How do you avoid common risks when engaging with voluntary carbon markets?

Carbon financing as a funding route for conservation action is now well-established, but the engagement of European restoration projects designed to deliver benefits for biodiversity.

**One barrier to engagement is reputational risk.** Voluntary carbon markets (VCMs) have developed rapidly with little regulation and clarity. Projects must navigate competing schemes that are often less than transparent, complex methodologies and financing instruments as well as less than honest actors looking to cash in or ‘greenwash’. These can result in common missteps which can damage a project’s reputation.

This guidance is intended to highlight some of the major risks that potentially await those who engage in the VCM, but not to discourage or encourage participation in the markets. Many very valuable restoration and conservation projects are funded in part or wholly through the VCM and will continue to be. We hope to enable European restoration projects to navigate the VCM opportunities more safely and in line with their own values and philosophies, whilst minimising real, philosophical, and reputational risks. We hope this document enables projects to make informed and sustainable financial decisions to benefit their restoration activities.

**Key Messages**

- European landscape restoration projects have the potential to bring carbon credits to the market which benefit nature, people and the climate.

- **Projects must ensure their activities generate the credits they expect.** This risk can largely be mitigated by ensuring the use of measurement, reporting and verification (MRV) methodologies that are well-established, used by reputable standards, and based on robust science.

- **Failure to manage the risk of overclaiming credits can damage a project’s reputation.**

- Know who you are selling to. Your buyer should be committed to reducing all avoidable emissions within their own, and their supply chains’, accounts. Ideally, they should be interested in both the environmental and social outcomes of the project and be willing to pay a high price to support the project.
Managing project risks

Anyone selling credits must first ensure that their activities generate the credits they expect. They must be sure that changes they make to an ecosystem or habitat will cause reductions or removals of GHGs, and that the methods they employ to measure emissions changes reflect the changes that happen. These risks can largely be mitigated by ensuring the use of MRV methodologies that are provided by well-established, reputable standards and based on well-established science and the best data available. Furthermore, financial mechanisms exist to insure against a shortfall of credit generation by withholding a proportion of credits as insurance.

Carbon markets involve several intermediaries, such as carbon project developers, consultants, and brokers. Projects may need to engage with third parties at various stages of the process depending on their level of capacity but doing so can be very costly. Projects need to understand the services they require, the terms they are willing to pay, and ensure transparency with those they engage with to avoid a bad deal. Third parties should be aligned with the social and environmental objectives and have ambitions to improve outcomes for nature and people, not just to capitalise on the market demand.

Risks of engaging with VCMs

The act of engaging with VCMs can be a risk in itself to a project’s reputation, and there is no correct answer for how it should be managed.

Voluntary carbon markets are a very broad church, and there are many different standards and methodologies, and many different organisations selling, brokering and buying credits. There are a vast array of credits or offsets for sale, and for some, it is hard to determine the veracity of the product.

The sale of credits is largely free, allowing anyone to buy regardless of their own current climate footprint. Therefore, there is now a perception that credits are a ‘licence to continue polluting.’ Large corporations, often with a poor climate record, can be seen to purchase credits to balance their emissions, whether or not those emissions are essential or
preventable, to appear close to climate neutral. To some, this means the very idea of credits, as offsets, is tainted. Labels like ‘scam’ and ‘greenwashing’ are frequently used to label all credits as merely a way of managing poor public relations whilst not having any real impact on climate emissions.

Greenwashing doesn’t just occur on the demand side, incidences of poor-quality credits, and projects that have dubious environmental and social consequences have also harmed the overall reputation of VCMs. The availability of relatively cheap offset credits to large companies is also seen as a cheaper way to climate neutrality than internal emissions reductions, and so is also seen as a potential ‘brake’ on decarbonisation, or ‘mitigation deterrence’. These issues are coupled with the rise of so-called ‘green lairs’, wealthy individuals or companies buying up large areas of land, with the express aim of managing the land for climate mitigation and the financial benefits it brings. This has, along with the poor reputations of some offset schemes in developing countries, likening them to colonial land grabbing, led to concerns over the equity of land tenure changes directly aimed at climate mitigation. This also raises concerns about competition for land with food supply.

There are several simple actions that can mitigate the worst demand-side practices of the VCMs. Primarily, making sure you know who you are selling to, and that they are committed to reducing all avoidable emissions within their own, and their supply chains’, accounts, before offsetting their residual, unavoidable, emissions is key. This is the most effective way of avoiding associations with greenwashing.

Should we be concerned?

Whilst the above seems like a long list of reasons not to engage in VCMs, with many of these criticisms, valid for at least a subset of credits or market sectors, there are good reasons to engage with carbon credits and it is possible to mitigate the vast majority of issues with good preparation and due diligence.

The poor reputation of VCMs stems largely from their use by some sectors of the global economy within which accusations of greenwashing are well-founded, but for conservation
NGOs, many of the criticisms levelled at these actors do not apply. Especially for organisations involved in landscape restoration, ecologically inappropriate climate mitigation is unlikely, as are dis-benefits across other ecosystem services. Furthermore, social equity and participatory mechanisms are likely to feature highly within landscape plans, as acceptance of restoration by those stakeholders is a prerequisite for success. There are a number of high-integrity standards and methodologies for ecological restoration and nature-based solutions that also include societal, community and biodiversity co-benefits (e.g. Voluntary carbon standard/Verra, Plan Vivo), and adopting these methods/registering with these standards should ensure a minimum of due diligence and scientific rigour.

Since CoP 26 in Glasgow in 2021, there have been renewed efforts within the broader VCMs to address a number of the criticisms of poor quality and governance, and to increase the real-world performance of voluntarily financed ecosystem-based climate mitigation. This has led to the establishment of a number of finance/government-led bodies charged with increasing the integrity of VCMs, and the publication of best practice guides (ICVCM, VCMI). Furthermore, work by the University of Oxford and others has led to the publication of best practice principles for Carbon offsetting and Nature-based solutions.

Conclusions

Armed with a knowledge of the pitfalls of the voluntary markets, the criticisms likely to be levelled at it, and the ways to mitigate them, European landscape restoration projects should be well-placed to find and deliver appropriate, effective, and multi-benefit carbon credits.

These have the potential to offer sustainable (in all senses of the word) long-term funding for valuable ecosystem restoration, in the true spirit of payments for ecosystem services and Nature-based Solutions.