

# High-integrity Voluntary Carbon Markets in the Global South

Options for Policymakers  
in Latin America  
and the Caribbean

Policy Brief  
Executive Summary

# Executive Summary

## Purpose of the policy brief

**The private sector is essential to complement the public sector in mobilizing finance for climate action through effective instruments such as high integrity Voluntary Carbon Markets (VCMs).** The Paris Agreement aims to limit global warming to 1.5°C, requiring substantial emissions cuts by 2030 and net-zero emissions by 2050. While the public sector's efforts are vital, the transition to net-zero necessitates around \$125 trillion in investment, with the private sector expected to contribute about 70% of this. Hence, VCMs can serve as a mechanism to scale up private investment to generate high-integrity emissions reductions and contribute to the growth of sustainable economies. However, concerns have arisen from the supply side (e. g. lack of integrity in credits coming from the AFOLU sector) and the demand side of the VCMs (e. g. allegations of misleading carbon neutrality claims) potentially hindering market expansion. Implementing effective high-integrity VCMs could enable significant private sector-led climate action, especially benefitting the Global South by delivering sustainable development advantages alongside achieving material funding for the implementation of GHG emissions reductions projects.

**Governments are showing a keen interest in understanding and engaging with VCMs, including exploring interlinkages with transactions under Article 6 of the Paris Agreement.**

The role of governments is fundamental to ensure integrity of VCMs, from the generation of carbon credits to the claims made by companies acquiring them. They establish the necessary regulatory and institutional framework, align the financing with the priorities established in their NDCs, and ensure transparency by disseminating key detailed information on the performance of the carbon market.

**The objective of this policy brief is to increase the understanding and awareness in policymakers from the institutions in charge of regulating existing carbon market mechanisms,** on what high integrity means, and how to embed high-integrity carbon markets within national strategies and frameworks, that align with their NDCs and broader climate and sustainable development policy priorities. For that purpose, the document is structured in three (3) parts that cover (i) the evolution and status of carbon markets in LAC, (ii) opportunities to build integrity, and (iii) recommendations for governments to develop high-integrity VCMs.

## Carbon markets and integrity in Latin America and the Caribbean

**LAC's existing carbon market landscape includes both voluntary and compliance approaches, and currently, is the second largest source of GHG emission reductions in the world, generating approximately 20% of all carbon credits globally in 2020 and 2021.** Latin America and the Caribbean regions are rich in natural resources, possess massive carbon sinks, and have enormous potential for Nature-Based Solutions (NbS) and Technology-Based Solutions (TbS). These natural conditions offer a strategic advantage to lead the generation of high-integrity environmental assets like GHG emission reductions and removals. As a result, VCMs are gaining rapid interest in national and subnational governments. Peru, Brazil, and Colombia are by far the region's most significant contributors of GHG emissions reductions,

representing more than 80% (71 MtCO<sub>2</sub>e) of all LAC carbon credits retired to date in the Voluntary Carbon Markets.

**Numerous reasons exist that explain why countries are developing their capacity to host high-integrity VCM projects at different speeds, but some common systemic gaps for the development of VCM in the region have been identified.** After interacting with relevant public and private sector stakeholders of the VCM ecosystem in LAC, CAF identified limitations and shortcomings in six (6) specific areas: capacities, credibility, regulation, information, cooperation, and stakeholders' involvement.

# Opportunities to build integrity in Latin America and the Caribbean

**Ensuring integrity is critical to building trust in VCMs and enabling them to grow. Entities operating on the demand side of VCMs without integrity risk undermining the overall reputation, and ultimately the value of VCMs.** Private companies are the main users of carbon credits transacted in VCMs and are therefore primarily responsible for ensuring high-integrity use. Elements such as science-alignment, additionality, transparency, and consistency are key to ensure that the claims made on the demand side are not misleading and represent ambitious climate action. **VCMI is developing international rules of best practice through the Claims Code of Practice**, which addresses integrity on the demand side by guiding companies and other non-state actors on how they can credibly make voluntary use of carbon credits as part of their net zero commitments.

Today, carbon credits are already channeling significant funds to projects that reduce and remove GHG emissions, but they are far from achieving their full potential. Currently, the market is fragmented, and carbon credits are not consistent in their quality. On the supply side, **the Integrity Council for the Voluntary Market (IC-VCM) launched the Core Carbon Principles (CCP) and Assessment Framework** with the aim of helping VCM participants identify high-integrity carbon credits. IC-VCMs work will establish and progressively raise the threshold for quality and integrity across the VCM, building confidence and enabling comparability. This will reduce confusion, overcome market fragmentation, and help to channel capital towards the most impactful, cost-effective climate mitigation activities globally, and at pace, which is particularly critical for developing economies.

## Recommendations for LAC governments to build high-integrity VCMs

**Scaling VCMs requires an inter-institutional and coordinated effort among regulators and market participants during the VCM policy-cycle.** By bridging environmental, economic, and financial spheres, carbon markets can link to various policy and regulatory objectives. Governments can build a robust institutional framework by (i) defining roles, expertise, and authority of national institutions, (ii) by defining standardized regulations for carbon credits, and (iii) by ensuring that national regulation is coherent with the evolution and operationalization of Article 6 of the Paris Agreement.

**Whilst companies must take responsibility for the way in which credits are used (e. g. linked to science aligned targets and with internal emissions reductions prioritized), countries hosting VCMs can also act on the demand side to facilitate high-integrity credit use.** For example, (i) by requiring that VCM activities report to domestic GHG inventories and GHG emission reductions and removals registries; (ii) by aligning regulation on corporate sustainability disclosures with guidance on high-integrity use of carbon credits; or (iii) by clarifying whether and how authorizations for VCM activities will be provided, and under what conditions as per the Art. 6 framework.

**Governments can also act on the supply side to promote the generation of high-integrity carbon credits from VCMs by developing robust institutional frameworks and national strategies to ensure that VCM finance is channeled to where it is most needed to catalyze climate action and socioeconomic prosperity.** For example, by (i) effectively aligning the methodologies established by the carbon market projects and programs with the GHG levels of reference adopted by the countries in their NDCs, and (ii) by creating legal frameworks and supervisory institutions responsible for ensuring high-integrity carbon projects and programmes, and sanctions for non-compliance.

**CAF is committed to collaborate with all LAC countries and with relevant stakeholders in VCMs to close the existing gaps in the carbon markets**, thus enabling conditions for an effective mobilization of resources for the development of VCM projects that contribute to the fulfillment of the goals established in their NDCs. The work of private-led initiatives such as ICVCM, VCMI and IIF can contribute to this task by providing technical knowledge, enriching global best practices, and facilitating connections with VCM stakeholders' networks, including buyers, project developers and policymakers.

