

High-Integrity Voluntary Carbon Markets (VCM): Emerging Issues in Forest Countries

UNDP Climate and Forests Programme



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Executive Summary

Forests are crucial to supporting the Paris Agreement objectives, providing opportunities to deploy climate change mitigation action at scale while contributing to increased climate resilience and protection of biodiversity, ecosystem services, and local livelihoods.

High-integrity carbon markets can support climate change mitigation efforts by creating an economic incentive for reducing emissions and enhancing removals from the forest sector in a cost-effective manner, enabling countries to raise their climate change mitigation ambition and supporting the transition towards a low-carbon and climate-resilient global economy. While voluntary carbon markets¹ (VCMs) have gained momentum as a means to mobilize significant and much-needed private climate finance for forests, they also face criticism in terms of integrity, including the risk of double claiming.

Increased interest in VCMs must be accompanied by efforts to promote high integrity and ensure the use of these markets complements decarbonization efforts under the United Nations Framework Convention on Climate Change (UNFCCC). VCMs can provide important private sector climate finance to support measures to reduce deforestation and forest degradation, and sustainably manage forests in tropical countries. Many of these countries have made important progress over the past 10 years of REDD+ readiness efforts which they can now build on to

¹ Voluntary carbon markets in this report refer to carbon market transactions that are undertaken by entities on a voluntary basis, not as a result of any policy-related regulatory national and/ or international requirement.

strategically engage in VCMs, for the achievement of their Nationally Determined Contributions (NDCs) to the Paris Agreement.

This report compiles and elaborates on critical issues for tropical forest countries to consider in their engagement as suppliers of high-integrity forest carbon credits to VCMs. The report: (1) presents key elements for high-integrity carbon markets for the forest sector; (2) highlights opportunities, challenges, and possible solutions related to tropical countries' access to high-integrity VCMs, identified through a series of dialogues facilitated by the United Nations Development Programme (UNDP) in 2021, and (3) outlines potential ways to improve and facilitate tropical forest countries' access to high-integrity VCMs.



Highlights

1

Scaled-up REDD+ finance, alongside carbon markets, is needed to promote the long-term sustainability of climate mitigation efforts in the forest sector.

2

High-integrity VCMs provide opportunities to mobilize significant private finance to protect forests and support the transition towards a low-carbon and climate-resilient global economy.

3

High integrity is commonly associated with environmental integrity risks (i.e. carbon accounting.)

4

Additional elements need to be considered for an integrated and holistic approach to ensure high integrity, such as: policy alignment with countries' NDCs and other relevant policy frameworks; directing investments to programmes and projects with demonstrated positive social and environmental impacts; strengthening local governance and respecting Indigenous Peoples rights; and securing the clarity and legitimacy of corporate claims.

5

VCM standards have created opportunities to implement forest sector mitigation action at scale, going beyond project-based activities to support jurisdictional REDD+ implementation.

Highlights

6

Aligning project and jurisdictional VCM initiatives with national REDD+ frameworks can help countries optimize access to different climate and carbon finance sources and promote a consistent approach to meet high-integrity requirements.

7

Tropical forest countries identify as key challenges: the diversity of carbon market standards with different requirements; the lack of clarity on how the VCM relates to Article 6 of the Paris Agreement and NDC accounting; the alignment of VCM project-level initiatives with national REDD+ frameworks; and limited opportunities to engage directly with the private sector in VCM discussions.

8

UNDP is assisting countries to address these challenges through carbon market readiness and VCM access strategies. This includes assessing options for engagement in high-integrity VCMs in accordance with national circumstances as well as providing support to meet VCM requirements, such as enhancing MRV capabilities, policy alignment, and strengthening institutions.

9

UNDP also aims to strategically connect national governments with potential donors/buyers and facilitate high-integrity carbon market transactions, and host country dialogues to provide technical information and share knowledge on VCMs.

Introduction



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