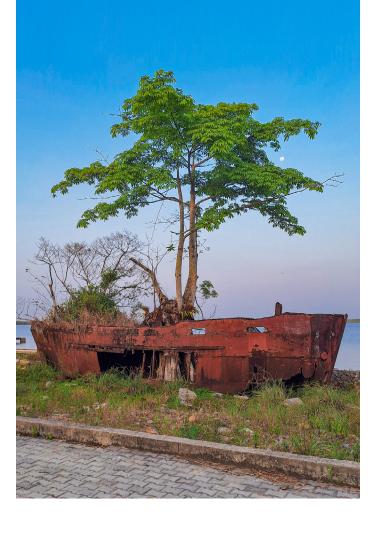
Sierra Leone has a small but unregulated carbon market, with around one million voluntary carbon credits issued between 2016 and 2021. Recently, there has been a surge in implementer-led projects, matched by increased interest in the carbon market from the Government of Sierra Leone (GoSL), the private sector, development partners and climate finance groups. This upswing in interest has resulted in demand from stakeholders for an official carbon policy and regulatory framework, to ensure credible and transparent international investment.

investsalone.com

The challenges

Scaling Sierra Leone's carbon market will require the development of national governance policies and regulations. The absence of essential data and analytics on the carbon market in Sierra Leone, coupled with the lack of an in-depth understanding of how the voluntary and compliance carbon markets are regulated globally, will prove challenging for data-driven decision-making.

For investors, the scarcity of market intelligence will make business continuity planning and projections difficult. Navigating the complexities of a new market in Sierra Leone's bureaucratic business environment will require a significant amount of time, funding, coordination and organisational capacity-building. Additional hurdles will also exist when negotiating with communities for land and agreeable remuneration and benefits, such as employment opportunities. The lack of reliable electrical power supply, water services, cheap telecommunications and good inter-country links – which are all invaluable when it comes to attracting investors - pose massive challenges.



The opportunity

Sierra Leone presents a challenging backdrop against which to establish a regulated carbon marketplace with clear and sustainable development, climate and conservation objectives. However, there are several reasons why it is favourably positioned to take advantage of the emerging global demand for carbon credits:

- The country's vast natural assets and increasing international presence within the global climate conversation create a foundation for significant market potential, particularly through REDD+1, ARR2, IFM3, regenerative agriculture, RES4, biochar and clean cookstove initiatives. Indications are that the number of carbon offset projects will grow exponentially in Sierra Leone in the coming decades.
- Mapping of key carbon stakeholders and implementor projects allows for a holistic picture of the existing carbon market space in Sierra Leone, identifying where there are opportunities for public-private coordination and collaboration.
- Strong interest across the GoSL exists to develop the technical expertise and capacity required to support a credible carbon market. To expediate the process, the Ministry of Finance's Climate Finance Unit commissioned law firm Herbert Smith Freehills to develop a carbon framework mechanism with the support of the UK Government.
- Case studies that examine the successes and consequences of comparable carbon policy frameworks within sub-Saharan Africa can provide frameworks for evaluation and analysis of the issues, creating benchmarking and opportunities for lessons learned to develop a successful model that avoids pitfalls.

 $^{^1}$ REDD+ is a climate change mitigation solution developed by Parties to the United Nations Framework Convention on Climate Change (UNFCCC).

²Afforestation, reforestation and revegetation (ARR) is a climate solution which involves the planting (or assisting the natural regeneration) of trees and shrubs.

³ Improved Forest Management (IFM) refers to forest management activities which result in increased carbon stocks within forests and/or reduce GHG emissions from forestry activities when compared to business-as-usual forestry practices.

 $^{^4}$ Renewable Energy Storage (RES) refers to storing energy from renewable sources such as solar and wind for use when needed.

What will it take?

- Collaboration between several ministries and agencies across sectors. This could, for example, take the shape of a carbon coalition, convened by an independent and expert body that is seen as neutral.
- Incorporating lessons learned from other regions/ countries to ensure that Sierra Leone's carbon market framework, policies and regulations are well informed and support a long-term, viable carbon market.
- Improved data collection to ensure the GoSL takes an informed approach to developing a carbon market framework.
- Seeking opportunities to fill critical data gaps by partnering with universities, non-profit organisations and others, to create a strong foundation for decision-making at the national level.
- Clear, informed and transparent processes for taxing carbon revenue to provide certainty and consistency over time.
- Development of a clear, transparent and credible carbon framework in response to Article 6 of the Paris Agreement.

- Policies that protect community interests; follow free, prior and informed consent (FPIC) protocols; and respect land ownership and natural resource management to ensure that ongoing and future conservation, biodiversity and environmental initiatives adequately address livelihood issues for Indigenous peoples and local communities.
- Capacity-building within government and relevant agencies to ensure that policies and regulations promote a credible, transparent and equitable carbon market space.
- Clear incentives for private sector and other international climate financiers to build confidence in their investments in the carbon market in Sierra Leone. This includes developing strong mechanisms to ensure transparency in the marketplace to attract and retain investment over the long term.
- Effective and efficient processes to verify carbon actors, weeding out potentially untrustworthy actors with unsavoury business dealings.
- Parallel investments in renewable energy infrastructure to create the conditions necessary for a viable and sustainable carbon marketplace (i.e., address Sierra Leone's current energy and poverty challenges by investing in renewable energy infrastructure that supports a variety of follow-on benefits).





Sierra Leone has a unique opportunity to create a transparent, credible and equitable carbon market.

Invest Salone is working with stakeholders including the GoSL to support the development of an inclusive and equitable carbon policy and regulatory framework that will guide the establishment of a viable carbon market in Sierra Leone.

Invest Salone has also supported the exploration and development of carbon credit projects in the western part of Sierra Leone, as well as facilitating regulatory and policy framework discussions with key carbon market actors. As part of this process, the Cadmus Group was commissioned to conduct a rapid <u>situational analysis</u> of the country's carbon market, which provides a snapshot of stakeholder priorities, opportunities for support, areas of risk and recommendations on how to develop the market transparently and equitably.



Contact Invest Salone

enquiries@investsalone.com | investsalone.com

