VCMI

01

Deciding if, and when, to engage with voluntary carbon markets

CLIMATE FOCUS

UNDP

Considerations
1.1 Assess the potential of engagement with VCMs
1.2 Determine which roles the host country government will play
1.3 Identify the existing market: mapping of VCM activities

Who should be included in these discussions? Government agency responsible for NDC design and implementation; cabinet-level decision makers, treasury and/or ministry of finance; sectoral ministries, environment ministry or agencies; national development planning authorities.

Realizing the climate change mitigation potential of carbon markets requires capacity, involvement, and support of host countries. Host countries are countries in which the activities that generate carbon credits take place. A clear and stable regulatory environment in host countries supports investor confidence in carbon markets.

Host countries can create certainty by clarifying the role of carbon markets – compliance and voluntary – in the context of national climate policies, ensuring that voluntary activities align with national priorities, and follow social and environmental safeguards.

Voluntary carbon markets (VCMs) provide opportunities to host countries, but their complexity presents a major barrier to engagement. Many governments have limited experience with carbon projects and programs beyond the approval of clean development mechanism (CDM) projects. Some public agencies have experience sponsoring VCM activities, when VCM activities require a permit to operate, or when a link exists between domestic regulation and VCMs.

Overall, very few countries have strategies for engaging with VCMs. The proliferation of project developers, investors, and initiatives can put pressure on host countries to rush into carbon market engagement before fully understanding the implications. Mitigation potential could be unlocked if governments better understood market opportunities in their countries and were better equipped with tools for strategic carbon market engagement.

Host countries need to make decisions about both VCMs and engagement under Article 6 of the Paris Agreement. VCMs and Article 6 are separate carbon market modalities, but they can be linked. Considerations for Article 6 and links to VCMs are further discussed in decision sheets 2 and 3. This sheet examines why and how host country governments might engage with carbon markets, and outlines the first steps to identify carbon market opportunities.

1.1 Assess the potential of engagement with VCMs

Host countries are increasingly interested in understanding carbon markets and their different modalities due to a mix of internal and external influences:

- Host countries are aware that finance is available through carbon markets, but they are uncertain about how to unlock that finance and the implications for meeting their own climate goals

- Host countries are approached by project developers, NGOs, or investors with requests to partner and provide guidance on carbon market engagement, putting pressure on governments to be informed and make decisions about carbon markets

- Host countries work with development partners to build institutional capacity so that governments can abide by the requirements that enable crediting activities to be recognized under Article 6 of the Paris Agreement

- Host countries participate in international initiatives that seek to build rules of VCMs, such as the Voluntary Carbon Markets Integrity Initiative (VCMI) and/or the Integrity Council on Voluntary Carbon Markets (ICVCM).

The range of motivations to engage in carbon markets is summarized in Table 1. Many host country governments are driven by more than one motivation.

Table 1: Why host country governments are interested in VCMs

Governments' reasons for engagement		Governments' interests and concerns
Harnessing an opportunity	Using carbon markets to support national and global climate goals and sustainable development	Governments may be interested in learning more about the potential of VCMs to support their climate change mitigation goals, sustainable development plans, and financing needs.
	Using carbon markets in the context of national carbon pricing policies	Governments may wish to reference VCMs in national policy and legal instruments, such as allowing liable entities to meet carbon tax obligations with VCM credits.
Mitigating non-compliance risks	Ensuring that carbon market activities support the nationally determined contribution (NDC)	Governments may be worried that VCMs export emission reductions and removals needed to meet the country's NDC. By engaging with carbon markets, governments can ensure that they understand any decisions they are making about authorization of VCM projects under Article 6 (see sheet 4) and direct VCM activities toward sectors that are covered or not covered by their NDC.
Safeguarding the integrity of projects and credits	Ensuring that ongoing carbon market activities are aligned with national policies and priorities	Governments may want to ensure that activities are compliant with national law and aligned with strategic policy priorities.
Addressing problems	Exposure to problems that relate to the carbon market	Governments may need to respond to allegations by international actors with respect to problematic projects or issues of non-compliance in their countries. They can alleviate these problems by regulating and directing VCM activity.

Once a host country government has determined that it wants to engage with VCMs, it can develop its carbon market strategy. A carbon market strategy helps a host country to maximize investments into VCM activities that are aligned with national climate plans and contribute to or go beyond NDC goals and targets. Carbon market strategies help host country governments to:

- **Assess benefits of government VCM engagement:** Benefits include finance for climate mitigation goals, ensuring understanding of Paris Agreement processes, advancing sustainable development goals, and promoting public-private partnerships

- **Assess risks of government VCM engagement:** Risks include low-quality projects creating local conflicts and reputational damage, undermining NDC achievement if too many authorizations are given for corresponding adjustments, and overwhelming government agencies responsible for oversight and implementation

- **Identify and compare opportunities for accessing direct investment into mitigation action:** Different environmental and political conditions, NDC targets, sustainable development goals, and other factors influence which types of carbon activities are most beneficial for a given host country

- **Attract carbon finance to support national climate policy and finance priorities:** The government needs to define its financing priorities to then attract carbon finance that aligns with local development goals and advances social and environmental benefits.

1.2 Determine which role(s) the host country government will play

Boundaries between mandatory and voluntary, or publicly and privately regulated, carbon markets are blurry. The generation and trade of carbon credits in VCMs are overseen by private carbon standards and carbon crediting requirements. Voluntary market engagement allows corporates to contribute to voluntary climate targets. Where corporates are mandated to meet climate targets, governments may accept carbon credits issued by private standard setters for compliance purposes often to offset corporate emissions. For example, carbon taxes in Colombia or South Africa allow the use of carbon credits issued by certain VCM carbon crediting programs for compliance.

To engage with VCMs, host country governments can act as regulators, as implementers, and as facilitators.

As regulators, governments institute policies, regulations, and safeguards to guide the development of carbon projects in their territories and attract carbon market finance.

Governments establish and maintain comprehensive national inventories and registries for GHG reductions and removals and mitigation activities. They can require projects, project developers, or other participating entities to submit projects to a public registry.

Governments formulate and enforce safeguards and benefit-sharing arrangements to drive positive social and environmental outcomes and to ensure that carbon market activities do not cause harm.

Governments may permit the use of carbon credits certified by VCM carbon crediting programs in mandatory carbon pricing schemes (e.g., carbon tax, ETS).

As implementers, governments support delivery of VCMs activities directly.
Subnational entities (e.g., municipalities or states), public agencies (e.g., natural park authorities or investment agencies), or public utilities (e.g., municipal waste management or energy generating entities) can be sponsors and co-implementers of carbon projects in partnership with project developers.

In the context of REDD+, governments can sponsor jurisdictional and nested programs, and adopt rules for private sector engagement.

As facilitators, governments support climate change actions financed by investment in and purchase of carbon credits.

Governments contribute to the development of carbon markets by incentivizing and publicly encouraging investment in activities that generate carbon credits.

Governments create an enabling environment for carbon investments by providing regulatory certainty through offering predictable, efficient, and standardized processes for granting approvals and authorizations, reporting to national registries, receiving guidance on benefit-sharing and rights, and communicating with relevant national and subnational authorities.

Governments can direct carbon investments into priority sectors where additional finance is most needed, such as sectors with conditional or no NDC targets or sectors that are otherwise not covered by existing policy or investment.

1.3 Identify the existing market: mapping of VCM activities

Strategic engagement starts with assessing carbon market activities (voluntary and compliance) that already exist or are under development in the host country. It is important that policymakers understand ongoing or planned voluntary carbon market activities, targeted sectors, applied methodologies, and certification carbon standards. A mapping of projects and programs, project developers, and investors, provides important input for a government strategy which builds on countries' prior experiences and particular circumstances, and aligns VCMs with policy goals.

Even if a government has not previously engaged with VCMs, there may be VCM activities in its jurisdiction. This is most likely to be the case in countries with generally open market policies and/or in countries with few relevant regulations, where NGOs and private sector project developers can easily operate. In countries where Indigenous or other subnational entities have some degree of autonomy, these actors may have developed projects without the involvement of the federal government.

The government can carry out a mapping of actors to determine who is already engaged in VCMs and would like to engage. Actors to consider include:

– Owners of infrastructure or managers of land assets that are involved in GHG emission removal or reduction activities. Owners could include private individuals, companies, NGOs, Indigenous Peoples (IPs), Local Communities (LCs), and the government itself

– Private companies, NGOs, and IP and LC organizations with the ability to implement GHG reduction and removal activities

– Relevant public agencies, including environmental and forest agencies, energy providers or public utilities

– Experts that can help to create carbon assets, (i.e., tradable emission reductions or removals in the form of carbon credits) and share expertise on benefit-sharing and safeguards

– Companies that are under pressure (e.g., due to regulation, social responsibility commitments, demands from consumers, investor concerns) to mitigate their climate impacts, and therefore might invest in VCM activities or buy carbon credits

– IPs and LCs, smallholder farmers, and other marginalized groups that would benefit from carbon projects through strengthened land tenure, alternative livelihoods, and access to social services

– Government agencies that are already engaged in VCM-adjacent activities such as managing REDD+ and negotiating Article 6.

The Voluntary Carbon Markets Integrity Initiative is a multistakeholder platform to drive credible, net zero-aligned participation in voluntary carbon markets.

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