The Voluntary Carbon Market **Explained**

Introduction

Introduction

In the last five years, the voluntary carbon market (VCM) has seen an unprecedented growth in demand for carbon credits from voluntary climate change mitigation activities. This growth is driven by corporate climate commitments, consumer interest in individual and corporate climate change mitigation, investor appetite for carbon credits, and mandatory emissions disclosures and reductions. In September 2020, the Taskforce on Scaling Voluntary Carbon Markets (**TSVCM**) estimated that demand for carbon credits could further increase 15-fold by 2030 to USD50 billion.

A defining feature of the VCM is that it is not regulated by governments. Projects and programs to reduce and remove greenhouse gas (GHG) emissions are developed by private and local actors, which then are registered by private carbon standard organizations. These organizations issue carbon credits that match verified GHG emission reductions and removals which are acquired by corporations and investors, often with the goal to offset emissions.

This relative distance of the VCM from governments has resulted in a lack of understanding of the VCM by governments and public sector actors—particularly in developing countries, even though most VCM projects are in developing countries. This lack of understanding limits opportunities for the VCM to complement government action on climate change. Used strategically, VCM projects and programs can channel investment into sectors that are not covered by nationally determined contributions or other public policy, support sustainable development as well as climate targets in host countries, and accelerate climate action while law and regulations are developed. Furthermore, the VCM cannot provide a solution to climate change on its own. Offsetting is a supplementary measure and other public and private action will be required to reduce emissions overall.

It is essential that governments and other public sector actors understand how the VCM works and how they can engage with the VCM. The purpose of **this VCM Primer** is to provide an overview of the VCM to the governments of countries that are or are likely to be hosting VCM projects. The Primer seeks to facilitate a better understanding and increased strategic engagement of governments in the VCM. The target audiences of this Primer are government decision-makers in developing countries and advisors to decision-makers.

Each chapter of the Primer explains one aspect of the VCM. The chapters can be read as standalone factsheets or be read together as part of a larger summary of the VCM.

Chapter 1: What is the voluntary carbon market? provides a general introduction to the VCM, how it operates, and its key benefits and limitations.

Chapter 2: What is the role of governments in the voluntary carbon market? describes how public policy influences the VCM and how governments can engage strategically and access VCM-based finance.

Chapter 3: How does the voluntary carbon market relate to the Paris Agreement and Article 6? discusses the links between the VCM and the United Nations Framework Convention on Climate Change and Paris Agreement Article 6, and how the VCM can support countries' commitments under the international climate regime.

Chapter 4: How are voluntary carbon market greenhouse gas reductions accounted for? details how GHG emissions are accounted for in the VCM and how this is influenced by the Paris Agreement, as well as double counting and double claiming and how governments can address double claiming in the VCM.

Chapter 5: What is a carbon credit? explains what a carbon credit represents, how the market for carbon credits is structured, and how credits are priced and sold.

Chapter 6: What makes a high-quality carbon credit? characterizes the credits that represent real and additional GHG emission reductions or removals and the projects that generate high-quality credits.

Chapter 7: What is the role of carbon standards in the voluntary carbon market? clarifies the role of carbon standards in general, the largest standards in the VCM, and how governments and carbon standards interact.

Chapter 8: How are carbon credits generated? outlines baseline-and-credit systems, the influence of government action on projects, and the VCM project cycle.

Chapter 9: How are carbon credits used? examines carbon offsetting, corporate climate targets, carbon neutral, and non-offset uses of carbon credits.

Chapter 10: How are carbon and community rights considered in the voluntary carbon market? explores how carbon rights are determined in the VCM and the rights and roles of Indigenous Peoples and local communities in developing, benefiting from, and claiming rights in VCM projects.

Chapter 11: How are voluntary carbon market benefits shared with local communities? defines benefit sharing and the best practices for benefit sharing arrangements.

Chapter 12: How does the voluntary carbon market support nature-based solutions? summarizes the role and main classes of nature-based solutions (NbS), the carbon standards that certify credits from NbS projects and the demand for NbS credits in the VCM.

Chapter 13: How does the voluntary carbon market incorporate REDD+? reviews the international framework of Reducing Emissions from Deforestation and Degradation (REDD+), the Warsaw Framework for REDD+ (WFR), and how REDD+ and government implementation of REDD+ and the WFR can be integrated in VCM.

Chapter 14: How does REDD+ nesting work? delves into what REDD+ nesting is in the context of the VCM, how nesting should be designed and implemented, and why governments engage in nesting.

Acknowledgements
Authors: Charlotte Streck, Melaina Dyck and Danick Trouwloon
Figures and visuals: Leo Mongendre
Design: Sara Cottle
Date of publication: December 2021

The Voluntary Carbon Market Explained (VCM Primer) is supported by the Climate and Land Use Alliance (CLUA). The authors thank the reviewers and partners that generously contributed knowledge and expertise to this Primer.