Climate and Energy Policy Initiative

Funding Adaptation: Toward a Mandatory Adaptation Contribution in the Voluntary Carbon Market

CLIMATE & ENERGY POLICY INITIATIVE

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About Climate and Energy Policy Initiative

Climate & Energy Policy Initiative is an independent think tank which advocates for a global clean energy transition through research and policy advice. Research areas include clean energy transition, climate finance, corporate climate governance and the development of carbon markets.

About the Author

Omonigho Erigha is the Founder and Policy Director of Climate and Energy Policy Initiative, where she engages in research to promote a just and inclusive energy transition, corporate climate accountability and accelerate the flow of climate finance to climate mitigation and adaptation projects in Africa.

Omonigho served as a member of the Integrity Council for the Voluntary Carbon Market's Continuous Improvement Work Programme on Paris Alignment – Share of Proceeds. The views expressed in this paper are personal and do not reflect the official position of the ICVCM.

Comments

If you have any comments or questions about this submission, you may reach the author via email at omonigho.erigha@cepiafrica.org.

Executive Summary

Climate change is accelerating, and while efforts to reduce emissions have gained momentum, the funding needed to help communities adapt remains critically low. The voluntary carbon market (VCM) has emerged as a major source of climate finance, yet it focuses almost entirely on mitigation. This paper argues that the VCM must evolve to reflect a fuller view of climate responsibility, one that includes adaptation.

The central proposal is simple: introduce a mandatory Share of Proceeds for Adaptation (SOPA) into the VCM. Just as the Clean Development Mechanism and Article 6.4 of the Paris Agreement include adaptation levies, the VCM can, and should, require that a portion of every carbon credit transaction support those living with the consequences of climate change.

Many communities most affected by climate change especially in Africa receive no benefit from carbon markets because they cannot host projects. At the same time, many governments are financing adaptation through debt, worsening public budget deficits.

Embedding a SOPA into the VCM would strengthen market legitimacy and help to close the adaptation finance gap. It would also reflect a deeper level of corporate responsibility: acknowledging that emissions cause real harm and that companies must contribute to the development of climate resilient systems and infrastructure to reduce the burden on the most vulnerable societies.

This paper proposes clear, practical ways that SOPA funds could flow to fund climate adaptation projects with fairness, transparency, and community engagement at the core.

Introduction

Climate change is disrupting lives, eroding ecosystems, and exposing the fragility of economies across the globe.[1] Communities in vulnerable regions are already experiencing more frequent and intense floods, droughts, heatwaves, and crop failures.[2] These impacts are not evenly distributed. Those least responsible for historical emissions are often the most exposed and the least equipped to respond.[3]

As climate change impacts intensify, the demand for adaptation finance is growing rapidly.[4] Public finance, through grants, loans, and multilateral funds, remains the backbone of adaptation support, especially in vulnerable countries.[5] But it is not enough. The scale of need now far exceeds what governments alone can deliver, particularly as many face budget constraints and rising debt levels.

Private actors, especially high-emitting companies, must also contribute. Many already invest in mitigation through the VCM, using carbon credits to address their on-going emissions.[6] But addressing emissions without addressing their consequences creates an incomplete response. Corporates that benefit from participation in the VCM should also contribute to the cost of adaptation. This is not just a moral argument, it

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[1] World Economic Forum, in collaboration with Boston Consulting Group. 2024. The Cost of Inaction: A CEO's Guide to Navigating Climate Risk. https://www.weforum.org/publications/the-cost-of-inaction-a-ceo-guide-to-navigating-climate-risk/.

[2] Intergovernmental Panel on Climate Change. 2023. Climate Change 2023: Synthesis Report. https://doi.org/10.59327/IPCC/AR6-9789291691647.

[3] World Bank. 2024. Rising to the Challenge: Success Stories and Strategies for Achieving Climate Adaptation and Resilience. https://www.worldbank.org/en/publication/rising-to-the-challenge-climate-adaptation-resilience

[4] United Nations Environment Programme, Come Hell or High Water: As Fires and Flood hit the Poor Hardest, it is time for the World to Step Up Adaptation Actions. 2024. https://www.unep.org/resources/adaptation-gap-report-2024

[5] Climate Policy Initiative in collaboration with FSD Africa and the UK International Development. 2024. Landscape of Climate Finance in Africa. https://www.climatepolicyinitiative.org/wp-content/uploads/2024/10/Landscape-of-Climate-Finance-in-Africa-2024.pdf

[6] Forest Trends' Ecosystem Marketplace. 2025. State of the Voluntary Carbon Market 2025. Washington DC: Forest Trends Association. https://3298623.fs1.hubspotusercontent-na1.net/hubfs/3298623/SOVCM%202025/Ecosystem%20Marketplace%20State%20of%20the%20Voluntary%20Carbon%20Market%202025.pdf

reflects the real economic and social costs of emissions[7], which are often borne by communities far removed from the point of production or consumption.

This gap is well recognized in global climate policy. The Global Goal on Adaptation (GGA), established under the Paris Agreement[8], aims to drive collective progress on adaptation and resilience. However, for several years, the goal remained broad and undefined, with no clear indicators or financing frameworks attached to it.

At COP29 in Baku, countries agreed to a structured roadmap for the GGA, including the development of global indicators to measure progress.[9] They also emphasized the need for more accessible and predictable adaptation finance, particularly for countries with limited fiscal capacity. These outcomes, while still early, signal a shift from political recognition toward operational implementation.

At the same time, COP29 saw a major development on climate finance: countries agreed to set a new collective quantified goal of USD 300 billion per year by 2035.[10] Importantly, this target explicitly references the need to balance finance between mitigation and adaptation, recognising that adaptation can no longer be treated as a secondary priority. While these commitments are not yet matched by sufficient funding flows, they reflect growing international pressure to deliver on adaptation as part of the broader climate finance agenda.[11]

Looking ahead, COP30 in Belém is expected to focus heavily on finalising the GGA framework and establishing systems for tracking national progress. Countries will be

[7] Rennert, K., Errickson, F., Prest, B.C. et al. Comprehensive Evidence implies a Higher Social Cost of CO2. Nature 610, 687–692 (2022). https://doi.org/10.1038/s41586-022-05224-9
[8] United Nations Framework Convention on Climate Change. 2016. The Paris Agreement. https://unfccc.int/sites/default/files/resource/parisagreement_publication.pdf.
[9] United Nations Framework Convention on Climate Change, Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its sixth session, held in Baku from 11 to 24 November 2024, Decision 3/CMA.6, Global Goal on Adaptation. https://unfccc.int/decisions
[10] United Nations Framework Convention on Climate Change, Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on its sixth session, held in Baku from 11 to 24 November 2024, Decision 1/CMA.6, New Collective Quantified Goal on Climate Finance. https://unfccc.int/decisions
[11] Ibid

expected to submit updated National Adaptation Plans, and discussions will likely turn to how both public and private finance can support delivery.

At the same time, the VCM is at a turning point. Once viewed as a flexible tool for voluntary action, it has grown into a multi-billion-dollar system with real influence over climate finance flows.[12] However, it still operates without any structural mechanism to support adaptation. Companies can purchase carbon credits to address emissions, but the human and economic costs of those emissions largely remain external to the transaction.

This is a missed opportunity. By embedding a mandatory Share of Proceeds for Adaptation (SOPA) into the VCM, we can correct this imbalance.[13] Just as the Clean Development Mechanism and Article 6.4 of the Paris Agreement[14] include levies for adaptation, the voluntary market should also treat adaptation as part of the real cost of emissions, not a co-benefit, but a basic obligation.

Adaptation finance must not depend solely on donors or public budgets already under strain. It must also be built into the markets that channel private climate capital. As the impacts of climate change accelerate and the international community sharpens its focus on the GGA, the time to make this shift is now.

The Adaptation Finance Gap and Its Consequences

Despite the growing urgency of climate change impacts, global investment in adaptation continues to fall far short of what is needed. The United Nations Environment Programme estimates that developing countries require between USD 215 and 387 billion annually to adapt to climate change.[15] Yet in 2021,

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[12] Müller, B and Streck, C. *VCM-SOPA: How to Operationalise a Share of Proceeds for Adaptation for the Voluntary Carbon Market*. European Capacity Building Initiative (ECBI), https://oxfordclimatepolicy.org/sites/default/files/ecbi%20VCM-SOPA-Paper.pdf

[13] Ibid

[14] Espelage, A., Michaelowa, A., and Müller, B., *Share of Proceeds: An Innovative Source for Multilateral Climate Finance*, 2021. https://oxfordclimatepolicy.org/sites/default/files/Share%20of%20Proceeds.pdf

[15] United Nations Environment Programme. 2024. *Come Hell or High Water: As Fires and Flood hit the Poor Hardest, it is time for the World to Step Up Adaptation Actions*. https://www.unep.org/resources/adaptation-gap-report-2024

international public adaptation finance reached only USD 21 billion.[16] Even with a significant increase to USD 28 billion in 2022, the highest recorded annual level, this still amounted to just five percent of estimated needs. The result is an annual adaptation funding gap of between USD 194 and 359 billion, a shortfall that grows more dangerous each year.

This deficit becomes even more striking when placed in the broader context of climate finance flows. Between 2021 and 2022, global climate finance averaged USD 1.3 trillion per year. Of this, more than USD 1.2 trillion was directed toward mitigation projects, while adaptation received just USD 63 billion, or approximately five percent of total flows.[17] This represents a drop in adaptation's share compared to earlier years, reinforcing a persistent structural bias: mitigation attracts markets, while adaptation is left to donors and state budgets.

Nowhere is the burden of this imbalance more acute than in Africa. While the continent contributes the least to global emissions, it faces some of the most severe climate threats, from prolonged droughts and water scarcity to devastating floods and crop failures. Lacking sufficient international support, many African governments are forced to finance adaptation efforts through debt. Public budgets are already strained by inflation, currency depreciation, and post-pandemic recovery, leaving little fiscal space to build resilience. In some cases, countries must borrow at high interest rates to fund climate-proofing infrastructure or disaster relief, adding to their sovereign debt burdens while compromising investments in health, education, and food security.[18]

This financing structure is unsustainable. The failure to adequately fund adaptation has cascading effects. It increases vulnerability to climate shocks, erodes development gains, and amplifies social and economic inequalities. Communities without protection from heatwaves, floods, or agricultural losses face long-term

[16] Ibid

[17] Buchner, B., Naran, B., Padmanabhi, R. et al, *Global Landscape of Climate Finance, 2023. Climate Policy Initiative*, https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

[18] Global Center on Adaptation and Climate Policy Initiative, State and Trends in Climate Adaptation Finance, 2024. https://gca.org/wp-content/uploads/2024/04/State-and-Trends-in-Climate-Adaptation-Finance-2024.pdf

displacement, livelihood insecurity, and reduced health outcomes. Governments, overwhelmed by compounding disasters, are forced into reactive spending, often more expensive and less effective than proactive investment in resilience. In contrast, evidence consistently shows that investing in climate-resilient infrastructure delivers high returns. For every dollar spent on resilience, multiple dollars in avoided losses are saved.[19] Yet despite the economic case, adaptation continues to lag in financing, leaving countries to absorb escalating climate costs without the tools to reduce them.

Moreover, the gap in adaptation finance undermines the broader climate agenda. Without adaptation, mitigation gains are at risk. Infrastructure investments can be wiped out by floods. Renewable energy grids can buckle under heat stress. Food systems cannot transform if farmers are locked in cycles of climate loss. Adaptation is foundational to sustainable climate action.

Yet despite these realities, voluntary carbon markets, now valued at over USD 1.4 billion annually, still operate without any material obligation to support adaptation. While billions flow through private transactions to support emission reductions, there is no structural mechanism to ensure that those most vulnerable to climate impacts benefit. The current model allows companies to offset emissions while communities at the frontline of the crisis remain many times excluded from both the flow of climate finance.[20]

The next section explores this structural disconnect in more depth, through the lens of the social cost of carbon, a measure that exposes just how far the voluntary market is from pricing climate responsibility accurately.

The Social Cost of Carbon and the Case for Corporate Adaptation Finance

[19] Hallegatte, Stéphane, Jun Rentschler, and Julie Rozenberg.
2019. *Lifelines: The Resilient Infrastructure Opportunity*. Sustainable Infrastructure Series. Washington, DC: World Bank. doi:10.1596/978-1-4648-1430-3; Carter, B., Kratzer, B., Aggarwal, A., and Heubaum, H.. n.d. *Strengthening the Investment Case for Climate Adaptation: A Triple Dividend Approach*. World Resources Institute. https://doi.org/10.46830/wriwp.25.00019.

[20] Jahan-Zeb Chowdhury.2024. *The $75 Billion Climate Finance Gap: An Imperfect But Important Figure for Small Scale Farmers*. https://www.ifad.org/en/w/opinions/the-75-billion-climate-finance-gap-an-imperfect-but-important-figure-for-small-scale-farmers

For any company seeking to take responsibility for its climate impact, reducing emissions must be a priority. But mitigation alone is not enough. Greenhouse gas emissions, once released, do more than warm the planet, they cause widespread, long-lasting harm to societies, economies, and ecosystems. These effects cannot be fully reversed, even with deep decarbonisation.[21] That is why any meaningful corporate climate strategy must include a commitment to fund adaptation, especially for those most vulnerable to the impacts of climate change.

The social cost of carbon offers a way to quantify the real, long-term damage caused by emissions.[22] It captures the economic and human consequences of each additional tonne of carbon dioxide released into the atmosphere: declining agricultural yields, water stress, infrastructure damage, health impacts, loss of biodiversity, and increased displacement from extreme weather events. Recent scientific models put this cost at USD 185 or higher per tonne, a stark reminder that the full burden of emissions extends far beyond the immediate site of their release.[23]

For companies with ongoing operational emissions, this means that the environmental and social consequences of their carbon footprint are felt across communities that are often far removed from the location of the emissions. Many communities in the Global South are already experiencing climate disruption but lack the resources needed to adapt. Without deliberate intervention, the emissions generated by corporate activity will continue to fuel inequalities and deepen vulnerability in regions already under strain.

Addressing this requires more than investing in mitigation technologies or energy efficiency. It requires a broader view of corporate climate responsibility, one that goes beyond an internal decarbonisation drive, to providing financial support for climate

[21] Intergovernmental Panel on Climate Change. 2023. Climate Change 2023: Synthesis Report. https://doi.org/10.59327/IPCC/AR6-9789291691647.
[22] Rennert, K., Errickson, F., Prest, B.C. et al. Comprehensive Evidence implies a Higher Social Cost of CO2. Nature 610, 687–692 (2022). https://doi.org/10.1038/s41586-022-05224-9
[23] Ibid

change adaptation projects and a commitment to invest in climate resilient infrastructure.[24]

Adaptation finance should therefore be integrated into the climate strategies of all high-emitting firms, not as an act of charity, but as a necessary step in taking full responsibility for climate impact. This includes funding for climate-resilient infrastructure, early warning systems, public health adaptation, and support for smallholder farmers and frontline communities facing existential climate risks.

If the social cost of carbon is the true cost of climate harm, then adaptation contributions are part of the price of emitting. Without them, corporate climate action remains incomplete.

Climate Justice and the Limits of Community Benefits under Mitigation Projects

Climate mitigation projects, whether in the form of renewable energy infrastructure, reforestation, or improved cookstoves, are often framed as dual-purpose interventions. Alongside emissions reductions, they are said to generate "co-benefits" for host communities: jobs, improved air quality, technology transfer, or access to clean energy.[25]

But in practice, the benefits to communities from mitigation projects are often limited, inconsistent, and fragile. Communities are consulted, but rarely in ways that shift power or decision-making. Benefit-sharing mechanisms, where they exist, are often opaque, unaccountable, or short-lived. What is offered may be short-term employment, infrastructure investment, or basic services, but rarely the kind of transformative investment that supports long-term resilience.[26]

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[24] World Business Council for Sustainable Development in collaboration with Bain & Company. 2024.*Business Leaders Guide to Climate Adaptation*. https://www.wbcsd.org/wp-content/uploads/2024/04/Business-Leaders-Guide-to-Climate-Adaptation-and-Resilience.pdf

[25] Healy, S. et al. 2023. Assessing the Transparency and Integrity of Benefit Sharing Arrangements related to Voluntary Carbon Market Projects. https://carbonmarketwatch.org/wp-content/uploads/2023/11/Assessing-transparency-and-integrity-of-benefit-sharing-arrangements-related-to-voluntary-carbon-market-projects.pdf

[26] Cabello, J. and Hartlief, I. 2024. *Carbon Offsets often Disenfranchise Communities: Myth: "Carbon Offsets Bring Added Benefits to Communities"* https://www.somo.nl/carbon-offsets-often-disenfranchise-communities/ SOMO

Worse still, this framing can create a false equivalence: the assumption that the presence of a mitigation project in a vulnerable region is itself an adequate form of climate justice. It is not. Projects are typically sited based on technical criteria, not on vulnerability or need. As a result, entire populations are excluded from participation not because they are less affected by climate change, but because they are less suitable for mitigation-based finance.

Regions that are highly vulnerable but unsuitable for project-based mitigation, such as drought-prone areas, conflict zones, or small island communities, receive little or no support. This structural bias reproduces patterns of exclusion: those who cannot host carbon projects are left behind, even if they are among the most climate-affected populations.

Even where projects do generate real local benefits, they cannot substitute for the broader investments needed in adaptation. A solar mini-grid may provide electricity, but it does not stop floodwaters. A cookstove may reduce emissions, but it does not protect crops from drought. Communities living with overlapping crises, food insecurity, health shocks, water stress, need targeted support that goes beyond the scope of mitigation projects. They need climate resilience.

Climate justice demands that we move beyond the narrow lens of community benefits under mitigation projects. It requires a commitment to ensure that all vulnerable communities, regardless of whether they host a project, have access to the resources they need to adapt.

The VCM as a tool for unlocking Private Sector finance for Climate Change Adaptation

As the VCM matures, the integrity of the market must evolve beyond technical considerations like the ensuring accuracy of methologies used, additionality of the projects and transparency and must address the glaring social inequalities of the market.

As presently designed, vulnerable communities which cannot attract carbon projects due to high project risks do not benefit in any way from these markets even where they may be worse hit by the impacts of climate change.

Recent efforts by climate-vulnerable countries to push for adaptation finance through carbon markets have met resistance. In 2023, a group of vulnerable nations proposed that a reform to the voluntary carbon market framework that would mandate that a portion of carbon credit proceeds be set aside for adaptation. However, according to reports, major players in the carbon credit industry opposed the idea, arguing it would reduce market competitiveness or complicate transactions.[27]

In response to growing concerns about fairness in the voluntary carbon market, the Integrity Council for the Voluntary Carbon Market (ICVCM) is considering the possibility of restructuring the voluntary carbon market framework to include adaptation financing. Through its Continuous Improvement Work Programme, it is exploring whether mechanisms like adaptation contributions could be integrated into core market infrastructure.[28]

As climate impacts escalate, particularly across the Global South, it is no longer enough for companies and project developers to focus solely on emissions reductions. The Voluntary Carbon Markets Initiative (VCMI) through its VCMI Claims Code of Practice and its Scope 3 Action Code of Practice sets out rules and standards for companies to use high integrity standards to address their on-going emissions. The code currently makes no reference to any adaptation contributions by corporates. This is a real gap that should be addressed urgently. To adequately address on-going emissions in a manner that aligns with current science and climate justice, then the costs of carbon emissions must include the cost of adaptation for the many communities who bear the brunt of historical and on-going emissions regardless of whether these communities are able to attract and sustain carbon projects. A socially

[27] Joe Lo. 2023. *Carbon Credit Industry resists Vulnerable Nations' Call to Fund Adaptation.* https://www.climatechangenews.com/2023/03/30/carbon-credit-industry-resists-vulnerable-nations-call-to-fund-adaptation/

[28] ICVCM Continuous Improvement Work Program on Paris Alignment: Share of Proceeds for Adaptation (SOPA). https://icvcm.org/continuous-improvement-work-programs/regulatory-policy-alignment/#shareproceeds

responsible carbon market must recognise this and ensure that a portion of its financial flows is directed toward adaptation.

One effective mechanism is a mandatory Share of Proceeds for Adaptation (SOPA), applied directly to credit transactions. This could take the form of a monetary levy, which could be either a fixed levy added to the price of each carbon credit or a percentage fee, e.g. 5% of the price of each carbon credit.[29] In terms of structuring, to ensure that the burden falls on the companies who wish to purchase carbon credits as part of their beyond value chain mitigation activities or to address their own going emissions and not directly on the project developers, the payments of these levies, could be made by the buyers to the carbon market registries at retirement. In such instances, the carbon market registries will then remit the payments to global or regional adaptation funds.

The drawback of this mechanism is that it may introduce legal and operational challenges. Registries might be hesitant to serve as temporary holders or distributors of adaptation funds due to legal and fiduciary risks, especially in jurisdictions where they are not authorised to act as financial intermediaries. These concerns would need to be addressed through clear governance agreements and possibly the involvement of third-party financial trustees to manage the remittance process securely and transparently.

Another approach is where a percentage of the carbon credits issued are held by the carbon registries and transferred to an account in the carbon registry held by an 'adaptation finance vehicle'. The Adaptation Finance Vehicle could be either be an existing global or regional adaptation fund or an adaptation fund set up specifically to receive VCM adaptation contributions.[30] Upon receipt of the funds, the vehicle will then monetise these credits and use the proceeds to fund climate adaptation projects in the Global South.

[29] Müller, B. et al. 2024. *Shoring up the Social Integrity of the Voluntary Carbon Market,* https://oxfordclimatepolicy.org/sites/default/files/Operationalizing%20the%20VCM-iSOP_0.pdf

[30] Müller, B. et al. 2022. *VCM SOPA: A Share of Proceeds for Adaptation (SOPA) in the Voluntary Carbon Market*. https://oxfordclimatepolicy.org/sites/default/files/VCM-SOPA%20final.pdf

The VCM could also structure adaptation contributions so that payments are made directly by companies purchasing carbon credits to designated adaptation funds, without relying on carbon registries to collect or transfer the funds. This would simplify the financial pathway, reduce legal and operational burdens on registries, and ensure that the responsibility for supporting adaptation lies clearly with the credit buyers. In this scenario, companies who wish to make any claims in relation to their use of carbon credits to address ongoing emissions could be required to contribute a percentage of the amount used to procure carbon credits to fund adaptation. These could be through voluntary contributions to a global, regional or national adaptation fund, or voluntary contributions to fund specific adaptation projects outside their value chain which may not be necessarily tied to the projects from where the carbon credits were issued.[31] For the specific adaptation projects, guardrails should be included to ensure that the adaptation projects provide real benefits and substantially contribute to adaptation. For instance, only projects which qualify as climate adaptation projects under national or regional taxonomies should qualify for such financing to reduce the risk of greenwashing. Standard setters like the VCMI or any similar claims framework for recognition of the purchase of carbon credits could amend their standards to include evidence of mandatory adaptation contributions as one of the criteria for making claims under the frameworks.

In addition, standard setters could include higher integrity alignment for credits which have shown that a percentage of the proceeds will be channelled towards adaptation projects similar to how carbon credits which have been subject to corresponding adjustment processes are seen as higher quality credits. For example, Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) could include this requirement in its rules for eligible carbon credits while the ICVCM could include this requirement as part of its Core Carbon Principles[32]. This could also be included as part of the conditions for the use of carbon credits under the VCM by national governments.

[31] Ibid
[32] ICVCM Core Carbon Principles. https://icvcm.org/core-carbon-principles/

Benefits and Drawbacks of a Share of Proceeds Framework in the VCM

Introducing a Share of Proceeds for Adaptation (SOPA) into the voluntary carbon market would be a major step toward aligning private climate finance with global justice and equity. However, like any systemic reform, it brings both benefits and trade-offs that must be carefully considered.

Benefits

One of the most important benefits of a SOPA mechanism is that it would immediately improve the social legitimacy of the VCM.[33] By embedding adaptation finance into every transaction, the market would send a clear signal: climate responsibility doesn't stop at emissions, it includes supporting the people living with the consequences.[34] This would go a long way toward restoring public trust in carbon markets, which have faced criticism for being one-sided, opaque, and out of touch with the real-world impacts of climate change.

A SOPA would also help close the adaptation finance gap in a predictable and scalable way. Adaptation projects have received less financing due to the fact that many of the projects are not revenue generating even where they produce high economic gains in avoided losses.[35] Introducing an adaptation contribution to the VCM will unlock private sector financing for adaptation in a way fully recognises corporate responsibility for climate action.

Finally, this contribution will help reduce the burden on governments, especially those in Africa, to finance climate adaptation projects. Governments will be able to deploy finance towards other equally important social causes to lift people out of poverty.

Drawbacks and Challenges

[33] Müller, B. 2022. *Safeguarding Social Integrity in the Voluntary Carbon Markets*. https://blog.oxfordclimatepolicy.org/safeguarding-social-integrity-in-the-voluntary-carbon-market/
[34] Ibid
[35] Carter,B., Kratzer, B., Aggarwal, A., and Heubaum,H. 2025. *Strengthening the Investment Case for Climate Adaptation: A Triple Dividend Approach*. World Resources Institute. https://doi.org/10.46830/wriwp.25.00019

That said, the framework is not without challenges. The most immediate concern is that a SOPA would raise the cost of carbon credits, potentially reducing demand, especially among price-sensitive buyers. Some actors in the market may view this as a barrier to scaling carbon finance or worry that it could drive buyers away from the VCM altogether. While this is a legitimate concern, it's important to note that many buyers are already seeking high-integrity credits and are willing to pay more for ethical and socially responsible options.

Another challenge is operational complexity. Setting up the infrastructure to collect, manage, and distribute adaptation funds will require coordination, governance, and oversight. This is a legitimate concern. However, where there is consensus that this is crucial, the structures will evolve to meet the needs of the market and the communities.

There is also a risk that, without strong safeguards, adaptation funds could be mismanaged or fail to reach the communities most in need. To avoid this, the governance of adaptation finance must be transparent, inclusive, and accountable. Representatives of indigenous peoples, local communities, and national governments, especially those from countries most in need of adaptation finance, should have a meaningful role in how adaptation finance vehicles are structured and how funds are allocated.

In addition, due diligence and access procedures must be streamlined to avoid creating barriers to access.[36] Many adaptation projects in vulnerable regions, particularly at the local level, are small in scale or community led. Overly complex requirements risk unintentionally excluding precisely the kinds of initiatives that SOPA funding is meant to support.

Conclusion

The VCM has evolved into a real tool for unlocking climate finance to fund climate change mitigation and carbon removal projects globally. However, without adaptation

[36] Jensen, L and Roniger, J. 2023. *International Climate Finance: Status Quo, Challenges and Policy Perspectives*. European Parliamentary Research Service. https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/754616/EPRS_BRI(2023)754616_EN.pdf

contributions, the market fails to uphold the tenets of climate justice and fails to fully address the damage caused by climate change and carbon emissions, especially in vulnerable regions.

Communities on the front lines of climate change are demanding fairness: that those who benefit from carbon finance also support those who bear the harshest impacts of climate change. Adaptation is a core part of what it means to take responsibility for emissions.

To truly align with the principles of fairness and climate justice, companies who use carbon credits to address their carbon emissions and claim climate responsibility must now go a step further to minimise the impacts of climate change on the most vulnerable communities through adaptation financing. Anything less is simply not enough.

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