



# Forest Country Perspectives on Voluntary Carbon Markets:

REPORT FROM REGIONAL DIALOGUES

# Executive Summary

On August 17-19, 2021, the United Nations Development Program (UNDP) convened three regional dialogues bringing together 82 participants from tropical forest countries to discuss emerging issues in Voluntary Carbon Markets (VCMs) and seek perspectives on promoting high integrity and market access. Participants represented forest countries in Latin America and the Caribbean, Asia-Pacific and African regions. The regional dialogues provided an opportunity for genuine exchange among country representatives as well as a total of 11 expert speakers across sessions, on issues related to addressing integrity and facilitating the realization of credible, robust, and effective VCM transactions.

UNDP is supporting developing countries' efforts to access carbon finance—guided by principles for high ambition and integrity, as part of a diversified financial strategy to support the implementation of their Nationally Determined Contributions (NDCs). As part of these efforts, UNDP is fostering the engagement of representatives from tropical forest countries on global discussions related to promote the high integrity of VCM through a series of dialogues. Two global dialogues conducted in April 2021, on [Achieving Environmental Integrity for Forests in Carbon Markets](#) were followed by these three regional dialogues in August 2021 to further explore key issues identified by forest countries as described below.

## **1. Double counting and double claiming, including corresponding adjustments and other potential solutions.**

Countries view double counting and double claiming as crucial issues that need to be addressed to promote the integrity in VCM transactions and stressed the need to increase measuring, reporting, and accounting capacities and consolidate functional and operational MRV systems that reduce the risk of double counting. Participants recognized that efforts to increase accounting capacities for VCM transactions may build on MRV systems developed in the context of REDD+, while ensuring consistency with GHG inventories to ensure robust accounting under NDCs. Discussions also highlighted that the absence of international rules on corresponding adjustments, particularly in the near term, should not pose a barrier for private sector investment in the forest sector to support NDC implementation, as long as companies are transparent on the use and accounting of credits.

## **2. Aligning project and jurisdictional VCM initiatives with national REDD+ frameworks.**

Many countries view the different scales and scope of implementation of VCM and REDD+ initiatives as a key challenge and recognize that robust nesting systems could help to reduce uncertainty and enhance accountability. In addition, many countries view VCMs as part of a larger portfolio that includes voluntary and compliance markets that can accommodate both small- and larger-scale activities. This raises the need to align VCM transactions, results-based payments, and domestic carbon markets transactions through the development of policy and institutional arrangements to reduce risks and create an enabling environment for national stakeholders and private sector entities to actively engage in these transactions. In addition, discussions highlighted the need to engage directly with the private sector for VCM initiatives to facilitate the alignment of different initiatives and ensure that all activities in the country contribute to NDC implementation.

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### 3. Private sector integrity expectations and willingness to pay for higher cost units.

Discussions emphasized that promoting high integrity of VCMs is crucial for the private sector to engage in VCM transactions, highlighting the use of credible baselines, transparent accounting practices, compliance with social and environmental safeguards, the robustness of plans and theory of change, and transparency in financial flows. Regarding the willingness to pay higher prices for high integrity credits, several countries stressed the need for the carbon price to reflect the real cost of achieving high integrity emission reductions and removals, emphasizing that the cost of maintaining and increasing results is an important factor. Some countries perceive that the burden of risk falls too heavily on countries rather than standards and buyers, suggesting that risks and associated costs need to be more evenly spread to maintain political will from the supply side.

In addition to these issues, participants highlighted many opportunities related to VCM access, including the potential to develop public-private partnerships, possibilities to implement multiple interventions, and generating revenue to support the implementation of the NDCs. Moreover, VCMs are perceived as less bureaucratic and closer to local actors, including local government and smallholders.

Finally, country representatives identified approaches and tools to address the challenges across these three key issues. As VCM requirements vary across standards, participants suggested examining the requirements from different standards to understand the potential gaps in terms of accounting, monitoring and other requirements; identifying nesting approaches that fit with the country's circumstances; and continuing to strengthen institutional arrangements. Country representatives also signaled their interest to continue actively engaging in VCM discussions and conducting peer-to-peer exchanges to learn from the experience of countries across the three regions. As next steps, UNDDP will continue engaging with tropical forest countries to identify specific needs to facilitate access to VCMs and will develop a publication highlighting key considerations for promoting high integrity in VCMs as well as emerging views on the way forward based on forest countries' perspectives.

# 1) Introduction and Background

On August 17-19, 2021, the United Nations Development Program (UNDP) convened three regional dialogues bringing together 82 participants from tropical forest countries to discuss emerging issues in Voluntary Carbon Markets (VCMs) and seek perspectives on promoting high integrity and market access. Participants represented forest countries from the Latin America and the Caribbean, Asia-Pacific and African regions. The regional dialogues provided an opportunity for genuine exchange among country representatives and 11 expert speakers on issues related to addressing integrity and realizing credible, robust, and effective VCM transactions.

VCMs have been gaining momentum as a way to mobilize private sector finance that is critically needed to mitigate climate change, protect forests and support sustainable livelihoods. Many developing countries recognize the important role of forests to achieve the mitigation commitments established in their Nationally Determined Contributions (NDCs) to the Paris Agreement. There is interest among countries to understand and strategically engage in high integrity VCMs, supporting measures to reduce deforestation, forest degradation and sustainably manage forests. In response, UNDP is assisting tropical forest countries to access carbon finance, guided by high ambition and integrity principles, as part of a diversified financial strategy to support NDC implementation. In this context, UNDP is fostering the engagement of tropical forest country representatives in global discussions on the high integrity of VCM, in order to gather their perspectives as the supply side on the main challenges, potential solutions and the way forward.

The regional dialogues are part of a series of events conducted to support tropical forest countries engagement in VCM discussions and build on the findings from two global dialogues conducted in April 2021, on [Achieving Environmental Integrity for Forests in Carbon Markets](#). The aim of the regional dialogues was to further explore three key issues identified by forest countries: 1) Double counting and double claiming - corresponding adjustments and other potential solutions; 2) Aligning project and jurisdictional VCM initiatives with national REDD+ frameworks; 3) Private sector integrity expectations and willingness to pay for higher cost units. In addition, the dialogues fostered discussions on challenges and opportunities from the country perspective related to accessing VCMs. (See full agenda in Annex 1 of this report). These regional dialogues followed Chatham House rules, therefore, discussions are summarized in the report without attribution to countries or speakers.

## 2) Country Perspectives on VCM

### 2.1 Double counting and double claiming: corresponding adjustments and other potential solutions

Discussions under this theme sought to clarify the concepts of double counting and double claiming, scenarios where these issues could emerge, and the reasons why these are important concerns for the integrity of carbon markets. Participants discussed their concerns around the debate on accounting for VCM in the context of the Paris Agreement. On one hand, there are concerns about how double counting of emission reductions may impact integrity, lowering the collective ambition of the Paris Agreement. On the other hand, countries want to avoid constraining the VCM through rigid accounting measures, as these could potentially discourage participation and fail to drive private climate finance to developing countries. This discussion raised questions on how to instil confidence in the integrity of the VCM while still allowing for investments to grow and flow to the initiatives on the ground. Participants recognized that while there are many types of double counting, many issues can be resolved through robust accounting, tracking and registry systems and discussed country level approaches that could be useful to avoid double counting, stressing the need for robust national monitoring and accounting systems. Discussions also clarified that - in the context of VCMs - monitoring and measuring, reporting and verification requirements will vary depending on the standard that is selected, as independent standards have established specific methodologies and monitoring protocols to avoid double counting. The dialogues also allowed sharing resources on these issues, such as an upcoming paper prepared in the context of the VCM global dialogue.\*

Participants delved into the rationale for corresponding adjustments and when these are needed. The Paris Agreement establishes that double counting is to be avoided on the basis of the corresponding adjustments, but the details of how this will work in practice are subject to guidance on Article 6 that Parties are still discussing. There seems to be broad agreement that a corresponding adjustment is required when the credit or unit is transferred internationally and authorized for use by the buyer country towards its NDC. It is less clear if credits towards voluntary net zero goals by companies should also be subjected to corresponding adjustments, considering that a company's accounting system is related to but separate and not necessarily consistent with the Paris accounting system. Participants reflected that, in the absence of international rules for corresponding adjustments, it is unclear the extent to which the VCM will be aligned with UNFCCC rules. However, discussions emphasized that the absence of international rules on corresponding adjustments, particularly in the near term, should not pose a barrier for private sector investment in the forest sector, which is critically needed to support developing countries to meet their NDCs, as long as companies are transparent on the use of and accounting for credits.

\*Andrew Howard, Sandra Greiner (forthcoming). Accounting approaches for the voluntary carbon market.

## 2) Country Perspectives on VCM

Several country representatives raised questions about the relationship between VCM initiatives and NDC targets, including the context of national accounting and corresponding adjustments. Participants also raised questions related to the alignment between transparency requirements in the VCM and the UNFCCC. Participants noted that VCM initiatives could be reported as climate finance under the Enhanced Transparency Framework or as part of the transactions under Article 6, but more clarity is needed as these issues are still being discussed. However, it is clear that reporting and accounting transactions under Article 6 will require the authorization of the Party supplying the emission reductions.

Finally, participants noted that there are several challenges at the country level to avoid double counting, and that increased measuring, reporting, and accounting capacities will be needed to develop functional and operational MRV systems that reduce the risk of over- or under-estimating emission reductions and removals. At the same time, participation in VCMs provide opportunities to increase the robustness of data and information, which will facilitate decision-making and inform national and subnational policies.

### 2.2 Aligning project and jurisdictional VCM initiatives with national REDD+ frameworks

#### Nesting

One of the main challenges in accessing VCMs, as identified by participants, relates to the scale and scope of implementation of VCM initiatives and its consistency with jurisdictional REDD+ frameworks. Many governments are supporting large-scale REDD+ programs while various VCM initiatives are being developed at the project level, which generates challenges to align these initiatives under a national approach, account emissions reductions and removals at different scales, and address risks of leakage. Nesting was widely discussed as a way to address these challenges. Nesting systems are generally needed when there are various programs or subnational activities happening within national or jurisdictional REDD+ accounting, as well as projects reporting to different forest carbon standards that need to be accounted for. In the context of integrity discussions, nesting is important to avoid or minimize the risk of double counting at different scales. Sound nesting systems can increase confidence in the results by reducing uncertainty and enhancing accountability. Nesting can also help optimize access to different sources of climate and carbon finance by allowing countries to organize REDD+ activities at different levels while meeting the various requirements of different public and private sources of finance. In addition, nesting can help promote REDD+ implementation and stakeholder involvement at multiple levels and enhance equity amongst actors, for example by providing a basis for benefit-sharing based on GHG mitigation contributions.

## 2) Country Perspectives on VCM

Discussions clarified that there is not a single approach for nesting, and that the design of nested systems could also depend on the extent to which countries seek to incentivize subnational and private sector participation. While recognizing that the challenges for implementing nesting approaches will vary based on the specific context and the nesting model, participants identified several technical and institutional challenges that were common across countries, including potential mismatches between data and monitoring approaches at different scales, addressing the risk of leakage and reversals at the subnational and project scales, and developing registries or project-tracking databases. Other challenges include establishing the appropriate institutional arrangements between different levels of government and ensuring technical and financial support to develop sound nesting systems. Participants shared ideas on how to manage these challenges, mentioning different approaches and tools that are available or forthcoming\*\*, and underscoring the need to promote exchanges to learn from countries that have progressed in aligning project level activities with jurisdictional and national frameworks. Participants also stressed the importance of understanding the costs and implications of different nesting approaches.

### **VCM in the context of climate and carbon finance**

As part of the conversations on key issues to align project and jurisdictional VCM initiatives with national REDD+ frameworks, participants discussed the relationship between REDD+ results-based payments and carbon finance accessed through VCM projects. Key considerations include whether the country has explicitly allowed the implementation of REDD+ projects in the territory, and if results at different scales will be used towards national accounting (requiring a domestic accounting system) or will be transferred internationally to buyers, which would require corresponding adjustments to the host country NDC. Some countries are already working on national procedures to authorize carbon market activities. The procedures and authorization protocols for VCM initiatives were considered relevant, as it was clarified that in order to undertake a corresponding adjustment, the first step is to appoint a national entity to authorize it, and many countries have not yet established a body in charge of this authorization. Capacity building is necessary to establish this authority and to better understand what information would be needed to provide such authorization. Discussions also raised questions on how to ensure alignment between VCM and domestic carbon markets, as many countries are examining if there would be a role for offsets in the context of their own Emissions Trading System (ETS), what project types and sectors would be eligible, and what methodologies would be applied. Participants also considered that VCM access could provide opportunities to strengthen national regulatory and legislative REDD+ systems.

\*\*For example, Verra recently put forward version 4 of their jurisdictional nested REDD+ framework that includes an allocation tool, and the World Bank and Climate Focus will soon publish a nesting manual to guide the design and implementation of nested REDD+ initiatives.

## 2) Country Perspectives on VCM

### Other issues for aligning project and jurisdictional activities

Engagement between the private sector and national governments was considered highly relevant in the context of promoting high integrity of VCM transactions. Discussions emphasized that this could support alignment of different initiatives in the country, given that in some countries, governments are not aware of VCM projects developed in their territories, which not only raises challenges for aligning project-scale initiatives with the national approach in terms of accounting, but also for ensuring that social and environmental safeguards are in place. The lack of alignment on the type of REDD+ activities being implemented was considered an important issue as many VCM projects may favor afforestation or reforestation projects with potential risks of leakage and reduced biodiversity, while several national governments aim to promote activities to avoid deforestation as part of their countries' development and climate objectives. Participants discussed that governments have not been given a direct role in VCMs so there is not a formal channel for engagement. While some countries are developing registries or databases to record VCM projects and facilitate an interaction between project developers and governments, some participants expressed the need for a regulation or system on the demand side in which governments can approve or provide non-objection to VCM projects. This communication channel could be set up in a way that ensures engagement as well as efficiency, without increasing bureaucracy, which were highlighted by participants as important issues.

Direct engagement between private sector and government could foster public-private partnerships for the development of mitigation action on the ground, align accounting methods and systems, and provide opportunities for creating the enabling environment needed to attract more private climate finance for NDC implementation. Discussions also highlighted the need to align national safeguards frameworks or protocols with VCM initiatives to enhance the integrity of VCM, given that these frameworks will also help to mitigate potential negative impacts and ensure that social and environmental benefits are delivered as part of VCM initiatives. Additional opportunities of VCM access that were highlighted include the potential to implement multiple interventions and generate revenue while supporting the implementation of the NDC.

### 2.3 Private sector integrity expectations and willingness to pay for higher cost units

Participants discussed the expectations from the private sector in terms of VCM integrity for the forest sector. Discussions highlighted that the risk of being accused of greenwashing is a key concern for many private sector companies that aim to lower their risks when deploying their investment strategies by ensuring that the VCM credits they transact are of high integrity. For these reasons, to promote integrity of VCM, private entities view as the following as critical: initiatives based on transparent carbon accounting practices and credible baselines, and results verified by qualified and independent third-party companies to ensure that VCM initiatives produce real and verified carbon credits. This means that each carbon credit must legitimately measure at least one ton of CO<sub>2</sub>e reduction or removal, and that emissions reductions are calculated based on robust scientific data and quantification methods.



## 2) Country Perspectives on VCM

Private sector entities also seek to engage in initiatives that have in place measures to address permanence and leakage risks and avoid double counting. Compliance with social and environmental safeguards was another important element of integrity, from the private sector perspective, as private entities favor VCM initiatives that ensure the protection of the rights of indigenous peoples and local communities (IPLC) and biodiversity conservation.

Discussions highlighted that private entities are increasingly interested in jurisdictional REDD+ crediting, with the ability to nest project credits, as these tend to minimize the risk of leakage and avoid issues with double counting. In the context of jurisdictional REDD+ credits, the plans that are associated with the territory's theory of change are fundamental, as private entities pursue that their investments contribute to systematic change and sustainable development on the ground. These plans are expected to contain for example, elements of legislative action among other types of enabling tools, and transparent and accountable financial mechanisms to channel the funds from buyers to sellers to ensure that resources are being used to promote sustainable development. Discussions highlighted that private entities are looking for integrity, first of all, but also for quality, which will be assessed differently depending on the private entity's sector and core values, among other issues. In addition, participants acknowledged that promoting integrity also requires the transparency and credibility of private sector targets, which involves the need for private sector entities to deliver emission reductions within their value chains as a first-order priority prior to using offsets, as well as being transparent about the scope, boundary and use of carbon credits.

Regarding the willingness of the private sector to pay a higher price for high integrity credits from the forest sector, discussions emphasized that over the medium to long term there is an expectation within the private sector that demand for these credits is only going to increase. As prices increase, projects will only find buyers if integrity is addressed. However, this also raises concerns around security of supply as well as stability of price. Participants also discussed whether current prices in VCMs match the expectations in terms of integrity, highlighting the importance of a price in VCMs that reflects the actual costs of producing these results. Participants viewed the \$10/ton price offered under ART TREES as an important improvement. However, the requirements of VCMs and the demands from private sector are still significant at this price. Finally, participants referred to the need for VCM to provide more transparency on prices paid for credits as this could potentially increase over time driven by high integrity demands and limited supply. Price transparency and stability were seen as relevant to address challenges identified by country representatives related to the volatility of markets and the stability of buyers. At the same time, participants view the following as opportunities of VCM access, engaging in initiatives with a higher price that is linked to integrity, ensuring a cash flow to the ground for the sustainable management of ecosystems, and generating revenue to cover the financial gap to achieve the conditional component of the NDC.

# 3) Country views on emerging issues: key messages

## Double counting and double claiming

- Countries view double counting and double claiming as critical issues that could impact VCM integrity and stressed the need to consolidate functional and operational MRV systems that reduce the risk of double counting.
- Efforts to increase accounting capacities for VCM transactions may build on MRV systems developed in the context of REDD+, while ensuring consistency with GHG inventories to ensure robust accounting under NDCs.
- The absence of international rules on corresponding adjustments, particularly in the near term, should not pose a barrier for private sector investment in the forest sector to support NDC implementation, as long as companies are transparent on the use and accounting of credits.

## Aligning project and jurisdictional VCM initiatives with national REDD+ frameworks

- Many countries consider the different scales and scope of implementation of VCM and REDD+ initiatives as a key challenge, recognizing that robust nesting systems could help to reduce uncertainty and enhance accounting and overall accountability of VCM transactions.
- Developing policy and institutional arrangements will be relevant to ensure alignment of different sources of climate and carbon finance at the national level, as well as to provide legal clarity to national stakeholders and private sector entities.
- Many countries stressed the need to establish channels that allow governments to engage directly with the private sector for VCM initiatives to facilitate the alignment of different initiatives and ensure all activities in the country contribute to NDC implementation.

## Private sector integrity expectations and willingness to pay for higher cost units

- Key elements to promote integrity from the private sector perspective include credible baselines, transparent accounting practices, compliance with social and environmental safeguards, the robustness of plans and theory of change, and transparency in the financial flows.
- Several countries stressed the need for price to reflect the real cost of achieving emissions reductions and removals, emphasizing that the ongoing cost of maintaining and increasing reductions as an important factor in the price.
- Some countries perceive that the burden of risk was falling too heavily on them, rather than standards and buyers, suggesting that risks and associated costs need to be more evenly spread to maintain political will from the supply side.

## 4) Next Steps

Discussions highlighted that tropical forest countries are at different stages of REDD+ implementation and engagement in VCMs, reflecting different capacity, starting points, and needs, which provides opportunities for peer-to-peer learning across and within regions. The regional dialogues also allowed participants to identify approaches and tools to address the challenges identified under each one of the key points. As VCM requirements vary across standards, potential options to move forward include examining the requirements from different standards to understand the potential gaps in terms of accounting, monitoring and other requirements; identifying nesting approaches that fit within a country's circumstances; and continuing to strengthen institutional arrangements. UNDP will continue engaging with tropical forest countries to identify specific needs to facilitate access to high integrity VCMs. In addition, UNDP will develop a publication highlighting key issues to promote integrity in VCMs and emerging views on the way forward, based on forest countries' perspectives.

# Annex 1

## Agenda for the Regional Dialogues

Time	Agenda Item	Speaker / Speakers
00:00 – 00:05	<b>Welcoming remarks and logistics</b>	Moderators: - Wahida Shah (Africa) - Marco Chiu (LAC) - Celina Yong (Asia and the Pacific, AP)
00:05 – 00:15	<b>Opening presentation</b>	Leticia Guimarães, UNDP
	<b>Expert panel on different angles of and perspectives on high integrity of VCM:</b>  1. What is double counting and double claiming and how it can be avoided? (including corresponding adjustments) 2. What are the key considerations for aligning project and jurisdictional VCM initiatives with national REDD+ frameworks? Why is nesting important? 3. What are demand-side expectations when it comes to high-integrity of VCM? Is the private sector willing to pay higher prices for higher integrity units? 4. What are the key challenges and opportunities from the country perspective when it comes to access to high-integrity VCM?	<b>Panelists:</b>  1. Ms. Sandra Greiner, Climate Focus (Africa); Ms. Kelley Kizzier, Environmental Defense Fund (LAC and AP). 2. Mr. Tim Pearson, Winrock International (Africa); Mr. Martin Camilo Perez, Advisor for AILAC (LAC); Ms. Kimberly Todd, UNDP (AP). 3. François Carré, BNP PARIBAS (Africa); Mr. Allan Traicoff, Emergent (LAC and AP). 4. Ms. Roselyn Fosuah Adjei, Forestry Commission of Ghana (Africa); Ms. Milagros Sandoval, Ministry of Environment of Peru (LAC), Mr. Chivin LENG, Ministry of Environment of Cambodia (AP).
00:45 – 1:15	<b>General clarifications/ Q&amp;A</b>	Facilitated by respective moderator per region.
1:15 – 1:45	<b>Breakout Groups:</b>  1. Double counting and double claiming - corresponding adjustments and other potential solutions 2. Aligning project and jurisdictional VCM initiatives with national REDD+ frameworks 3. Private sector integrity expectations/ willingness to pay	Facilitated by UNDP Climate and Forests team. Each group will address the respective panelist question above. participants can choose the group of their interest.
1:45 – 1:57	<b>Closing Plenary discussion:</b> Reporting back on key points from breakouts	By the facilitator or each breakout group.
1:57 – 2:00	<b>Wrap up / Final Remarks</b>	Moderator