**The role of Voluntary Carbon Markets in mobilizing finance for emissions reduction**

**Introduction**

The science is crystal clear. The 2023 IPCC synthesis report provided a critical pulse check indicating that current country nationally determined contributions (NDCs) remain highly insufficient to meet the Paris Agreement goals to limit global warming to 1.5 °C. If we are to meet our collective goal of net-zero emissions by 2050, greater action is needed globally to advance on the path set before us.

The historic COP28 “UAE Consensus” sent an important signal of intent to the international community to increase the pace and scale of efforts to keep the Paris Agreement goals within reach. With a necessary shift to implement effective policies that provide a credible response to the climate crisis, carbon markets are increasingly considered as an essential tool to achieve climate goals.

Voluntary carbon markets (VCMs) have emerged as a pivotal mechanism for facilitating emissions reductions by allowing companies, governments, and individuals to purchase carbon credits as a means of offsetting their greenhouse gas (GHG) emissions. These markets not only help in achieving emissions reduction targets, but also mobilize substantial financial resources toward sustainable projects.

VCMs have, however, undergone critical review for integrity in terms of generation, verification and quality of carbon credits and claims by purchasers of credits to meet their own mandatory or voluntary net emissions reduction targets. The accompanying negative public perception and the lack of clarity for companies’ claims related to use of carbon credits has hampered business engagement in VCMs.

In this paper, the International Chamber of Commerce (ICC), as the institutional representative of 45million companies across the globe, discusses the value of VCMs in mobilizing finance and resources for emissions reduction while highlighting the essential governance and trust-building measures needed to enhance their effectiveness and use in global efforts to achieve net-zero emissions targets.

**Mobilizing Finance for Emissions Reduction**

**Economic Incentives for Sustainability**

VCMs create economic incentives for businesses to invest in projects that reduce or sequester carbon emissions. By purchasing carbon credits, companies can meet their sustainability goals while supporting initiatives such as reforestation, renewable energy, and energy efficiency projects. The financial flows into these projects can catalyse innovation and the deployment of low-carbon technologies, ultimately contributing to broader climate goals. VCMs enable businesses to GHG emission removal schemes and to inject additional carbon credits into the global system to achieve the overriding objective of GHG emission reduction.

**Diversifying Funding Sources**

Traditional public funding for climate initiatives often falls short of what is required to achieve global emissions reduction targets. VCMs provide a mechanism for private sector investment, thereby diversifying the funding sources for climate action. This mobilisation is particularly vital in developing and emerging economies where public funding is limited but where the potential for impactful emissions reduction projects is significant.

**Leveraging Corporate Responsibility**

In recent years, there has been a marked shift in corporate responsibility toward sustainability. Many corporations are committing to net-zero targets and seeking ways to offset their emissions. VCMs allow these entities to demonstrate accountability by investing in credible carbon offset projects. This corporate engagement not only funds vital emissions reduction projects but also promotes a culture of sustainability and environmental stewardship.

However, companies urgently require clarity on what tools and mechanisms can help them contribute to global net-zero targets, including the regulation of environmental claims and guidance for corporate net-zero transitions. A robust infrastructure to bolster trust and provide incentives will be essential to position the voluntary carbon market and help deliver net-zero targets.

**Enhancing Governance and Trust in Voluntary Carbon Markets**

**Establishing Standards and Certification**

To ensure that VCMs function effectively, robust standards and certification processes must be established. These standards should define what constitutes a credible carbon credit, ensuring that projects deliver real, additional, and permanent emissions reductions. Well-recognized certification bodies can help build trust in the integrity of the credits being traded.

VCM standards and principles aim to enhance integrity, credibility and overall confidence in carbon markets, also providing necessary safeguards where necessary and ensuring environmental and social co-benefits. These apply to design, development and verification of carbon credits, as well as to claims by purchasers. Standards applicable to claims seek to reduce the risk of greenwashing in GHG emission reduction using offsets.

VCMs continued to expand and there has been increased momentum to address issues that undermine the integrity of carbon credit markets, including efforts by the

Integrity Council for the Voluntary Carbon Markets[[1]](#footnote-2) to establish guardrails to increase transparency and integrity and by the Voluntary Carbon Market Integrity Initiative[[2]](#footnote-3) to provide guidance to corporates.

The need for consistent guidance on the use of carbon credits and prioritizing implementation of guidance to create adequate supply of approved high-quality credits will be key to enhance the effectiveness of VCMs.

**Transparency and Reporting**

Transparency is crucial for maintaining confidence in VCMs. Regular reporting on project impacts and emissions reductions can enhance accountability and facilitate informed decision-making for buyers and investors.

At the upcoming climate negotiations at COP29 in Baku, an agreement on the full operationalisation of Article 6 of the Paris Agreement on international emissions trading will be key. Resolution of key operational issues related to transparency, environmental integrity and the avoidance of double counting, in particular within the Article 6.4 mechanism of the Paris Agreement, must be prioritized to facilitate a functioning, high-integrity cross-border carbon market, capable of accelerating emissions reductions and providing the right signals for the private sector to invest.

**Establishing clear regulatory frameworks and improving international cooperation**

Establishing clear regulations can provide the necessary legal structure for voluntary carbon markets, ensuring transparency and credibility. This includes defining standards for carbon credits and establishing guidelines for verification and reporting, as well as for the regulatory and accounting treatment of carbon credits which would be helpful in building trust and predictability for investors and ensure that carbon credits can be credibly and reliably traded and used.

Greater international cooperation can help harmonize standards and practices across borders, and avoid duplication, making it easier for companies to engage in global carbon markets. Developing robust and interoperable infrastructure will be essential for market integrity and scalability.[[3]](#footnote-4)

**Stakeholder Engagement**

We recognise that industry is an integral part of the solution. Market-placed policies are only as good as the market and therefore business needs to be part of the discussion and the solution. Engaging a diverse range of stakeholders—including the private sector, —can enhance the governance of VCMs. This inclusive approach helps ensure that the interests of all parties are considered, leading to more equitable and effective outcomes.

Over the past three years ICC delivered reports on carbon pricing providing insights on what works well in principle and practice.[[4]](#footnote-5) The reports pinpoint core frictions which typically limit the effectiveness of carbon pricing systems, including limited synergies between compliance and voluntary markets, highlighting that making better use of high-quality voluntary carbon markets could significantly boost mitigation efforts, particularly in jurisdictions that don’t have the administrative capacity to implement compliance systems.

**Risk Mitigation**

Perceived risks—such as the potential for greenwashing or the failure of projects to deliver promised emissions reductions—can undermine trust in VCMs. Implementing insurance mechanisms or guarantees can help mitigate these risks, offering buyers greater confidence that their investments are contributing to genuine climate benefits.

**Conclusion**

Voluntary carbon markets hold significant potential for mobilizing finance and resources to achieve emissions reduction targets. By creating economic incentives and facilitating private investment, VCMs can drive innovation and support sustainable development. However, to enhance their effectiveness and build trust among stakeholders, it is crucial to establish robust governance frameworks, transparent reporting mechanisms, and inclusive stakeholder engagement processes. By addressing these challenges, VCMs can play a vital role in the global effort to combat climate change and achieve a sustainable, net-zero future.

1. ICVCM, (2023), ‘Core Carbon Principles, Assessment Framework and Assessment Procedure’ https://icvcm.org/wp-content/

   uploads/2023/07/CCP-Book-R2-FINAL-26Jul23.pdf [↑](#footnote-ref-2)
2. VCMI, (2023), ‘Claims Code of Practice’ https://vcmintegrity.org/wp-content/uploads/2023/06/VCMI-Claims-Code-of-Practice.pdf [↑](#footnote-ref-3)
3. [World Bank, State and Trends of Carbon Pricing, Sept 2024](https://openknowledge.worldbank.org/server/api/core/bitstreams/b98160d9-ca19-4a75-ad69-4b1d9e9319e3/content) [↑](#footnote-ref-4)
4. [Principles and proposals for effective carbon pricing - ICC - International Chamber of Commerce (iccwbo.org)](https://iccwbo.org/news-publications/policies-reports/principles-and-proposals-for-effective-carbon-pricing/) [↑](#footnote-ref-5)