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

**Introduction**

The science is 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. In order to meet the 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[[1]](#footnote-2) are increasingly considered as an essential tool to achieve climate goals.

In the broader landscape of mitigation – greenhouse gas (GHG) emission reduction and removal, voluntary carbon markets (VCMs) are a key component within a portfolio of solutions for facilitating global emissions reductions and removals, by allowing companies, governments, and individuals to purchase voluntary carbon credits in order to mitigate their own GHG (GHG) emissions, in accordance with individual targets. These markets not only help in achieving global emissions reductions, but, more importantly, also mobilize substantial financial resources towards sustainable projects, including for communities, sectors, countries and economies where climate adaptation, resilience building, and finance needs are greatest.

However, due to increased public scrutiny, VCMs have been subject to critical review in recent years. The integrity of generation, verification and quality of voluntary carbon credits and the credibility of mitigation claims by purchasers of voluntary carbon credits in meeting their net emission reduction targets has been under the spotlight. Negative public perception and the lack of clarity on voluntary carbon credits in mitigation has hampered business engagement in VCMs and led to a dramatic decline in demand for voluntary carbon credits.

The Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI) play a key role in tackling the integrity gap. The ICVCM established standards of ethics, sustainability, and transparency for VCMs globally (Core Carbon Principles), and the VCMI provided guidance for mitigation claims by companies and other non-state actors in terms of credible use of voluntary carbon credits in setting and meeting climate commitments, and how to communicate their use of those credits.

In this paper, the International Chamber of Commerce (ICC), as the institutional representative of 45 million companies across the globe, discusses the opportunity for VCMs in i) emissions reduction and removal and ii) mobilizing finance and resources, focusing on governance and trust-building measures to enhance their effectiveness and use in global efforts to achieve global net-zero emissions.[[2]](#footnote-3) The following sections will elaborate on how to mobilize finance and enhance governance and trust in VCMs, with a focus on key areas of relevance to the global business community.

**Mobilizing Finance for Emissions Reduction**

**Economic incentives for sustainability**

VCMs allow businesses to invest in projects that reduce or remove (sequester) GHG emissions using the baseline and credit principle, where emissions are reduced against a business-as-usual baseline. By purchasing voluntary carbon credits, companies can contribute to sustainability goals whilst supporting initiatives in regenerative agriculture, environmental protection and restoration, renewable energy, and energy efficiency projects. The financial flows into these projects can catalyze innovation and the deployment of low-carbon technologies, ultimately contributing to broader global climate goals.[[3]](#footnote-4)

The 2023 UNEP Emissions Gap report[[4]](#footnote-5) finds that all least cost pathways to meeting the 1.5°C goal of the Paris Agreement require considerable increases both in conventional and novel carbon removal. According to the latest IPCC report scenarios, up to 10 billion tonnes of carbon dioxide (CO2) removal is needed annually by 2050. It is essential to invest in scaling up existing CO2 removals and develop new ones, alongside GHG reduction. VCMs offer a finance source for nature-based and technology-based removals in both the short and long term. It is important to scale durable carbon removal instruments to enable global efforts to reach net-zero as well as manage any overshooting of CO2 budgets for historical emissions.

There is an urgent need to scale near-term private investment in VCM projects in order to support achieving longer-term global climate goals. With the right demand incentives, VCMs could unlock voluntary near-term corporate investment in decarbonization activities that extend beyond individual corporate actions directly to reduce an entity’s own operational GHG emissions and those of its value/supply chains. Companies should be encouraged to take both direct and indirect decarbonization actions in order to achieve global climate goals as well as individual net-zero targets.

Distinguishing between different types of voluntary carbon credits and mitigation claims will also help instill trust and credibility for VCMs. For example, there is a growing trend to expand project portfolios within VCMs that include initiatives focused on CO2 removal, which often generate co-benefits, such as enhancing biodiversity, improving soil quality, and fostering economic development in local communities.

**Diversifying funding sources to meet global emission reductions**

Traditional public and philanthropic funding for climate initiatives often falls short of what is required to achieve global emissions reduction targets[[5]](#footnote-6). VCMs provide a mechanism for additional private sector investment, thereby diversifying the funding sources for climate action and mobilizing necessary private investment. This mobilization is particularly vital in developing and emerging economies where public or philanthropic funding is limited but potential for impactful GHG emissions reduction projects is significant. The mobilization of private funds will also be vital in developed countries to enable the necessary capacity building of durable carbon removals. VCMs can also contribute to climate targets in these economies, for example, through the Carbon Removals Certification Framework (CRCF) adopted in the European Union.

**Leveraging corporate responsibility**

In recent years, there has been a marked shift in corporate strategies recognizing climate risk and incorporating sustainability metrics. Many corporations are committing to net-zero targets[[6]](#footnote-7) and seeking ways to use voluntary carbon credits within their decarbonization strategies, including beyond their value chains. In addition to reducing value chain emissions, VCMs allow these entities to take accountability for all their emissions by investing in credible carbon crediting projects beyond their value chain. This corporate engagement not only funds vital emissions reduction and carbon removal 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 emissions, including the regulation of environmental claims and guidance for corporate net-zero transitions. It is essential that the focus remains on establishing a credible and robust path to net-zero, which includes setting interim goals and providing clear guidelines on what corporates should and could do to maintain credibility. A robust regulatory framework to bolster trust and provide incentives will be essential to supporting the VCM in helping to deliver global net-zero emissions.

For high-integrity VCMs, it is vital that voluntary carbon credit mechanisms do not shift attention away from emissions reductions. For organizations setting net-zero or other climate targets, the priority should be in mitigating: preventing emissions in their own activities and in the value chain. Voluntary carbon credits play an important secondary and complementary function in addressing residual GHG emissions.

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

**Standards and certification**

The functionality of the VCM is dependent on robust standards and certification processes to define what constitutes a credible voluntary carbon credit and ensures that projects deliver real, additional, long-term GHG emissions reductions or removals.

Well-recognized and governed carbon crediting programmes (including, but not limited to Verra, Gold Standard, Puro.earth and CAR) can help build trust in the integrity of the credits being traded, based on additional work by umbrella bodies like the ICVCM and their Core Carbon Principles.

Existing body-specific VCM standards and principles aim to enhance integrity, credibility and overall confidence in carbon markets, whilst also providing safeguards and ensuring environmental and social co-benefits. These apply to design, development and verification of voluntary carbon credits, as well as to claims by purchasers. Standards applicable to claims seek to reduce the risk of greenwashing reductions through use of voluntary carbon credits. The ICVCM Core Carbon Principles seek to create a uniformly high standard across the existing bodies.

It is also important to have clear rules for corporate mitigation targets and the use of voluntary carbon credits to meet those; this too is key to setting the foundation for a robust and credible path to net zero.

VCMs have expanded as new integrity initiatives for accreditation programmes emerge. There has been increased momentum to address issues that undermine the integrity of VCMs including ICVCM Core Carbon Principles,[[7]](#footnote-8) which set in place guardrails to increase transparency and set a baseline for what constitutes high integrity, VCMI Initiative guidance,[[8]](#footnote-9) which assists corporates in making credible claims about their use of VCCs, and other efforts focusing on principles to ensure integrity in the market such as the International Emissions Trading Association’s (IETA) Guidelines for High Integrity Use of Carbon Credits.[[9]](#footnote-10)

In addition, the ICC Advertising and Marketing Communications Code (2024)[[10]](#footnote-11) and the ICC Framework for Responsible Environmental Marketing Communication (2021)[[11]](#footnote-12) provide general guidance on the use of environmental and climate claims.

**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.

Digitalization is transforming how the integrity of credits is verified, thereby enhancing trust in the market. The implementation of blockchain and other emerging technologies is viewed as a key tool to mitigate the risks of greenwashing and to ensure that voluntary carbon credits represent verifiable and effective reductions and removals. The integration of these technologies could provide new avenues to strengthen the transparency of VCMs, as blockchain can ensure immutable records of carbon credit transactions, minimizing the risks of double-counting or fraudulent claims. In addition, increased alignment between crediting programmes, supra national registries (e.g. UNFCCC), national registries, market places, etc.) will also provide for enhanced transparency and efficiency. APIs, standardization of protocols/taxonomies – where blockchain could serve as a key tool, could be considered in this regard.

The ICVCM Core Carbon Principles also provide key learnings for building integrity and transparency in the voluntary carbon market[[12]](#footnote-13).

An agreement on the full operationalization of Article 6 of the Paris Agreement on international emissions trading during the climate negotiations at COP29 in Baku will also be critical to develop further transparency and allow for a stronger and more coordinated approach on carbon pricing, as well as to unleash the potential of international carbon markets to accelerate the pace and scale of emissions reductions, including driving private sector investments in voluntary carbon reduction/removal projects.. Resolution of outstanding operational issues, including on authorizations, the Article 6.2 international registry, and the sequencing of reporting and review of information, must be prioritized to facilitate functioning, high-integrity cross-border carbon markets, capable of accelerating global emissions reductions and providing the right signals for the private sector to invest.

Increasing the credibility and integrity of these markets and greater alignment between voluntary and compliance markets can increase the adoption and the efficiency of these markets in achieving their goals. It will also pave the way for cooperative approaches that allow the financing of technologies needed to meet climate targets and raise climate ambitions of participating countries.[[13]](#footnote-14)

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

Although, the VCM is by its nature voluntary, governments play a pivotal role in ensuring the success and integrity of these markets. Establishing clear, supportive and enabling regulations can provide the necessary legal structure to support the scaling up of global carbon markets, ensuring transparency and credibility. This includes leveraging existing minimum standards for voluntary carbon credits and establishing guidelines for verification and reporting, as well as for the regulatory and accounting treatment of voluntary carbon credits which would be helpful in building trust and predictability for investors and ensure that voluntary carbon credits can be credibly and reliably traded and used. Clearly defining the legal nature of voluntary carbon credits is essential to boost market confidence and scale effectively. Host countries need to establish clear rules for developing carbon projects domestically and that establish clear legal title over the emissions reductions the projects are responsible for generating.

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.[[14]](#footnote-15)

**Stakeholder engagement**

We recognize that industry is an integral part of the solution. Market-based policies are only as good as the market and therefore business needs to be part of the discussion and the solution. High standards of governance and oversight over the companies responsible for developing and supplying voluntary carbon credits are essential. Engaging a diverse range of stakeholders—including the private sector, —can enhance the effective functioning 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.[[15]](#footnote-16) The reports pinpoint core frictions which typically limit the effectiveness of carbon pricing systems, highlighting that the funds delivered by high-quality voluntary carbon markets operating at scale 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 failure of projects to deliver promised emissions reductions—can undermine trust in VCMs. More regulation is needed to allow the market to grow with certainty and to support the development of risk management instruments found in other markets. Implementing insurance mechanisms or guarantees can also help mitigate the risk of failure, offering buyers greater confidence that their investments are contributing to genuine climate benefits. It is also important to consider the type of credits, how they are used, and which targets they are applied to. They are complementary tools for real emissions reduction in companies’ own value chains. Differentiation of types of voluntary carbon credits and how they are utilized would further enhance trust and acceptance and support broader scaling of VCMs.

Additionally, adhering to the principle of the mitigation hierarchy is an important factor in decreasing risks related to failure of projects.

Greenwashing risks affect corporate demand for voluntary carbon credits. Government regulations, legal guidance, engagement with advertising standards bodies, and other forms of code of conduct on the use of voluntary carbon credits towards meeting corporate net zero or decarbonisation claims are needed in order for greenwashing risks to be reduced.

**Conclusion**

Existing financing gaps, particularly in climate vulnerable counties are significant and VCMs can play a critical role in closing this gap. There is a clear need for near-term investment in order to reach longer term global climate goals. VCMs hold considerable potential for mobilizing finance and resources to achieve global net-zero emissions. 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, consistent guidance on the use and differentiation of voluntary carbon credits in mitigation claims, transparent reporting mechanisms, robust and interoperable infrastructure, integrate risk mitigation tools, improve international coordination and provide for inclusive stakeholder engagement processes.

Whilst 24% of emissions are globally priced, there is an urgent need to increase coverage from compliance, voluntary, and Article 6 markets. The upcoming revisions to countries’ NDCs also present an important opportunity for countries to articulate more clearly the role they see for international carbon markets, which will be helpful for sovereign and private buyers and sellers of voluntary carbon credits to better understand how to leverage carbon markets to advance their climate goals.

By addressing these challenges, VCMs can play a vital role in providing the clarity and certainty businesses need on the credible tools and mechanisms they can use to help them contribute to the global effort to combat climate change and achieve a sustainable, net-zero future.

1. 75 carbon taxes and emissions trading schemes, and 35 crediting mechanisms in operation worldwide: [Carbon Pricing Dashboard | Up-to-date overview of carbon pricing initiatives](https://carbonpricingdashboard.worldbank.org/) [↑](#footnote-ref-2)
2. This paper does not look at the role of compliance mechanisms (carbon tax or ETS). ICC work on compliance mechanisms is available at the following link: [Principles and proposals for effective carbon pricing - ICC - International Chamber of Commerce](https://iccwbo.org/news-publications/policies-reports/principles-and-proposals-for-effective-carbon-pricing/) [↑](#footnote-ref-3)
3. [International Energy Agency (IEA). (2024, October). The Role of Carbon Credits in Scaling Up Innovative Clean Energy Technologies](https://iea.blob.core.windows.net/assets/56184317-b6a8-4e68-8201-f7ad27beaefd/TheRoleofCarbonCreditsinScalingUpInnovativeCleanEnergyTechnologies.pdf) (pg 11-14) [↑](#footnote-ref-4)
4. https://www.unep.org/resources/emissions-gap-report-2023 [↑](#footnote-ref-5)
5. [International Energy Agency (IEA). (2024, October). The Role of Carbon Credits in Scaling Up Innovative Clean Energy Technologies](https://iea.blob.core.windows.net/assets/56184317-b6a8-4e68-8201-f7ad27beaefd/TheRoleofCarbonCreditsinScalingUpInnovativeCleanEnergyTechnologies.pdf) (pg 11) [↑](#footnote-ref-6)
6. Science Based Targets initiative (SBTi). (2024, October). 500 companies set net-zero ambition. https://sciencebasedtargets.org/net-zero. [↑](#footnote-ref-7)
7. 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-8)
8. VCMI, (2023), ‘Claims Code of Practice’ https://vcmintegrity.org/wp-content/uploads/2023/06/VCMI-Claims-Code-of-Practice.pdf [↑](#footnote-ref-9)
9. [Guidelines for High Integrity Use of Carbon Credits - IETA](https://www.ieta.org/resources/reports/guidelines-for-high-integrity-use-of-carbon-credits/) [↑](#footnote-ref-10)
10. [The ICC Advertising and Marketing Communications Code  - ICC - International Chamber of Commerce](https://iccwbo.org/business-solutions/the-icc-advertising-and-marketing-communications-code/) [↑](#footnote-ref-11)
11. [ICC Framework for Responsible Environmental Marketing Communications - ICC - International Chamber of Commerce](https://iccwbo.org/news-publications/policies-reports/icc-framework-for-responsible-environmental-marketing-communications-2/) [↑](#footnote-ref-12)
12. [The Core Carbon Principles | ICVCM](https://icvcm.org/core-carbon-principles/) [↑](#footnote-ref-13)
13. [Article 6 and Voluntary Carbon Markets - Oxford Institute for Energy Studies](https://www.oxfordenergy.org/publications/article-6-and-voluntary-carbon-markets/) [↑](#footnote-ref-14)
14. [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-15)
15. [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-16)