

Hirko and Associates (HALO) Legal Update

Ethiopia Opens the Door to the Global Carbon Economy



COMPREHENSIVE LEGAL UPDATE

Ethiopia Enacts Carbon Market Proclamation No. 1436/2026

Establishing the Legal Framework for Carbon Trading, Climate Finance, and Sustainable Investment

Introduction

The House of Peoples' Representatives of the Federal Democratic Republic of Ethiopia has enacted **Carbon Market Proclamation No. 1436/2026** (the "**Proclamation**"), establishing Ethiopia's first comprehensive legal framework governing carbon market activities.

The enactment of the Proclamation represents a significant milestone in Ethiopia's environmental and investment regulatory landscape. It creates the legal and institutional framework necessary for the development, authorization, registration, transfer, and regulation of carbon credits generated within Ethiopia while supporting the country's commitments under the **Paris Agreement** and other international climate instruments.

Beyond advancing Ethiopia's climate objectives, the Proclamation seeks to create a transparent and credible regulatory environment capable of attracting climate finance, facilitating green investment, promoting technology transfer, and ensuring that the economic benefits derived from carbon market activities are distributed in a structured and equitable manner.

Background and Legislative Purpose

Prior to the enactment of the Proclamation, carbon market activities in Ethiopia were undertaken without a dedicated legislative framework. The absence of comprehensive regulation created uncertainty regarding carbon ownership, institutional responsibilities, project approval procedures, benefit-sharing arrangements, and regulatory oversight.

The Proclamation addresses these gaps by consolidating the legal rules governing carbon markets into a unified statutory framework. In doing so, it establishes legal certainty for market participants, enhances transparency, strengthens institutional coordination, and aligns Ethiopia's carbon market regime with internationally recognized principles governing carbon trading and climate finance.

Key Features of the Proclamation

1. Establishment of Ethiopia's Carbon Market Framework

The Proclamation establishes a comprehensive legal and institutional framework regulating the implementation of mitigation activities and the generation, registration, authorization, transfer, and retirement of carbon credits.

The framework is intended to facilitate Ethiopia's participation in both voluntary and compliance carbon markets while ensuring that mitigation activities contribute to national development priorities and environmental sustainability.

2. Legal Recognition of Carbon Rights

One of the Proclamation's most significant legal developments is the recognition of **carbon rights** as independent intangible property rights arising from mitigation activities.

The legislation clarifies the ownership structure applicable to mitigation outcomes generated within Ethiopia while permitting the transfer of carbon rights through legally recognized contractual arrangements. By providing certainty regarding carbon ownership, the Proclamation significantly strengthens the legal foundation for carbon asset transactions and long-term investment.

3. Designation of the National Carbon Market Authority

The Proclamation designates the **Ministry of Planning and Development** as Ethiopia's **Designated National Authority (DNA)** responsible for regulating and coordinating carbon market activities.

The DNA serves as the sole authority responsible for issuing approvals, registrations, authorizations, and other regulatory decisions relating to mitigation activities and internationally transferred mitigation outcomes.

4. Establishment of the Ethiopia National Carbon Registry

To ensure transparency and accountability, the Proclamation establishes the **Ethiopia National Carbon Registry**, a centralized electronic registry responsible for recording mitigation projects, carbon credit ownership, issuance, transfers, retirement, and other relevant transactions.

The Registry is designed to enhance market integrity, improve traceability, and prevent double counting of carbon credits.

5. Licensing of Carbon Market Operators

The Proclamation introduces a formal licensing regime for key participants within the carbon market ecosystem.

Validation and Verification Bodies, Carbon Market Intermediaries, Carbon Aggregators, and Carbon Asset Managers are required to obtain licenses from the **Environmental Protection Authority** and comply with prescribed professional, technical, financial, and operational standards before conducting business.

6. Environmental and Social Safeguards

The Proclamation incorporates comprehensive environmental and social safeguards applicable to mitigation activities.

Project proponents are required to respect statutory and customary land rights, establish accessible grievance mechanisms, avoid involuntary displacement, and implement equitable benefit-sharing arrangements that protect the interests of affected communities.

7. Institutional Coordination

The Proclamation establishes a coordinated governance framework involving the Ministry of Planning and Development, the Ministry of Finance, the Environmental Protection Authority, Regional States, and relevant sectoral institutions.

By clearly allocating institutional responsibilities, the legislation seeks to improve regulatory efficiency while strengthening accountability across the carbon market ecosystem.

Approval Process for Carbon Market Projects

The Proclamation introduces a structured regulatory process governing mitigation activities.

Projects commence with the submission of a **Mitigation Activity Idea Note (MAIN)**, followed by the preparation and validation of a **Mitigation Activity Design Document (MADD)**. Upon technical review by the Inter-Sectoral Carbon Market Committee and approval by the Designated National Authority, projects may proceed to implementation, monitoring, verification, and ultimately the issuance of carbon credits.

This structured approval mechanism introduces greater predictability, consistency, and regulatory transparency for project developers and investors.

Practical Implications

The Proclamation has significant implications for investors, project developers, financial institutions, carbon market service providers, regional governments, and local communities.

By providing clear rules governing carbon ownership, project approval procedures, licensing requirements, benefit-sharing mechanisms, and carbon credit transactions, the legislation substantially reduces legal and regulatory uncertainty.

The framework is expected to strengthen investor confidence, facilitate access to international climate finance, encourage the development of carbon projects across multiple sectors, and enhance Ethiopia's competitiveness within the rapidly expanding global carbon market.

Compliance and Enforcement

The Proclamation establishes comprehensive compliance obligations for all participants in the carbon market.

Project proponents must comply with monitoring and reporting obligations, environmental and social safeguard requirements, verification procedures, and benefit-sharing arrangements. Licensed operators are similarly required to maintain professional independence, preserve records, disclose conflicts of interest, and comply with applicable regulatory standards.

Non-compliance may result in administrative sanctions, suspension or revocation of approvals, civil liability, and criminal penalties in accordance with Ethiopian law.

Transitional Arrangements

The Proclamation includes transitional measures designed to facilitate implementation of the new regulatory framework.

Existing mitigation activities and pending applications remain recognized during a transitional period; however, they must be brought into compliance with the Proclamation within the prescribed timeframe. Until the Ethiopia National Carbon Registry becomes fully operational, a temporary digital recording system will be maintained by the Designated National Authority.

Conclusion

The enactment of **Carbon Market Proclamation No. 1436/2018** represents a landmark development in Ethiopia's legal and regulatory framework for climate governance. By establishing clear rules governing carbon rights, institutional oversight, licensing, carbon credit registration, benefit sharing, and international carbon transactions, the Proclamation creates the legal certainty necessary for the development of a transparent and credible carbon market.

As Ethiopia seeks to leverage its significant carbon sequestration potential and expand access to climate finance, the Proclamation provides the legal infrastructure required to operationalize carbon market activities, promote sustainable investment, and strengthen the country's participation in the global carbon economy.