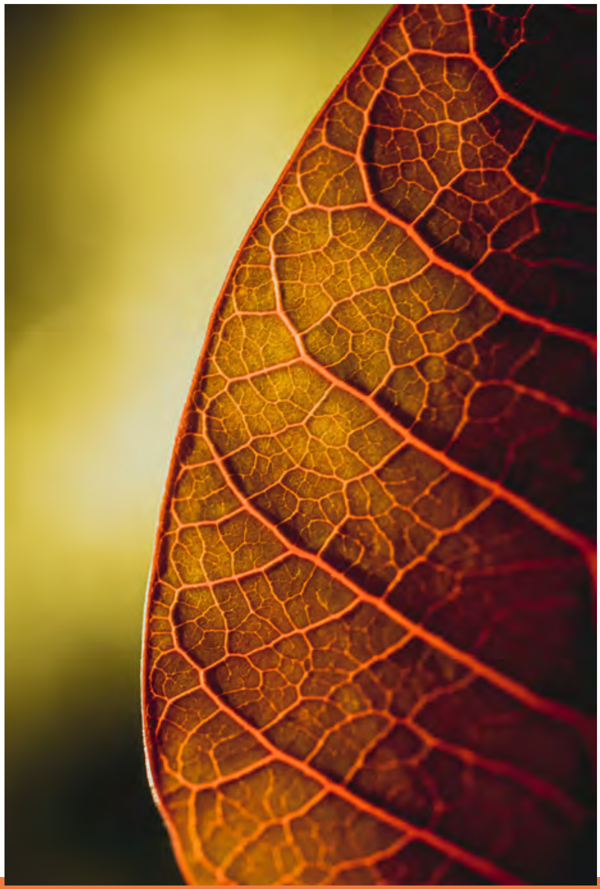
The Voluntary Carbon Market **Explained**

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 climate change mitigation, investor appetite for carbon credits, and mandatory emissions disclosures and reductions. Issuances of VCM credits reached an all-time high in 2021, with 352 million credits issued. 2022 was second largest year for the VCM, with 279 million issuances. The VCM's growth is expected to continue, given the increasing demand for credits and the proliferation of new methodologies for different types of climate change mitigation activities.

A defining feature of the VCM is that it is not regulated by governments. Private activity developers design and implement mitigation activities that are certified by carbon standards that issue carbon credits. VCM activity developers may be for-profit or not-for-profit organizations, private landowners, Indigenous Peoples or local communities (IPs&LCs), and subnational or national governments. Corporations and investors acquire carbon credits to offset emissions or contribute to beyond value chain mitigation.

The 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 activities can channel investment into sectors that are not covered by Nationally Determined Contributions (NDCs) under the Paris Agreement or other public policies, support Sustainable Development Goals (SDGs) and climate targets in host countries, and accelerate climate action in jurisdictions where legal frameworks are not fully developed. However, 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 increases government understanding of and strategic engagement with the VCM. The target audiences of this Primer are policymakers in host countries, advisors to policymakers, and other public sector actors engaging with the VCM.

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 VCM? provides a general introduction to the VCM, its history, how it operates, current trends in supply and demand of credits, and its key benefits and limitations.

Chapter 2: What is the role of governments in the VCM? describes the regulation of the VCM, how governments can engage strategically to access VCM-based finance, and the roles governments can play in the VCM.

Chapter 3: How does the VCM link to the Paris Agreement and Article 6? discusses the links between the VCM and Article 6 of the Paris Agreement, and how the VCM can support countries' commitments under the international climate regime.

Chapter 4: How are greenhouse gas reductions and removals accounted for in the VCM? details how GHG emissions are accounted for in the VCM and how this is influenced by the Paris Agreement, the three types of double counting, the risks of double claiming, and how governments can address double claiming in the VCM.

Chapter 5: What are carbon credits? explains what a carbon credit represents, the legal basis of carbon credits, how carbon credits are generated, how the two main types of carbon crediting systems are structured, and how public policy relates to the generation of carbon credits.

Chapter 6: What makes a carbon credit high quality? characterizes the high quality carbon credits, VCM activities that lead to the generation of high quality credits, and public policy that can facilitate the increased supply of high quality credits.

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

Chapter 8: How is the voluntary carbon market structured? outlines the main actors in the VCM, the VCM activity cycle, and the criteria under which carbon credit prices are determined.

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

Chapter 10: How are carbon rights considered in the VCM? explores the basics of carbon rights, including how they are legally determined, how they are established in the VCM, and how governments can act to clarify them and therefore support VCM activities in their jurisdictions.

Chapter 11: Why and how do IPs&LCs engage with the VCM? discusses the rights and roles of IPs&LCs in the VCM, and how to avoid risks and increase benefits to IPs&LCs from VCM activities.

Chapter 12: How are VCM benefits shared? defines benefit sharing and the best practices for benefit sharing arrangements.

Chapter 13: How does the VCM 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 current state of NbS in the VCM.

Chapter 14: How can the VCM support REDD+? reviews the international framework of Reducing Emissions from Deforestation and Degradation plus conservation, sustainable management, and enhancement of forest stocks (REDD+), the Warsaw Framework for REDD+ (WFR), how REDD+ is integrated in the VCM, and how government implementation of REDD+ and the WFR can be made compatible with engagement in the VCM.

Chapter 15: 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.

Acknowledgments

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