

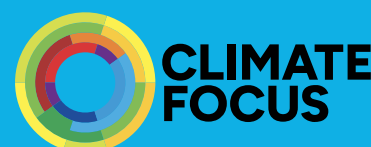
Government Strategies to Mobilize Domestic Carbon Credit Markets

A POLICY TOOLKIT FOR BUILDING DEMAND, SUPPLY
AND INVESTOR CONFIDENCE

10 September 2026



VCMI Voluntary Carbon
Markets Integrity
Initiative



**Government Strategies to
Mobilize Domestic Carbon Credit
Markets: A Policy Toolkit for
Building Demand, Supply and
Investor Confidence**

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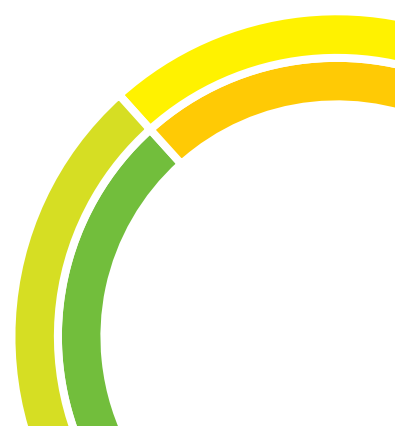
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FOREWORD

The window for effective climate action is narrowing, and the gap between ambition and available finance remains stubbornly wide. Across emerging markets and developing economies in particular, governments face the dual imperative of accelerating mitigation while managing constrained fiscal space, competing development priorities, and limited access to affordable capital. National policies and international climate finance remain essential, but cannot alone close the investment gap at the pace and scale required. The challenge is therefore not only to attract more international finance, but also to **mobilize domestic capital and align it with national climate and development priorities**. Carbon credit markets (CCMs) can provide a complementary channel for doing both—unlocking additional private investment while helping countries build deeper domestic markets for climate finance.

Domestic CCMs, in particular, hold significant untapped potential. When designed and governed well, they can **mobilize domestic investors and businesses alongside international sources of capital**, channelling finance toward priorities articulated in Nationally Determined Contributions while generating wider benefits for biodiversity, innovation, communities and livelihoods. By creating opportunities for domestic financial institutions, companies and other investors, they can build local expertise, financial products and investment pipelines, while providing a stronger platform for international finance. Domestic voluntary markets need not compete with regulated carbon pricing instruments or Article 6 mechanisms; operating alongside them, they can expand the overall pool of capital available for climate action and give countries greater agency over how it is deployed.

Realizing this potential, however, requires an enabling environment, and building one is fundamentally a task of government leadership. Clear institutional mandates,

legal certainty, transparent registries, credible oversight, and appropriate rules for participation are essential to building markets that domestic and international investors can trust. Without these foundations, markets risk fragmentation, weak integrity, or failure to attract the capital they are intended to mobilize. Governments that invest early in these conditions can **deepen domestic investment capacity, retain more of the value created by carbon markets, and attract complementary international capital**.

This report provides a practical, evidence-based guide to building such an environment. It distils international best practices and country experience into three complementary categories of policy options: measures that enable broad participation, create durable demand for credits, and safeguard integrity and manage supply. Examples from diverse national contexts demonstrate how these tools can be adapted to different institutional capacities, market maturity and development priorities.

A central message is that **no single measure or source of finance is sufficient**. Meaningful investment will depend on a coherent, well-sequenced package that mobilizes domestic and international capital while safeguarding market integrity. This report is therefore not a template, but a menu of options for governments to adapt to local realities while drawing on international experience.

We hope it serves as a practical companion for policymakers in emerging markets and developing economies, in particular. The opportunity is significant: to strengthen domestic carbon markets, **mobilize domestic capital as a foundation for and complement to international climate finance**, unlock new sources of private investment, and accelerate progress toward national and global climate goals.

Mark Kenber
Executive Director, VCMi

1. BACKGROUND: DOMESTIC VOLUNTARY CARBON MARKETS

Most mitigation will be achieved through the implementation of dedicated national climate policies. International carbon markets, including both voluntary carbon markets (VCMs) and mechanisms under Article 6 of the Paris Agreement, can provide additional mitigation supported by foreign investment. However, in most countries, a significant climate finance gap remains. Countries with ambitious NDCs may also be reluctant to authorize large volumes of credits for transfer under Article 6 mechanisms. Stimulating domestic demand for national carbon market activities can be an important instrument to mobilize additional private finance toward mitigation activities, while contributing to sustainable development, biodiversity protection, technological innovation and benefits to local communities. Domestic VCMs offer an opportunity to mobilize private investment into mitigation activities and help countries meet their Nationally Determined Contributions (NDCs) and broader sustainable development objectives.

VCMs are decentralized markets in which companies and individuals voluntarily buy and sell carbon credits outside of regulated or mandatory carbon pricing instruments. Carbon credits are tradable units generated by activities that avoid, reduce or remove greenhouse gas (GHG) emissions. Each carbon credit in the VCM represents one metric tonne of carbon dioxide equivalent (tCO₂e) that has either been removed from the atmosphere or whose emissions have been avoided or reduced.

The effectiveness and growth of domestic VCMs depend on both the demand for and supply of high-integrity carbon credits. Demand for VCM carbon credits is driven by a blend of corporate climate commitments and ambition, stakeholder expectations, policy signals, market integrity and reputational considerations. Sustaining this demand requires transparency; credible measurement, reporting and verification (MRV) systems; and confidence that carbon credits deliver real, measurable, additional and permanent climate benefits. At the same time, strong supply depends on an enabling environment that supports the development of high-quality projects and carbon crediting activities.

Governments can play a critical role in creating this enabling environment. In countries that are actively promoting domestic VCMs (e.g., Chile, Colombia, Republic of Korea, Singapore, among others), governments often adopt a whole suite of complementary measures, from policies that enhance market transparency to project verification frameworks to policy linkages that create demand for carbon credits. Thus, countries seeking to attract private sector participation in the generation and acquisition of carbon credits may consider pursuing a range of complementary policy, regulatory, fiscal, financial, and technical measures to reduce risk, improve market predictability, and strengthen investor confidence. Experience to date shows that policies that create tangible demand, facilitate participation, and ensure credibility of outcomes are needed to mobilize private sector investment.

This report provides an overview of measures that governments have adopted to support domestic VCMs. It examines general policy options to create a clear legal and regulatory framework underpinning VCM activities; measures to mobilize demand for carbon credits; and interventions to increase the supply of high-quality credits. Through a wealth of country examples, the report identifies approaches that governments can use to strengthen domestic VCMs and position themselves to attract investment in mitigation activities.

This report results from a collaboration between the Voluntary Carbon Markets Integrity Initiative (VCMI) and Climate Focus. The report aims to provide guidance to governments in identifying and implementing policy instruments that can foster the development of robust, high-integrity domestic VCMs.



2. POLICY OVERVIEW

Table 1 below summarizes policy measures governments can leverage to create investment demand in domestic VCMs. These measures can be grouped into three complementary categories:

- **Participation-enabling** instruments, which provide the institutional and market infrastructure needed for private actors to generate and transact carbon credits efficiently;
- **Demand-creation** instruments, which establish financial or regulatory incentives for private entities to acquire carbon credits;
- **Integrity and supply** instruments, which build the pipeline of credible carbon credits and safeguard market confidence through transparency and capacity-building.

These categories are interdependent. Demand-creation mechanisms are most effective when supported by participation and integrity measures that make markets operational and trustworthy. Together, they form a coherent policy package capable of catalyzing private investment into VCMs.

Table 1: Overview of measures to enhance the investment landscape for domestic voluntary carbon markets

CATEGORY OF MEASURE	OBJECTIVE	MEASURES
Participation-enabling instruments	Measures that enhance the government's carbon market readiness	Clarifying institutional roles and mandates. Building the capacities of designated government agencies.
	Measures that build trust among carbon market stakeholders and enhance investment security	Adopting and communicating a government strategy on carbon markets. Developing and adopting a legal framework governing Article 6 and VCM activities, and defining their linkages. Clarifying the legal nature and ownership of carbon.
	Measures that facilitate trade of carbon credits	Establishing a national carbon registry. Designing and establishing VCM matchmaking or trading platforms.
Demand-creation instruments	Measures that drive direct demand for carbon credits	Linking carbon credit markets to regulated carbon pricing systems (emissions trading systems or carbon taxes). Allowing mandatory carbon credit procurement as a penalty for a failure to meet emissions reduction targets.
	Measures that create fiscal incentives	Adopting fiscal measures, such as tax credits and exemptions. Incentivizing the purchase of VCM credits through corporate reporting and accounting rules.
	Measures that provide public financial support for carbon market engagement	Establishing direct purchase orders and national carbon credit procurement programs. Introducing public incentives for voluntary tracking and reporting of carbon footprints
Instruments to increase the integrity and supply of carbon credits	Policies that enhance investment security for project developers	Creating a national carbon certification program. Approving and supporting carbon credit programs and standards. Establishing direct project subsidies and support for the development of carbon crediting activities. Introducing fiscal measures to encourage project development and innovation of carbon reduction technologies.

3. POLICIES AND MEASURES THAT FACILITATE DOMESTIC VCMS

The following section discusses measures governments can adopt to actively attract private investment into domestic credit-based carbon markets following the categorization presented in Table 1. It succinctly explains the purpose of each measure, followed by practical examples of countries that have adopted such policies tailored to their respective national context. Refer to the Annex for an overview of the outlined policy measures, displaying the measure's regulatory nature; the cost for the government and the targeted private actors; and the nature of the incentives that the different instruments create.



3.1 PARTICIPATION-ENABLING INSTRUMENTS

a. Measures to enhance government carbon market readiness: Clarifying institutional roles and building government capacities

Clearly defined public functions and mandates are essential for effective government policymaking and public-private interactions in carbon markets. Unclear mandates between different entities and government levels (ministries, agencies, municipalities) can lead to the duplication of efforts or conflicting decisions and mandates. Creating a carbon market authority responsible for overseeing the functioning of carbon markets; issuing approvals of projects, methodologies, standards and verification/validation bodies; and ensuring compliance, transparency and availability of information can signal and greatly improve institutional readiness for increased carbon market investments.

To ensure the effectiveness of the authority, strong coordination mechanisms with relevant government agencies and ministries should be established. Additionally, once clear responsibilities have been assigned, capacity-building initiatives should be implemented to ensure relevant institutions are equipped with sufficient technical expertise to design, coordinate, and implement carbon market policies effectively through qualified personnel, clear procedures, and adaptable learning systems.

EXAMPLES

Several countries have set up dedicated carbon market offices with an oversight and operational function. For example, **Côte d'Ivoire** set up an Office for Carbon Markets, **Ghana** created the Ghana Carbon Market Office and **Benin** established the Carbon Project Registration Authority. These national bodies have expertise in carbon markets in the national context and function as a single point of contact for stakeholder consultations.

b. Measures that build trust among carbon market stakeholders and enhance investment security

Adopting and communicating a government strategy on carbon markets

Measures that increase political and regulatory certainty for carbon markets create a favorable investment landscape by decreasing political, regulatory, and reputational risks for investors, project developers, and buyers.

A coherent whole-of government carbon market strategy is essential for building trust of investors in regulated and voluntary carbon markets. Clear communication of the carbon market strategy's core principles to relevant actors will further strengthen the trust-building process. The government should publicly communicate their support for VCMs and the role of national and international carbon markets in achieving the state's climate goals. For example, the government could issue a public statement that communicates its policy in favor of high-integrity VCM commitments, specifying support for carbon market activities in line with national climate/economic goals and/or priority sectors (e.g. forests, agriculture) and preferred types of mitigation activities (e.g. afforestation/reforestation, agroforestry). The government should integrate carbon markets into its LT-LEDs, its NDC, and its national economic and climate plans.

Governments can extend this trust-building signal beyond their own borders by aligning with international frameworks that set shared expectations for high-integrity carbon credit markets. The joint commitment of multiple governments to a common set of principles reduces cross-border uncertainty for investors and buyers, who are comparing opportunities across jurisdictions. Endorsing such shared principles further reinforces the credibility of any single country's domestic strategy.



EXAMPLES

The UK government published the document Voluntary carbon and nature market integrity: UK government principles, which addresses concerns about the quality and integrity of certain credits available on the market, as well as how these credits are used to support environmental impact claims.¹ Policy and communication documents can help to clarify the government's goals and strategies prior to the adoption of legal documents. For example, the opinion on international carbon markets issued by the **Australian Climate Change Authority**² or **Pakistan's** Policy Guidelines for Trading in Carbon Markets³ communicate the government's objectives in supporting carbon markets and formulate the core principles of involvement such as ensuring the high integrity of projects and establishing a link with Article 6.

The **Coalition to Grow Carbon Markets**, a government-led initiative whose secretariat is hosted by the Voluntary Carbon Markets Integrity Initiative (VCMI), has developed Shared Principles for Growing High-Integrity Use of Carbon Credits by Companies and Other Buyers.⁴

Developing and adopting a legal framework governing Article 6 and VCM activities, and defining their linkages

A regulatory act that outlines the rules for the implementation of Article 6 activities, as well as the requirements for participation in such activities, is essential for a country's Article 6 readiness. VCMs operate independently of Article 6, yet some projects in the VCM seek approvals and authorizations under Article 6.

Due to this partial convergence between Article 6 and the VCM, governments often include general guidance for VCM activities in regulatory acts that transpose Article 6 into national law. Such regulation usually defines the conditions for projects to apply for permits under Article 6.2, establishes safeguards and determines benefit-sharing principles for carbon projects. International institutions and teams of technical, legal and institutional experts offer support in assessing policy options and advising on Article 6 regulation.

Clarifying the ownership and legal title to carbon rights can further strengthen VCMs because it reduces uncertainty over who is entitled to generate, sell, transfer, and benefit from carbon credits. Clear carbon-rights frameworks improve market integrity, attract investment, and reduce disputes.



EXAMPLES

Ghana has developed a policy on how VCMs and other markets interact, as well as the government's role in each. As a result, it has established carbon market frameworks that address both the VCM and Article 6. The government of Ghana has set up a Carbon Markets Office within the Environmental Protection Agency to provide a legal framework for the generation, validation, and trading of carbon credits. It also formalized the Ghana Carbon Registry, an online platform for tracking transactions and issuing verified credits from mitigation activities. This measure mobilizes the private sector to generate and trade carbon credits, ensuring transparent data management, standardized verification, and reliable issuance of carbon units.⁵

Zambia provides a framework to integrate the rules of the VCM and Article 6 activities.⁶ It facilitates an option for VCM projects, operating under VCM carbon standards, to request a corresponding adjustment from the Government of Zambia for their carbon credits. Once the request is granted, the VCM project's carbon credits can receive an Article 6 label, be issued a corresponding adjustment, and be transferred as Internationally Transferred Mitigation Outcomes (ITMOs).⁷

Mexico is taking a cautious and gradual approach to Article 6 participation. Building on its NDC 3.0 and accompanied by an increase in ambition for 2035, aligned with a goal of net-zero emissions by mid-century, Mexico will prioritize meeting its national mitigation targets.⁸ Once these decarbonization trajectories are secured, participation in cooperative approaches under Article 6 of the Paris Agreement could be considered, particularly to contribute to the implementation of high-cost measures. Mexico is also currently evaluating the role of VCMs in national policies, both in terms of compliance with existing carbon pricing instruments and in the conservation of natural areas.

c. Measures that facilitate trade of carbon credits in VCMs

Establishing a national carbon registry

A registry serves as a place to record every tonne of carbon dioxide that a company emits, saves or offsets. In addition, these digital ledgers anchor the institutional linkages between national carbon markets, allowing the transfer of units across international borders under Article 6 of the Paris Agreement. Registries can also

record VCM activity information such as projects, project status and credits. Thus, they serve to support transparency and prevent an overlap of projects and double counting. It is possible to link national carbon registries with programs that encourage companies or individuals to reduce their carbon footprint. The design of carbon registries depends on the national carbon pricing measures in place in each country and the relevant policy priorities.

EXAMPLES

The Republic of Korea has a national emissions trading system (ETS,) while **Colombia** imposes carbon taxes. Both countries accept offsets to meet mitigation commitments by regulated entities. Thus, both countries have established comprehensive registries to manage all procedures related to transactions and the use of offsets in one place.

Peru's RENAMI registry categorizes mitigation activities into: 1) those generated for Article 6 that require authorization and a corresponding adjustment to serve as an ITMO; 2) non-Article 6 carbon market measures (i.e. VCM activities) that generate emission reductions and removals that count towards Peru's NDC or other uses internationally (without requiring a corresponding adjustment); and 3) measures implemented by state actors to comply with the NDC.⁹

India established the Indian Carbon Market Registry under the Carbon Credit Trading Scheme to function as the Meta registry of the country. It functions to enable registration of entities, to keep account of various types of carbon credits issued against each entity and to facilitate transaction of credits on trading platforms. **Panama**¹⁰, **Peru**¹¹, and **Spain**¹² have created carbon footprint programs ("Huella de Carbono"), through which a registry of companies is established to record their carbon footprint and carbon dioxide offset and absorption projects. All carbon footprints recorded by companies are accompanied by a reduction plan and are checked before registration.

Designing and establishing VCM matchmaking or trading platforms

Creating and supporting trading platforms increases the transparency and efficiency of carbon markets. High-quality infrastructure increases the reliability, liquidity and scalability of carbon markets, attracting and accelerating investment. A high demand for carbon credits is a pre-condition for an effective trading platform. These platforms are particularly relevant for countries that aim to position themselves as international carbon market hubs, such as Singapore, or that have an ETS in place, such as the European Union. Private sector actors – independent companies

or stock exchanges – often develop exchanges and trading platforms, but governments could support one or more various platforms that connect buyers and sellers in voluntary markets. Government support would help projects secure financing and introduce buyers to the national supply of carbon credits. As a first step, it is essential to decide whether to promote simpler matchmaking platforms that support the connections between projects and buyers or more comprehensive platforms that offer trading or settlement services. Establishing a matchmaking platform is especially suitable for countries with less liquid markets.

EXAMPLES

In **Singapore**, DBS Bank, Singapore Exchange, Standard Chartered and Temasek's GenZero have created Climate Impact X (CIX),¹³ Singapore's new carbon exchange. CIX, which focuses on nature-based and high-integrity projects, operates through two platforms. The first is a carbon exchange platform that allows large buyers to trade large volumes of carbon credits. The second platform is a "Project Marketplace" aimed at bilateral negotiations for specific projects. Singapore is determined to become a hub for high-integrity carbon market operations in Southeast Asia. The Bursa Carbon Exchange was launched in **Malaysia** in 2022 to facilitate the trading of high-quality carbon credits through standardized carbon contracts. **Indonesia** has also established a carbon exchange, which is hosted on the Indonesian Stock Exchange.

The **Korea** Exchange acts as the trading platform for the ETS of the Republic of Korea. The government performs matchmaking between domestic buyers and sellers through a system that evaluates projects and connects developers, investors, and other market participants.

3.2 DEMAND-CREATION INSTRUMENTS

Demand for carbon credits is the foundation of an effective carbon market. Today, most of the demand for carbon credits in the voluntary market stems from companies that pursue voluntary actions in pursuit of corporate climate goals.¹⁴ Such unregulated demand for credits from voluntary markets remains vulnerable to external shocks. Negative press coverage, greenwashing allegations, and disputes over project integrity can quickly diminish corporate confidence in the environmental and social credibility of carbon markets. More stable demand for credits stems from situations in which carbon credits are allowed to offset a portion of the obligations under carbon pricing instruments. Creating such stable signals of demand is key to building a domestic market for carbon credits, sourced from the VCM or under Article 6, to meet voluntary or regulated mitigation commitments. These demand signals are often generated through offsetting regulatory provisions that link carbon credit markets to carbon pricing systems and/or through tax incentives. Additional measures include public procurement or public recognition of voluntary actions.

a. Measures that drive direct demand for carbon credits: Linking carbon credit markets to regulated carbon pricing systems

Allowing credits to be used as a compliance instrument where penalties, fees, or regulatory obligations arise is one of the most powerful options because it converts voluntary demand into regulatory demand. Linking carbon credit markets to regulated carbon pricing systems (ETS or carbon taxes) has proven to be a strong driver of credit demand. Offsetting provisions reduce the costs of meeting commitments and channel funding to sectors not covered by the pricing mechanism, such as land use or agriculture. Thus, carbon pricing can use offset mechanisms to achieve additional objectives, such as stimulating investments in hard-to-regulate sectors (e.g., agriculture), generating additional benefits (e.g., contributing to restoration goals), or encouraging the development of domestic companies (e.g., in the Republic of Korea). The willingness of the government to take a firm position on the need to massively reduce the consumption of fossil fuels – supported by public policies already in force – in turn reduces the instability in the interests in reducing emissions. This is an important element to allow demand to remain sufficient.

Introduction of an offsetting provision linked to an ETS

EXAMPLES

The Republic of Korea's ETS, in place since 2015, covers 75 percent of the country's GHG emissions and has already completed three phases during which the use of offsets has been tightened gradually. Phase 1 allowed entities to use up to 10% of domestic offsets (KOCs) or Clean Development Mechanism (CDM) credits from non-ETS sectors. Phase 2 maintained the 10% cap but allowed for international offsets if at least 20% of the ownership or technology was derived from a Korean company, while international credits were capped at 5%. Phase 3 introduced an overall limit of 5% regardless of type, as well as greater rigor in the vintage of credits.¹⁵

In China, the China Certified Emission Reduction (CCER) program allows companies in specific sectors to trade their carbon reduction credits after voluntarily participating in emission reduction initiatives. Entities covered by the national ETS will be able to use CCERs to offset up to 5% of their verified emissions.¹⁶

In Japan, JCM credits are eligible within the Japanese ETS (GX-ETS) (GX Promotion Act, Amendment 2025).¹⁷

The California Cap-and-Invest Program¹⁸ allows the use of offset credits issued by the California Air Resources Board to meet a mitigation commitment. Eligible offsets can originate from six types of projects: forests, urban forests, methane management from livestock, ozone-depleting substances, methane capturing in mining, and rice farming. Entities can use offsets for 4% of emissions (2021-2025) and 6% (2026-2030),¹⁹ and at least half of those offsets must provide direct environmental benefits to California.²⁰

Introduction of an offsetting provision linked to a carbon tax

EXAMPLES

Chile Law 20,780²¹ establishes that private sector entities, subject to the carbon tax, can fully or partially offset their taxable emissions by purchasing certified emission-reduction credits from approved mitigation projects. In Colombia, carbon credits can be used to reduce carbon tax liabilities by up to 50%. Credits must be generated in Colombia to be eligible, in addition to meeting other requirements.²² Thailand's voluntary carbon trading will allow companies to offset up to 15 percent of their taxable emissions with carbon credits (Thailand's forthcoming Climate Change Act).²³ Similar provisions exist in Singapore under the Carbon Pricing Act (with various Amendments).²⁴ The government has established a list of eligible project types.

Allowing mandatory carbon credit procurement as a penalty for a failure to meet emissions reduction targets

EXAMPLE

In Switzerland, the government establishes penalties in case companies do not achieve their reduction obligations, which includes a fine and the obligation to surrender national or international attestations (which may include ITMOs, for each excess tCO₂e emitted and not offset).²⁵

b. Measures that create fiscal incentives

Creation of tax credits and tax exemptions

Tax measures, including tax credits or exemptions, can strengthen national demand for VCM carbon credits. Available tools include tax deductions, tax credits on inputs, tax reductions, accelerated depreciation, or allowing credits to offset part of carbon tax obligations. Governments can allow partial offsetting of tax obligations with eligible carbon

credits, grant exemptions from energy or carbon taxes to companies that generate carbon credits, or grant deductions for the costs of acquiring credits. These mechanisms generate cost savings that can give companies a tangible, short-term financial justification to acquire carbon credits and integrate international mitigation into their decarbonization strategies. The design of appropriate tax incentives depends on the fiscal framework and climate policy objectives of the individual country.

EXAMPLES

VAT exemption for issuance and transfer of carbon credits is given in the **Republic of Korea** through the Restriction of Special Taxation Act (Article 106)²⁶; in the **UK** through the 2024 Terminal Markets Order (VAT Notice 701/9, Sections 3 and 4)²⁷; and in **Paraguay** under Law 7190/2023 on Carbon Credits.²⁸

Singapore allows companies covered by the carbon tax to offset up to 5% of their taxable emissions with eligible ITMOs.²⁹ This effectively reduces the costs of meeting mitigation commitments while creating a structured demand signal for high-integrity international credits.

Australia classified the purchase of Australian carbon credit units³⁰ as a tax-deductible expense.³¹ Companies can claim a tax deduction for expenses incurred in developing forestry projects. Australia also grants tax concessions for carbon credit projects that sell Australian Carbon Credit Units (ACCUs) and biodiversity certificates. In the UK, land registered with the UK Land Carbon Register³² and validated under the Woodland Carbon³³ Code and Peatland Code³⁴ qualifies for Business Property Relief (BPR) in Inheritance Tax.³⁵

The Government of **Kenya** adopted the Nairobi International Finance Centre (NIFC) framework, which has introduced a tiered corporate tax incentive for entities certified by the NIFC Authority and engaged in designated or related financial activities, including carbon trading.³⁶ To qualify, companies must demonstrate a substantial presence in Nairobi by maintaining physical offices, investing at least KES 3 billion in the first three years of operation, setting up their regional headquarters in Kenya, and ensuring that at least 60–70% of senior management are Kenyan nationals. This policy mobilizes the private sector to invest in Kenya's carbon market infrastructure, offering a reduced corporate income tax rate of 15% for the first ten years and 20% for the following ten, as well as dividend tax exemptions for reinvested profits.

Reforming corporate reporting and accounting rules

Corporate accounting rules determine whether carbon credits and climate-related assets appear on balance sheets, how they are valued, and how climate liabilities are recognized.

If climate impacts become embedded in corporate accounting systems, carbon credits and carbon removals become integrated into mainstream financial

management. That shift could create a much more durable source of demand for voluntary carbon markets than voluntary sustainability commitments alone.

A reform of carbon accounting could recognize carbon credits as identifiable assets. A more powerful incentive would involve the recognition of climate-transition liabilities and obligations in fiscal accounts and thus convert climate pledges from reputational commitments to financial obligations.

EXAMPLES

New Zealand was the first country to mandate climate-related disclosures for large financial institutions and listed companies through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. Reporting began for financial years starting on or after 1 January 2023.³⁷ **Japan, Australia, Singapore, Hong Kong, South Korea, Canada, UK, and Brazil** are among the largest markets requiring or implementing corporate disclosure in line with the reporting standards published by the International Sustainability Standards Board (ISSB).³⁸ Although these rules do not yet create carbon-related assets or liabilities on balance sheets, they illustrate how jurisdictions are progressively integrating climate information into investor-focused reporting.

c. Measures that support VCMs through direct public funding

Establishing direct purchase orders and national carbon credit procurement programs

Governments can also establish public or public-private programs for the purchase of carbon credits. While this requires the appropriation of public

funds for the acquisition of credits, such programs can send important signals in the early stages of market development. The creation of such programs allows policymakers to channel demand towards high-integrity domestic carbon credits aligned with national priorities. Such an early market signal could stimulate private investment and build confidence in VCMs.

EXAMPLES

In 2011, **Spain** created the Carbon Fund - FES-CO₂ (Fondo de Carbono-FES CO₂) to support national climate projects through annual government notices.³⁹ Over the course of ten years (2011-21), the fund launched tenders for the selection of carbon projects with which it signed contracts for the purchase of verified emissions reductions. The Swiss government also buys carbon credits generated in Switzerland through the Klik Foundation. Eligible reduction activities are distributed among four areas: transport, business, buildings and agriculture.⁴⁰

Introducing public incentives for voluntary tracking and reporting of carbon footprints

Governments can introduce incentives for private sector entities to voluntarily participate in a national carbon budget system or contribute to the footprint and offsetting registry. The government of South Africa has introduced a tax allowance of 5% of total GHG emissions for taxpayers operating in specified sectors who participate in the national carbon budget system within the relevant tax period.⁴¹ **Spain, Panama**⁴²

and **Peru**⁴³ have national footprint schemes (Huella de Carbono). In Spain, the footprint and offsetting registry is voluntary for the private sector and compulsory for public entities. It records the efforts of Spanish organizations in calculating and reducing GHG generated by their activities and facilitates the possibility of offsetting all or part of their carbon footprint through a series of forestry projects located within Spain.⁴⁴

3.3 INSTRUMENTS TO INCREASE THE INTEGRITY AND SUPPLY OF CARBON CREDITS

Governments often complement demand signals by introducing measures to facilitate and encourage the development of carbon credit activities that generate high-quality carbon credits. Clarifying the legal context, such as carbon ownership rights, benefit-sharing requirements, or approved carbon standards, allows for a stable investment context for project development. Governments can also provide direct support for specific categories or measures of projects through direct subsidies or fiscal measures. Transaction costs can be lowered through standardized methodologies, data delivery, and fast approval processes. Governments can also provide training and strengthen capacities among private market actors.

a. Policies that enhance investment security for project developers

Creating a national carbon certification program

National programs define standards and methodologies in the context of a newly created standard or carbon program.⁴⁵ Such programs can later be linked to carbon taxes or ETS to create demand.

EXAMPLE

An example is the EU Carbon Removals and Carbon Farming Regulation,⁴⁶ which creates a voluntary EU certification scheme for high-quality carbon removals, carbon farming and carbon storage in products, setting integrity criteria (additionality, permanence, sustainability) and common methods across Member States.

Approving and supporting carbon credit programs and standards

By approving or accrediting carbon standards for use in the country, governments can provide assurances to project developers and carbon credit buyers that their credits will be deemed high quality. This is mostly done in the context of government demand for carbon credits, for example, offset provisions or tax incentives. Defining which carbon standards can be used for the purpose of meeting mitigation commitments allows the government to communicate its interpretation of the quality and integrity of carbon credits. While governments are rarely involved in the development of carbon standards, they frequently endorse or support standards developed by national private entities that are aligned with a country's specific needs and circumstances. These national standards are geared toward national actors and markets. International investors tend to turn to international standards with widespread recognition.

The Integrity Council for the Voluntary Carbon Market (ICVCM) developed the Core Carbon Principles (CCPs) together with hundreds of organizations. The CCPs are ten fundamental, science-based principles for identifying high-quality carbon credits that create real, verifiable impact. These principles could serve as a global meta standard for ensuring high quality and transparency in the VCM.



EXAMPLES

In **Ghana**, the Framework on International Carbon Markets and Non-Market Approaches⁴⁷ prescribes that for Article 6, each activity developer must use the recommended approved methodologies or develop new approaches according to the procedures described in the Framework. It is possible to develop new, locally appropriate methodologies.

In **Australia**⁴⁸, the government has created the Australian Carbon Credit Unit (ACCU), based on the Carbon Farming Initiative Act. The ACCU scheme allows projects to generate carbon credits that reduce or avoid emissions or store carbon. The Carbon Abatement Integrity Committee (CAIC) – an independent authority – prioritises ACCU methods for development through the proponent-led method development process. The CAIC also undertakes periodic reviews of existing ACCU methods to ensure their continued alignment with the statutory Offsets Integrity Standards.

The government of **Chile** has recognized qualified external certification programs, including Verra's Verified Carbon Standard (VCS) and the Gold Standard, which issue tradable units within the Chilean carbon market. It has also recognized Biocarbon and Cercabono for its green tax. This measure mobilizes the private sector to generate and trade carbon credits, enabling the use of internationally recognized carbon standards that ensure credibility, transparency, and alignment with the objective of Chile's NDC.⁴⁹

Indonesia has signed agreements with international carbon standards, such as a Mutual Recognition Agreement with Verra, whereby the Government of Indonesia recognizes Verra's methodologies and agrees to Verra's registry policies on information sharing and registry interoperability.

The **Thailand** Voluntary Emission Reduction Program (T-VER) carbon standard defines MRV methodologies and procedures for domestic offset projects. It is interoperable with international carbon standards and serves both voluntary and compliance purposes within Thailand's climate policy framework.



b. Measures that provide financial incentives to project developers

Establishing direct project subsidies and support for the development of activities

Governments can also adopt measures that improve investment conditions for carbon activities, reducing

risks and costs related to the development of activities. Reducing risk makes it easier for developers to generate credits for buyers and secure financing. Direct support typically translates into grants that can come in the form of in-kind support (e.g., data and training) or financial support (e.g., for feasibility studies or baseline development).

EXAMPLES

Countries that intend to acquire carbon credits (often in the form of ITMOs) abroad often encourage technology transfer. **Japan** co-finances up to half of the investment costs of projects implemented under its JCM Model Project program, supporting the deployment of Japanese low-carbon technologies overseas. Grants reduce startup costs and ensure that projects are financially viable. Japan also supports early-stage feasibility studies and pilot facilities through the JCM Feasibility Study and JCM Model Project programs. These initiatives fund early assessments, pilot installations, and methodological development to ensure that projects meet MRV standards and are ready for authorization under Article 6.

The **Republic of Korea** offers targeted grants for international renewable energy projects through its “Overseas Renewable Energy Industry Entry Support Program,” helping domestic companies expand climate-related investments abroad.⁵⁰ Korea, through the Korea Environment Corporation (K-eco), also provides financial and technical support for pre-feasibility studies of foreign renewable energy and emission reduction projects, helping domestic companies identify and prepare activities that can subsequently generate carbon credits.

Introducing fiscal measures to encourage project development and innovation of carbon-reduction technologies

Fiscal measures that favor the development of carbon projects, as well as the generation and transfer of credits, can encourage the generation of a large supply of high-quality carbon credits.

EXAMPLES

Exemptions from VAT for carbon credit transfers are an effective measure to support carbon markets, as such measures mobilize the private sector to generate carbon credits by reducing project development costs.⁵¹ The Government of **Canada** has introduced a refundable Investment Tax Credit (ITC) for Carbon Capture, Utilization and Storage (CCUS) projects, applicable to eligible expenses incurred between January 2022 and December 2040.⁵² In **France**, the government has introduced the Green Industry Investment Tax Credit (C3IV) to support new industrial investment projects in key energy transition sectors, including battery production, solar panels, wind turbines and heat pumps.⁵³ **Nigeria** has launched the National Carbon Market Activation Plan as part of broader carbon market reforms. This move mobilizes the private sector to generate and trade carbon credits by introducing green tax policies, including VAT exemptions for carbon credits and related services, and allowing companies to deduct research and development expenses for carbon-reduction technologies from taxable income.⁵⁴

4. CONCLUSION

A multitude of complementary measures are required to promote investment in domestic carbon market activities and unlock finance at the scale needed to support climate objectives. While carbon crediting mechanisms can play an important role in mobilizing private capital, their effectiveness depends on a broader enabling environment that provides legal certainty, investment security, and credible market signals. Governments can strengthen investment conditions by establishing a clear institutional and regulatory framework for carbon markets, including transparent rules on carbon rights, project ownership, benefit sharing, registry systems, authorization procedures, and the use of carbon credits within national climate strategies.

Fiscal and financial incentives can further improve project economics and attract private investment. Such measures may include tax incentives, concessional financing, public guarantees, results-based payments, or targeted support for early-stage project development and carbon market infrastructure. At the same time, creating predictable and sustained demand for carbon credits is essential. Governments can stimulate demand by integrating carbon credits into compliance mechanisms, public procurement policies, climate finance programs, corporate reporting frameworks, or sector-specific decarbonization requirements. A stable demand signal helps reduce market uncertainty and strengthens investor confidence in long-term carbon assets.

Equally important is encouraging the generation of a sizable supply of high-quality credits that meet robust environmental and social integrity standards. This may involve approving and/or developing methodologies meeting certain quality criteria; strengthening MRV systems; supporting project developers through technical assistance; and ensuring alignment of standards, methodologies and projects with national climate and sustainable development objectives. High-integrity credits are increasingly valued by both compliance and voluntary buyers and are critical to maintaining market credibility.

There is no single model for success. Countries can benefit from tailoring policy measures to their specific economic, institutional, and environmental circumstances while drawing lessons from international experience. Jurisdictions such as Chile, Colombia, Japan, the Republic of Korea, Singapore, Switzerland, the UK and Thailand, among others, have adopted different approaches to carbon market governance, demand creation, project development, and international cooperation. Their experiences demonstrate that a coherent package of mutually reinforcing policies – rather than any single intervention – is often the key to creating an attractive and resilient investment landscape for domestic carbon markets.



ANNEX

Table A: Policy and regulatory measures to foster carbon market activities

	TYPE OF INSTRUMENT	EFFECT	COSTS	EXAMPLES
General measures in support of carbon markets				
Clarification of institutional roles	Policy instrument	Creates market confidence	Medium	Several countries have set up dedicated carbon market offices with an oversight and operational function. For example, Côte d'Ivoire set up an Office for Carbon Markets, Ghana created the Ghana Carbon Market Office and Benin established the Carbon Project Registration Authority. These national bodies have expertise in carbon markets in the national context and function as a single point of contact for stakeholder consultations.
Formulation and communication of a government strategy on carbon markets	Policy instrument	Creates market confidence	Low	The UK Government supports the VCM through published principles on the integrity in voluntary carbon and nature markets: Voluntary carbon and nature market integrity: UK government principles (Nov 2024). ⁵⁵ Policy and communication documents can help to clarify the government's goals and strategies prior to the adoption of legal documents. For example, the opinion on international carbon markets issued by the Australian Climate Change Authority ⁵⁶ or Pakistan's Policy Guidelines for Trading in Carbon Markets: 2024 ⁵⁷ communicate the government's objectives in supporting carbon markets and formulate the core principles of involvement such as ensuring the high integrity of projects and establishing a link with Article 6.
Adoption of regulation governing VCM and Article 6 activities, and defining their linkages	Policy instrument or regulatory instrument	Creates market confidence	Low	Many countries are in the process of adopting regulatory frameworks that govern Article 6 activities in the country. Some, for example Ghana and Zambia, also establish rules for voluntary activities (Ghana's Framework on International Carbon Markets and Non-Market approaches ⁵⁸ , and Zambia's Carbon Market Framework integrate the rules of VCM and Article 6 activities. ⁵⁹).
Establishment of a national carbon market registry	Policy instrument or regulatory instrument	Measure that enhances transparency	Medium	The Republic of Korea has a national emissions trading system (ETS) while Colombia imposes carbon taxes. Both established comprehensive registries to manage all procedures related to transactions and the use of offsets in one place. India established the Indian Carbon Market Registry under the Carbon Credit Trading Scheme to function as the Meta registry of the country. It functions to enable registration of entities, to keep account of various types of carbon credits issued against each entity and to facilitate transaction of credits on trading platforms. Peru's RENAMI registry categorizes mitigation activities into: 1) those generated for Article 6 that require authorization and a corresponding adjustment to serve as an ITMO; 2) non-Article 6 carbon market measures (i.e. VCM activities) that generate emission reductions and removals that count towards Peru's NDC or other uses internationally (without requiring a corresponding adjustment); and 3) measures implemented by state actors to comply with the NDC.¹¹

Creation and support of trading platforms	Policy instrument or regulatory instrument	Measure that enhances transparency and market efficiency	Medium	Establishment of match making or trading platforms, carbon exchanges: South Korea, Korea Exchange (KRX) is a trading platform for Korean ETS (K-ETS).⁶⁰ Government engages in matchmaking between buyers and sellers domestically, for example, via a platform that vets projects and links buyers and sellers / project developers and investors. The Bursa Carbon Exchange (BCX) was launched in Malaysia in 2022 to facilitate the trading of high-quality carbon credits through standardized carbon contracts. Indonesia established a carbon exchange hosted by the Indonesia Stock Exchange (IDX), Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (Law 4/2023)⁶¹. In Singapore, DBS Bank, Singapore Exchange (SGX), Standard Chartered, and Temasek's GenZero created Climate Impact X (CIX)⁶², a global carbon exchange that offers a marketplace, auctions, and a spot trading platform for high-quality carbon credits, with a strong focus on nature-based solutions.
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Measures to mobilize demand for carbon credits

Linking carbon credit markets to regulated carbon pricing systems	Regulatory instrument	Creates demand for carbon credits	Medium	1. Introduction of an offset provision linked to an ETS In China, the China Certified Emission Reduction (CCER) program allows companies in specific sectors to trade their carbon reduction credits after voluntarily participating in emission reduction initiatives. Entities covered by the national ETS will be able to use CCERs to offset up to 5% of their verified emissions.⁶³ In Japan, JCM credits are eligible within the Japanese voluntary ETS (GX-ETS) (GX Promotion Act, Amendment 2025)⁶⁴. Korea currently allows the use of offsets to a maximum of 5% of each entity's compliance obligation, including international offsets.⁶⁵ The California Cap-and-Invest Program⁶⁶ allows the use of offset credits issued by the California Air Resources Board to meet a mitigation commitment. Entities can use offsets for 4% of emissions (2021-2025) and 6% (2026-2030)⁶⁷, and at least half of those offsets must provide direct environmental benefits to California.⁶⁸ 2. Introduction of an offset provision linked to a carbon tax Chile Law 20,780⁶⁹ establishes that private sector entities, subject to the carbon tax, can fully or partially offset their taxable emissions by purchasing certified emission-reduction credits from approved mitigation projects, in order to reduce tax obligations. In Colombia, carbon credits can be used to reduce carbon tax liabilities by up to 50%. Credits must be generated in Colombia to be eligible, in addition to meeting other requirements.⁷⁰ Thailand's voluntary carbon trading will allow companies to offset up to 15 percent of their taxable emissions with carbon credits (Thailand's forthcoming Climate Change Act).⁷¹ Similar provisions exist in Singapore under the Carbon Pricing Act (with various Amendments).⁷² The government has established a list of eligible project types.
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Fiscal measures: tax credits and exemptions	Regulatory instrument	Create demand for carbon credits	Medium to high	VAT exemption for issuance and transfer of carbon credits, e.g., the Republic of Korea, Restriction of Special Taxation Act (Article 106)⁷³; UK 2024 Terminal Markets Order (VAT Notice 701/9, Sections 3 and 4)⁷⁴; in Paraguay Law 7190/2023 on Carbon Credits⁷⁵ exempts them from VAT. Tax exemption when using carbon credits, e.g., Singapore, Goods and Services Tax can be claimed if corporates use carbon credits for regulatory or voluntary purposes (Order 2022 on Goods and Services Tax (GST)).⁷⁶ Australia has in place a concessional tax treatment for the Australian Carbon Credit Units Scheme.⁷⁷ The Government of Kenya adopted the Nairobi International Finance Centre (NIFC) framework, which has introduced a tiered corporate tax incentive for entities that are certified by the NIFC Authority and engaged in carbon trading.⁷⁸
Mandatory carbon credit procurement as a penalty for a failure to meet emissions reduction targets	Regulatory instrument	Creates investment incentives	Medium to high	Mandatory carbon credit procurement can also be established as a penalty where companies fail to meet emission reductions targets; e.g., in Switzerland the government establishes penalties in case companies do not achieve their reduction obligations, which includes a fine and the obligation to surrender national or international attestations (which may include ITMOs, for each excess tonne of CO ₂ eq emitted and not offset. ⁷⁹
Direct purchase orders and national carbon credit procurement programs	Policy/regulatory	Mobilize demand	Medium	Direct acquisition by public entities of carbon credits can be an effective early market signal, mobilizing demand. Spain created the Carbon Fund-FES-CO ₂ . ⁸⁰ The fund operated between 2012 and 2021 through annual bid calls by the government. National authorities issued the technical eligibility methodologies and guidelines with which the projects had to comply with. A similar national procurement program exists in Switzerland (Klik, Switzerland). ⁸¹
Government incentives for voluntary action of the private sector	Regulatory	Mobilize demand	Medium	The government of South Africa has introduced a tax allowance of 5% of total greenhouse gas emissions for taxpayers operating in specified sectors who participate in the national carbon budget system within the relevant tax period. ⁸² Spain and Peru ⁸³ have national footprint schemes (Huella de Carbono). In Spain, the footprint and offsetting registry is voluntary for the private sector and compulsory for public entities. It records the efforts of Spanish organizations in calculating and reducing GHG generated by their activities and facilitates the possibility of offsetting all or part of their carbon footprint through a series of forestry projects located within Spain. ⁸⁴

Measures to increase the supply of high-quality carbon credits

Creation of national carbon certification programs	Policy instrument / Regulatory instrument	Facilitate supply	Medium	National programs define standards and methodologies in the context of a newly created standard or carbon program ⁸⁵ . Such programs can later be linked to carbon taxes or ETS to create demand. An example is the E.U. CRCF ⁸⁶ , which creates a voluntary EU certification scheme for high-quality carbon removals, carbon farming and carbon storage in products, setting integrity criteria (additionality, permanence, sustainability) and common methods across Member States.
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Approval / support of carbon programs and standards	Policy instrument / Regulatory instrument	Creates market confidence	Low	In Ghana, the Framework on International Carbon Markets and Non-Market approaches ⁸⁷ ; prescribes that for Article 6, each activity developer must use the recommended approved methodologies or develop new approaches according to the procedures described in the Framework. It is possible to develop new, locally appropriate methodologies. In Chile, Resolution 1420 (point 17) ⁸⁸ recognizes qualified external certification programs, including Verra's VCS, for units that can be traded in Chile, contributing to the growth of the country's carbon market, advancing climate action and supporting the fulfilment of the goals contained in its NDC. In Australia ⁸⁹ , the government has created the Australian Carbon Credit Unit (ACCU), based on the Carbon Farming Initiative Act. The Emissions Reduction Assurance Committee – an independent authority – establishes the eligible methodologies for generating ACCUs. Indonesia has signed agreements with international carbon standards, such as the Mutual Recognition Agreement with Verra, whereby the government of Indonesia recognizes Verra's methodologies and agrees to Verra's registry policies on information sharing and registry interoperability. The Thailand Voluntary Emission Reduction Program (T-VER) carbon standard defines MRV methodologies and procedures for domestic offset projects. It is interoperable with international carbon standards.
Direct project subsidies and support	Policy instrument	Mobilizes supply	Medium	Direct support for projects. In Japan the FY2025 JCM - Carbon Dioxide Emissions Reduction Measures Subsidy provides subsidies for innovative JCM projects that use advanced decarbonization technologies.⁹⁰ Republic of Korea offers targeted grants for international renewable energy projects through its "Overseas Renewable Energy Industry Entry Support Program," helping domestic companies expand climate-related investments abroad.⁹¹ The Korea Environment Corporation (K-eco) provides financial and technical support for pre-feasibility studies of foreign renewable energy and emission reduction projects to domestic developers.
Fiscal measures to encourage project development and innovation of carbon-reduction technologies	Regulatory instrument	Mobilize supply	Medium	Establishment of tax credits in support of special project types, e.g., in Canada, the Carbon Capture, Utilization, and Storage Investment Tax Credit (CCUS ITC) ⁹² is a refundable tax credit that applies to eligible expenditures incurred for a qualified CCUS project, from January 2022 to December 2040. To be considered a qualified CCUS project, the project must meet predetermined criteria. The Tax credit for investment in green industry (C3IV) establishes similar incentives in France. ⁹³ Nigeria has launched the National Carbon Market Activation Plan, which creates VAT exemptions for carbon credits and related services, and allows companies to deduct research and development expenses for carbon-reduction technologies from taxable income. ⁹⁴

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