The Voluntary Carbon Market **Explained**

Chapter 2

Chapter 2: What is the role of governments in the VCM?

Governments engage with the voluntary carbon market (VCM) by instituting policies, regulations, and safeguards that influence VCM activities, creating enabling environments that facilitate VCM projects or programs, and sponsoring VCM projects or programs within their territories.

Who regulates the VCM?

The VCM is governed **by private carbon standards** that define the rules for the generation, monitoring, and certification of greenhouse gas (GHG) reductions and removals. The private and voluntary characteristics of the VCM distinguish it from regulated carbon crediting programs like the Clean Development Mechanism (CDM), which required project developers to obtain a letter of approval from a country's Designated National Authority to register a CDM project.

The private character of the VCM makes it nimble and flexible. It allows the VCM to support climate mitigation, biodiversity protection, or sustainable development goals by providing finance for new technologies, **nature-based solutions**, and other important climate change mitigation activities that are not covered by public policy. However, VCM projects can also undermine public policies, particularly where activities disregard the rights of local communities, ignore principles of good governance, or fail to align with and complement public sector goals and regulations.

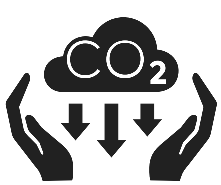
Companies engage in the VCM to create GHG emissions and reductions beyond public requirements. However, that does not mean that governments do not have a role to play in accelerating, channeling, or regulating VCM investments. Governments can institute policies, regulations, and safeguards to guide the development of VCM projects in their territories and attract beneficial VCM finance. They can create an enabling environment for VCM investments and actively encourage investments in projects or programs that generate carbon credits. They can also directly engage in the development of projects and programs.

How can governments proactively and strategically engage with the VCM?

Governments can provide regulatory and political certainty to VCM transactions by clarifying the rules of engagement for the VCM in their countries and by explicitly stating that they are ready to support project developers and investors in complying with relevant rules, regulations, and safeguards. The VCM also influences public policy and compliance markets, and in some cases voluntary carbon crediting programs directly interact with government carbon pricing schemes. The carbon pricing policies of **California**, **Colombia**, **Germany**, **South Africa**, **Thailand**, or **the United Kingdom** are examples of places where governments have harnessed VCM activities to achieve climate goals.

Governments can leverage VCM finance by engaging in the VCM as program regulators, program proponents or facilitators:

As regulators, governments can define environmental and social performance standards or safeguards that bind project developers. Governments may also clarify **carbon rights**—who holds the right to GHG emissions reductions and removals—or corporate claims with respect **to the use of carbon credits**. When governments assign and enforce land and resource rights, they help to clarify **carbon rights** and facilitate **benefit sharing** arrangements. More generally, stable and predictable policy environments reduce investment risks and help private investors align their plans with public policies. Efforts to combat corruption, promote the rule of law, recognize **the rights of Indigenous Peoples and local communities** (IPLCs), and clarify land rights and titles facilitate private investment into VCM projects. Some governments have also linked climate regulation to the VCM. In countries like **Colombia** or **South Africa**, companies can meet some obligations under national carbon taxes by acquiring carbon credits from domestic VCM projects.



As program proponents, governments can sponsor VCM projects and programs. In some countries, public agencies—such as national park authorities (e.g., in the case of forestry projects) or municipalities (e.g., in the case of waste management projects) — act as project proponents and use carbon finance to support public investments. For example, in Guatemala, the national park authority acts as a proponent in the **GuateCarbon project** by granting land-use rights to communities and private organizations who carry out sustainable forest harvesting and help monitor the reserve. The **Daegu City Municipal Waste Project** in the Republic of South Korea is an example of a municipality acting as a project proponent and the **Weatherization for Low-Income Dwellings** project in the U.S. State of Maine is an example of subnational government acting as a project proponent. Governments can also support large-scale territorial programs in the form of **jurisdictional Reducing Emissions from Deforestation and Degradation Plus (REDD+) programs** that generate GHG emission reductions or removals across landscapes. If such programs are accredited under a VCM **carbon standard**, then governments can generate and sell program-level credits in the VCM. Jurisdictional programs allows governments to align public policies with REDD+ goals and access carbon finance directly. **REDD+** also offers jurisdictional crediting options that require governments to be the proponents of such programs. Governments can adopt **'nesting' rules** that allow the integration of projects and subnational programs into national REDD+ programs.

As facilitators, governments can attract and direct VCM finance. The way that governments treat the VCM and engage with VCM actors influences overall confidence in the VCM, encouraging or discouraging the development of VCM projects. By encouraging the development of domestic VCM projects, governments can use the VCM to drive investment into sectors or regions that are underfinanced, such as clean cooking and agroforestry. Governments can direct financial flows from the VCM to the sectors or policy priorities where finance is needed most, such as the **land sector** or decentralized energy supply. They can do this by defining criteria for engagement and by recognizing VCM standards, methodologies or protocols for particular sectors. This, together with publication of information and data, enhances the transparency and efficiency of the market. An example of a law that seeks to mobilize the VCM is the U.S.'s "**Growing Climate Solutions Act**," which addresses obstacles to getting farmers and private forest landowners involved in VCM transactions by providing reliable information about markets, assistance to new participants, and standardized quality criteria. In addition, governments can maintain registries to track and monitor carbon credits and projects, simultaneously demonstrating their support for the VCM and increasing transparency of VCM-related activities in their countries.

Governments can also provide clarity on how VCM activities will be considered under country laws and regulations, including for **corresponding adjustments** under **Article 6 of the Paris Agreement**. While some buyers are expecting corresponding adjustments on VCM credits, the availability of corresponding adjustments depends on VCM host countries' political will and technical abilities. Governments can reduce uncertainty by making public statements about whether, and under which circumstances, they are likely to provide corresponding adjustments for VCM transactions. These statements can be conditional upon the government's technical ability to make corresponding adjustments. Governments may also limit corresponding adjustments to more expensive mitigation options or offer corresponding adjustments on the condition that they will receive financial benefits from the sale of carbon credits in return for providing the public service of corresponding adjustments.

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Authors: Charlotte Streck, Melaina Dyck and Danick Trouwloon
Figures and visuals: Leo Mongendre
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