VCM Access Strategy Toolkit

Considerations for host countries when engaging in high-integrity voluntary carbon markets

Foreword

At VCMI (the Voluntary Carbon Market Integrity Initiative), our vision is a world on track to net-zero emissions by mid-century, achieved through a just transition that enhances equality and sustainable development for all. VCMI believes that, if operated with high integrity, voluntary carbon markets (VCMs) can make a significant contribution to achieving this vision.

For VCMI, high-integrity voluntary carbon markets are those that:

- Drive more overall greenhouse gas (GHG) mitigation – reductions and removals – and more finance towards the regions that need it most, than would be the case if they didn't exist;
- Enhance host countries' ability to increase their mitigation ambition and meet their net-zero transition plans;
- Lead to accelerated deployment of low carbon technologies and increase overall mitigation capacity;
- Contribute to wider sustainable development goals in the host country.

Since our inception as a multi-stakeholder platform, we have collaborated with businesses, governments, civil society organizations and Indigenous Peoples to create guidance that will ensure VCMs meet these criteria.

On the demand side of the market, the VCMI Claims Code of Practice guides companies on how to engage credibly with VCMs. On the supply side, we are supporting host countries and regions so that their participation in VCMs maximizes the environmental, social and economic benefits that carbon finance can bring.

Produced in partnership with Climate Focus and the United Nations Development Program (UNDP), this VCM Access Strategy Toolkit is designed to help policymakers establish the policies and processes needed to underpin their country's participation in high-integrity VCMs. From how to integrate VCM engagement into country plans to meet Nationally Determined Contribution (NDC) commitments and broader development priorities, to the monitoring, reporting and verification systems of project developers, this Toolkit guides a clear strategy for countries to harness the power of VCMs as instruments to deliver ambitious climate and economic goals.

Platforms like the UNFCCC-backed Race to Zero campaign show us that commitments to climate targets such as net zero are undoubtedly increasing and, with that, the demand for high-quality carbon credits from credible projects. This Toolkit aims to help governments to create an enabling environment to help meet this growing demand, while unlocking the benefits of thriving, high-integrity VCMs for their country.

We hope you find the VCM Access Strategy Toolkit useful. Sign up to the VCMI newsletter on our website to hear more about our activities to support country access to high-integrity VCMs.

With best regards,

Mark Kenber

About VCMI

VCMI is a multi-stakeholder platform to drive credible, net-zero aligned participation in voluntary carbon markets. VCMI's mission is to enable high-integrity voluntary carbon markets that deliver real and additional benefits to the atmosphere, help protect nature and accelerate the transition to ambitious, economy-wide climate policies and regulation. VCMI focuses on key areas where there is a clear need for additional work.

These areas include:

- Promoting demand-side integrity to ensure meaningful use of carbon credits for voluntary purposes and the associated business case for scaling high integrity voluntary carbon markets

- Promoting supply-side integrity and access as countries develop policy options and strategies to promote high integrity voluntary carbon markets and engaging with supply-side integrity efforts to ensure transparency and assurance.

vcmintegrity.org

About Climate Focus

Climate Focus is a pioneering international advisory company and think tank that provides advice to companies, governments, multilateral, non-governmental and philanthropic organizations. Founded in 2004, Climate Focus has close to two decades of experience supporting clients to shape and navigate international and domestic climate policies, access climate finance, and engage with new climate mechanisms and cooperative approaches. Climate Focus has offices in Amsterdam, Berlin, Bogotá, Rotterdam and Washington, D.C. The team is complemented by a broad and diverse pool of in-country experts and international partners.

Climate Focus is a recognized leader in advising on climate finance, policy, and market mechanisms. The team comprises experts in international and national climate law, policy development and implementation, project design, and climate finance, and has extensive experience across sectors. Our advisory is rooted in a profound knowledge of climate science, public and private climate policy frameworks, sectoral emissions reductions and project development. Climate Focus has been central to the development of transparent and high–quality carbon markets since their inception. Climate Focus reviews carbon standards and methodologies; assesses carbon projects and advises investors; contributes guidance to carbon market regulatory bodies; and supports governmentsand communities in understanding and engaging with carbon markets.

www.climatefocus.com

About UNDP

As the United Nations lead agency on international development, UNDP works in 170 countries and territories to eradicate poverty and reduce inequality. The agency helps countries to develop policies, leadership skills, partnering abilities, institutional capabilities, and to build resilience to achieve the Sustainable Development Goals. UNDP's work is concentrated in three focus areas; sustainable development, democratic governance and peace building, and climate and disaster resilience.

www.undp.org

About the capacity building landscape and key collaborators

Carbon markets have potential to increase and accelerate climate action. There is a need for robust capacity building to enhance equitable, impactful, and complementary implementation of voluntary carbon markets, Article 6 of the Paris Agreement, and compliance carbon markets. The VCM Access Strategy Toolkit exists within a rich landscape of coalitions, initiatives, and entities active in coordinating and delivering capacity building on carbon market mechanisms. We acknowledge the important efforts of key collaborators working towards the common goal set forth in this Toolkit – to facilitate countries' readiness to maximize environmental, social, and economic benefits from carbon markets implementation, including those following:

ACMI
AFRICA CARBON MARKETS INITIATIVE

The Africa Carbon Markets Initiative

The Africa Carbon Markets Initiative (ACMI) seeks to unlock the potential of carbon markets for financing Africa's energy, climate and development goals.

Iniciativa Brasileira para o Mercado Voluntário de Carbono

The Brazilian Voluntary Carbon Market Initiative

The Brazilian Initiative for the Voluntary Carbon Market has the goal of structuring key market mechanisms to develop the voluntary carbon market in Brazil and contribute to the global high-integrity carbon market.

CAF DEVELOPMENT BANK OF LATIN AMERICA AND THE CARIBBEAN

The Development Bank of Latin America and the Caribbean

Alicia Montalvo (Manager of Climate Action and Positive Biodiversity): 'CAF seeks to be a strategic ally for Latin America and the Caribbean in the creation of enabling conditions for the development of environmental asset markets that ensure institutionality, impact, integrity and transparency.'

Eastern Africa Alliance On Carbon Markets And Climate Finance

The Eastern Africa Alliance on Carbon Markets and Climate Finance

The Eastern Africa region has had 299 VCM activities, issuing 73.6+ million credits across all 7 member countries. Activities span Gold Standard, Verra, and Plan Vivo, empowering diverse initiatives.

The Integrity Council for the Voluntary Carbon Market

The Integrity Council for the Voluntary Carbon Market (Integrity Council) is an independent governance body for the voluntary carbon market. We recently released our Core Carbon Principles (CCPs) in August 2023, which set and enforce a definitive global threshold, drawing on the best science and expertise available, so high-quality carbon credits efficiently mobilize finance towards urgent mitigation and climate resilient development.

The Inter-American Institute for Cooperation on Agriculture

The Inter-American Institute for Cooperation on Agriculture supports the agriculture sector of the Americas to develop capacity and enabling conditions at the national and regional levels for VCM access to accelerate climate action in the sector.

The Multilateral Development Bank (MDB) Group

The Multilateral Development Banks (MDBs), through a Working Group on Article 6 supports countries with leveraging market/ price-based and non-market mechanisms as an important tool to deliver carbon and climate finance for NDC implementation. Current MDB working group members include Asian Development Bank, African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the Islamic Development Bank, and the World Bank Group. MDBs offer a range of technical assistance and capacity building support for Paris-aligned carbon markets through their respective work programs and initiatives including Partnership for Market Implementation, Climate Warehouse, Climate Market Club, and Digital4Climate in working towards Paris-aligned carbon markets which is consistent with the goals set forth in this Toolkit.

The West African Alliance on Carbon Markets and Climate Finance

The VCMI toolkit can facilitate Understanding and readiness to access Voluntary Carbon Markets in west Africa

About this toolkit

VCMI seeks to ensure voluntary carbon markets (VCMs) are high integrity and support the climate and economic prosperity goals of host countries: countries in which the activities that generate carbon credits take place. VCMI is an independent, multi-stakeholder initiative whose mission is to enable VCMs which deliver real and additional benefits to the atmosphere, help protect nature, and accelerate the transition to ambitious, economy-wide climate policies and regulation.

Through the first phase of the VCM Access Strategies program, VCMI offered support to policymakers in host countries to access high integrity VCMs and channel finance into priority sectors. Delivered in partnership with Climate Focus and UNDP, the VCM Access Strategies program engaged an initial set of host countries from June 2021 to November 2022. The program took a country-specific perspective, considering prior experiences, national circumstances and existing carbon finance mechanisms and infrastructure. This included providing information and supporting stakeholder engagement to inform decision-making on how to direct investment from VCMs into mitigation action and align VCMs with other financial instruments to deliver national climate and economic priorities.

This VCM Access Strategy Toolkit was developed in response to the identified needs of policymakers to understand key considerations for VCM engagement. The Toolkit provides high-level guidance to support host countries in deciding whether to, why, how, and when to engage with VCMs. It is designed for use by policymakers and government officials in host countries. It provides a starting point for policymakers to guide their thinking, discussions and preparation for developing carbon market engagement strategies.

Many of the sections of this Toolkit are dependent on the evolving COP Article 6 negotiations landscape where new guidance will continue to be released.

How to use this toolkit

The VCM Access Strategy Toolkit starts by addressing overarching topics that require political engagement and progresses to more technical issues that policy makers also need to address. The sheets in the Toolkit can be read and used in any order depending on specific country interests, although a suggested flow is illustrated below. Each sheet addresses one broad topic, which is broken down into policy-relevant questions.

The VCM Access Strategy Toolkit is organized as follows:

01	The host country decides if, and when, to engage with voluntary carbon markets	p. 18
02	The host country plans how to finance its Nationally Determined Contribution (NDC)	p. 24
03	The host country determines the role for carbon markets in NDC achievement	p. 32
04	The host country establishes legal and institutional frameworks	p. 42
05	The host country ensures high-integrity carbon market activities	p. 52
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07	Voluntary Carbon Market Standards / Carbon Crediting Programs	p. 65
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Overview of voluntary carbon markets

Introduction to voluntary carbon markets

Carbon markets are transactional markets for the issuance, sale, purchase, and retirement of carbon credits. Each carbon credit represents one tonne of greenhouse gas (GHG) emissions – measured in carbon dioxide equivalents (tCO_2e) – that has been reduced or removed from the atmosphere.

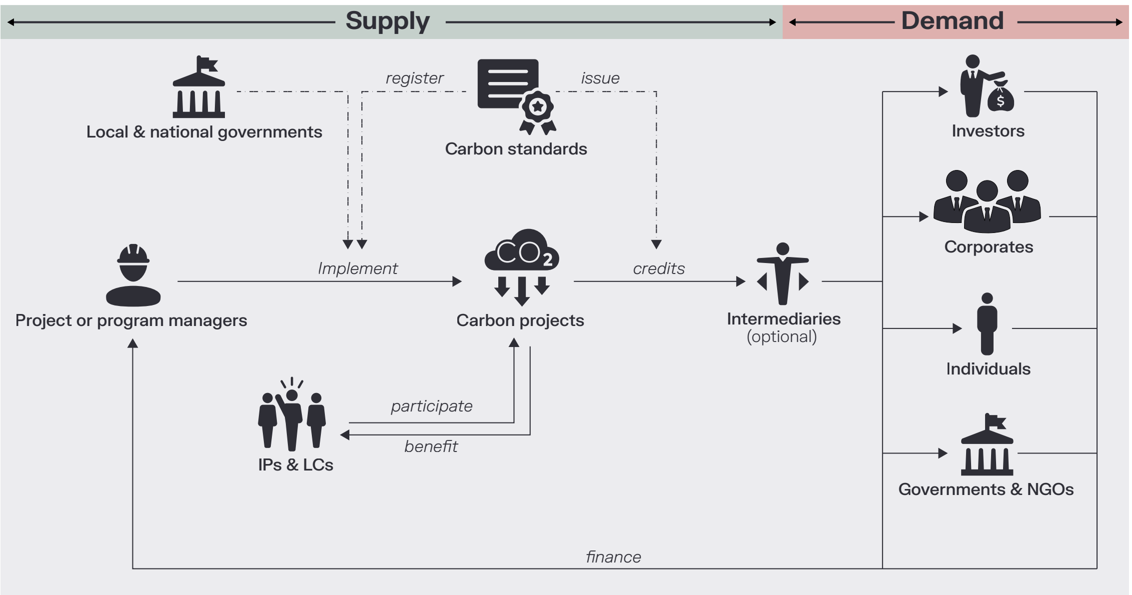
Voluntary carbon markets (VCMs) involve transactions of carbon credits for voluntary climate change mitigation activities. VCMs are outside of regulated or mandated carbon pricing instruments. Corporations, governments, non-governmental organizations (NGOs), local communities, individuals, and other actors participate in VCMs to meet private or public emission reduction commitments or to neutralize GHG emissions of products or services.

Carbon credits are generated by small projects or large programs that reduce or remove emissions (see Figure 1).

To generate carbon credits:

- Projects and programs need to attract investment to finance the activities that reduce and / or remove GHG emissions
- Activities need to be designed, developed, and certified by project developers and local partners
- GHG emission reductions and removals need to be monitored and reported by the developer and verified by an independent third party or standard
- Carbon credits need to be issued by the standard and transferred to the buyer
- Project developers, investors, and governments sell carbon credits directly to buyers who retire the carbon credits or to intermediaries who market carbon credits to final users.

Figure 1: The market for carbon credits



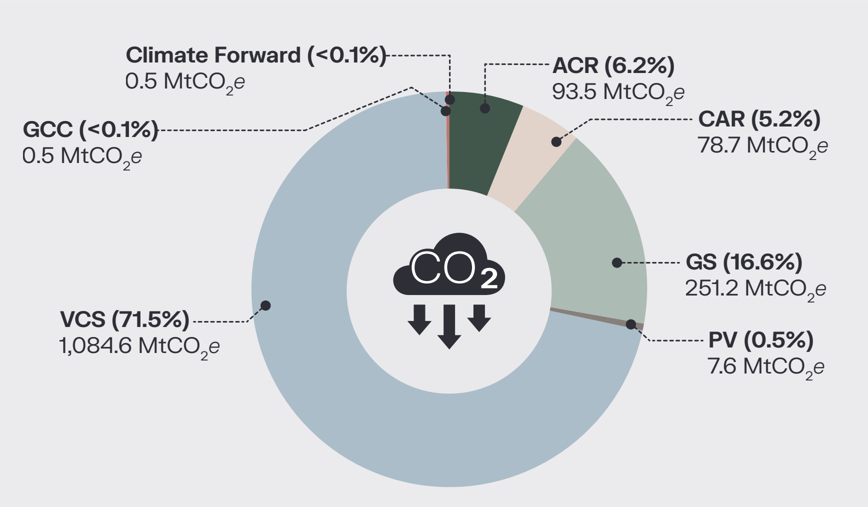
Source: Climate Focus (vcmprimer.org)

Carbon credits transacted in VCMs are issued and certified according to requirements set by carbon standards or the UNFCCC. Carbon standards are carbon crediting programs, typically NGOs, that establish the methodologies and verification, validation, and monitoring procedures that VCM activities must follow for the standard to issue carbon credits.

At the time of writing, the largest carbon standards by volume are the Verified Carbon Standard (VCS), the Gold Standard (GS), the American Carbon Registry (ACR), and the Climate Action Reserve (CAR) (Figure 2).

The UNFCCC is also developing its own mechanism, Article 6.4. of the Paris Agreement, through which carbon credits that could be transacted in VCMs are issued and certified. This is expected to be similar to the Clean Development Mechanism of the Kyoto Protocol.

Figure 2: Share of credits issued in the VCM by leading carbon standards



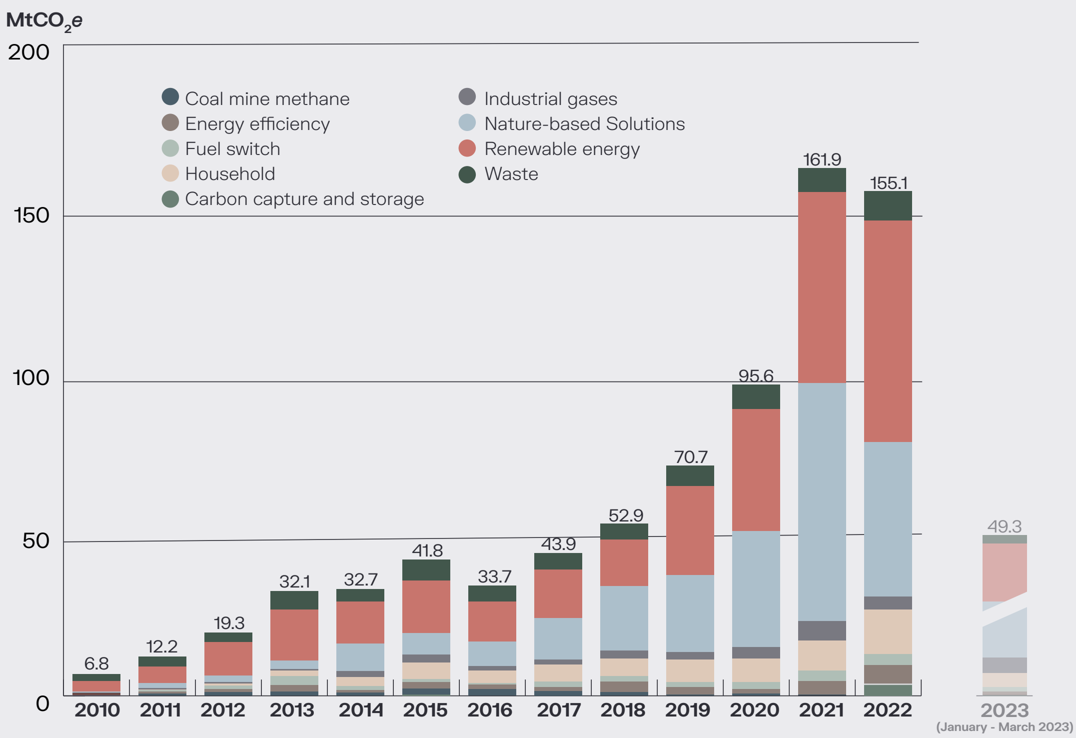
Source: Climate Focus analysis of data collected for the VCM Dashboard (April 2023)

VCMs can support countries in achieving climate goals established under the Paris Agreement. Although the issuance of carbon credits under VCMs is currently broadly governed by private standards and not by international or national regulatory bodies, governments can engage with VCMs. Governments institute policies, regulations and safeguards that influence VCM activities and enable environments that facilitate VCM projects or programs. They can also act as a direct sponsor of VCM projects or programs within their territories.

VCMs are growing rapidly in both supply and demand. Growth in supply is evidenced by increases in the issuance of carbon credits and numbers of projects. Growth in demand is evidenced by increases in purchases and retirements (i.e., the use) of carbon credits. Figure 3 shows that the volume of retirements has increased steadily since 2016. VCM issuances and retirements reached an all-time high in 2021, with 352 million credits issued and 159.8 million retired.[1] VCM volumes were lower in 2022, with 279 million credits issued and 156 million retired.[2]

Compliance carbon markets still cover more GHG emissions than VCMs. Compliance carbon markets are marketplaces through which regulated entities obtain and surrender emissions permits (allowances) or eligible carbon credits in order to meet predetermined regulatory targets. For example, the European Union (EU) Emissions Trading Scheme is a compliance carbon market. It covers about 36% of the EU's total greenhouse gas emissions, and in February 2023, the price of carbon allowances in the scheme surpassed $106.57 (€100) per tonne. VCMs issue a smaller volume of carbon credits than compliance markets but are growing faster as the demand for carbon credits by private actors outside of regulated schemes increases.

Figure 3: Yearly volumes of retired voluntary carbon credits



Source: Climate Focus analysis of data collected by the VCM Dashboard (April 2023) from seven carbon standards – VCS, GS, ACR, CAR, PV, GCC, and Climate Forward.

[1] Climate Focus (updated monthly) *Voluntary Carbon Market Dashboard*. Available at: https://app.powerbi.com/view?r=eyJrIjoiNGI5ZDY1ZWUtZGU0NS00MWRmLWFkNjQtMTUyYTMxMTVjYWQyIiwidCI6IjUzYTRjNzZkLWI2MjUtNGFhNi1hMTAzLWQ0M2MyYzIxYTMxMiIsImMiOjl9&pageName=ReportSection68c2510fa4171bdf82a9 (Accessed 4th April 2023)

[2] Climate Focus (2023). *Voluntary Carbon Market 2022 Overview*. Available at: https://climatefocus.com/publications/2022-overview-voluntary-carbon-market-dashboard/ (Accessed 4th April 2023)

Demand

Demand for carbon credits is expected to continue growing. It is estimated that 1.1-3.6 billion tCO_2e could be demanded from VCMs by 2050.[3] Companies and investors that purchase carbon credits are most often based in the Global North (though investment also comes from the Global South).

Carbon credits from nature-based solutions activities are in high demand. The popularity of nature-based solutions credits is partially driven by the additional social and environmental benefits of these activities and partially by the potential of nature-based solutions to issue significant volumes of carbon credits. Figure 4 shows that the issuance of nature-based solutions credits reached an all-time high in 2021.

Demand for carbon credits comes from companies choosing to engage in climate change mitigation. Public opinion, shareholder requirements and expectations from other stakeholders – including employees and consumers – incentivize corporations to adopt climate targets. Many corporates acquire carbon credits to contribute to these climate targets.

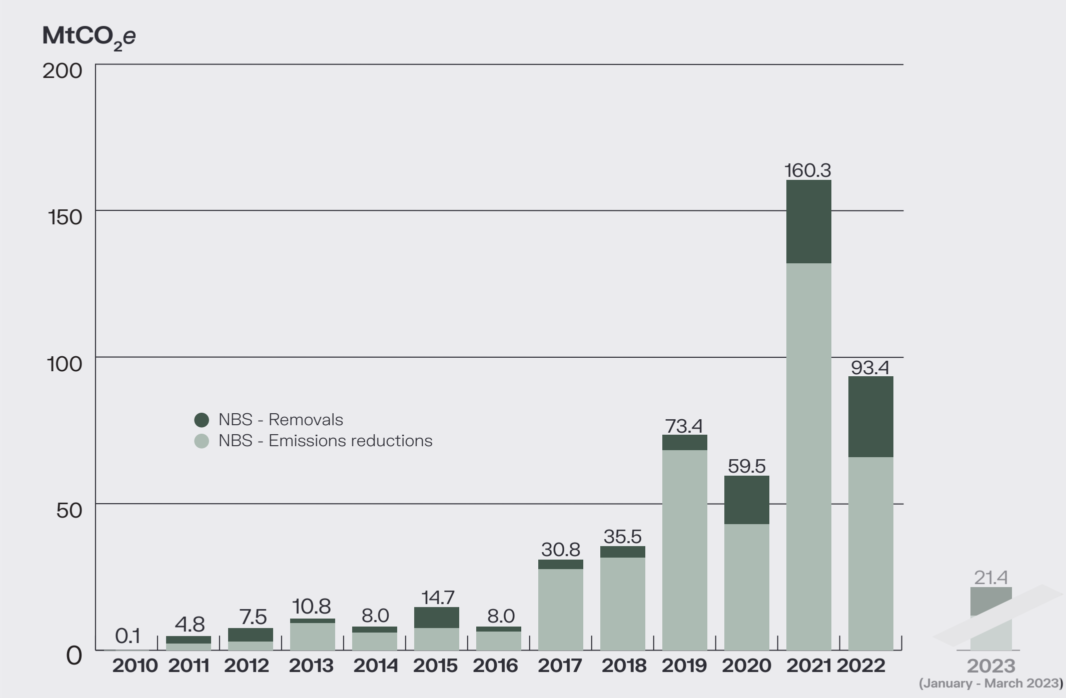
The VCMI Claims Code of Practice provides guidance for how companies can use carbon credits as part of net-zero transitions and make credible claims about that use. VCMI encourages companies and other non-state actors to purchase and retire carbon credits to contribute to the global collective effort to limit temperature change to 1.5 degrees. Increasing demand from companies encourages other market players to enter the market. Traders act as intermediaries and investors buy carbon credits in anticipation of increasing prices.

Some countries allow the use of carbon credits for compliance purposes under domestic climate regulation. Domestic carbon pricing instruments like carbon taxes and emissions trading systems (ETSs) create demand by allowing liable entities to use carbon credits from approved standards and sectors to meet their obligations. International compliance schemes such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) also create demand. CORSIA enables the use of carbon credits by airlines to help to meet climate goals. In these cases, specific types of carbon credits generated in VCMs can be used for compliance purposes. As such, the boundaries between voluntary and compliance carbon markets blur.

In Colombia, Mexico and South Africa, liable entities can use carbon credits issued by certain VCM standards to fulfil obligations under those countries' carbon taxes. ETSs in China, South Korea, and Mexico allow for the limited use of carbon credits acquired through VCMs, although ETSs in other jurisdictions (i.e., California, Switzerland, and the European Union) exclude or restrict the use of carbon credits acquired through VCMs.

[3] Trove Research, University College London, & Liebreich Associates. (2021). *Future Demand, Supply and Prices for Voluntary Carbon Credits – Keeping the Balance*. Available at: https://trove-research.com/wp-content/uploads/2021/06/Trove-Research-Carbon-Credit-Demand-Supply-and-Prices-1-June-2021.pdf. (Accessed 4th April 2023)

Figure 4: NBS carbon credits issued in the VCM



Source: Climate Focus analysis of data collected by the VCM Dashboard (April 2023) from five carbon standards – VCS, GS, ACR, CAR, and PV.

Supply

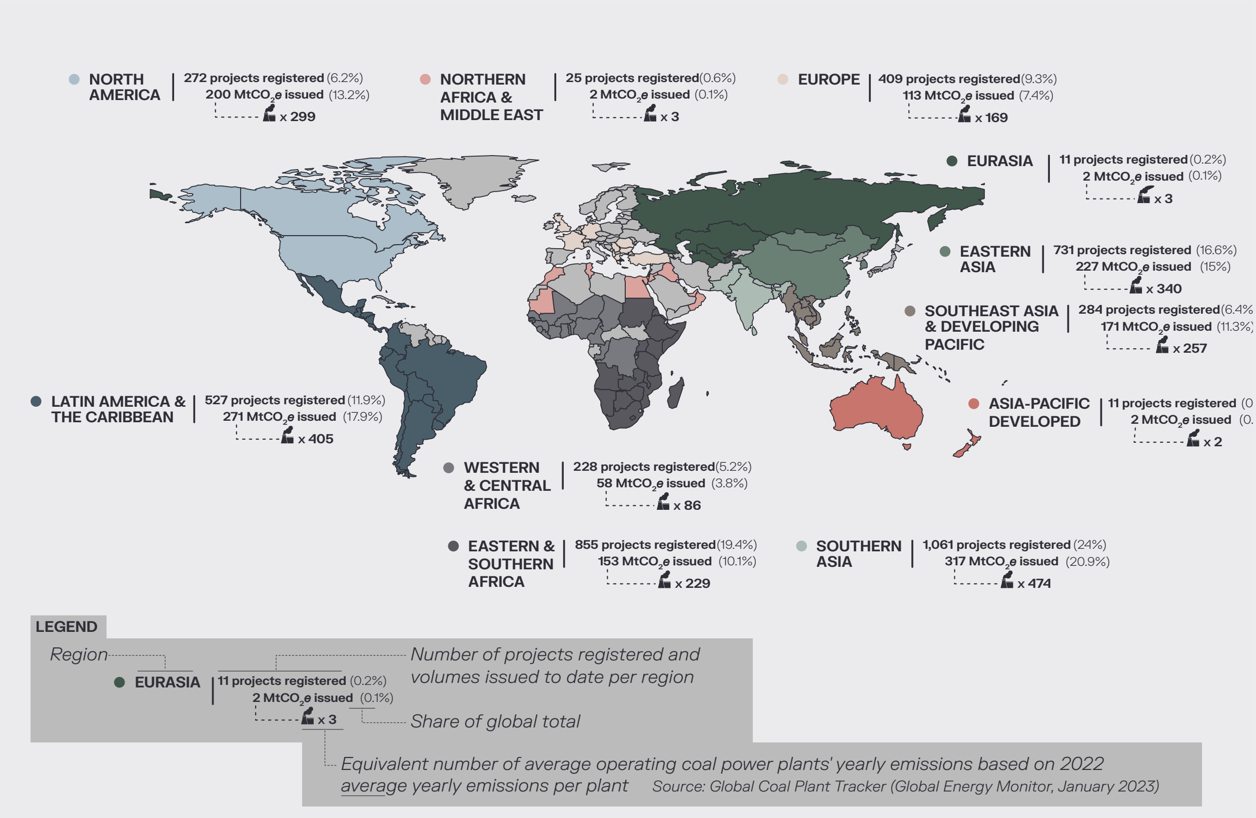
Much of the supply of carbon credits comes from projects in low- and middle-income countries. As shown in Figure 5, Europe and North America account for 189.6 MtCO_2e issuances while all other regions combined account for 1,113.7 MtCO_2e issuances. At the country level, India, China, Brazil, the United States, and Indonesia are the top suppliers of carbon credits.

At the regional level:

- Southern Asia is the top supplier of carbon credits overall and particularly of renewable energy carbon credits
- Latin America and the Caribbean is the top supplier of nature-based solutions credits, with significant nature-based solutions contributions from Southeast Asia and Southern, Eastern, and Central Africa
- Africa accounts for the vast majority of energy efficiency carbon credits
- Europe and North America dominate in carbon credit issuances from coal mine methane, industrial gases, and carbon capture and storage projects

The geographical distribution of issuances does not necessarily reflect the geographical distribution of projects. As shown in Figure 6, Southern, Eastern, and Central African countries have the second most projects but are sixth in terms of volume of issuances, while the Latin America and the Caribbean region is fourth in terms of number of projects, but second in terms of volume of issuances. Southern Asia dominates globally with the greatest number of projects and the largest volume of issuances.

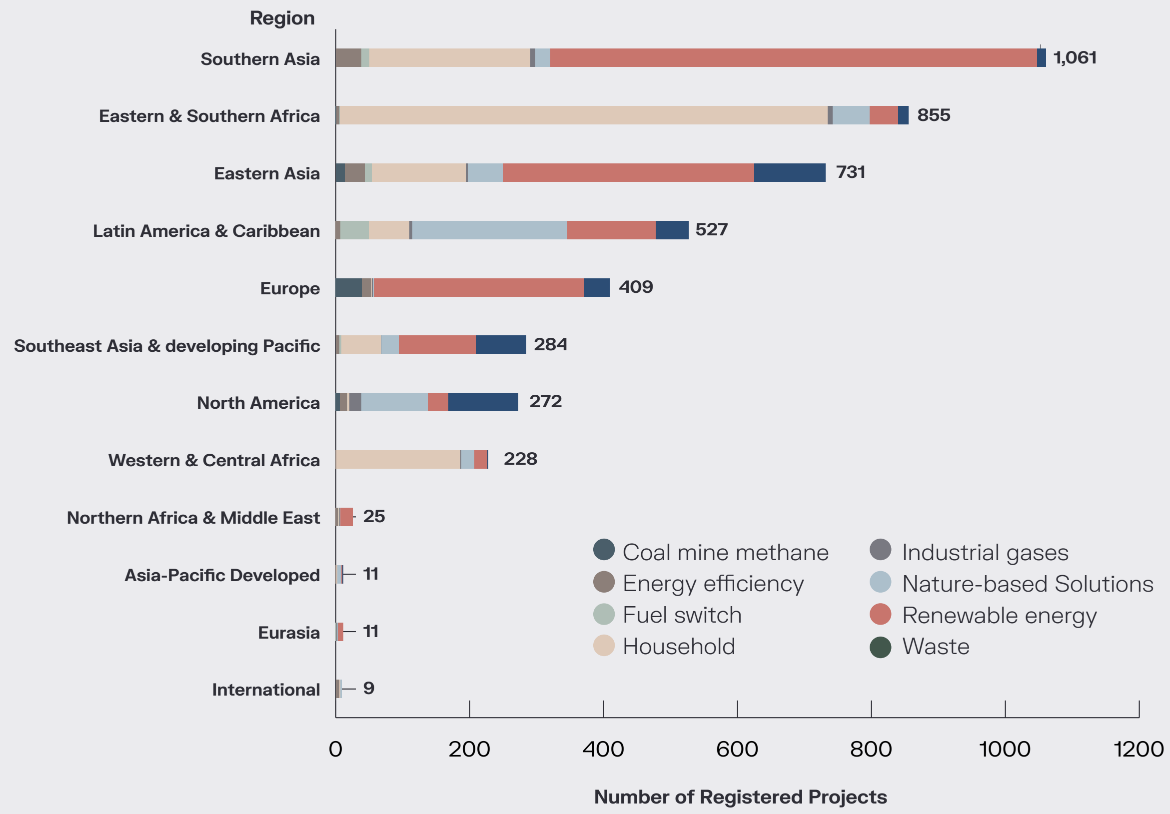
Figure 5: VCM credits issued and projects registered since 2002



Source: Climate Focus analysis of data collected by the VCM Dashboard (April 2023) from seven carbon standards – VCS, GS, ACR, CAR, PV, GCC, and Climate Forward.

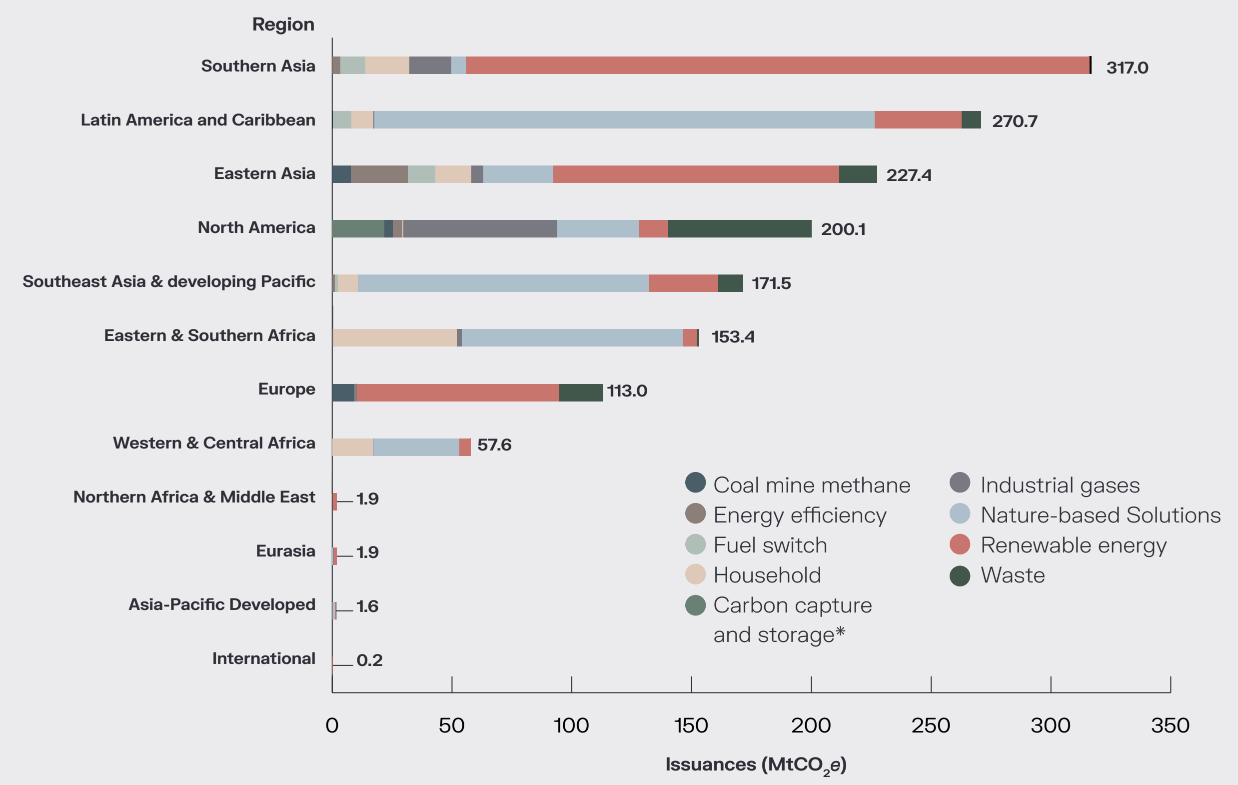
Greater numbers of projects in certain project types does not necessarily equate to higher volumes of emission reductions and removals. Energy efficiency lends itself to many small projects because these are relatively quick to develop and can be added onto existing projects or groups of projects. In some cases, groups of projects can be treated as single projects, called Programs of Activities, which are treated as single projects in Figures 6 and 7 but could be further divided into individual projects. In contrast, Reducing Emissions from Deforestation and forest Degradation (REDD+) projects are often large, and single projects can be responsible for the issuance of large volumes of carbon credits. The most extreme case is Southeast Asia, where nature-based solutions represents 5.3% of projects but delivers 73% of issuances.

Figure 6: Registered VCM projects per region



Source: Source: Climate Focus analysis of data collected by the VCM Dashboard (April 2023) from seven carbon standards – VCS, GS, ACR, CAR, PV, GCC, and Climate Forward.

Figure 7: VCM credit issuances per region



Source: Climate Focus analysis of data collected by the VCM Dashboard (April 2023) from seven carbon standards –VCS, GS, ACR, CAR, PV, GCC, and Climate Forward
*Carbon Capture and Storage credits have been issued only from projects in the United States and all of those projects are now completed. This figure includes all issuances from active and completed projects, while Figure 6 includes only registered active projects, which is why Figure 6 does not include any Carbon Capture and Storage projects.

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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