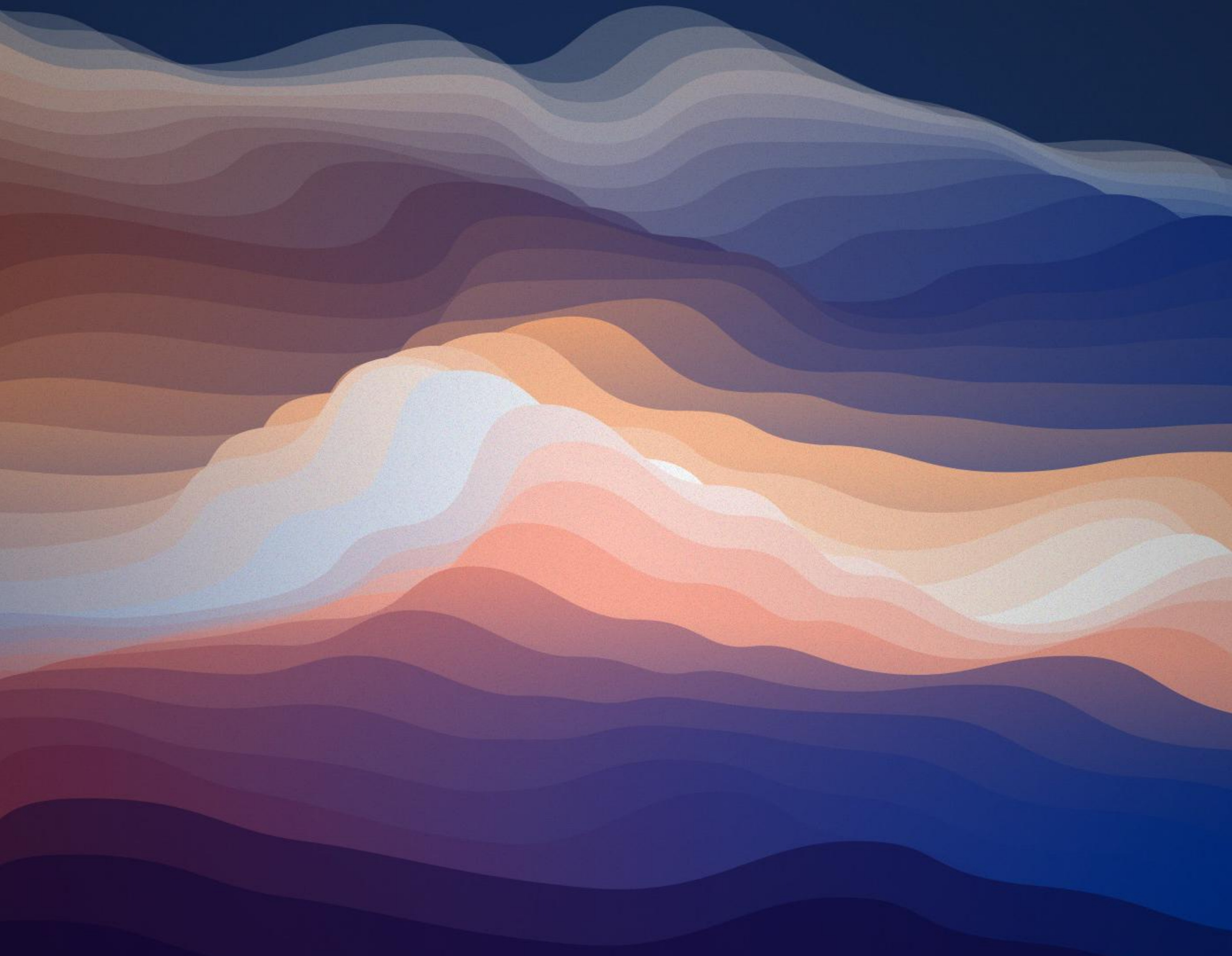
UNITED NATIONS DEVELOPMENT PROGRAMME



UNDP's High-Integrity Carbon Markets Initiative

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Contents


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Acronyms

BVCM	Beyond Value Chain Mitigation
CP4D	Carbon Payments for Development
ER	Emission Reduction
ETS	Emission Trading Scheme
FPIC	Free, Prior and Informed Consent
GHG	Greenhouse Gas
IC-VCM	Integrity Council for Voluntary Carbon Markets
IHRL	International Human Rights Law
ITMOs	Internationally Transferrable Mitigation Outcomes
MRV	Measuring, Reporting and Verification
NDC	Nationally Determined Contribution
SBT	Science-based Targets
SDG	Sustainable Development Goal
UNFCCC	United Nations Framework Convention on Climate Change
VCM	Voluntary Carbon Markets
VCMI	Voluntary Carbon Markets Integrity Initiative

1. Introduction

High integrity is at the core of UNDP's existing carbon markets portfolio, but there is still much more to be done and efforts to be scaled up.

This document first defines high integrity and the strategic context in which this initiative is being launched. The vision, mission, and expected strategic outcomes are presented followed by the initiative's four offers.

The first offer, on readiness, supports the development of carbon markets access strategies based on countries' Nationally Determined Contribution (NDC) and existing carbon markets engagement. The second offer presents UNDP's support to countries on Article 6, and the third focuses on voluntary carbon markets implemented at the jurisdictional level. The fourth offer focuses on domestic carbon markets and emission trading schemes. All four offers will be implemented following the high-integrity guardrails which is also discussed.

The final section outlines the next steps for the operationalization of this initiative. Through its launch, UNDP invites further engagement and dialogue with current and prospective partners working towards common goals, to identify opportunities to collaborate and ensure synergies, enabling a greater positive impact.

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2. High-integrity carbon markets

Carbon markets aim to mitigate climate change by creating an economic incentive for reducing greenhouse gas (GHG) emissions as cost-effectively as possible, supporting increased involvement of the private sector, in line with the Paris Agreement. In simple terms, carbon markets are trading systems in which carbon credits are sold and bought. One tradable carbon credit equals one tonne of carbon dioxide, or the equivalent amount of a different GHG reduced, sequestered, or avoided.

There are broadly two types of carbon markets: compliance and voluntary. Compliance markets are created as a result of any national (e.g., New Zealand Emission Trading Scheme), regional (e.g., EU-ETS) and/or international policy or regulatory requirement. At the international level, Article 6[1] the Paris Agreement, recognizes that "some Parties choose to pursue voluntary cooperation[2] in the implementation of their NDCs to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity". Two market-based instruments were created under Article 6. Article 6.2 establishes the basis for trading in GHG emission reductions or enhanced removals (or "mitigation outcomes") through voluntary cooperation between governments. Article 6.4 establishes a mechanism for trading GHG emission reductions under the oversight and direct supervision from the United Nations Framework Convention on Climate Change (UNFCCC), allowing for the direct engagement of private sector entities authorized by their national governments. Both Article 6.2 and Article 6.4 transfers require an express authorization by the host Party and a corresponding adjustment[3] from their NDC to the Paris Agreement.

[1] For more information: https://unfccc.int/process/the-paris-agreement/coopertive-implementation.

[2] The use of the terminology voluntary cooperation by the Article 6 of the Paris Agreement has led to some confusion amongst practitioners and potential beneficiaries of the relationship between the UNFCCC market-based mechanisms, and the voluntary or independent carbon markets that operate outside of the UNFCCC. For this document, Article 6 refer to the compliance carbon markets under the UNFCCC while voluntary carbon markets are those operated by independent carbon market programmes that operate outside of the UNFCCC.

[3] A corresponding adjustment is an accounting tool agreed in the Article 6 decisions to avoid double-counting between countries' NDCs. Host countries can authorize mitigation outcomes (Art. 6.2) or emission reductions (Art. 6.4 Emissions Reductions (ERs)) to be used for NDC compliance, international mitigation and 'other purposes'. Such authorization comes with the obligation to apply a corresponding adjustment, meaning they will need to make up for the ERs transferred out.

Voluntary carbon markets (VCM) – national and international – refer to the issuance, buying and selling of carbon credits, on a voluntary basis. The UNFCCC, as a framework of signatory Parties, does not have the legal jurisdiction to regulate strictly voluntary transactions, i.e., those using private carbon market standards. National governments have historically had little exposure to VCM and have been relatively uninformed about activities happening in their countries. There are, however, several key exceptions: when the government is a co-implementer of an activity, is required to give permits to project developers, or links a domestic carbon pricing scheme to VCM activities. The current supply of voluntary carbon credits comes mostly from private entities that develop carbon projects that generate emission reductions and/or removals. Voluntary carbon credits that do not have the authorization from the national government to be discounted from their NDCs can be used by the host country for their domestic carbon market or by companies with voluntary climate targets, either nationally or internationally, as part of their corporate responsibilities. These investments can be reported by the host country as private climate finance mobilized for the implementation of its NDC.

If designed and managed to promote high integrity[4] and climate ambition, carbon markets can enable the transition of economies to net-zero societies by mid-century, advancing the implementation of NDCs and accelerating progress across the 2030 Agenda. The benefits of carbon market activities vary depending on the country, sector, and type of intervention. The potential benefits for local communities consist of, inter alia, access to clean energy or clean water, reduced air pollution, improvement in health infrastructure, reduced time spent on the collection of firewood, job creation, technical training, water and soil retention and the protection of biodiversity. These benefits contribute to Sustainable Development Goals (SDGs) and address global challenges beyond climate change, such as inequality, environmental degradation, and constraints to social development, justice and peace.

There are several concerns related to carbon markets, including issues related to double-counting of GHG emission reductions, human rights violations, and greenwashing (companies falsely marketing their green credentials, e.g., misrepresenting climate-neutral products or services). For carbon markets to be successful, these concerns must be addressed.

A robust carbon market relies on credible demand[5] as well as a stable and high-integrity supply of carbon credits. To ensure the credibility and effectiveness of carbon markets, UNDP is actively collaborating with global initiatives, focusing on establishing robust principles and guidelines that ensure high integrity across all types of carbon markets. This includes engagement with the United UNFCCC Secretariat, working on Article 6 and the two voluntary carbon market integrity initiatives, the Integrity Council for Voluntary Carbon Markets (IC-VCM) to enhance the supply side, and the Voluntary Carbon Markets Integrity Initiative (VCMI) to address the demand side, aiming to bolster transparency and accountability in these critical financial mechanisms. The work of these initiatives, alongside efforts by standard setting bodies (e.g., Gold Standard, Verra and ART TREES) carbon credit ratings agencies (e.g., Calyx, Sylvera and BeZero), and other partnerships such as the Carbon Credit Quality Initiative and the organizations that co-developed the Tropical Forest Integrity Guide, led to greater convergence and consensus-building within the carbon market ecosystem of actors on what high integrity is and how to achieve it.

These efforts could lead to greater confidence in carbon markets and new investment. There is increasing evidence that buyers are willing to pay a substantial premium for high-quality credits and are prioritizing programs that can demonstrate transparency and robust measuring, reporting and verification (MRV), as well as non-carbon benefits with quantifiable positive SDG impacts[6]. The overall impact of progress made to define the core elements of high integrity depends on their uptake, which is a key focus of UNDP's initiative.

UNDP has a strong track record, is well positioned and can scale-up systematic support to countries and local stakeholders, supporting the generation of high-quality carbon credits and matching them with high-integrity buyers. To do that, the following elements have been defined based on the aforementioned global initiatives setting high standards for integrity as well as the UNFCCC rules and guidance for Article 6 of the Paris Agreement. These elements will be operationalized through high-integrity guardrails in all UNDP carbon markets offers, described below and in more detail in section 5 of this document.

Figures 1 and 2 describe both the supply side and demand-side of high-integrity criterion, respectively, while Box 1 looks closer at demand integrity and Beyond Value Chain Mitigation (BVCM).

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[4] For more information on the definition of high integrity going beyond environmental integrity, please see UNDP's 2021 publication, High-Integrity Voluntary Carbon Markets (VCM): Emerging Issues in Forest Countries.

[5] Demand-side integrity relies on entities buying high-integrity carbon credits and having real commitments to reduce emissions from their own operational and value chain processes.

[6] BCG, 2023; Trove Research, 2023.

FIGURE 1: **Supply-side high-integrity criterion**

Carbon accounting and transparency[7]

Alignment with the Paris Agreement	Contribution to net- zero emissions by 2050	Accountability and continuous improvements	Robust quantification of ERs & removals
No double counting	Additionality	Permanence and avoidance of leakage	Tracking of uniquely identified credits (registry)
Transparency of credited mitigation activities & transactions	Only jurisdictional or nested REDD+ projects	Independent validation and verification	

Social and environmental safeguards and sustainable development benefits[8]

Assessment and management of environmental and social risks	Labour rights and working conditions	Resource efficiency and pollution prevention	Land acquisition and involuntary resettlement
Biodiversity conservation and sustainable management of natural resources	Grievance mechanism	Cancun Safeguards for REDD+	Indigenous Peoples, local communities, and cultural heritage
Gender equality	Robust benefit-sharing	Ensuring positive SDG impacts	Independent validation and verification

FIGURE 2: **Demand-side high-integrity[9] criterion**

Publicly commit to science-based targets (SBTi), or equivalent, consistent with the Paris Agreement goals.	Publicly commit to mid-century net-zero targets covering all three scopes.	Join the UN Race to Zero.
Publicly report a GHG emissions inventory following the Greenhouse Gas Protocol (GHGP).	Separately publicly report any use of ERs or other carbon credits, including purpose of use. Reporting should be independently audited.	Make claims regarding the use of carbon credits following the VCMI Claims Code.

BOX 1: **Demand integrity and Beyond Value Chain Mitigation (BVCM)**

BVCM is the purchase of high-quality carbon credits beyond a company's value chain (SBTi, 2023). This includes activities that avoid or reduce GHG emissions, and those that remove and store GHGs from the atmosphere. By allowing companies to be recognized for mitigation investments beyond just offsetting their own emissions, BVCM can be a good solution for demand-side integrity, addressing the risks associated with carbon accounting as well as recognizing important initiatives that are key for the achievement of climate and sustainable development goals. This is a relatively new concept, incorporated into the VCMI claims code, and most countries, in particular developing countries and companies, have yet to be exposed to it.

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7 Adapted from IC-VCM core carbon principles.
8 Adapted from IC-VCM assessment framework.
9 Adapted from LEAF criteria for buyers to include VCMI claims code criteria.

3. Strategic context

Carbon markets can serve as useful tools for enhancing climate action and the SDG agenda in a world where climate commitments are lacking, and mitigation and adaptation are severely underfinanced. Compliance markets are expanding in geographic coverage and value but still need to scale up significantly in scope, ambition, and price to be impactful. The VCM has grown rapidly[10], though it remains small in comparison to compliance markets[11].

The increasing interest in carbon markets goes hand-in-hand with an explosion of actors and initiatives that seek to promote, regulate, or otherwise influence carbon markets in developing countries. Depending on their interests and convictions, such actors seek support for investment proposals, engage carbon crediting programs or promote bilateral and multilateral initiatives that are linked to voluntary carbon markets, domestic crediting programs, or pilot transactions under Article 6 of the Paris Agreement.

This proliferation of activities, interests and various guidance and guidelines on integrity exposes governments to requests and demands – with implications that are often poorly understood. This creates additional pressure on developing countries. They face significant knowledge and skills constraints as well as stretched institutional capacity to cooperate strategically and meaningfully.

Decision makers are often overwhelmed by the complexities of carbon markets and the reputational risks associated with integrity. They are increasingly worried about carbon markets exporting emission reductions and removals they need to achieve NDCs, badly executed carbon projects that lead to local conflicts, and spurious carbon credit claims, among other issues. They fear a loss of sovereign control over their climate policies and are worried that international actors raise expectations that leads to conflicts in rural areas. They also want to prevent local actors from being taken advantage of by international actors that claim the lion's share of carbon market profits at the expense of local communities.

Carbon market investors, be it buyer countries or the private sector, must navigate a landscape of developing countries with high willingness to enter into negotiations, but low readiness to implement the terms and conditions of the resulting agreements. This combination represents a risk for potential buyers, affecting their ability to secure a consistent supply of high-quality carbon credits.

Developing countries are well positioned to catalyze the generation of high-integrity emission reductions and removals. **To produce quality carbon credits, countries need technical assistance to understand and operationalize the high integrity principles.** While there are various initiatives that offer support to countries, these are often pre-packaged and defined, and fail to respond to local needs and circumstances. Capacity building programs offering support to host countries are often limited in the range of activities they offer to particular sectors, institutions or actors. This leads to a patchy landscape of support and initiatives that leaves important questions and challenges unaddressed. **UNDP has a key role to play in supporting governments to take holistic, comprehensive and strategic decisions on carbon markets as part of their NDC implementation, to address knowledge gaps, and contribute to efficient and high-integrity carbon markets.**

[10] Market growth stalled in 2023, driven in part by negative media reporting in a small number of news outlets. This reporting was principally based on two lines of argument. Firstly, that carbon markets delay direct decarbonization. While a legitimate concern if true, multiple studies have shown that in fact the opposite is the case. One of those studies, a report which studied 7,400 companies worth US$110 trillion, found that companies who use carbon credits are 1.8 times more likely to be successfully decarbonizing compared to those who don't use carbon credits (Ecosystem Marketplace, 2023). Secondly, some have raised concerns about the efficacy and integrity of carbon projects and their role in the global pathway to a safe climate.

[11] Environmental Defense Fund, 2023.

4. UNDP vision, mission and strategic outcomes

Vision: To make carbon markets work for host countries, NDCs and the SDGs.

UNDP will focus on supply side integrity, in an effort to level the playing field – for host countries at national, sectoral and programmatic levels, but also for landowners, farmers, households and rights-holders, including Indigenous Peoples, local communities and women – who contribute to and benefit from carbon crediting programs.

The initiative will seek to ensure all parties are equally informed and capacitated to strategically engage; that fairer terms, conditions and prices are negotiated with buyers; and importantly, that benefit sharing, SDG impacts and social and environmental safeguards are at the core of carbon program design and implementation. This effort will seek to ensure that carbon market investments and benefits remain in the host countries.

Mission: Assist host countries and local stakeholders to access high-integrity carbon markets at scale, in order to contribute to global climate change mitigation targets.

Strategy: UNDP will provide strategic holistic support on carbon markets to host country governments through its network of Country Offices. Countries will receive high-level strategic information and targeted technical assistance to access carbon markets finance, guided by principles for high ambition and environmental and social integrity, including consideration of Article 6, voluntary carbon market opportunities, and the establishment of domestic carbon markets mechanisms. UNDP carbon markets work will be integrated with other areas of UNDP Climate, notably the work from the Climate Strategies and Policy team, the Climate Change Mitigation team and the Climate and Forests team. This work will be coordinated with the Sustainable Finance Hub and work through the regional hubs to better support Country Offices.

Figure 3 presents the expected outcomes from this strategy while Figure 4 presents the lines of action that UNDP will undertake to achieve this.

FIGURE 3: **Strategic outcomes**

1. Unlocking carbon market finance for the enhanced implementation of NDCs and SDGs.
2. Fostering equity in carbon markets, improving outcomes for host countries and local stakeholders.
3. Increasing the supply of high-quality carbon credits on a global scale.

FIGURE 4: **Lines of action**

CONVENING diverse stakeholders, including governments, corporates, project developers, investors, civil society, Indigenous Peoples, local communities, women and others to collaboratively forge pathways to achieve high-integrity carbon markets, while advancing climate and development objectives in a holistic and sustainable manner.

SUPPORTING governments to establish enabling policy, regulatory and legal frameworks, and institutional capacities for design and sustainable implementation of high-integrity carbon crediting programs.

INTEGRATING the high-integrity guardrails into host countries' decision-making and practices, ensuring their incorporation across all carbon crediting programs – at project, sectoral and jurisdictional levels.

[12] Including for example, women, Indigenous Peoples, local communities, other rights-holders, landowners, households, farmers, civil society organizations and others.


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5. UNDP's high-integrity carbon market offers

UNDP adopts a portfolio approach divided into two separated but complementary streams and four offers, which will be adapted to the needs and circumstances of interested countries:

1. Readiness support (Offer 1) and
2. Implementation support for Article 6 (Offer 2), for voluntary jurisdictional carbon markets (Offer 3) and for domestic carbon market schemes (Offer 4).

All UNDP work on carbon markets will be guided by the cross-cutting implementation of high-integrity guardrails. This initiative is built upon prior lessons learned by UNDP in the provision of carbon markets support and remains open to continuous improvement. Figure 5 illustrates UNDP's portfolio approach.

FIGURE 5: **UNDP offers for carbon markets readiness and implementation support**

Readiness	Implementation		
Offer 1 Carbon markets access strategies	Offer 2 Article 6.2 ITMOs	Offer 3 Jurisdictional voluntary carbon markets	Offer 4 Domestic carbon markets/ emission trading schemes
Cross-cutting application of high-integrity guardrails: Carbon elements; Social and environmental safeguards; Enhancement of SDGs			

Offer 1: Readiness - Carbon market access strategies

Support will be offered in three tiers:

1. Introduction to core carbon market concepts;
2. Country-tailored support to develop a carbon market access strategy13; and
3. Promoting demand-side integrity.

The first two tiers are focused on supply side integrity. The first tier will be open to a larger group of host countries and local stakeholders (including Indigenous Peoples and local communities); while the second tier will be for countries and communities ready to engage more deeply and consistently on the topic. This offer is supported by learning modules. Figure 6 and Figure 7 below show the module outline, the key themes that will be covered in each module for Tier 1 and Tier 2, and their expected results, respectively. The third tier is focused on demand-side, and it is open to buyer countries as well as private sector entities that are committed to promoting high integrity. Figure 8 below shows the demand-side module outline, key themes and expect results.

[13] This builds on UNDP experience developing the VCM Access Strategy Toolkit developed with Climate Focus and VCMI in 2022.

FIGURE 6: **Tier 1- Introductory learning module: carbon market concepts**

Introduction to carbon markets	High Integrity – Carbon elements	High Integrity – Social elements	Analysis and emerging lessons
Orientation to the carbon market ecosystem	The latest thinking on environmental integrity and what it means for host countries	The latest thinking on social integrity and what it means for host countries	Making sense of the complexity
▶ Historical and future trends ▶ Compliance v. voluntary markets ▶ Pricing ▶ Carbon market potential ▶ Carbon market actors ▶ Leading carbon standards ▶ Demand-side claims Roles governments can play	▶ Robust quantification ▶ Paris Agreement aligned ▶ Contribution to the net-zero transition ▶ No double counting (including double issuance, claiming & use) ▶ Additionality, permanence, no leakage ▶ Robust independent third-party validation and verification ▶ Tracking of uniquely identified credits (registry) ▶ Transparency of credited mitigation activities & transactions ▶ Only jurisdictional or nested REDD+ projects	▶ Social and environmental safeguards ▶ SDG Impact ▶ Stakeholder engagement Respect for Indigenous ▶ Peoples rights ▶ Gender equality and women's empowerment ▶ Benefit sharing ▶ Grievance mechanisms ▶ Case study: Supporting 40 Jurisdictions to address Forest Carbon Market Safeguards Standard	▶ High level recommendations for host countries ▶ Entry points for further engagement

Expected results:

- Informed and engaged on carbon market essentials.
- Clearer sense of opportunities and risks associated with the carbon market.
- Clarity on next steps required to engage further on carbon markets.
- Establish new relationships and partnerships to support their engagement in carbon markets.
- Know how to access additional resources to support their consideration of and engagement in carbon markets.
- Better placed to engage in strategic discussions related to their interests and role in carbon markets.

FIGURE 7: **Tier 2- Country-tailored modules: carbon markets access strategies**

Modules will be based on country-specific data, analysis and assessments. Technical assistance and stakeholder engagement will be supported by a team of experts, focused on tailoring solutions and approaches to the national and local contexts.

If and when to engage in carbon markets	How to finance NDCs	The role of carbon markets in NDC achievement	Establishing legal and institutional frameworks	Ensuring high-integrity carbon market activities
▶ Assess the potential of engagement in carbon markets ▶ Determine which roles the host country government will play ▶ Identify the existing market: mapping of VCM and CDM activities	▶ Determine finance needs for implementing NDC ▶ Identify financing instruments available for implementing NDC ▶ Facilitate finance for mitigation through carbon markets	▶ Article 6 readiness workshops and trainings ▶ Clarify when emission reductions and removals count towards the host country's NDC achievement ▶ Consider double counting and double claiming ▶ Develop a policy on corresponding adjustments ▶ Avoid risks related to carbon market engagement	▶ Clarify carbon rights ▶ Address institutional and regulatory issues ▶ Regulatory and institutional frameworks for Article 6 implementation ▶ ITMO workflow platform and registry (the two systems are already linked)	▶ Align carbon market activities with host country policies ▶ Put in place national carbon accounting rules ▶ Ensure high-quality supply of carbon credits ▶ Ensure high-integrity use of carbon credits

The expected result of Tier 2 support is a Carbon Market Access Strategy that clarifies for the host country and local stakeholders the points above and a roadmap to move forward.

FIGURE: **Tier 3 - Promoting demand-side integrity**

Introduction to the concept of high integrity (supply and demand)	Existing global initiatives focused on demand	Platforms to promote awareness and partnerships
▶ What is high integrity. ▶ Who are the main actors in this domain. ▶ What are the risks associated with not following a high integrity approach. ▶ Clarifying key concepts including net zero, carbon neutral, etc. ▶ The role of carbon markets in corporate responsibility pledges.	▶ SBTI science-based targets ▶ Beyond Value Chain Mitigation ▶ VCMI guidance on corporate claims	▶ Roundtables and dialogues between host countries and buyer countries. ▶ Dialogues between host countries and private sector entities that invest in carbon markets. ▶ Engaging and building capacities to engage in carbon markets of private sector entities from the global south.
Expected results: **Informed buyers make strategic decisions with regards to their own corporate targets as well as for the purchase of carbon credits and the claims made regarding their climate change mitigation commitments.**		

Offer 2: Implementation - Article 6 ITMO Facility

Article 6 of the Paris Agreement details a set of tools and mechanisms, such as cooperative approaches and the transfer of Internationally Transferrable Mitigation Outcomes (ITMOs), that can stimulate investments into mitigation activities and NDC implementation. This offer will focus on Article 6 as an entry point for carbon markets and will build on lessons from UNDP's Carbon Payments for Development (CP4D) Facility, while expanding its pipeline and enhancing its approach with additional high-integrity guardrails. CP4D has initiated support to countries through project implementation, technical assistance and capacity development in support of the following two programs:

ITMOs for Development: A collaboration with the Swiss Federal Office for the Environment (FOEN), with four active projects in two countries and a pipeline in additional countries. This is a US$42 million pay-for-results collaboration to unlock the development benefits of private climate investments in developing countries while supporting Switzerland to reduce GHG emissions generated by its government operations. Beyond reducing emissions, climate mitigation projects can directly or indirectly yield many development benefits – including job creation, access to energy, support to livelihoods and food security, gender empowerment and more. This agreement will be active from 2022 until 2031 and aims to boost the development benefits associated with climate mitigation projects. It currently supports energy access through solar power in Vanuatu and climate-smart agriculture and composting in Ghana and Peru. Through this initiative, UNDP is among the first to create concrete demand for ITMOs. UNDP will implement projects that will generate up to 2.3 million tonnes of CO2 equivalent in emissions reductions for Switzerland while advancing progress on the SDGs.

Article 6 Transfer Readiness Project: With support from the Swiss State Secretariat for Economic Affairs (SECO), the project aims to complement the ITMOs for Development project by providing the technical assistance necessary for countries to develop Article 6 transfer readiness and enhance countries' carbon market participation. The project, which is already active in Georgia, Ghana, Malawi, Morocco, Peru, Senegal and Uruguay will provide technical assistance targeted towards the following deliverables:

- Assessment of capacity gaps and needs for ITMO transfer readiness.
- Development of the legal setting for Article 6.2.
- Setting-up ITMO regulatory and operational processes.
- Facilitating digital process flows to strengthen cooperation and enhance awareness of Article 6.2.
- Hands-on 'learning by doing' on the operationalization of the ITMO project cycle.

UNDP will help further strengthen country capacities, improve carbon market readiness, and enhance ITMO workflows through:

- Carbon Cooperation, a new digital platform which aims to help countries process ITMO projects more transparently and efficiently; and
- Article 6.2 capacity development online course, launched by UNDP and the UNFCCC at COP27, the course aims to equip government representatives, private sector and civil society to make decisions related to the participation in cooperative approaches under Article 6.2 of the Paris Agreement, and to help relevant policymakers and technical staff to under stand the different policy, technical and processes components required to operationalize Article 6.2 in their country. It has also been translated into French and Spanish.

Figures 9 and 10 describe the service delivery activities of Offer 2 and the expected results, respectively.

FIGURE 9: **Service delivery for Offer 2**

Strengthen countries' capacities to engage in Article 6.2.
Facilitate the development of policies, regulations and institutional arrangements for ITMO transfers.
Support the development for the digital infrastructure for ITMO transfers.
Engage private sector through the identification and facilitation of public private partnerships.
Develop Mitigation Action Design Documents (MADDs) to guide project implementation.
Validation of ITMO projects and verification of ITMOs, issuance, transfer and monetization through the engagement of independent validators and verifiers.
Payment for performance to incentivize private sector investment upon positive third party verification.

FIGURE 10: **Offer 2 strategic outcomes**

1	2	3
Enhanced cooperation amongst countries for NDC implementation.	**Scaled-up carbon finance is unlocked through public private partnerships.**	**SDGs are supported through the implementation of high impact projects with significant co-benefits.**

Offer 3: Implementation - Jurisdictional VCM

Independent jurisdictional standards currently used for VCM transactions can also qualify for Article 6 transactions, if the host country approves the international transfer of mitigation outcomes to meet another country's NDC and both Parties agree to use the standard as the basis for the ITMO transaction.

VCM standards have created opportunities to implement mitigation action at scale, going beyond project-based activities to support jurisdictional implementation. Aligning project and jurisdictional VCM initiatives with national frameworks can help countries optimize access to different climate and carbon finance sources and promote a consistent approach to meet high-integrity requirements.

To provide credibility and foster trust in VCM transactions, several independent private standards have surfaced with jurisdictional methodologies for forest sector mitigation action. 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 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.

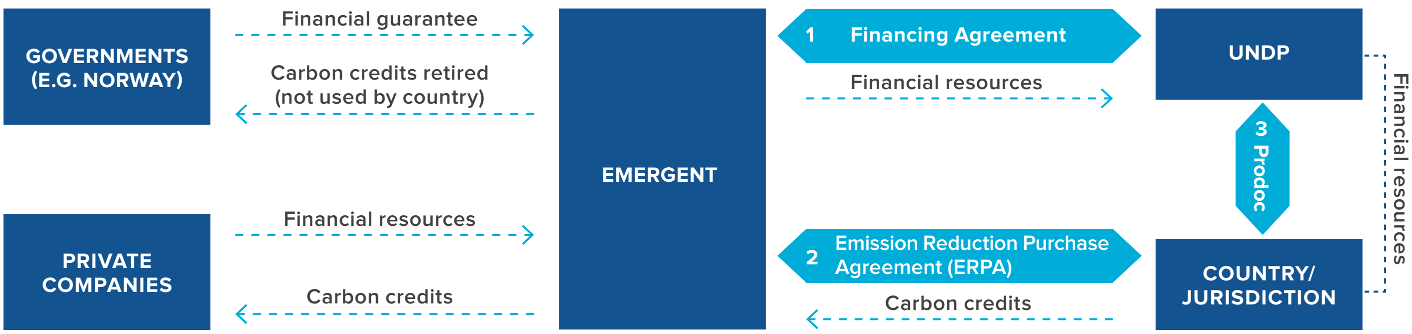
UNDP is assisting countries to address these challenges by assessing options for engaging with high-integrity VCM and supporting them to meet applicable requirements, such as enhancing MRV capabilities, policy alignment and strengthening institutions. UNDP is also strategically connecting national governments with potential donors/buyers to facilitate market transactions; and convening dialogues to provide technical information and share knowledge on VCM.

The LEAF Coalition is convened and coordinated by Emergent Forest Finance Accelerator (Emergent). Emergent is a non-profit facility dedicated to facilitating transactions to raise global climate ambition and contribute to halting tropical and subtropical deforestation and forest degradation by 2030. UNDP assists countries in their efforts to have their REDD+ results certified under TREES and potentially sold to LEAF, or to other buyers interested in high-integrity jurisdictional REDD+ credits.

UNDP's key role in the partnership is to act as financial intermediary and manage emissions reduction (ER) purchase proceeds to support implementation of policies and measures of the participating country NDC and/ or jurisdictional REDD+ strategy, ensuring compliance with UNDP Social and Environmental Standards as well appropriate fiduciary management. The first countries identified to benefit from the proposed partnership with Emergent are Ecuador and Ghana. Emergent will purchase ERs from these countries on behalf of the LEAF Coalition. The proceeds from the purchase will be channeled to the country by UNDP to implement policies and measures to advance the respective country's NDC commitments. Figure 11 below shows how UNDP can act as the financial intermediary through existing modalities.

Well managed proceeds from the sale of voluntary carbon credits will increase investors' confidence in using the VCM as a mechanism to financially contribute to the implementation of the host-country's NDC. This could have a multiplier effect for much-needed investments from international private corporations into national private sector low-carbon initiatives. UNDP can assist countries in the development of financing strategies and business models, including in the context of blended finance, with the aim of attracting private climate finance for NDC implementation.

FIGURE 11: **UNDP as financial intermediary**



Beyond the quality of carbon credits, VCM credibility relies also on demand-side integrity, i.e., private sector claims and their climate change mitigation commitments. UNDP encourages companies using voluntary carbon credits for their corporate commitments to follow the VCMI claims code of practice.

This offer builds on UNDP's well established Forest Carbon Portfolio[14], which has had a commitment to high integrity from its start, and a world-class track record demonstrating an ability to deliver on those commitments, notably on the topic of social and environmental safeguards; respect for the rights of Indigenous Peoples and local communities (including free, prior and informed consent (FPIC)) and women; establishing equitable benefit sharing arrangements, stakeholder engagement platforms and effective grievance mechanisms, as well as technical assistance to ensure the quality and transparency of carbon accounting for results-based finance and carbon markets.

Figures 12 and 13 describe the forest service delivery of Offer 3 and the expected results, respectively.

[14] UNDP has supported 31 countries and an additional 35 subnational jurisdictions finalizing socially-inclusive REDD+ Strategies or Action Plans; 14 countries establishing costed REDD+ implementation/investment plans; 20 countries enhancing the role of forests and land use in their updated NDCs (2021); The Democratic Republic of Congo designing and operationalizing a pioneer National REDD+ Fund and accessing over $150 million through the Central African Forest Initiative (CAFI) to implement its national REDD+ investment plan; 4 countries accessing REDD+ results-based payments from the GCF, with UNDP as Accredited Entity: Brazil ($96 million), Costa Rica ($54 million), Ecuador ($18.5 million) and Indonesia ($103.8 million); and 3 pioneer countries entering into forest-carbon purchase agreement discussions with the LEAF initiative (over $200 million total).

FIGURE 12: **UNDP service delivery for Offer 3**

Convening, knowledge sharing, capacity building on applicable carbon standard requirements, methodologies and applications.
Assessing feasibility of carbon program to meet carbon standard requirements.
Roadmap and technical support to ensure carbon program meets carbon standard.
Safeguards assessments and institutional capacity building to implement plans for conformance.
Negotiating the terms of the ERPA, including navigating complex topics (e.g. sovereignty, immunities, legal jurisdiction)
Acting as a financial intermediary.
Supporting national entities to establish frameworks to gain direct access to climate finance in the future.

FIGURE 13: **Offer 3 strategic outcomes**

1	2	3
Enhanced international private climate finance.	Greater support and on-the-ground investments for low-carbon technologies.	Effective use of performance-based finance.

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Offer 4: Implementation - Domestic carbon markets & emission trading schemes

Domestic market-based mechanisms can mobilize private finance to support NDC implementation and help countries reach their net-zero targets by mid-century. Domestic market-based mechanisms can be either compliance (with targets set by laws and regulations on specific sectors or the whole economy) or voluntary (open to participation from the private sector but with no specific targets or obligations). These market-based mechanisms are implemented by national and/ or subnational governments, with no international transfer of the mitigation outcomes (i.e., no impact on NDC accounting).

There are about 30 emission trading schemes (ETS) or cap and trade programs around the world, implemented at subnational or national levels, that set a limit or cap on total GHG emissions through regulation. Allowances to emit are distributed to liable entities that must redeem these for every emitted tonne of GHG. Entities that use less allowances than they have, may sell it to entities that need to emit more. The price of the allowance and the costs of reducing GHG emissions will inform the entity's decision. An ETS – as opposed to a tax – limits or caps the allowed amount of GHG emissions and leaves it to the market (i.e., "trade") to set the price of carbon through emitters trading emissions allowances.

UNDP carbon markets support is tailored to countries' contexts and in terms of domestic mechanisms. Examples of support to countries on ETS include Malaysia where UNDP provided technical advice for the setting up of the domestic compliance carbon markets with a focus on the forest sector, includes the development of protocols and recommended institutional arrangements. Another example is in Indonesia, where UNDP has supported the feasibility assessments and technical recommendations for an ETS.

Outside the regulatory framework, several countries have set up national voluntary schemes to encourage non-state actors to support domestic mitigation. These "carbon neutrality" programs set guidance for the voluntary measurement of the carbon footprint of private sector entities and guidelines on credits that can be accrued to compensate for these emissions. UNDP has supported the implementation of Voluntary National Carbon Footprint Programs in Chile, Costa Rica, Ecuador, Panama and Peru and has developed guidance for developing national carbon footprint programmes in Latin America. One of the main components of these national carbon footprint programs is to incentivize organizations to measure and reduce their carbon footprint and mobilize national private climate finance for NDC compliance. In Ethiopia, UNDP has supported the government to set-up a voluntary carbon market scheme for businesses, identified eligible projects and provided technical assistance with the calculation of emission reductions and assessment of SDG impacts.

Despite the voluntary format, carbon footprint programmes can be a means for piloting and building capacities for the ETS. In general, these programmes provide an online tool for calculating emissions and award seals to organizations, territories and/or products that report, reduce, or neutralize their carbon footprint. In addition, these national carbon footprint programmes offer affiliation incentives based on increasing reputation and generating added value. These programs usually follow ISO 14064 and ISO 14067 and well as GHG Protocol guidance.

Overall, engaging domestically, countries have the ability to test the different options without negatively impacting their ability to achieve their NDC targets. To do that, countries need to have a minimum level of GHG emissions coming from private sector activities that justifies the creation of a mechanism, i.e., there needs to be both supply and demand. Piloting a domestic market-based mechanism for a few sectors while considering taxing carbon emissions in another sector might be a good way to learn by doing and test the options. In some countries, subnational ETS and/ or voluntary carbon footprint programs were created before the national ETS came into force. If the domestic scheme doesn't rely on international standards, governments also have the advantage to avoid the length of time needed to have carbon credits certified, by creating simpler processes to account for emissions and issue credits. This would also significantly reduce costs while allowing the private sector in that country to get ready to engage in carbon markets.

Figures 14 and 15 describe the service delivery of Offer 4 and the expected results, respectively.

FIGURE 14: **UNDP service delivery for Offer 4**

Technical assistance for the accounting of emissions and removals from companies or jurisdictions in a particular sector.
Development of positive lists of projects and programs in alignment with the NDC.
Assessment and support for aligning, clarifying or proposing institutional arrangements for implementation.
Accreditation of validators and verifiers.
Legal feasibility assessment on carbon rights and support for creating these schemes aligned with national legislation.
Setting up of registries, tools and instruments to track progress in implementation and promote transparency of transactions.

FIGURE 15: **Offer 4 strategic outcomes**

1	2	3
Private sector engagement in climate mitigation opens new markets to local companies and products.	Government capacity to engage in carbon markets is enhanced without negatively impacting the NDC.	Public awareness is raised with consumers becoming more conscious of their climate impact.

Cross-cutting application of high-integrity guardrails

UNDP support on carbon markets will be guided by the application of the following high-integrity guardrails.

Carbon accounting and transparency

High-integrity carbon markets require high-quality carbon credits. This entails several key components or considerations, which will guide UNDP's engagement and support on carbon markets-related work. Emission reductions/removals must be additional. While there are varying definitions of additionality, UNDP applies the following: **The carbon credit represents GHG emissions reductions or carbon sequestration or removals that exceed any GHG reductions or removals required by law, regulation, or legally binding mandate, and that exceed any GHG reductions or removals that would otherwise occur in a conservative, business-as-usual scenario.**

Closely related to additionality, the robust quantification of emission reductions and removals is essential. This translates to quantification that is based on conservativeness and completeness, and use of sound scientific methods that are consistent with IPCC guidance/ guidelines. Credible, updated baselines that reflect current conditions, robust MRV protocols, and discounting for uncertainty and leakage must be applied. Carbon credits need to address non-permanence, or the risk of reversals. In other words, the credits must represent long-term mitigation benefits. This is often defined as 100 years. The core issue for permanence is not, however, whether there is reversal risk, but rather, if such risks are covered by compensation mechanisms, typically mandatory buffer accounts. In the case of leakage, there should be an established process for assessing and mitigating leakage of emissions that may result from the implementation of a carbon project or program. The GHG emission reductions or removals from the supported mitigation activities shall not be double counted, i.e., they shall only be counted once towards achieving mitigation targets or goals. Double counting covers three main categories: (1) double issuance; (2) double claiming; and (3) double use. The carbon-crediting program shall have provisions to ensure that: 1) it does not issue carbon credits for GHG emission reductions or removals where another program has issued credits to the same mitigation activity and/or for the same GHG emission reductions or removals and has not cancelled those credits (double issuance); (2) the same emission reduction is not claimed by two or more entities (double claiming) and (3) a unique unit is not used twice (double use).

Transparency is critical for high-integrity carbon markets. On the government-side, the focus of ensuring this guardrail will be technical assistance on reporting, to enhance transparency and accountability, which will complement UNDP's broader transparency portfolio. On the demand side, it will focus on ensuring the transparency of companies' reporting on carbon transactions.
Project or programme documentation needs to be made publicly available in electronic format (unless confidential business information) and it should be of sufficient detail and clarity to allow scrutiny of mitigation activities by non-specialised audiences, as well as sufficient detail for the data and information for a technical expert to replicate the methodological approach, calculations, etc.

Each carbon credit generated must have clear and transparent chain of custody. A registry needs to be utilized to uniquely identify, record and track mitigation activities and carbon credits issued to ensure credits can be identified securely and unambiguously. A country need not necessarily develop its own registry; but instead, may make use of a programme-specific registry (VCM) and/or Article 6 registry, as relevant and applicable. In the context of its digital strategy, UNDP has been developing an open-source software system, which has been accredited as a digital public good and allows countries to effectively manage national data and processes for carbon credits, as part of a broader open source integrated MRV system for tracking emissions and removals to assess progress toward NDC mitigation goals/targets.

Finally, a third party entity must conduct validation and verification of any carbon crediting project or programme, via an accredited institution or company, designated via the applicable standard or programme.

To address these elements of high integrity and deliver the activities listed below, UNDP will apply the Assessment Framework for the Core Carbon Principles established under the IC-VCM. The Integrity Council's Core Carbon Principles (CCPs) and Assessment Framework (AF) aim to establish a consistent and standardized guide to assess the quality of carbon credits. Where relevant and deemed necessary, this will be supplemented with the Carbon Credit Quality Initiative Scoring Tool. This is a free, interactive tool to score the quality of carbon credit types.

Figure 16 describes the carbon accounting activities that UNDP will deliver across its carbon markets portfolio.

FIGURE 16: **UNDP's carbon accounting and transparency activities**

- **Application of globally recognized frameworks and tools for carbon credit quality to the carbon programs it supports.**
- **Assess and strengthen technical capacity and institutional and governance arrangements for MRV, in line with applicable standards**
- **Establish or improve upon systems, procedures, guidelines roles and responsibilities for gathering, processing, and reporting on GHG emission reductions and removals, in alignment with the requirements for validation and verification by third parties under applicable standards.**
- **Harmonize and simplify the linkages between the diverse sets of requirements and national efforts to address MRV of emissions reductions/removals, reducing the burden on countries.**
- **Provide trainings, webinars, South-South learning exchanges related to all of the above, for governments, Indigenous Peoples, local communities and other key stakeholders.**

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Social and environmental safeguards and sustainable development benefits

The importance of safeguards and enhanced SDG impact in the carbon market is unquestionable. There is growing recognition that the quality of a carbon unit (and its associated price) needs to be defined by the extent to which the actions leading to results effectively apply social and environmental safeguards and embed core international standards related to human rights, equity, participation, and governance, among others. However, countries face challenges on multiple fronts in being able to meet these expectations and requirements.

One key challenge is the diversity of standards and methodologies that apply. Differences of approaches are evident in expectations with regard to safeguards content and process; monitoring and reporting; and quality assurance and compliance review. Multiple and overlapping standards at various levels (national, subnational, project) often apply simultaneously and in parallel rather than with complementarity.

Besides this fragmentation of requirements, the perennial challenges related to safeguards implementation persist, namely: insufficient human and financial resources; inadequate stakeholder engagement; local elite capture (of benefits, representation, decision making); social and gender inequalities; weak monitoring frameworks; and insufficient leverage to catalyze transformational change required to address deeper rooted or more contested issues (e.g., tenure reform, carbon rights). Effectively demonstrating compliance with safeguards requirements under carbon market standards and being able to provide updated (participatory, quality assured, disaggregated and aggregated) information on a continual basis requires substantial institutional strengthening and capacity building from grassroots to provincial to subnational and national levels.

If countries are going to be able to meet demand from private sector buyers, market-based standards, NGOs, and local stakeholders alike for higher quality units with demonstrated additional sustainable development impacts, there needs to be greater upfront investment in capacities to build robust and integrated systems to be able to effectively implement in line with expectations, while also allowing for a stepwise approach.

Figure 17 describes the social and environmental safeguards and sustainable development benefits activities that UNDP will deliver across its carbon markets portfolio.

FIGURE 17: **UNDP's services: social and environmental safeguards and sustainable development benefits**

- Application of UNDP's SES and SDG impact tools to carbon programs it supports.
- Assess and strengthen legal, policy, institutional and governance arrangements, in line with applicable standards.
- Apply practical programming expertise on consultation and FPIC; gender equality and women's empowerment; social and environmental risk assessment, management planning, monitoring and reporting.
- Ensure carbon market arrangements are consistent with the rights of affected Indigenous Peoples and local communities.
- Establish dedicated systems, procedures, guidelines, roles and responsibilities for gathering, processing, and reporting on safeguard-related information and SDGs, in alignment with annual validation and verification by third parties under applicable standards.
- Establish dedicated platforms, procedures and guidelines that guarantee the meaningful engagement of Indigenous Peoples, local communities, and other stakeholders in carbon market activities.
- Establish processes for the design of equitable benefit-sharing arrangements in a way that recognizes and further incentivizes Indigenous Peoples, local communities and women's contribution to emissions reductions.
- Establish institutional arrangement and procedures for receiving, responding, and reporting on grievances related to carbon market activities, aligned with UN Guiding Principles on Business and Human Rights.
- Provide dedicated grants to Indigenous Peoples and local communities, in line with self-defined objectives related to carbon market readiness and implementation.
- Harmonize and simplify the linkages between the diverse sets of requirements and national efforts to address social and environmental issues, reducing the burden on countries.
- Provide trainings, webinars, South-South learning exchanges related to all of the above, for governments, Indigenous Peoples, local communities, women and other key stakeholders.

In all countries, Indigenous Peoples, local communities, and local municipalities do not have adequate resources, access to information or technical expertise to engage effectively either directly in the market or in benefit sharing arrangements. These institutions need resources, and countries, provinces and municipalities need processes such as roundtables or citizens councils to facilitate dialogue and engagement in program- and jurisdictional-level planning. UNDP has a strong track record in providing support precisely along these lines in the context of both the regulatory and voluntary carbon market. Dedicated support will be provided to strengthen indigenous peoples' overall engagement in carbon markets, as outlined in Figure 18 below.

FIGURE 18: **Dedicated services for Indigenous Peoples**

Policy dialogue	▶ Facilitate discussions with government actors (where requested by the concerned Indigenous Peoples), with the involvement of experts, on the relationship between carbon crediting projects and the need for policies, regulations and laws addressing: FPIC, land titling, forest tenure rights, land restitution, carbon rights, the extent to which Indigenous Peoples' rights are addressed in NDCs, and the risks of not, and benefits of, addressing these rights.
Asserting rights	▶ Provide support for the development of indigenous Peoples autonomous FPIC protocols and self-determined life plans and priorities for their futures that can guide their decision-making in relation to carbon crediting programs. Facilitate technical and financial support for land claims processes and for the resolution of overlapping claims or contested borders. ▶ Assist communities to strengthen and formalize their governance structures, including women's involvement in them. ▶ Build Indigenous Peoples' capacity to conduct aspects of human rights impact assessments of carbon crediting programs that relate to their social, cultural, and spiritual well-being. ▶ Enable access to legal experts to support Indigenous Peoples' assertions of carbon rights in light of their customary laws, international human rights law (IHRL), historical or contemporary treaties and agreements, historical sovereignty claims, and indigenous rights consistent with elements of national law.
Fund management	▶ Build financial and technical capacities of Indigenous Peoples to receive and manage large funds. ▶ Facilitate the provision of funds to Indigenous Peoples' representative bodies at national or regional levels to manage small grants for Indigenous Peoples to equip them to develop self-determined plans, FPIC protocols and perform community mapping, to be prepared for decision-making in relation to participation in carbon markets.

Information and knowledge sharing	▶ Facilitate national, regional, and international "Indigenous Peoples to Indigenous Peoples" exchanges on FPIC and carbon markets to enable learning from each other's experiences and strategizing in relation to their engagement in carbon markets and/or alternative non-market options.
	▶ Identify best practice information sharing requirements in the context of seeking FPIC for carbon credit programs, spanning areas including:
	    ▶ Models of engagement available to Indigenous Peoples (jurisdictional, subnational, centralized and decentralized nested projects, and standalone projects).
	    ▶ Information on the integrity of carbon credits, including implications of considerations such as permanence, baselines, leakage, and additionality for Indigenous Peoples entering into carbon market agreements.
	    ▶ Actors in the carbon market landscape, including carbon buyers and their responsibility to conduct due diligence in relation to carbon credits that potentially impact on indigenous peoples' rights.
	    ▶ The consistency of various carbon standards with IHRL on Indigenous Peoples' rights, and with the UNDP's Social and Environmental Standards and Indigenous Peoples SDG indicators (e.g., those established in the Indigenous navigator or by specific peoples in their self-determined development plans).
	    ▶ Potential implications of carbon credits for rights to livelihoods and cultures, land, territory and resources, self-determination and the rights of Indigenous women and girls, and the determination of these through participatory impact assessments to ensure consent is fully informed.
	    ▶ How threats to forests are assessed and measured and what the implications are for eligibility for carbon crediting programs for Indigenous Peoples who have successfully continuously prevented deforestation, and if there are carbon credit models or other mechanisms that would enable their participation.
	    ▶ Legal basis for Indigenous Peoples' claims to carbon rights and how these rights are recognized in national law or could be incorporated into contracts.
	    ▶ Indigenous control over data related to their territories and implications for data sovereignty and privacy of third-party forest monitoring.
	    ▶ Best practice in relation to negotiation of benefit sharing agreements within an on-going framework of FPIC to cater for changing conditions and outcomes.

6. Why UNDP?

There are several factors that place UNDP with a comparative advantage to support carbon market work. Figure 19 illustrates these reasons.

FIGURE 19: **UNDP comparative advantage on carbon markets**

Global mandate to support countries in enhancing their NDCS, through the Climate Promise, supporting 120+ countries.
Global mandate to provide leadership in achieving the SDGs – with detailed SDG data and analytics for more than 100 countries.
Leadership in raising the global bar on safeguards through its Social and Environmental Standards Policy, Procedures and Guidance – with a track record in establishing equitable benefit sharing arrangements, stakeholder engagement platforms, grievance mechanisms, and promoting gender equality and women's empowerment.
Track record of technical assistance to more than 40 jurisdictions in developing high-integrity forest carbon results-based finance and programs (the largest and fastest growing sector of the VCM).
Demonstrated experience in supporting more than 20 host countries on Article 6 readiness, and lessons from its support to the world's first projects under Article 6 cooperative approaches for emissions reductions.
Key role in facilitating negotiations and contracts with carbon market actors, including project developers, donors, and host countries.
Commitment to a human-rights based approach to delivery, including ensuring inclusivity, gender, transparency and accountability principles across its technical and advisory services.
World's largest and well-established mechanism to delivery funds to Indigenous Peoples and local communities, through its Small Grants Programme, which has substantial support to local communities since its establishment in 1992.
Trusted relationships with both government and non-government actors, including Indigenous Peoples and local communities.
Partnerships with the world's leading high integrity initiatives, including IC-VCM and VCMI.
Extensive network of experts, consultants and advisors who can be deployed to support countries, based on demand.

Additional guidance and UNDP policies

- UNDP Climate Promise
- UNDP Social and Environmental Standards
- UNDP SDG Impact
- UNDP Sustainable Finance Hub
- UNDP Climate and Forests

7. Next Steps

UNDP welcomes feedback on the Initiative presented herein, in particular, the focus on high integrity and the four offers. UNDP is particularly interested in engaging further with partners seeking to collaborate or co-create new pathways to achieve outcomes akin to the ones described. In the coming months, as UNDP continues to implement its existing carbon markets portfolio, UNDP will assess demand from host countries, local stakeholder, and buyers alike on what the Initiative proposes, to further hone the four service offers, their rollout and means of operation.

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