# From pledges to capital flows: How the design of Nationally Determined Contributions shapes carbon market access, pricing and investment

A strategic brief examining how NDC design influences market access, pricing, and investment confidence

## Key messages

**Carbon markets are becoming increasingly differentiated.** Countries whose climate frameworks signal credibility and clarity attract higher prices and more investment.

**NDC design plays a central role in this signal**. Markets interpret how targets, transfers, and reporting systems are structured when assessing the reliability of mitigation outcomes.

**Ambition alone does not determine carbon finance flows**. Investors and buyers look for coherence across three core elements of NDC design: accounting coherence, transfer positioning under Article 6, and durable reporting systems.

**Countries that align these elements are more likely to attract compliance-linked carbon finance**. Where alignment is weak or unclear, transactions tend to be smaller, more cautious, and discounted.

For African governments facing large climate financing needs, **NDC structuring is therefore not only a climate reporting exercise but also a financial positioning decision.**

## Executive summary

Carbon markets are consolidating into a stratified financial system in which eligibility, accounting credibility, and policy clarity increasingly determine realised value.[1] In this environment, Nationally Determined Contributions (NDCs) function not merely as climate pledges, but as sovereign underwriting documents shaping market access, pricing, and capital mobilisation.

Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) alone is projected to generate cumulative demand of 725–1,465 million tonnes of carbon dioxide equivalent ($MtCO_2e$) by 2035, representing USD 15–68 billion[2] in Phase II (2027–2035)[3]. Authorised Article 6.2 mitigation outcomes have traded in the USD 10–45 per tonne of carbon dioxide equivalent ($tCO_2e$) range[4] in early bilateral transactions, with prices reflecting sovereign accounting credibility as much as project quality. In these early bilateral transactions, price differentiation has reflected confidence in host-country authorisation frameworks and corresponding adjustment treatment[5]. By comparison, the voluntary carbon market retired 223 $MtCO_2e$ in 2024, with average prices of USD 6.37/$tCO_2e$ and reductions clearing near USD 4/$tCO_2e$ amid persistent oversupply[6].

As compliance-linked demand expands and price differentials widen, markets increasingly interpret NDC design as a signal of sovereign delivery and accounting risk. Ambition alone does not determine capital flows. Coherence between NDC targets, transfer positioning under Article 6, and reporting architecture influences whether mitigation outcomes are treated as compliance-grade assets or discounted supply.

> (CORSIA) alone is projected to generate cumulative demand of **725–1,465 million tonnes of carbon dioxide** equivalent ($MtCO_2e$) by 2035

This brief identifies three interconnected design levers through which NDC structuring shapes capital allocation:

- Accounting coherence — alignment between NDC targets, inventories, and project baselines
- Transfer positioning — clarity on Internationally Transferred Mitigation Outcome (ITMO) intentions and corresponding adjustment treatment
- Reporting durability — credibility of Biennial Transparency Reports (BTRs) submissions and inventory reconciliation systems.

When these elements align in practice, markets respond with stronger price floors, longer tenors, deeper buyer pools, and faster capital mobilisation. Where alignment is weak or ambiguous, transactions reflect conservative structuring, expanded diligence, and structural discounting embedded in contracts.

For African governments facing constrained fiscal space and a USD 2.8 trillion climate financing gap between 2020 and 2030[7], NDC structuring is not a reporting exercise in isolation. It is a sovereign financial positioning decision.

The choice remains sovereign. But in a consolidating carbon market, capital will allocate accordingly.

This brief forms part of the FSD Africa and Climate Action Platform for Africa (CAP-A) series examining the sovereign design choices shaping carbon market investability. It is intended for senior policymakers, development partners, and financial institutions engaged in carbon market development and Article 6 implementation.

## Context and purpose

*From Ambition to Bankability,* published by FSD Africa and the Climate Action Platform for Africa (CAP-A), identified three sovereign design choices shaping carbon market investability: NDC positioning, authorisation architecture, and institutional capability.

The briefs in this series examine these elements as layered components of market access. NDC positioning influences how markets interpret sovereign ambition and price risk. Authorisation design determines how mitigation outcomes are formally qualified for international transfer and financial structuring. Institutional performance determines whether those systems function with sufficient clarity, traceability, and durability for mitigation outcomes to circulate as recognised, compliance-aligned assets.

Together, these elements describe the architecture through which carbon markets assess sovereign credibility and allocate capital.

This brief focuses on NDC positioning and its implications for pricing, risk allocation, and capital mobilisation.

1 Recent market reporting highlights increasing segmentation between compliance-aligned and voluntary carbon market segments, with eligibility criteria, accounting treatment, and sovereign authorisation frameworks influencing pricing spreads and buyer participation (see World Bank, State and Trends of Carbon Pricing; International Emissions Trading Association market surveys)

2 Estimate reflects scenario ranges based on projected aviation growth, compliance uptake, eligible supply availability, and price assumptions under Phase II of CORSIA. The lower bound assumes conservative demand growth and pricing; the upper bound reflects higher demand and stronger price realisation in compliance-aligned segments.

3 MSCI (2025). CORSIA Phase II demand outlook and compliance carbon market projections. MSCI Carbon Markets Research, 2025 update

4 IETA (2025), Rising Standards, Growing Demand – Global Carbon Market Business Sentiment Survey.

5 World Bank, State and Trends of Carbon Pricing, 2024

6 Ecosystem Marketplace (2025). State of the Voluntary Carbon Market 2025: Market in Transition. Washington, DC: Forest Trends' Ecosystem Marketplace; Abatable (2025). Carbon Market Intelligence Report 2025. London: Abatable.

7 Climate Policy Initiative (CPI). 2022. Landscape of Climate Finance in Africa. San Francisco: Climate Policy Initiative

FSD Africa and the Climate Action Platform for Africa (CAP-A) approach carbon markets from a financial-systems perspective, treating them as emerging capital-market infrastructure that allocates risk, determines eligibility, and shapes capital flows. Through sovereign advisory engagements and ongoing dialogue with market participants, we observe how national positioning affects pricing ranges, diligence intensity, contract structuring, and buyer composition.

As markets mature, NDC positioning is no longer solely a technical reporting exercise. It has become a strategic design question: how ambition, trade intent under Article 6, and reporting architecture are structured and aligned.

## Carbon markets are stratified capital systems

Carbon markets are increasingly differentiated by eligibility and accounting credibility. Pricing spreads reflect not only mitigation type, but confidence in sovereign frameworks.

The acceleration of compliance-linked demand and the operationalisation of Article 6 have sharpened differentiation across market segments. As corresponding adjustment requirements move from design into implementation, sovereign accounting credibility has become a visible pricing variable rather than a background technical consideration.

In bilateral Article 6 transactions concluded to date, price differentiation has reflected confidence in host-country authorisation frameworks and corresponding adjustment treatment. Markets are incorporating sovereign accounting credibility into structuring decisions. While markets remain in transition, emerging transaction patterns indicate increasing sensitivity to sovereign accounting coherence.

When this brief refers to "capital" and "investment," it refers to carbon market–linked capital across compliance-aligned and voluntary segments, including compliance buyers, high-integrity voluntary buyers, intermediaries structuring forward offtake, and financiers backing project pipelines. While finance can and does support projects issuing non-authorised voluntary credits, the focus here is on segments where corresponding adjustment treatment and sovereign accounting credibility materially influence pricing and investment structure.

Integrity is increasingly a threshold condition[8]. What differentiates jurisdictions is operational credibility.

8 Recent standard-setting initiatives and buyer guidance have elevated integrity benchmarks across the market, including the Core Carbon Principles developed by the Integrity Council for the Voluntary Carbon Market, Claims Code of Practice under the Voluntary Carbon Markets Integrity Initiative, and evolving corporate guidance from the Science Based Targets initiative.

## Ambition without investability

Africa faces an estimated USD 2.8 trillion climate financing gap between 2020 and 2030, with up to 90% of NDC commitments conditional on external support[9]. Yet the continent has received only around 3% of global climate finance flows over the past decade[10].

Carbon markets represent one of the few scalable mechanisms capable of linking mitigation performance to predictable revenue, while also supporting broader development outcomes — including progress toward SDGs, climate resilience, and Climate Positive Growth across emerging economies. But ambition must translate into investable pathways. Markets do not capitalise aspiration alone; they respond to enforceable accounting positions and durable trade frameworks.

Capital differentiates between ambition embedded within credible accounting systems and ambition that remains politically articulated but operationally ambiguous.

## NDCs as sovereign underwriting documents

In compliance-aligned segments, project documentation remains necessary — but it is not sufficient on its own. High-quality projects can position themselves for Article 6 eligibility by demonstrating alignment with host-country NDC accounting, applying conservative national parameters, and aligning with host-country accounting rules. However, eligibility ultimately rests within a jurisdictional framework.

Because Article 6 requires corresponding adjustments to prevent double counting[11], the credibility and functionality of a country's NDC accounting architecture form an integral part of how credits are assessed. In this sense, project integrity and sovereign accounting integrity are complementary: strong projects can enhance eligibility prospects, but they must operate within — and align to — a national system capable of authorising transfers and reconciling them against national inventories with confidence.

9 African Development Bank (AfDB) (2023). Africa's Climate Financing Gap and Opportunities for Scaling Climate Finance; Climate Policy Initiative (CPI) (2025). Global Landscape of Climate Finance 2025

10 African Development Bank (AfDB) (2023). Focus on Africa: Climate Action and Green Growth

11 Corresponding adjustments are required under Article 6.2 of the Paris Agreement and were operationalised through decisions adopted at COP26 under the United Nations Framework Convention on Climate Change Glasgow rulebook, establishing accounting guidance to avoid double counting of internationally transferred mitigation outcomes (ITMOs).

In this environment, the sovereign — not only the project developer — becomes part of the risk equation assessed by capital providers. NDCs therefore function as sovereign underwriting documents. They signal whether a jurisdiction has established coherent ambition, defined trade intent under Article 6, and built reporting systems capable of sustaining corresponding adjustment commitments over time. When these elements align in practice, mitigation outcomes are more readily treated as compliance-grade assets. Where they are ambiguous or fragmented, sovereign accounting risk becomes embedded in pricing, structuring, and capital allocation decisions.

The relationship between NDC structuring and realised market outcomes follows a discernible logic. Design choices at the level of ambition, trade intent, and reporting architecture shape how sovereign credibility is interpreted — and ultimately how risk is priced and capital is allocated (Figure 1).

## How markets interpret NDC design

The system-level dynamics outlined above become tangible across the transaction lifecycle, unfolding in three stages of market engagement by external stakeholders: initial jurisdictional screening, pricing and contract formation, and transaction execution and ongoing diligence.

1. **Early-stage screening** - before entering into forward offtake negotiations, compliance buyers often conduct a jurisdictional review. This includes examining whether:
    - Participation in cooperative approaches under Article 6.2 is explicitly acknowledged in the NDC
    - Potential ITMO transfer volumes are integrated into mitigation pathways and reflected in accounting projections
    - Unconditional targets are clearly delineated
    - BTR reporting demonstrates alignment with Enhanced Transparency Framework requirements.

These signals are typically drawn from NDC submissions, Biennial Transparency Reports, national carbon market policies, and direct engagement with host-country authorities, as there is currently no single consolidated source of jurisdictional information for Article 6 markets. The assessment often extends to clarity around whether, and under what conditions, the jurisdiction intends to supply compliance schemes such as CORSIA, including the application of corresponding adjustments.

Where these elements are unclear, transactions tend to stall pending clarification, even where project-level quality is strong.

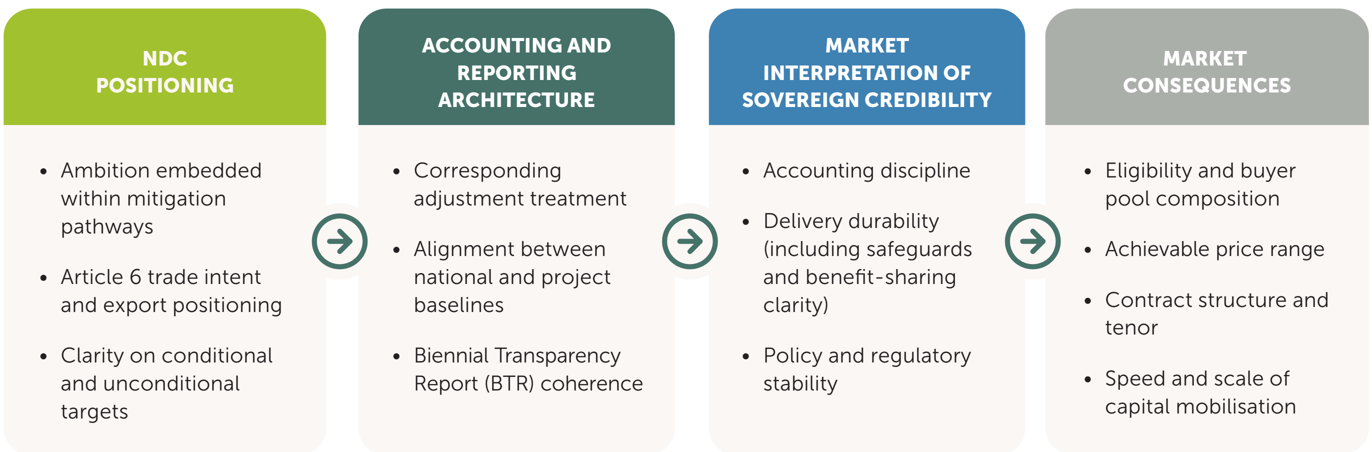
2. **Pricing and contract formation** — In markets where authorised Article 6.2 mitigation outcomes command USD 10–45/t$CO_2$e, pricing incorporates jurisdictional confidence. The widening spread within compliance-aligned segments is increasingly structured by sovereign accounting credibility rather than project attributes alone. Where corresponding adjustment treatment is unambiguous and reporting trajectories are credible, buyers are more willing to enter multi-year offtake agreements at firmer price floors.

Conversely, where corresponding adjustment procedures and transfer positioning remain less clearly defined, transactions, even with comparable project pipelines, have progressed more cautiously. Differences in sovereign accounting clarity have materially influenced pricing confidence, contract structure, and the speed of capital mobilisation.

This higher perceived sovereign accounting risk is often expressed through:

- Applying discount factors
- Shortening contract tenors
- Including termination clauses linked to regulatory risk
- Restricting purchases to smaller pilot volumes.

**Figure 1:** How NDC structuring translates into market access, pricing, and capital mobilisation



Recent transaction experience across emerging carbon market jurisdictions reinforces this pattern. Where governments have articulated participation in cooperative approaches under Article 6.2 early, integrated indicative ITMO transfer volumes within national mitigation pathways, and operationalised transparent reporting schedules, buyers have demonstrated greater willingness to enter multi-year offtake agreements at firmer price floors and with shorter diligence cycles.

3. **Transaction execution and diligence** — Where NDCs and reporting frameworks are coherent and transparently operationalised, due diligence tends to concentrate on project-level integrity and performance. When coherence is weak or unclear, diligence typically expands — across buyers, legal advisers, auditors, and counterparties — to encompass sovereign accounting risk.

This typically translates into:

- Additional legal review of corresponding adjustment commitments
- Extended consultation with host government authorities
- Requests for side letters clarifying accounting treatment and authorisation scope
- Longer internal approval cycles within buyer institutions
- Heightened scrutiny and delayed sign-off from third-party auditors.

Beyond accounting treatment, diligence also assesses implementation durability. Where NDC frameworks articulate structured benefit-sharing arrangements, transparent consultation processes, accessible grievance mechanisms, and explicit attention to distributional impacts, including gender-responsive measures, these function as governance risk signals.

In compliance-aligned segments, such signals shape perceptions of reversal, social, and reputational risk. The effect is often less visible in headline pricing than in contractual calibration: longer crediting horizons, more proportionate buffer or insurance requirements, smoother internal approvals, and reduced transaction friction.

Conversely, weak or opaque safeguard architecture typically translates into tighter contractual protections, shorter tenors, expanded diligence, and slower execution timelines.

## When incoherence becomes a pricing signal

Where NDC ambition and export positioning are misaligned, this creates the risk that authorised transfer volumes may be changed by shifts such as future domestic mitigation needs, inventory recalibration, or political reprioritisation. Delayed or incomplete Biennial Transparency Reports (BTRs)[12] further reinforce this perception. Uncertainty around inventory reconciliation and reporting trajectories can affect programme eligibility within schemes such as CORSIA and weaken confidence in the durability of corresponding adjustment commitments[13].

Under-signalling — failing to clarify how Article 6 participation interacts with domestic mitigation pathways — creates unhelpful lack of clarity, particularly where accounting treatment or export intent appears open-ended. Conversely, over-commitment without durable accounting foundations increases the probability of later revision, exposing governments to reputational strain and counterparties to volume uncertainty. Markets tend to value ambition that is transparently grounded in accounting coherence more highly than expansive commitments lacking operational clarity.

Markets recognise that NDCs are binding in their submission and reporting obligations, not in guaranteed outcome achievement. Missing a target does not automatically preclude participation. However, persistent shortfalls — especially when combined with opaque reporting, unclear accounting treatment, or shifting export signals — elevate perceptions of delivery and policy risk. Compliance-linked demand growth creates incentives for buyers to recalibrate risk rather than disengage entirely, provided accounting coherence and reporting clarity remain credible.

Importantly, target attainment is not a binary variable. Performance should allow for quantified gradation of achievement rather than a simple "met" or "not met" assessment. Markets respond not only to the headline outcome, but to the transparency of progress tracking, the consistency of accounting treatment, and the credibility of explanatory adjustments.

12 BTRs are submitted under the Enhanced Transparency Framework (ETF) established pursuant to Article 13 of the Paris Agreement, which sets common reporting requirements for national greenhouse gas inventories and progress toward NDC implementation. As of early 2026, 20 African Parties had submitted their first BTRs, based on publicly available records in the United Nations Framework Convention on Climate Change BTR registry.

13 While eligibility for the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is determined under criteria adopted by the International Civil Aviation Organization, Biennial Transparency Report (BTR) submissions and inventory reconciliation under the Enhanced Transparency Framework of the United Nations Framework Convention on Climate Change inform assessments of accounting credibility and the durability of corresponding adjustment commitments.

In practice, these perceptions translate directly into capital consequences. Heightened real or perceived risk is reflected not only in pricing assumptions but in more conservative structuring, including:

- Shorter contract tenors
- Greater reliance on milestone-based payment mechanisms (for example, validation milestones or issuance of a Letter of Authorisation confirming ITMO transfer under a cooperative approach pursuant to Article 6.2)
- Expanded diligence requirements
- Reduced early-stage exposure or phased purchasing commitments.

These adjustments do not signal exclusion from the market. Rather, they represent recalibration of delivery and policy risk within contractual architecture. In effect, these adjustments embed policy and delivery risk into pricing and contract structure, with the resulting cost typically reflected in lower prices for mitigation outcomes or delayed capital deployment.

In this context, reporting architecture is not merely administrative compliance; it is an instrument of sovereign market positioning. It shapes whether authorised transfer volumes are treated as durable and credible — or as contingent and potentially revisable.

Transparent progress review — including clarified accounting treatment, justified baseline revisions (for example, in response to major external disruptions or improved data capture), updated indicative trajectories, and sequenced communication of evolving constraints — functions as a stabiliser. Markets penalise opacity more consistently than missed ambition[14]. Taken together, these transaction-level recalibrations aggregate into a broader capital allocation signal at the sovereign level.

## NDC structuring as capital allocation strategy

Compliance-linked demand is expanding[15] and increasingly defining the upper tier of the market. Access to these segments depends on credible accounting frameworks and disciplined sovereign positioning.

In this context, NDC design directly influences:

- Which buyer pools engage — compliance-aligned, high-integrity, or voluntary demand
- The price ranges achievable across segments
- The structure and tenor of contracts
- The speed and scale at which capital commits.

> NDC structuring is therefore not a reporting exercise in isolation. It is a sovereign capital allocation decision, **one that shapes trade opportunity, fiscal space, and the trajectory of climate-linked development finance.**

## Capital allocation in a consolidating market

Market structure is tightening around eligibility, accounting rigour, and predictable sovereign discipline — factors that increasingly determine realised value.

For African governments navigating constrained fiscal space and widening climate finance gaps, compliance-linked carbon markets represent one of the few scalable mechanisms capable of converting mitigation performance into durable revenue streams.

In practical terms, jurisdictions seeking to strengthen access to compliance-aligned capital should prioritise:

- Aligning NDC targets, national inventories, and project baseline assumptions within a coherent modelling framework
- Clarifying transfer positioning under Article 6, including clear white- and redlists corresponding adjustment treatment
- Providing early policy clarity on the treatment of voluntary credits, including whether and under what conditions they may transition into authorised transfer pathways
- Strengthening reporting architecture, including timely BTR submission and transparent inventory reconciliation processes
- Defining transition approaches for legacy projects to protect credit quality and integrity and avoid overcrediting (this should apply to those projects and project types where new insights, data or methodology adjustments give rise to these concerns)
- Communicating ambition, trade intent, and reporting evolution transparently while preserving sovereign flexibility.

14 This observation reflects structured engagement with compliance buyers, intermediaries, and host governments between 2023–2026, alongside publicly reported transaction experience.

15 Compliance-linked demand growth reflects the expansion of obligations under the second phase (2027–2035) of the International Civil Aviation Organization Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), alongside increasing integration of international credits within national and regional compliance systems. Market outlooks from the International Emissions Trading Association and the World Bank (State and Trends of Carbon Pricing) project sustained growth in compliance-aligned demand as Article 6 operationalisation progresses and eligibility criteria converge around authorised mitigation outcomes.

These measures do not diminish sovereignty; they translate sovereign discretion into operational clarity for markets. Clear design choices allow markets to model risk more efficiently and allocate capital with greater confidence.

The choice remains sovereign. But in a market where eligibility increasingly precedes pricing, realised value depends on the clarity, credibility, and durability of sovereign design choices.


## Series information

Related briefs in this series

1. From Pledges to Capital Flows: How NDC design shapes carbon market access, pricing, and investment
2. From Authorisation to Asset Qualification: How authorisation design shapes market access, pricing, and sovereign risk
3. From Systems to Eligibility: Why institutional performance now shapes carbon market access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The brief reflects accumulated insight into evolving compliance-linked demand, pricing differentiation, NDC positioning, and carbon market structuring dynamics. It does not rely on primary research conducted specifically for this publication.

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