



Demand for high integrity carbon projects in the Pacific

Lessons from the Climate Resilient by Nature workshop 12 July 2023



Australian Government

Climate Resilient by Nature



sustineo



Carbon Market Institute



PLAN VIVO
For nature, climate and communities



TEM

Reference:

Mackenzie E and Allen M (2023) *Demand for high integrity carbon projects in the Pacific: Lessons learned from the second Climate Resilience by Nature Workshop 12 July 2023*. Report to WWF, Sustineo.

Acknowledgements:

WWF Australia would like to thank all learning event participants, and particularly representatives from Tasman Environmental Markets, Plan Vivo and the Carbon Market Institute for their generous contributions of time and expertise.

This report has been funded by Climate Resilient by Nature, an Australian Government initiative, through the Department of Foreign Affairs and Trade, in partnership with WWF-Australia. The views expressed in this publication are the authors' alone and are not necessarily the views of the Australian Government or WWF-Australia.

Cover photo © Tom Vierus / WWF-US. Propagules hanging on mangrove trees. Once they detach from the mangrove trees they can be used for mangrove reforestation. Macuata Island, Vanua Levu, Fiji.

Contents

Contents	2
1. Glossary	3
<i>KEY LEARNINGS</i>	4
2. Background	1
3. What do buyers want?	2
<i>VCM buyer trends: demand for core benefits, impact beyond offsets</i>	2
Positive impact without the credits	3
<i>Negative media is shaping buyer demand</i>	3
<i>Price does not (always) equal impact or quality</i>	5
4. Understanding the enabling environment	6
<i>A global perspective: understanding the role of government in VCMs</i>	6
<i>Navigating the minefield of standards, codes, and principles</i>	7
From a standard’s perspective: project development and supply challenges.....	8
<i>How Pacific governments are choosing to engage with VCMs</i>	8
<i>Policy intervention recommendations in the Pacific</i>	10
5. Moving beyond carbon	12
<i>Biodiversity markets</i>	12
6. Research gaps for further exploration	13

1. Glossary

Several different project types are discussed throughout this Brief. There are two main types of carbon projects: 'avoidance' and 'removal' projects. Carbon removal projects reduce carbon emissions after they have entered the atmosphere (e.g. by planting trees). Carbon avoidance projects prevent the release of carbon emissions into the atmosphere (e.g. by protecting a forest that would have been logged or converted to another use).

Glossary of project types discussed in this Brief

Afforestation / Reforestation Afforestation and reforestation are carbon removal type projects involving tree planting, seeding or human-induced regeneration of natural vegetation. Afforestation refers to establishing forests in areas where there was no previous forest cover while reforestation refers to re-establishing forest in areas with depleted or disturbed forest ecosystems.

Biodiversity Biodiversity credits are an emerging concept, whereby tradable biodiversity credits can be generated to represent results-based biodiversity conservation activities, in a similar way to how voluntary carbon markets operate. Unlike existing biodiversity offset markets, which are based on compensating for nature damage inflicted elsewhere, voluntary biodiversity credits can provide incentives for landowners and communities to undertake net-positive conservation and restoration activities.

Blue carbon Blue carbon is the carbon stored in coastal and marine ecosystems such as mangroves, tidal marshes and seagrasses. Blue carbon projects can be both avoidance and removal project types.

Nature-based Solutions Nature-based Solutions (NbS) are actions to protect, sustainably manage, and restore ecosystems while also addressing societal challenges. In voluntary carbon markets, NbS are a broader category of project types that seek to avoid or remove emissions in ecosystems while also simultaneously benefiting people.

REDD+ REDD+ stands for reducing emissions from deforestation and forest degradation, and sustainable management of forests and the conservation and enhancement of forest carbon stocks in developing countries. Countries established the REDD+ framework as part of the UNFCCC Paris Agreement.

KEY LEARNINGS

Buyer demand for voluntary carbon credits

- 1) Demand for high integrity credits remains strong despite recent negative media attention on voluntary carbon markets (VCMs).
- 2) Increasingly, buyers want to go beyond simply offsetting their emissions to contribute to broader positive impact. These buyers are educated about VCMs and have more sophisticated demands regarding robustness of claims, ethical practices, and positive impacts.
- 3) Buyers often want to purchase credits aligned to the geographies and sectors that they work in and are interested in the story that comes with their credits.
- 4) Despite strong demand for high integrity credits, it is common for buyers to have a portfolio containing a mix of high integrity credits that provide strong co-benefits as well as cheaper credits focused on low-cost carbon abatement.
- 5) Increasingly, buyers are becoming critical of avoidance projects, in part due the difficulty of accounting for hypothetical (or counterfactual) scenarios and are moving towards removal projects such as reforestation and afforestation.
- 6) VCM project operators are being challenged to demonstrate that they meet core carbon principles, including additionality and permanence, and assertions of over-crediting have caused a re-think of the manner in which some avoidance projects are monitored and measured.
- 7) Nature-based Solutions (NbS) projects generally receive a higher price than renewable energy and fuel switch projects. Within NbS project types, blue carbon, afforestation, and reforestation credits can command a significant price premium compared to REDD+ credits.
- 8) Despite some methodological challenges with nature-based avoidance projects, many high integrity REDD+ projects can still play a critical role in mitigating the effects of climate change through both avoidance of deforestation, growth in carbon stocks, enabling critical biodiversity outcomes and supporting the sustainable development of communities in Pacific nations, who may otherwise depend on unsustainable practices such as logging support their livelihoods.
- 9) The price of carbon credits does not necessarily represent their quality or impact. Rather, variability in the price of credits is largely a function of supply and demand. Despite this, there is increasing market recognition of, and willingness to pay more for, high integrity credits that generate significant co-benefits.

Understanding the enabling environment

- 10) Challenges in Pacific enabling environments – such as unclear policy and regulatory frameworks - are curtailing the significant potential for Pacific VCMs to grow. This also means irresponsible operators are sometimes able to establish poor quality projects.
- 11) Recent changes in international regulatory frameworks have opened a range of different modalities for how Pacific governments can engage with, and regulate, activities associated with VCMs.
- 12) Pacific governments are in the process of establishing policy and governance frameworks for engaging with VCMs – and are at different stages along this path. They have varying levels of capacity and inclination to regulate them.
- 13) Beyond government regulation, there is a plethora of emerging standards, codes, and principles across VCMs which is indicative of a nascent industry. This can be overwhelming to navigate, especially for smaller project developers.

Moving beyond carbon

- 14) Voluntary biodiversity markets are an emerging market and a potential complement to VCMs for financing community-based conservation. There are opportunities to learn from VCMs when trying to establish high integrity biodiversity markets.
- 15) As a nascent and largely unregulated market, voluntary biodiversity markets face a lot of the same challenges that VCMs have faced when it comes to ensuring high integrity practices.

2. Background

Under the Climate Resilient by Nature (CRxN) initiative, WWF-Australia has designed a learning program to explore the question: ***How can carbon projects be developed to deliver benefits for Pacific communities?*** Given the growing interest in voluntary carbon market (VCM) projects emerging in the region, and growing criticism of the validity of some of the claims made by commercial project developers, this learning program explores key questions around what makes high integrity carbon projects in the Pacific.

The focus of this Brief is on the second workshop of the series, which was held on 12 July 2023. The workshop focused on trends in buyers' demand for high integrity carbon credits, challenges and opportunities in the enabling environment for VCMs in the Pacific, and emerging biodiversity markets. The workshop built on the findings from the [first workshop](#) which considered supply side factors for designing and implementing high integrity carbon projects in the Pacific.

The workshop focused on the experiences of three carbon market organisations:

- **Tasman Environmental Markets (TEM)** is a developer and buyer of carbon offsets in the Asia-Pacific region. TEM helps corporations and consumers to achieve their carbon neutral and net zero emissions goals through risk-managed carbon offset solutions. *Speaker: David Tow*
- **Plan Vivo** is an international voluntary carbon standard run by a Foundation, with 28 active projects, including five projects across the Pacific and Timor-Leste. Central to the Plan Vivo Standard is a focus on empowering local communities, and delivering positive livelihood and environmental benefits through carbon finance. *Speaker: Keith Bohannon*
- **The Carbon Market Institute (CMI)** is an independent member-based institute that seeks to facilitate best practice and integrity in carbon projects, and to develop and support policy and regulatory frameworks aligned with UNFCCC Paris Agreement climate goals. With funding from the Australian Government, CMI has been engaged to help develop Fiji's National Carbon Market Strategy Roadmap. CMI also administers the Australian Carbon Industry (ACI) Code of Conduct: a voluntary code of practice that enhances the integrity, transparency and accountability of Australia's carbon industry through its signatories. *Speakers: Mei Zi Tan & Dayana Flores*

The diverse positions held by the speakers on the panel provided for a rich range of different perspectives on VCMs in the Pacific.

This second workshop progressed discussions of what it means to develop carbon projects that can deliver benefits for Pacific communities. Like the first workshop, a commitment to promoting high integrity projects was a constant theme throughout. High integrity refers not only to robust methodologies for measuring carbon but also a holistic approach that is community-led, transparent and equitable. There is clearly increasing buyer appetite for projects that can demonstrate this. There is also an important role for Pacific governments in providing enabling environments that maximise the benefits of VCMs, as well as regulatory oversight to minimise risks. These key findings and lessons learned from the workshop are explored in this Brief.

3. What do buyers want?

The concept of private companies offsetting their emissions with carbon credits can be traced back to the late 1980s. The large voluntary carbon standards that dominate the VCM market today began operating in the 2000s. However, it was not until 2016 that VCMs globally began to grow rapidly as purchasing credits to offset emissions entered the mainstream.¹ The boom in VCMs has been spurred on by a rapid rise in pledges by governments, corporations, and civil society organisations to reduce their carbon footprints, often by committing to transitioning to carbon neutrality. As demands for credits have surged, so too have concerns over the integrity of VCM projects, including accusations of greenwashing. VCMs have entered a recalibration phase in part due to recent shifts in international regulation, and, as is discussed below, changes in what buyers want. With corporate pledges and claims of net-zero increasingly exposed to public scrutiny, there has been increased awareness and demand from buyers for credits that have not only been rigorously verified but also contribute to broader positive impact.² Recent trends in what speakers at the workshop are seeing among buyers is discussed in detail below.

VCM buyer trends: demand for *core benefits*, impact beyond offsets

There is an emerging cohort of VCM savvy buyers looking to purchase high integrity credits that not only offset their organisation's footprint but also contribute to broader positive impact. These buyers are increasingly educated about VCMs and have more sophisticated demands regarding robustness of claims, ethical practices, and positive impacts. Speakers at the workshop shared that buyers are sensitive to the recent scrutiny and criticisms of the integrity of voluntary credits and the risk of greenwashing. TEM described how buyers are eager to understand the types of claims being made by the projects they are purchasing credits from, and the level of rigour that underpins these claims. In some cases, buyers' interests also extend to understanding how projects engage with local communities and whether they adhere to processes of free, prior and informed consent (FPIC). An important caveat here is that because TEM and Plan Vivo operate at the high-end of VCMs, the buyers they engage with are more likely to be interested in high integrity credits and are willing to pay more for them.

Buyers often want to purchase credits aligned to the geographies and sectors that they work in. Building on this, Plan Vivo shared that once buyers are confident in the rigour of the standards that are certifying their credits, they are often most interested in the story that comes with their credits. Buyers want to know about the broader positive impact their credits are having on local livelihoods and ecosystems. This reiterates a key message from the [first workshop](#): "Co-benefits are not only integral to increasing the positive impact of a project, they are also a crucial factor in successfully marketing a project". Further, these co-benefits should be understood as the *core benefits* of carbon projects, as the environmental, social and cultural benefits are the priority. There is also a role for project developers to frame positive impact from VCM projects in terms such as contribution towards Sustainable Development Goals (SDGs), resilience, or impact in specific regions that can have greater appeal to certain buyers. Plan Vivo argued that more can be done to successfully promote this positive impact to buyers.

¹ Streck C, Dyck M and Trouwloon D (2021) [The Voluntary Carbon Market Explained](#), Climate Focus.

² Valiergue & Ehrenstein (2022) [Quality offsets? A commentary on the voluntary carbon markets](#), *Consumption Markets & Culture*, DOI:10.1080/10253866.2022.2147162

While demand for high integrity credits, which sell for a premium, remains high, buyers are still purchasing cheaper credits to offset their emissions as part of a 'portfolio' based approach. Buyers will often purchase a mix of more expensive high integrity credits that provide strong co-benefits as well as cheaper credits focused on low-cost carbon abatement. It is important to recognise the role of low-cost abatement credits, which can still have high impact in terms of addressing climate change outcomes, despite their cost. However, it is critical that low-cost

Positive impact without the credits

Plan Vivo reflected on an emerging trend where some project developers want to design projects aligned to the Plan Vivo Standard but are not interested in selling credits due to the baggage that comes with offsets.

"While there are a lot of responsible organisations offsetting their unavoidable emissions with high quality carbon credits, there are also very real concerns that come with some companies claiming offsets but then not doing enough to reduce their emissions... 'the green washing story'."

While the trend is small, Plan Vivo has observed project developers follow the Plan Vivo Standard's project design processes to create community-based conservation projects and then choose not to sell credits.

options still meet minimum integrity standards. TEM shared that buyers choose a diverse portfolio approach to balance their costs and support a range of different projects.

To help mitigate against the risk of greenwashing, TEM employs a screening policy that requires buyer organisations to be actively working towards decarbonisation and only using credits strategically for hard to abate sectors within and beyond their supply chains. Adoption of these demand side integrity considerations is critical for strengthening the overall integrity of carbon markets. This enriched the discussion of greenwashing from the [first workshop](#), which highlighted the risks for integrity of carbon markets from corporate actors with poor environmental, social, and governance (ESG) credentials using credits as part of a business-as-usual approach.

Negative media is shaping buyer demand

VCMs are nascent and rapidly evolving. These market characteristics mean that VCMs can be quite sensitive and reactive to emerging issues and trends. Speakers at the workshop discussed how a key driver shaping demand is negative media attention. The [first workshop](#) looked at the risk of false narratives promulgated by media such as carbon trading being equated to 'money growing on trees'. At the second event, TEM and Plan Vivo looked at the impact of media scrutiny on buyer demand for certain types of VCM projects, and subsequently, credit prices.

REDD+ projects in the Pacific have received considerable scrutiny in the media in recent years.³ TEM and Plan Vivo believed this media coverage to be unbalanced. Part of the problem is that criticisms of REDD+ carbon accounting methodologies can be conflated with the rent-seeking tactics of unscrupulous project developers (e.g. 'carbon cowboys'). This undermines the credibility of responsible actors who are seeking to conservatively employ REDD+ methodologies.

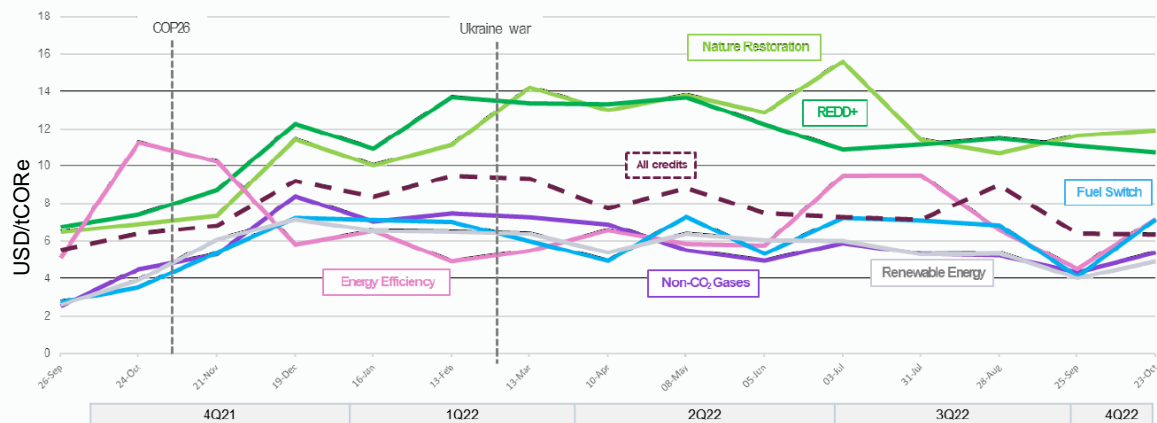
Increasingly, buyers are moving away from avoidance projects and towards removal projects such as reforestation and afforestation. TEM and Plan Vivo presented price data illustrating these trends. Data presented by TEM highlight the significantly higher price that project

³ [For an example of criticisms of the integrity of REDD+ projects in the Pacific by ABC Four Corners.](#)

types like blue carbon and afforestation can attract compared to REDD+ (Table 1). Similarly, Plan Vivo highlighted that confidence for REDD+ is currently low. However, there is still demand for high integrity NbS projects, which tend to attract a higher price than energy and fuel switch project types (see the green trend lines in Figure 1). For instance, Plan Vivo’s NbS credits which have a strong focus on generating co-benefits for local communities, are selling for approximately USD \$15, well above average credit prices globally.

Table 1: Carbon credit price data presented by TEM.

Project type	Category	Typical offset price range (USD)
REDD+	Avoidance and removal	\$3–8
Improved cookstove	Avoidance	\$6–9
Terrestrial removals (afforestation)	Removal	\$15–18
Blue carbon conservation + removals	Avoidance and removal	\$30



VER = Voluntary Emission Reduction

* Averages are weighted by volumes of asks and transactions.

Trove Research - Voluntary carbon market 3Q22 in review – 27th October 2022

Figure 1: VCMs carbon credit price data trends presented by Plan Vivo. Figure includes weighted average voluntary emissions reductions prices from fourth quarter 2021 to fourth quarter 2022 (USD/tCORE).

So why do project types matter so much?

It is clear from the data presented above that different project types can attract markedly different prices. One reason for this is the view that some claims made by certain project types can be more rigorously assessed and verified. If a buyer is more confident in the carbon impact, they appear willing to pay more. VCM projects are required to meet an ‘additionality’ test: projects must prove that the emissions reductions would not have occurred without the carbon finance provided by the project. Additionality is essential for ensuring integrity but can be challenging to prove, especially for avoidance type projects (such as REDD+), where claims are based on a counterfactual scenario (i.e., without this project the forest would have been logged).⁴ Projects must also account for ‘leakage’, whereby the causes of emissions are simply moved outside of the project site to a new

⁴ Source Material (18 January 2023). [The Carbon Con – How offsetting claims are vastly inflated](#). Source Material, Die Zeit, The Guardian. Accessed 15 February 2023.

location. For example, a community may set up a conservation area as part of a voluntary carbon project, only to then go and log forests on another part of their land. Measurement, reporting, and verification (MRV) of additionality and leakage can be challenging in the context of the Pacific, where there are often poor written records of proposed logging operations and weak enforcement of environmental laws, and where customary land ownership can be widely dispersed, complex, and disputed.⁵ In contrast, rather than relying on hypothetical projects, additionality claims made by removal projects can be easier to verify due to the observable action that has taken place (i.e. the planting of trees on previously unforested land).

TEM elaborated on these criticisms of REDD+ project types, arguing that REDD+ methodologies will never be perfect, but we should not do away with them due to the critical role of avoidance projects for fighting climate change through rainforest protection, given that approximately 15% of all global emissions arise from land use change and that's mainly from deforestation. Of those rainforests under threat, less than 1% of forests are protected in anyway.

 *We shouldn't sacrifice the good for the perfect.* — TEM

Reflecting on the April Salumei REDD+ project in PNG, which has come under scrutiny, TEM highlighted that because the project is dealing with 164 clans, and there are logging companies actively seeking to engage with local landowners, there are inevitably going to be implementation challenges. When assessing the integrity of projects like the April Salumei REDD+ project, which are operating in challenging contexts, TEM argues that it is important to focus on how project developers respond to the issues that do arise, in terms of good governance and grievance redress mechanisms. Complementing this, REDD+ projects also need to employ conservative accounting methodologies and issue credits retrospectively to ensure that carbon estimates are not inflated.

Price does not (always) equal impact or quality

A key message from TEM's presentation on buyer trends in VCMs was that the price of carbon credits does not necessarily equate with quality or impact. Rather, variability in the price of credits is a function of supply and demand. This goes some length to explaining the significant price premiums that buyers are willing to pay for blue carbon credits, for which there are very few operational projects in the world, meaning that the availability of blue carbon credits is limited.⁶ Plan Vivo added further nuance to this point, reflecting that while supply and demand is definitely important in determining prices for credits, there is a growing awareness in the market that high integrity credits costs more. Plan Vivo argued there are now more opportunities for community-based projects to attract prices that recognise their true value, as prices for these credits are moving closer to representing the full value of NbS. For example, Plan Vivo explained that beyond just being rare, some buyers recognise the complexity in developing blue carbon projects – as these projects are usually dealing with the intersection of carbon and livelihoods, and property rights are rarely clear – and, as such, are willing to pay a higher price for these credits.

⁵ Mackenzie E and Allen M (2023) [The state of voluntary carbon markets in the Pacific](#). Report to WWF, Sustineo.

⁶ Plan Vivo reported seeing credits for a blue carbon project within the Plan Vivo network sell for as high as USD \$40.

4. Understanding the enabling environment

There is a lot of potential for VCM projects in the Pacific due to the globally significant value of the region's environmental resources, the significant opportunities to generate co-benefits, and the region's vulnerability to the impacts of climate change.⁷ In this context, VCM projects can provide genuine livelihood alternatives, or supplements, to logging, agriculture and other activities that tend to drive deforestation and forest degradation. However, significant limitations exist around the enabling environment due to unclear policy and regulatory frameworks, coupled with weak institutional capacity to engage with VCMs. Recent changes in international regulatory frameworks, which change how VCMs can be governed, are playing out in real time in the Pacific.

The VCM is one of several options that exist for Pacific governments to utilise carbon markets to achieve national climate change and development objectives. During the workshop, several options were discussed. **Compliance markets**, which use a 'cap and trade' system, are one option to achieve nationally determined contributions (NDCs).⁸ However, this is less relevant to Pacific governments, as Pacific nations tend to have very low levels of emissions. Pacific Governments can utilise the **VCM** to help achieve their domestic climate and conservation goals. New modalities through **Article 6** of the UNFCCC Paris Agreement mean that Pacific nations can cooperate with other countries so that voluntary carbon credits produced in Pacific nations can be traded to other countries to help them achieve their NDCs. In return, Pacific nations can benefit from financial and technological support. In addition, there is the **UNFCCC REDD+ Framework** whereby developing countries can receive results-based payments for emission reductions when they reduce deforestation. Many of these options are new, with Pacific nations still developing the technical capabilities, regulation, and policy to utilise Article 6 mechanisms.

A global perspective: understanding the role of government in VCMs

While VCMs have traditionally been regulated by voluntary carbon standards rather than by governments or international agreements, Article 6 provides a mechanism for governments to use credits generated in VCMs to meet their NDCs. The recent developments under Article 6, and its unprecedented nature, mean that the policy and regulatory environment around Article 6 and VCMs will likely continue to evolve over the coming years as national and global approaches are enacted and harmonised.

With a shift to greater coordination between voluntary and compliance markets and calls globally for greater regulation of VCMs, it is clear there is a stronger role that government can play in harnessing VCMs to benefit local communities and ecosystems. There is also a key role for governments to create an enabling environment that can attract high integrity projects. Considering this trend, CMI outlined three broad roles that government can play in VCMs:

⁷ Mackenzie E and Allen M (2023) [The state of voluntary carbon markets in the Pacific](#). Report to WWF, Sustineo.

⁸ Note that VCMs differ from compliance markets: in VCMs, actors voluntarily choose to purchase carbon credits to offset their emissions while compliance markets are established as part of national, regional, and international carbon reduction regimes that require participants, by law, to account for emissions to meet binding targets. NDCs are countries' self-defined national climate pledges under the Paris Agreement.

- **Regulator.** Governments can provide regulation and policies (e.g. around defining carbon rights, safeguards for FPIC and benefit sharing plans), as well as regulate how VCMs operate in conjunction with national inventories and registries.
- **Implementers.** Governments can play a more active role in developing projects, which can help to de-risk projects for investors. These include sponsoring projects in their initial stage and purchasing carbon credits from VCM projects.
- **Facilitators.** Governments can encourage investment in priority areas and help standardise processes for granting approvals and authorisations.

Navigating the minefield of standards, codes, and principles

Beyond government regulation, there are a multitude of emerging standards, codes, and principles existing across VCMs, which is indicative of a nascent industry.

- A **standard** provides the rules and methodologies that project developers must follow for designing and implementing VCM projects. Voluntary carbon credits are then certified in accordance with their standards.
- A **code** is a set of guidelines that seek to raise best practice that actors across the VCM agree to meet.
- **Principles** are typically a set of well-established guidelines for ethical and high integrity conduct that actors in VCMs may choose to align with.

All speakers at the workshop highlighted the challenges for project developers to navigate this minefield of regulatory guidelines circulating in VCMs. While this can be overwhelming for project developers, especially those focused on community development, Plan Vivo explained that the proliferation of standards, codes and principles is also positive as they have helped set minimum standards which have added robustness for VCMs. Plan Vivo also articulated that when reviewing these different frameworks, it is important to find common principles that align with the values of the types of projects that you are trying to implement, while also acknowledging that the details of each framework will likely need to be tailored to the context of where you are working. Both Plan Vivo and TEM acknowledged that the Integrity Council for the Voluntary Carbon Market (ICVCM) – which contains a set of core carbon principles for high integrity credits – is a widely recognised and respected set of principles.

When it comes to choosing a suitable voluntary carbon standard, project developers need to select standards that fit with what they want to deliver. There are five main voluntary carbon standards.⁹ Plan Vivo explained how there are some common elements that tend to be consistent across all standards, such as aspects of the methodology for carbon quantification, and some basic requirements for social and environmental safeguards. Beyond this, different standards have different strengths, and in some cases additional requirements. For example, the Plan Vivo Standard has a strong focus on empowering local communities and subsequently contains additional requirements for benefit-sharing, stakeholder engagement, and FPIC that are not in other standards.¹⁰ In contrast, the Gold Standard is closely aligned with the Sustainable Development Goals and has a strong focus on impact towards these global goals.


⁹ American Carbon Registry, Climate Action Reserve, Gold Standard, Plan Vivo, Verified Carbon Standard

¹⁰ For example, the Plan Vivo Standard requires that a minimum of 60% of the income from each carbon credit goes to the local project participants.

From a standard’s perspective: project development and supply challenges

Plan Vivo reflected on how they manage the complex VCM landscape from their position as a standard. Project developers often approach Plan Vivo with limited or no understanding of the processes for developing a carbon project. A key challenge is that small community-level projects typically do not have the skills, resources or finance they need to develop a VCM project from start to finish. Considering this challenge, Plan Vivo try to create an enabling environment to assist project developers, especially those that may not otherwise access the carbon finance. Plan Vivo shares analysis and guidance on market prices and trends with project developers so they can be better informed of risks and opportunities when it comes to negotiating the sale of their carbon credits.

A key message from the workshop was that demand for high integrity NbS VCM projects remains high, and maintaining sufficient supply is difficult. Challenges with scaling projects in the Pacific remains a key barrier. Plan Vivo shared that a lot of the projects they work with get stuck somewhere in the project development process, and typically need additional support and finance.

 *Projects that have grown in scale are those able to use blended finance approaches to get projects off the ground.*
— Plan Vivo

While the carbon finance remains important (and necessary for meeting additionality requirements), projects that can tap into multiple sources of finance such as grants and livelihood income streams, tend to do better. This finding reiterates the importance of generating co-benefits, as these can include the development of parallel income opportunities for community members. Plan Vivo also reflected that project developers can draw on past experience to scale projects. For instance, CRxN implementation partners, [Nakau](#), have developed the [Nakau Methodology](#), which distils their experience from past projects and can aid project development in new contexts.

How Pacific governments are choosing to engage with VCMs

The complex and rapidly evolving nature of international regulatory frameworks governing VCMs and other carbon market modalities, coupled with institutional capacity constraints, mean that Pacific governments currently struggle to understand how they can engage with carbon markets. Pacific governments are in the process of establishing policy and governance frameworks for engaging with VCMs and possess varying levels of capacity and inclination to regulate it (see Table 1). This push to regulate the development of voluntary carbon projects in the Pacific is partly in response to changes in international rules and regulations, and partly in response to growing backlash and concerns about the integrity of voluntary carbon projects in the Pacific.

Table 2: Different Pacific country's regulatory and policy stances on voluntary carbon markets

<p>PNG</p>	<p>The Government of PNG's policy and legislation on the VCM is currently being finalised. The Government has shown a reluctance to promote voluntary carbon projects due to past scandals, instead opting for a coordinated national approach to carbon trading, outlined in the PNG National REDD+ Strategy 2017–2027.</p> <p>In March 2022, the Government imposed a moratorium on new REDD+ projects targeting voluntary carbon projects with plans to reopen the market to REDD+ projects targeting voluntary carbon markets once regulations have been established.</p> <p>With approval from the Government, non-REDD+ projects can be developed. Coordination between the project and the Government is required to avoid double-counting in PNG's national level reporting.</p> <p>The Climate Change (Management) Carbon Markets Regulation is currently in the final stages of validation. It includes procedures for the application and approval processes for voluntary carbon projects; the generation, sale and transfer of carbon credits; benefit-sharing; and reporting requirements.</p> <p>The Climate Change and Development Authority (CCDA) is the lead government agency responsible for coordinating all climate change related policies and activities in PNG.</p>
<p>Fiji</p>	<p>The Government of Fiji has adopted a policy stance that seeks to work closely with the VCM, including to contribute towards Fiji's NDCs. Fiji's Climate Change Act (2021) includes provisions to regulate and oversee its engagement with international VCMs.</p> <p>The Climate Change Act supports the coordination of emissions reduction projects that will be transferrable under Article 6 of the Paris Agreement.</p> <p>Voluntary carbon project developers must obtain the consent of the Director of the Climate Change and International Cooperation Division prior to developing a project. Emissions reductions in the VCM are recorded and accounted for in the Fijian GHG Inventory.</p>
<p>Solomon Islands</p>	<p>Solomon Islands does not have a regulatory framework for the VCM.</p> <p>UNREDD support to the Government of Solomon Islands resulted in the development of the National REDD+ Readiness Roadmap 2014–2020.</p> <p>The Ministry of Forestry and Research (MoFR) is responsible for the national REDD+ program, and the Ministry of Environment, Climate Change, Disaster Management & Meteorology (MECDM) is responsible for Solomon Islands NDC.</p>
<p>Timor-Leste</p>	<p>Timor-Leste does not have a regulatory framework for the VCM. The national policy, Nationally Determined Contribution Timor-Leste 2022-2030, indicates an openness to using voluntary cooperation under Article 6 of the Paris Agreement to reach its NDCs.</p> <p>The Government of Timor-Leste has indicated a desire to establish a policy framework to support income generation at the village level and participation in international carbon trading on the condition that it can access climate financing and technical assistance.</p>

All speakers highlighted the policy incoherence that currently characterises VCMs in the Pacific. The recent changes in international regulatory frameworks have created uncertainty in Pacific VCMs and risk stalling implementation of VCM projects. The technical and bureaucratic capabilities required to regulate alignment between voluntary and compliance markets under Article 6, such as managing ‘corresponding adjustments’, is a barrier for Pacific governments seeking to engage with VCMs. This policy incoherence also extends to the national level. For Pacific governments, developing policy around carbon rights (i.e. who has the rights to the benefits from the carbon credits generated in a project site) is largely uncharted territory. TEM and Plan Vivo shared that even in contexts where carbon rights are clear in national policy, there is often a lack of policy coherence between different government departments in the same country. For example, a Ministry of Environment’s understanding of carbon rights may not be aligned to a Ministry of Forestry’s understanding.

In these challenging operating environments, Plan Vivo echoed a key message of the first workshop around the value of working closely with local partners. Local partners can be critical for understanding local policy and regulatory dynamics in the Pacific and for facilitating dialogue with government stakeholders so that they can be informed about the benefits that VCM projects can offer for local development when developing policy and regulatory frameworks.

Policy intervention recommendations in the Pacific

TEM outlined three broad recommendations for improving the enabling environment for VCMs in the Pacific:

- **Linking compliance markets with select VCM projects to accelerate the drive towards quality and integrity.** Through initiatives such as the Indo-Pacific Carbon Offsets Scheme (IPCOS), voluntary projects in the Pacific could contribute towards Australia’s compliance market. In doing so, there are opportunities to raise standards for quality and integrity in Pacific VCM projects.

Case study: Nakau Babatana, Solomon Islands

Despite the current uncertainty in the enabling environment for VCMs in the Pacific, real impact can still be made. Plan Vivo shared the story of the Babatana Rainforest Conservation Project in the Solomon Islands, which was developed by Nakau and NRDF, and certified under the Plan Vivo Standard.

At the start of this project, Nakau and NRDF supported the Sirebe Tribe to establish a carbon project and form the Sirebe Community Company Ltd, a locally-owned governance structure which ensures benefits from the carbon project are shared fairly in the community. The Sirebe Tribe’s protected area covers more than 800 hectares of tropical primary rainforest, which has significant biodiversity and cultural importance. They were also the first tribe in the Solomon Islands to establish an official protected area under the Solomon Islands Protected Area Act, preserving the livelihood of their tribe and future generations.

Following their leadership, five more Babatana tribes are currently developing forest conservation and carbon projects with Nakau and NRDF. Among these is the Padezaka Tribe who have also set up their community company and established Ranger roles. These Rangers were able to discover and report illegal logging at their protected area boundary by an outsider logging company in 2022, leading to a local government court action against the logging company — something that would not have been possible prior to the project. This example illustrates how genuine impact can be achieved through VCM projects, even in difficult environments where policy and regulation are still being developed.

- **Implementing a floor price to de-risk investments.** Project developers take on significant risks when they commit to developing a project with a community over long time frames required for carbon projects (often 30 years). Government and development finance could be used to establish a floor price – that would guarantee a minimum price on carbon emissions for all market participants - which can reduce risks for project developers. This intervention could support the development of smaller projects as well as scale up private sector investment in the Pacific.
- **Greater resources and support from developed countries to the Pacific** to access and utilise carbon and climate finance. One example of this can be seen in Fiji where with support from the Australian Government, CMI is helping development Fiji's Carbon Market Strategy Roadmap. The development of the Strategy Roadmap is a significant achievement in the context of the Pacific, as it provides a clear policy signal of how the Fijian Government seeks to engage with carbon markets to achieve its NDCs and other climate commitments.

Case study: Lessons for the Pacific from the Australian Code of Conduct

The CMI shared thoughts on the Australian Carbon Industry (ACI) Code of Conduct related to supporting the development of VCMs in the Pacific. The Code is an Australian industry-led voluntary code designed to promote best practice to uphold integrity, transparency, and accountability in Australia's domestic carbon market. The Code covers project design, implementation, and ongoing operations. Established in 2018, the code has 36 signatories who together account for 64% of carbon offsets in Australia. The Code is also supported by the Australia government and different state governments who play a critical role in supporting the Code as a third-party assurance system for Australia's carbon industry.

Why are codes necessary for high integrity VCMs?

Codes such as the ACI Code of Conduct provide several key functions for supporting high integrity VCM projects. Given the nascent nature of VCMs, codes help to set standards for best practice, which is especially important for activities that are not standardised such as FPIC and developing co-benefits when engaging with local communities. Importantly, by providing a compliance framework for ensuring proper engagement and ethical behaviour in carbon markets, the codes can add an extra layer of protection for local communities, and reduce regulatory burden, especially for smaller project developers.

CMI distilled several key lessons from the Code relevant for VCMs in the Pacific:

- Codes can help close gaps in existing regulatory systems. While codes are not intended to replace existing national and sub-national legislation, policy, and regulations, they can be used to promote best practice standards where gaps in policy and regulation exist. They can also raise the bar in instances where the existing minimum requirements are inadequate.
- While codes outline best practice principles, it is essential to adapt codes to the context of the Pacific. Principles arounds practices of FPIC and community engagement need to be aligned to the Pacific. A tension here is that while codes need to be relevant and fit-for-purpose there is already a plethora of different integrity initiatives that exist, which can be overwhelming to VCM actors.
- Developing a code that supports high integrity VCMs starts with conversations with Pacific stakeholders about how to engage with and benefit local communities.


5. Moving beyond carbon

There are emerging opportunities to finance NbS through alternatives to VCMs. Plan Vivo reflected on their experiences of a developing a new standard for the biodiversity market, [Plan Vivo Nature](#). Plan Vivo are currently piloting the new standard with six projects before launching it later this year. There are considerable opportunities to learn from VCMs when trying to establish high integrity biodiversity markets. These learnings serve as a useful opportunity to reflect on what ‘high integrity’ means, which has relevance for carbon markets and new alternatives.

Biodiversity markets

Emerging voluntary biodiversity markets offer both an alternative to carbon markets and potentially a complementary add on. In voluntary biodiversity markets, like carbon markets, tradable credits can be generated to represent results-based biodiversity conservation activities. Unlike carbon markets, and existing biodiversity offset markets, which are based on compensating for nature damage inflicted elsewhere, voluntary biodiversity credits provide positive incentives for landowners and communities to conserve and restore important habitats as part of a biodiversity market.¹¹

As a nascent and largely unregulated market, voluntary biodiversity markets face a lot of the same challenges that VCMs have faced when it comes to ensuring high integrity practices. Plan Vivo observed that established carbon standards are trying to develop biodiversity standards, as well as new standards. There is a risk that some of these standards do not operate with integrity, and that that this undermines trust in the biodiversity market before it has had a chance to develop.

 *We have seen how hard it is to build trust with the market and how easy it is to lose it — Plan Vivo*

From a technical perspective, challenges exist around measuring biodiversity in a manner that is robust, real and additional and yet does not require a team of PhD experts for each aspect of biodiversity that is being measured. Reflecting on these challenges, Plan Vivo believes that pricing of biodiversity credits must be structured to reflect the actual cost of the work being done. To ensure integrity, projects will need to deliver measurable biodiversity outcomes, which may mean waiting up to five years before generating any credits. Like VCMs, additionality will also be key as projects that generate carbon and biodiversity credits will need to ensure that the biodiversity benefits are the result of the *additional* financing from the biodiversity credits and not just a co-benefit of the carbon credits.

Importantly, as has been emphasised across both workshops, discussions of integrity must be holistic in nature. Ensuring robust measurements is just the beginning; integrity also needs to cover how people are being engaged in the process and whether this is done in a transparent and equitable manner; who is buying credits and whether they also have ambitious targets for reducing climate and nature impacts; and how governments are integrating market-based approaches into broader policy pathways towards a Net Zero and Nature Positive future.

¹¹ Plan Vivo (2023) [High-level Integrity Principles Developed Emerging Biodiversity Credits Market and Biodiversity Credit Alliance](#)

6. Research gaps for further exploration

This workshop and the first workshop have covered a broad set of key considerations for actors interested in understanding the potential of high integrity VCM projects in the Pacific. The first workshop focused on the experiences of not-for-profit project developers and covered a range of design considerations for developing high integrity VCM projects in Australia, Timor-Leste, and the Pacific. This workshop has complemented the insights and knowledge shared on VCMs through greater attention on what buyers of high integrity credits are interested in, considerations from the perspective of carbon standards, and an overview of how Pacific governments can seek to engage with VCMs. Findings from these two workshops have helped to identify ongoing knowledge gaps for further exploration, notably:

- **Project financing mechanisms.** The two workshops have highlighted the challenges for financing carbon projects, especially for covering expensive implementation costs while ensuring integrity and context specificity. This can be particularly challenging in the context of the Pacific where processes of FPIC and benefit sharing arrangements are complex and time consuming. Findings from these workshops have underscored the importance of considering additional funding streams beyond carbon credits alone as part of blended finance approaches. Further consideration of how projects can integrate alternative income streams for communities to generate co-benefits, as well as the types of funding developers can access to help with project implementation costs would be insightful.
- **Approaches to scaling up in the Pacific.** Both workshops have identified key challenges of delivering high integrity carbon projects at a larger scale, but further exploration of possible pathways to scale would be beneficial as part of appreciating the full potential of VCMs in the Pacific.
- **Expand on the relationship between VCMs and Pacific governments.** This second workshop has highlighted the changing nature of the role that Pacific governments can play in regulating and harnessing VCMs to achieve national development objectives, including NDCs, and for trading through Article 6. Further insights from Pacific government representatives on their current understanding of relevant opportunities and concerns for utilising these mechanisms would enrich the current conversation on the role of Pacific governments in VCMs.
- **When not to do VCM projects.** An underexplored issue is the factors that should inform decision-making about when VCM projects are not suitable. Similarly, it would be insightful to consider alternatives that exist to VCMs that can deliver benefits for climate, biodiversity, and communities in the Pacific.
- **Hearing from Pacific voices.** Finally, in furthering an understanding of the potential for VCMs in the Pacific, it is integral to hear from Pacific voices, including community representatives involved in VCM projects, civil society and government, regarding their interests, concerns, and thoughts on potential opportunities for VCMs in the Pacific.