



# The Voluntary Carbon Market as a Catalyst of Climate Ambition in Developing Countries

VISION AND  
ACTION AGENDA

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## The VCM Global Dialogue

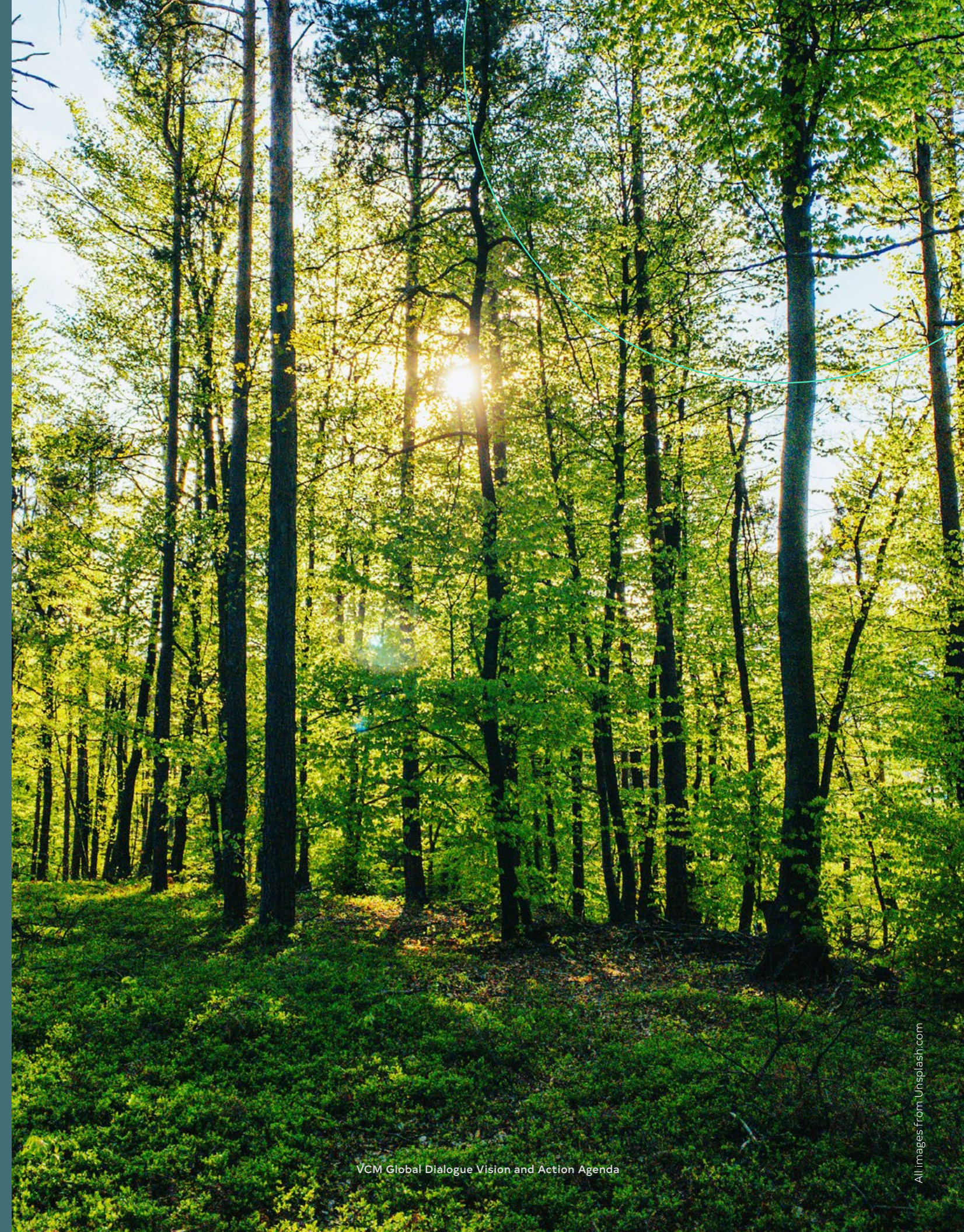
The [VCM Global Dialogue](#), held between June and October 2021, expresses a Vision and Action Agenda for the Voluntary Carbon Market (VCM).

Consulting over 350 stakeholders, the VCM Global Dialogue has served as a platform to identify how the VCM can support national and local climate plans, promote developing countries' needs and preferences, and unlock greater levels of private investment, while strengthening the rights of, and opportunities for, local communities and indigenous peoples.

The VCM Global Dialogue has published five position papers:

- [Strategic Government Engagement with the VCM](#)
- [Project Developer Engagement with the VCM](#)
- [Harnessing Corporate Climate Action for Sustainable Development](#)
- [How to Harness the VCM for REDD+](#)
- [Accounting Approaches for the Voluntary Carbon Market](#)

This Vision and Action Agenda synthesizes the conclusions of these papers and makes actionable recommendations for all entities involved in the VCM.





## Vision

Humanity must achieve net zero greenhouse gas emissions by 2050—within one generation—to avoid catastrophic climate change. Achieving net zero requires all major emitters to take immediate steps to reduce their own emissions and to neutralize the residual emissions that remain.

The Voluntary Carbon Market (VCM) can accelerate this transition to a sustainable future defined by a stable climate, respect for nature, and guaranteed rights for all people to live safe, healthy, and prosperous lives. A well-designed VCM can drive economic, environmental, and social benefits to host countries, and accelerate and enhance mitigation ambition by creating standardized mitigation assets in the form of carbon credits.

Since the adoption of the Paris Agreement in 2015, the VCM has seen momentous growth. With thousands of companies around the world adopting ambitious targets, the market is set to accelerate further

over the rest of this decade. The Taskforce on Scaling Voluntary Carbon Markets aims to create the conditions for the market to grow to 15 times its current size by 2030.

Despite its proven ability to rapidly channel additional funds to climate mitigation, especially in developing countries, there are concerns that the VCM could distract from corporate efforts to undertake internal decarbonization efforts or that governments could become overly reliant on private action and delay the adoption of climate policies. However, this misses the point—as noted by participants in the VCM Global Dialogue—that the VCM complements rather than replaces the efforts of governments and companies to address their own emissions.



In accordance with the widely accepted “mitigation hierarchy,” emitters must prioritize the abatement of emissions in their own value chains, aligning with climate science to ensure a swift transition of their operations towards net-zero emissions, before using carbon markets. Companies can also use carbon credits to compensate for emissions beyond their corporate reduction or decarbonization targets, for historic emissions and emissions from their customers or employees, and to neutralize residual emissions that they are unable to abate. Companies can also acquire carbon credits not to compensate for emissions but to meet broader sustainability goals.

The VCM provides access to financial resources—beyond development finance and climate funds—that governments can use to increase their mitigation ambitions and attain the United Nations Sustainable Development Goals. The VCM helps to accelerate the take-up of clean technologies, clean energy,

zero-emissions transport, and sustainable agriculture, and promote the restoration and protection of forests, wetlands, and other natural carbon sinks. By channeling foreign direct investments and technology into developing countries, the VCM can support developing countries in bypassing carbon-intensive development patterns.

The VCM can fast-track emission reductions and removals while governments adopt laws and policies to abate emissions and mitigate climate change. The information generated by VCM projects—abatement costs, technical and regulatory barriers, lessons learned on how to respect environmental and social safeguards, and capacity needs—can help governments better understand the abatement opportunities and challenges that are relevant for policymaking. As public policies start to mandate action, fewer projects will pass the additionality test, and the VCM’s role in filling the climate action gap will lessen. Even as policies become

the main drivers of climate action, the VCM can continue to foster mitigation efforts beyond regulation and provide a platform for testing new technologies, as governments are unlikely to ever catch up with the capacity of the private sector for innovation.

If used strategically and to its full potential, the VCM can drive climate action and increase confidence among countries to raise their climate ambitions and communicate more ambitious Nationally Determined Contributions. For this to happen, it is essential that individual projects or programs create high-value, real, and certified emission reductions and removals. However, VCM activities must be considered in their broader implementation contexts, their relation to public policies, their relevance in creating enabling environments for foreign direct investment, and their ability to increase the number of entities contributing to climate mitigation. To this end, the VCM Global Dialogue has formulated an

Action Agenda, which lists six key recommendations to ensure that the VCM maximizes its contribution to ambitious climate action, with a particular emphasis on developing countries.



# Action Agenda



Global  
Dialogue



# 1. Governments can use the VCM to tap into additional mitigation potentials

Governments should consider engaging with the VCM strategically as a tool to generate greenhouse gas (GHG) emission reductions and removals that can be counted towards the achievement of national climate ambitions and the temperature goals of the Paris Agreement. So far, only a few national governments are involved in the VCM. There are exceptions where governments have embraced the VCM as a feature of their policy landscape: [Thailand](#) administers a voluntary emissions trading system; [Colombia](#) and [South Africa](#) link their domestic carbon pricing systems to independent GHG crediting programs such as Verra's Verified Carbon Standard; and, in the United Kingdom, [the Woodland Carbon Code](#) defines a domestic voluntary carbon standard for forest projects. However, proactive government engagement remains an exception. On the contrary, governments tend to be relatively unaware of the VCM. With distance comes disengagement, which can in turn lead to mistrust of the unknown.

Governments can consider the VCM when planning climate policies, strategies, and measures to be implemented—with or without international support—to achieve or go beyond their Nationally Determined Contributions (NDCs). VCM transactions access mitigation potential in sectors, industries, and regions where public policy is limited due to a lack of political agreement, limited public finances, or difficulties reaching remote areas. Governments can actively encourage and support VCM investments in these areas. They can do this by informing local and international stakeholders of investment opportunities, by referencing carbon transactions more formally in policy frameworks, and by establishing enabling conditions such as registering jurisdictional forest reference emission levels.

## Recommendations on how governments can engage with the VCM

**Collect information and create a VCM database.** Knowledge and information are essential conditions for engagement. Governments should create and integrate national information systems to collect, organize, and share information about VCM project activities within their territories—including the emission reductions and removals that are generated, traded, and used. Governments could also identify projects that may require support. To support data collection and exchange of information, governments could request GHG standards and crediting programs to provide country-specific information setting out emission reductions and removals achieved, and link VCM registries to public databases.

**Prioritize sectors or geographic areas for VCM investments.** Governments could approach carbon pricing holistically and consider the VCM as part of their climate policy toolbox. When formulating climate policies, governments can consider how the VCM could complement standards, public incentives, investments, and planning processes, and identify priority project activities that are linked to technology transfer, higher costs, or sectors where public action is politically challenging. In consultation with relevant stakeholders, governments can identify and publish

VCM activities that they consider beneficial to their social, economic, and ecological contexts. They can also approve VCM standards to create confidence among communities, project developers, and investors, and reduce the barriers to VCM engagement.

**Proactively promote VCM foreign investments.** The VCM attracts foreign direct investment and channels it into climate mitigation measures. In addition to identifying priority areas for investment, governments can actively promote the flow of capital into VCM projects. Local economic development programs and public officials can promote VCM investment opportunities. Programs and officials can also go a step further and build on the example of foreign investment agencies by creating Voluntary Carbon Market Investment Promotion Agencies (IPAs). As branches of existing investment agencies or as new institutions, IPAs could help countries attract private investment from the VCM and support national climate objectives. IPAs would pave the way for enhanced private sector engagement by linking VCM investments to measures that create enabling environments for private investments.



Box 1.

## Example for channeling VCM investments into strategic areas and sectors

Land-based mitigation options such as avoided deforestation are often located in areas with weak or absent institutions and legal regulations. The VCM—which largely relies on non-government entities to design projects and programs—can contribute to reducing deforestation while the government develops institutions and policies that ensure long-term sustainable land use. For example, to stimulate investment in nature-based solutions, the Colombian Government has allowed companies to meet carbon tax obligations by buying carbon credits from approved VCM projects, including from projects that seek to protect forests.



## 2. Governments, companies, and GHG crediting programs should promote clear and transparent VCM accounting

Governments should clarify how their use of the VCM relates to Article 6 of the Paris Agreement, and private crediting programs should indicate how they intend to reflect international decisions from Article 6 in their program rules. Uncertain interactions between the Paris Agreement and the VCM in relation to accounting create a perception of risk that holds back investments in mitigation action. Questions on how the rules for trading under Article 6 may affect voluntary transactions unsettle and weaken confidence in the VCM, and a lack of transparency about how NDC accounting affects corporate GHG accounting hurts the reputation of the VCM.

To mobilize the full mitigation potential of the VCM, it is important to clarify when and how activities that generate carbon credits under the VCM contribute to host countries' NDCs and when activities contribute to corporate climate goals. Some market participants worry that companies and governments could claim the same emission reductions or removals against their respective targets and that this could lead to the displacement of mitigation action. Others dispute this concern and consider it unlikely that the accounting of GHG by companies and governments would have an effect on the respective mitigation efforts.

The appropriate accounting treatment of the VCM and associated corporate claims continues to be debated in various fora. While these issues may be addressed in the UNFCCC negotiations, most questions cannot be addressed at the international level and instead require clarifications from governments and GHG crediting programs on VCM accounting and crediting.

### *Recommendations on how to clarify carbon accounting in relation to the Paris Agreement*

**Establish definitions and a common understanding of accounting approaches.** To mobilize the full mitigation potential of the VCM, it is important to establish a common understanding on accounting approaches for carbon credits generated by the VCM. Governments and companies should clarify when and how they use emission reductions and removals from VCM projects towards their targets. Transparency around the use of carbon credits and their specific attributes to offset emissions and associated corporate claims allows an assessment of where double claiming and displacement risks may be of concern. Governments can promote common definitions. A clear taxonomy of accounting approaches, including offset claims with and without corresponding adjustments, as well as non-offset or "impact" claims, would enable civil society to hold companies accountable and enhance market integrity.

**Clarify whether and how corresponding adjustments will be made.** Host country governments may clarify whether and how they consider the generation and international transfer of VCM carbon credits in the context of their NDC accounting. They may also provide

information on when they will be prepared to back VCM transactions with "corresponding adjustments." Such adjustments would clarify that a government will not account for emission reductions or removals generated in the context of carbon market transactions.

**Formulate clear and transparent climate claims.** Though corporate climate claims are sharply increasing in number, there are no accepted definitions or a common taxonomy to clarify, organize, and coherently interpret corporate claims on climate action. Terms such as climate neutral, climate positive, carbon negative, and net-zero are neither defined nor standardized. The lack of transparency around corporate announcements casts a shadow over the VCM. Multistakeholder initiatives, such as the [VCFI](#), and standards organizations, such as the [ISO](#), can create rules that guide corporate claims. This would help to ensure that corporate climate claims are true, accurate, understandable, and verifiable and that claims refer to voluntary actions that go beyond complying with existing legislation or standard business practices.



# 3. Carbon credit buyers and investors should prioritize transformational VCM investments with broader development benefits and verified SDG contributions

Carbon credit buyers generally wish to support projects at scale that also generate non-carbon benefits, contribute to Sustainable Development Goals (SDGs), and involve Indigenous Peoples and local communities. However, such projects often have higher upfront costs. They depend on investments and advance payments for future carbon credits that are often difficult to negotiate.

The VCM has the potential to support sustainable development in host countries through projects that provide non-carbon benefits such as access to clean energy and clean water, reduced air pollution, improved health infrastructure, job creation, technical training, water and soil retention, and the protection of biodiversity, in addition to generating verified, real, and additional GHG emission reductions and removals. These benefits contribute to SDG targets and address global challenges beyond climate change, such as inequality, environmental degradation, social development, justice, and peace. Projects may also show “positive leakage”—additional emission reductions and removals outside project boundaries. Corporate demand for benefits beyond carbon can boost the positive impact of mitigation projects. Prices that clearly recognize SDG attributes and transparent benefit-sharing with communities would drive the market to such projects and reward project developers and governments for efforts in high-need sectors and regions.

## *Recommendations on how to drive finance towards transformational projects and those with high SDG impacts*

### **Buyers and investors should prioritize projects with positive GHG spillovers.**

Companies should channel finance into VCM investments that generate carbon credits but show a clear positive multiplier effect in the form of additional emission reductions and removals (see Box 2). To support host country climate policies, companies should ensure that their VCM investments create long-term climate effects by prioritizing investments in transformational technologies and projects that are likely to generate positive GHG spillover effects. Companies may also consider using only a portion of acquired carbon credits to compensate or neutralize corporate or product emissions, and retire the other portion of credits without claiming offsets to drive additional climate change mitigation.



## Box 2.

## Examples of transformational investments

Positive spillover effects are most common when carbon finance is used to pioneer new technologies (e.g., electric modes of transportation) or practices (e.g., sustainable intensification of agriculture). Once these technologies or practices are proven and have taken down financial or behavioral barriers, they are likely to spread without additional carbon finance needs. Carbon finance can support initial investments and pilot new activities. These initial emission reductions and removals would be credited in the context of the VCM, but future emission reductions and removals would accrue to the government and count against national climate goals.

### Projects that certify SDG contributions are likely to have positive social and environmental impacts beyond GHG mitigation.

Programs such as Verra's Sustainable Development Verified Impact Standard (SD VISta) or the Gold Standard for the Global Goals mark a first step towards a market that recognizes the sustainable development value of carbon projects. An increasing number of projects are certified under these programs. In the land sector, certification of projects under the Climate, Community and Biodiversity Standards provide assurance of additional, non-GHG benefits. By demanding the certification of SDG impacts of carbon projects, buyers can drive finance towards projects with high benefits. SDG standards can provide further value by revising their reporting requirements to obtain additional information that allows the assessment of SDG impacts. This would allow market participants to benchmark investments by, for example, demanding a certain number of SDG criteria to be met. A transparent market that values carbon credits differently depending on their SDG contributions and other attributes would enable such projects to attain higher prices.

**Facilitate upfront investment into projects with high sustainable development benefits.** Governments could communicate SDG priorities and identify project categories that have significant development benefits. They could work with investors or donors to design instruments that help such projects to mobilize investment, where future income from the sale of carbon credits could be used as collateral for project investments. Multilateral development banks and philanthropic foundations could design instruments to further de-risk such investments. Emerging funds that invest in carbon credit projects could also consider linking investment to project designs that maximize social and environmental benefits, transparent benefit-sharing, and verified SDG outcomes.



## 4. The VCM can empower and strengthen the rights of Indigenous Peoples and Local Communities

Well-designed, participatory VCM transactions can strengthen the position and rights of Indigenous Peoples and local communities (IPLCs). IPLCs play a critical role in the management of natural resources, including the restoration, protection, and management of forests and lands. However, so far, IPLCs have received little financial support and scarce recognition for their role. Often, their ancestral rights to forests and lands are not recognized or remain informal.

A rights-based approach to the VCM can empower IPLCs through recognizing their responsible stewardship of natural resources. Where IPLCs are able—and enabled—to actively participate in decisions on the uses of natural resources, they can decide to cooperate with government agencies in carbon transactions, to develop projects with non-governmental partners, or to refrain from engagement in carbon markets. Nature-based interventions, in particular, succeed only with the full participation of IPLCs. IPLCs are the people most directly impacted by the implementation of project activities, and their engagement is essential to the success of projects and programs. Successful and sustainable VCM activities are based on participatory approaches that allow IPLCs and other local entities to co-design and directly benefit from VCM interventions.

### *Recommendations on how to increase VCM benefits for IPLCs*

**Allow IPLCs to participate in the VCM on their own terms.** As long-standing defenders and stewards of forests and other key ecosystems, IPLCs should be empowered to define the conditions of their engagement in carbon markets. This includes fully informed and free decision-making on whether and how they want to participate in carbon market transactions. IPLC engagement and empowerment can be achieved only with the full participation of all relevant local entities, operating in both public and private spheres. IPLC engagement also requires time and effort to build trust and understanding between IPLCs, project developers, government entities, and other stakeholders. As such, high-quality VCM projects and programs are geared towards long-term transitions rather than short-lived changes of behavior and operations-, and require upfront investment to fund trust-building.

**Ensure fair benefit-sharing.** Fair benefit-sharing allocates monetary and non-monetary benefits to project stakeholders and ensures the full and equitable participation of IPLCs in VCM projects and

programs. Governments and project developers should publish their benefit-sharing agreements with local communities to enhance transparency around community benefits. Market participants should agree on a minimum percentage of carbon finance that is shared directly with communities, and communities should participate in the design of benefit-sharing arrangements as well as in project profits. Governments can also define criteria for fair benefit-sharing or publish model benefit-sharing agreements.

**Promote IPLC land and carbon rights.** If carbon market participants recognize IPLCs' land rights in VCM investments—including ancestral and customary rights that are claimed but not titled—the market can help to reinforce IPLC land claims. Carbon transactions should be based on demonstration of carbon rights, which can help to promote and clarify IPLC rights. By demanding the explicit recognition of IPLC carbon rights, crediting programs and standards can empower IPLCs in their negotiations with governments and private market participants.



# 5. Governments and private partners should cooperate in developing VCM transactions at sectoral and jurisdictional scales

The larger and more inclusive a VCM activity is, the broader its impact. The positive impact of private sector projects is often limited to a small local area, and government programs often suffer from insufficient public budgets and limited implementation capacities. Generally, the positive impact of the VCM can be enhanced if governments, companies, and civil society cooperate in scaling up mitigation action and targeting sectors or mitigation opportunities in a concerted manner. Governments have an interest in harnessing the financial power, expertise, and technological capacities of the private sector. Corporations prefer coordinated international action to unpredictable and fragmented regulation.

Successful sectoral or jurisdictional programs can yield millions of tonnes of GHG emission reductions and removals. If backed by governments, such programs can also facilitate the transition to long-term sustainable development and GHG mitigation policies. While project-level VCM approaches are common and tested, larger-scale programs remain rare. If developed effectively with robust accounting, sectoral, or jurisdictional programs can cover large sources of emissions, address issues of leakage and free-riding, and link government policies to private investments.

## *Recommendations on how to scale VCM activities to larger sectoral and jurisdictional programs*

**Develop programmatic and sectoral initiatives.** Governments, development partners, and NGOs can promote and broker initiatives that reflect common interests, are built on investment opportunities, and align with national climate strategies. Larger programs are likely to depend on a mix of public and private investments, and the VCM can support such efforts by linking finance to clear GHG results. Companies can invest in carbon credits, and governments can use VCM methodologies to measure GHG results. Public finance can complement carbon finance by supporting enabling environments for VCM projects and programs. Official development assistance can link investments in mitigation to broader development initiatives or subsidize the development of relevant methodologies and identify appropriate standards and GHG crediting programs.

**Support "nesting" beyond REDD+ as a strategy to integrate accounting frameworks.** The impact of projects increases if they are integrated with national policies, coordinated with

the government, and embedded in national accounting frameworks. "Nesting" allows the integration of project accounting into sectoral or jurisdictional programs that cover a larger accounting area. This allows investors to deploy finance at the project level, while benefiting from the credibility of the nested program and ensuring the coherent and credible accounting of GHG benefits. REDD+ jurisdictional crediting and nesting rules, such as [Verra's Jurisdictional and Nested REDD+ Framework \(JNR\)](#), offer a way to harmonize national programs and projects to the mutual benefit of governments and private project developers.

**Develop sectoral crediting approaches.** Larger crediting programs can build on and expand existing programmatic approaches, such as bundled projects or programs of activities, which consist of distinct actions that support policy goals. GHG crediting programs could develop approaches and methodologies that promote sectoral VCM investments.



**Box 3.**

## The benefits of public-private cooperation

The benefits of cooperation between government agencies and private entities are particularly strong for programs in decentralized energy provision, transport, sustainable agriculture, and REDD+, which benefit from programmatic approaches and require close cooperation between public and private sectors. The problem of tropical deforestation, for example, could be addressed through supply-side partnerships that target the drivers within a particular region (for example, beef and soy production in Brazil, or cocoa production in West Africa) with a mix of VCM finance, private supply-chain investments, and national governance reform, while complementary partnerships could address the demand side of deforestation.





## 6. Governments, companies, and carbon market facilitators should initiate regional and national VCM dialogues

The VCM lacks official fora for international coordination and exchange of experiences and lessons among host countries, and few countries have created spaces for coordination among public agencies and private entities at the national level. The absence of regular discussions among governments contributes to the reluctance that many countries have towards the VCM.

Platforms and events that facilitate the exchange of views on the VCM will increase knowledge, trust, and comfort, which are essential for concerted and scaled action. Breaking down larger problems into smaller, clearly defined sub-problems can be a first step towards effective cooperation, not only among governments but also between governments and private entities. Host countries would benefit from exchanging views and experiences with countries facing similar regional or local circumstances, development challenges, and investment needs. Lessons on how to use the VCM strategically, but also the risks and pitfalls associated with VCM engagement, would help to define robust and successful engagement strategies.

### *Recommendations on how to promote coordination and cooperation*

#### **Create platforms of engagement.**

Development agencies, regional organizations, and NGO networks could organize events that bring together groups of countries with similar circumstances (e.g., countries with national pricing mechanisms that allow for offsets). Such events could host dialogues that facilitate discussions about problems, challenges, and solutions. Dialogues between host countries can be complemented by national-level dialogues that clarify government priorities and investor constraints, manage mutual expectations, build trust, and ensure alignment between public and private interests. International and national dialogues can help to identify opportunities for public and private entities to cooperate in developing VCM projects and programs in particular regions (e.g., in certain landscapes or ecosystems) or sectoral programs (e.g., in the energy or waste sectors). Civil society, including standards organizations, could facilitate dialogues between governments, market participants, and other stakeholders, and help to promote cooperation by providing information, building capacity, and supporting vulnerable entities.

**Organize capacity-building events and identify technical and methodological needs.** Technical experts could help to

address knowledge gaps. International entities such as the International Carbon Reduction and Offset Alliance (ICROA) and the International Emissions Trading Association (IETA) could provide information to host countries regarding the dynamics, benefits, and potential of the VCM. Such events could also help to identify needs for support, such as where a lack of data, methodologies, or information creates barriers to investment and project development.

**Close knowledge gaps around NDC implementation.** Many NDCs lack the specificity needed to draw conclusions about specific policies or measures, which makes it difficult to assess likely policy scenarios, the risks of policy displacement, and the additionality of investments. Coordination with governments could clarify the implementation scenarios for NDCs and how they relate to VCM baselines and additionality. In addition, carbon standards and GHG crediting programs should clarify that the specific circumstances of each project remain the reference point for the generation of GHG reductions and removals. In combination, such information can help to clarify the eligibility and implementation context of projects and programs.



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