CARBON CREDIT FUNDS

A quick, practical guide on how to set up a carbon credit fund

Innpact Insights | July 2026

EU Carbon Removals and Carbon Farming Certification

The need for carbon removals

Limiting the global average temperature increase to below 1.5 °Celsius will require deep cuts in global greenhouse gas (GHG) emissions throughout the forthcoming decades.

Furthermore, the IPCC Sixth Assessment Report clearly states that 'the deployment of carbon dioxide removal to counterbalance hard-to-abate residual emissions is unavoidable if net zero CO2 or GHG emissions are to be achieved'.

This will mean the large-scale deployment of sustainable activities for capturing CO2 from the atmosphere and durably storing it in geological reservoirs, terrestrial and marine ecosystems, or products.

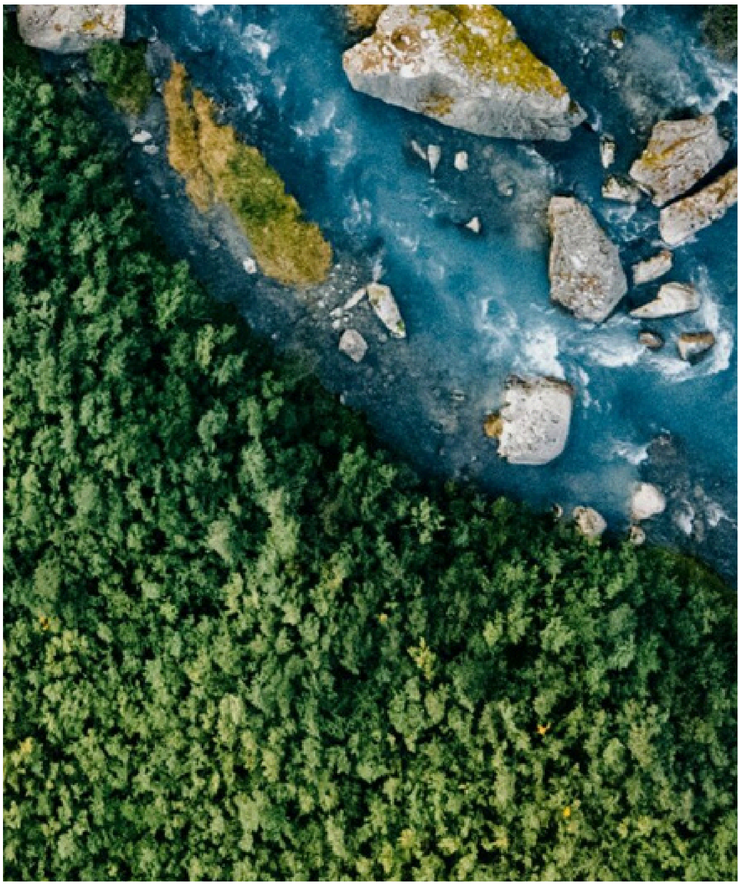
The European Climate Law provides for the EU to become climate neutral by 2050. This requires that GHG emissions are significantly reduced, and that the unavoidable emissions and removals should be balanced within the European Union at the latest by 2050, with the aim to achieve negative emissions thereafter.

To achieve this objective, both natural ecosystems and industrial activities should contribute to removing several hundred million tonnes of CO2 per year from the atmosphere. Today and with current policies, the EU is not on track to deliver these quantities: carbon removals in natural ecosystems have been decreasing in recent years, and no significant industrial carbon removals are currently taking place in the Union.

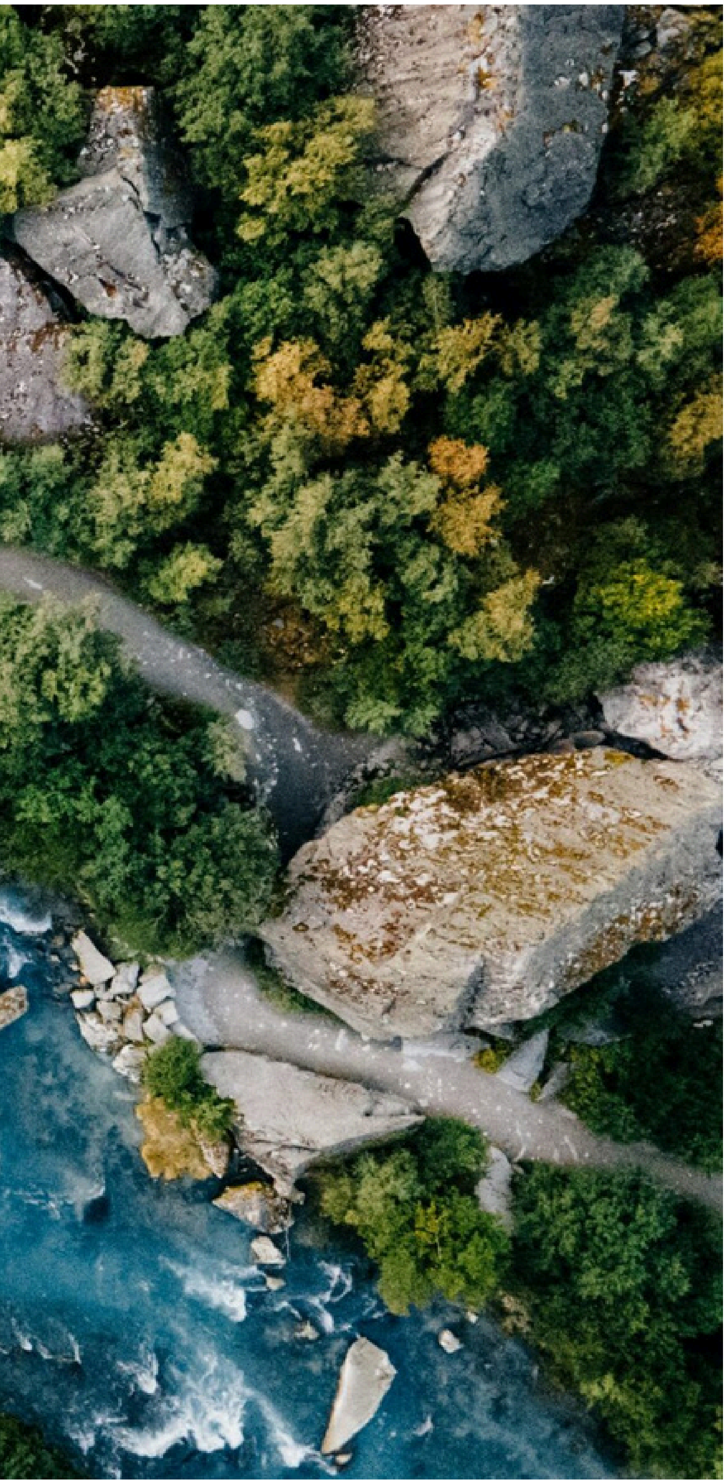
In line with the scenarios assessed by the IPCC, the European Commission published on the 6th December 2024 the EU Carbon Removals and Carbon Farming Certification (CRCF) Regulation.

The Main Goals of the Proposal are:

- Accelerate the deployment of verifiable, high-quality carbon removals
- Encourage industries, farmers and foresters to adopt effective carbon removal solutions
- Counter greenwashing, focus on high quality removals and build trust by focusing on trustworthy removals
- Ensure the EU's capacity to quantify, monitor and verify carbon removals
- Stimulate a wide variety of result-based financing options by private or public sources



State of the Voluntary Carbon Market



Since 2021, the voluntary carbon market (VCM) has seen roughly 180 to 200 million tons of credits retired each year[4]. This trend has been led by corporates that have set Science Based Targets and that understand that procuring carbon credits is not a substitute for emissions reductions but rather a necessary complement to their decarbonization strategy.

The VCM is currently undergoing a transformation shift as scrutiny over credit quality intensifies. Two major initiatives are leading this credibility shift: the Integrity Council for the Voluntary Carbon Market (ICVCM), which has introduced the Core Carbon Principles to define what constitutes a high-quality credit, and the Voluntary Carbon Markets Integrity Initiative (VCMI), which provides guidance to ensure that corporate claims associated with credit use are both robust and trustworthy.

Price projections in the voluntary carbon market suggest a gradual upward trend over the next several years, this is both due to more robust standards as well as increasing corporate demand for high-quality carbon credits. Price projections by BNEF[5] indicate in some scenarios a price higher than USD 200 per tonne by 2030 and EY[6] projects between USD 80-150 in 2030 and USD 150-200 in 2050. In light of these projected price increases, corporates are increasingly moving to secure long-term strategies, and procurement plans to ensure alignment with their net-zero commitments. As part of this strategic approach, the establishment of a Carbon Credit Fund is presented as an option in the following pages.

1. IPCC Working Group III (2022), Technical Summary. In: Climate Change 2022: Mitigation of Climate Change. Sixth Assessment Report.
2. Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU)2018/1999 (OJ L 243, 9.7.2021, p. 1)
3. Regulation (EU) 2024/3012 of the European Parliament and of the Council of 27 November 2024 establishing a Union certification framework for permanent carbon removals, carbon farming and carbon storage in product
4. Forest Trends' Ecosystem Marketplace. 2025. State of the Voluntary Carbon Market 2025. Washington DC: Forest Trends Association.
5. https://about.bnef.com/blog/carbon-offset-prices-could-increase-fifty-fold-by-2050/
6. https://assets.ey.com/content/dam/ey-sites/ey-com/en_au/topics/sustainability/ey-net-zero-centre-carbon-offset-publication-20220530.pdf

How does the EU certification of carbon removals work?

Based on the **QU.A.L.ITY** framework the Commission, supported by an expert group is developing tailored certification methodologies for the different types of carbon removal activities.

Once the EU has developed methodologies, **certification schemes** will certify carbon removal activities through third-party verification. The certificates will be published in a transparent and interoperable registries to avoid double-counting.

Next Steps

To implement CRCF regulation, the Commission will take the following steps:

Strategies include:

Adoption of EU certification methodologies: The Commission, with support from the Expert Group on Carbon Removals, will establish tailored EU certification methodologies for different carbon removal activities through delegated acts. These acts involve standard procedures, engaging the European Parliament, the Council, and broader stakeholders.

Adoption of third-party verification rules: The Commission will issue implementing acts to set technical rules for third-party verification requirements, specifying procedures for certification schemes, certification bodies, and audit processes.

Recognition of certification schemes: The Commission will approve certification schemes able to apply CRCF rules through Decisions, following a comprehensive assessment of governance, rules, and procedures, typically granting recognition for five years.

CRITERIA FOR A ROBUST EU CERTIFICATION SYSTEM

The EU certification framework can only be used to certify carbon removals that meet the following QU.A.L.ITY criteria:

Quantification

Carbon removal activities shall be quantified in a relevant, accurate, complete, consistent, comparable and transparent manner and deliver unambiguous benefits for the climate.

Additionality

The carbon removal activity shall meet both of the following criteria:
a) it goes beyond EU and national statutory requirements and
b) it takes place due to the incentive effect of the certification.

Long-term storage

Certificates clearly account for the duration of carbon storage and distinguish permanent storage from temporary storage.

Sustainabil-ITY

Carbon removal activities must support sustainability objectives such as climate change mitigation and adaptation, biodiversity , circular economy , water and marine resources.

The compliance of the carbon removals with the QU.A.L.ITY criteria will need to be verified by third-party auditors.

Types of carbon removals that will be covered by CRCF

PERMANENT CARBON REMOVALS

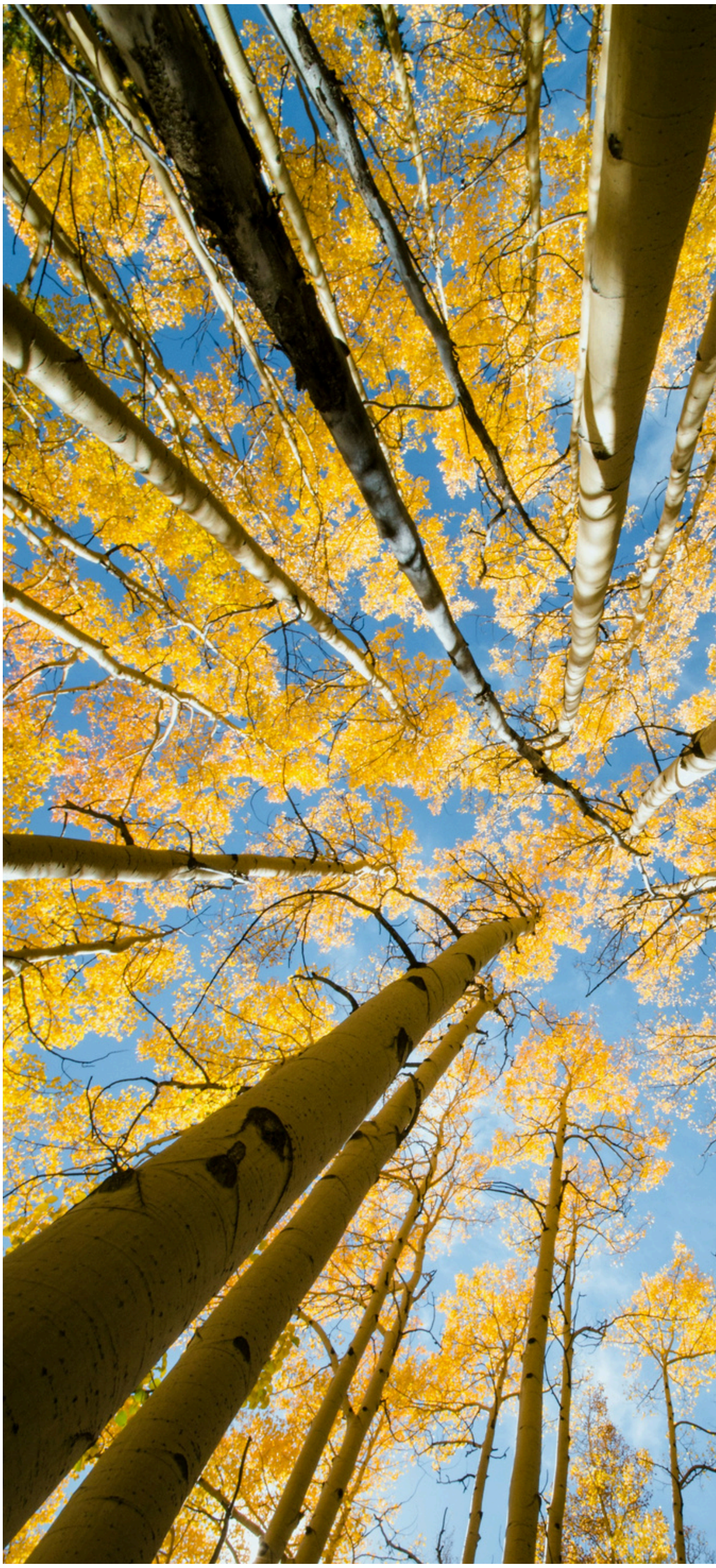
- Direct air carbon capture with storage (DACCS)
- Bioenergy with carbon capture and storage (BECCS) and other biomass-based methods (BioCCS)
- Chemically binding CO2 permanently into products
- Other technological solutions that lead to permanent storage

CARBON FARMING AND SOIL EMISSION REDUCTIONS

- Practices that enhance carbon sequestration and storage in forests and soils, or that reduce greenhouse gas emissions from soils

CARBON STORAGE IN LONGLASTING PRODUCTS

- Sustainably sourced-bio based materials



How does a carbon credit fund work?

Carbon credit funds are designed to bridge the financial gap between market demand for carbon credits and delays in generating them. While there is a high demand for carbon credits on the spot market, the process of developing projects that generate these credits is both time-consuming and capital intensive.

Project developers often face significant funding shortfalls during the early stages of project implementation, when the generation of carbon credits has not yet commenced.

A carbon credit fund addresses this challenge by acting as an intermediary source of financing.

Here's how it typically works:

1. Pooling investments

The fund gathers capital from corporates who are looking to procure carbon credits as part of their Net Zero and decarbonization strategies.

By pooling these investments, the fund gathers the necessary capital to support multiple projects, and therefore diversifying risk.

2. Pre-financing Projects

The fund pre-finances carbon projects by providing the necessary working capital to cover early-stage costs. These expenses might include feasibility studies, project design, regulatory approvals, and the initial phases of implementation.

This upfront payment allows project developers to progress without having to wait to start generating carbon credits.

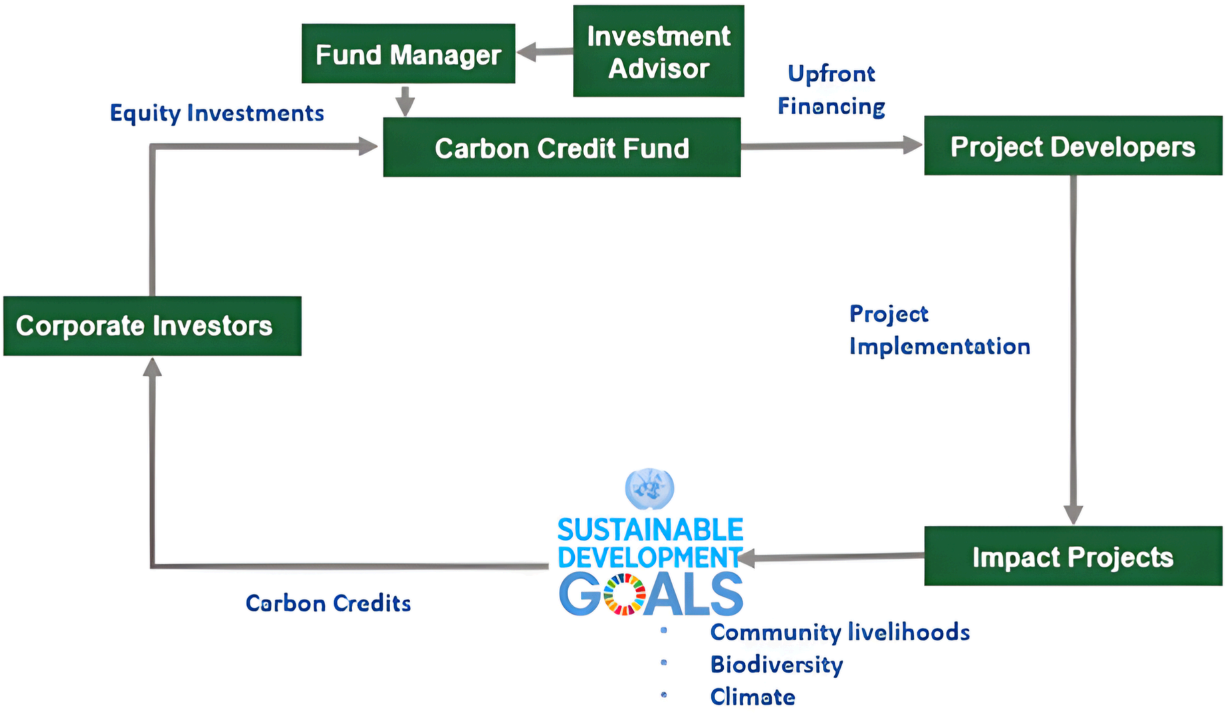
3. Milestone-Based Disbursement

To ensure prudent use of funds, disbursements are often tied to achievement of predetermined milestones such as carbon generation or technology deployment.

4. Repayment Through Carbon Credits

As the projects advance and after the carbon verification cycle, investors are compensated with carbon credits as in-kind payment.

How does a carbon credit fund work?



The structure of a carbon credit fund minimizes risk by diversifying investments across multiple projects, geographies, and credit types, ensuring resilience against regional, regulatory, or project-specific challenges.

This approach applies to a wide range of projects, including Nature-Based Solutions (NBS)—such as reforestation, soil carbon sequestration, and wetland restoration—as well as Technology-Based Solutions (TBS), such as direct air capture, biochar, and carbon capture and storage (CCS).

Carbon funds are able to integrate carbon avoidance and carbon removals initiatives and mix both natural and technological solutions.

Advantages of setting up a carbon credit fund?

A carbon credit fund is a financial vehicle that invests in carbon offset projects. Typically, investors will receive carbon credits as in-kind payments. The main advantages versus buying spot credits or investing in a single project for investors is as follows:

Diversification

Investing in a carbon credit fund allows for diversification across various carbon offset projects and initiatives. This reduces the risk associated with investing in individual projects.

Accessibility

Carbon credit funds can be more accessible to smaller investors or organizations that may not have the resources to engage in direct spot trading.

By pooling resources, these investors can participate in carbon offset initiatives that they may not have been able to pursue individually.

Simplified process

Investing in a carbon credit fund simplifies the process of supporting carbon offset projects. Instead of researching, negotiating, and purchasing individual carbon credits, investors can make a single investment in the fund, leaving the management and distribution of funds to the experts.

The Luxembourg Reserved Alternative Impact Investment Fund (RAIF) is the best solution to launch your carbon credit fund.

THE RAIF – A SOUND CHOICE TO LAUNCH A CARBON CREDIT FUND

Since its launch, the Luxembourg Reserved Alternative Investment Fund (RAIF) has become the preferred legal form to launch an impact fund.

Why is the RAIF so popular?

It combines key advantages critical for impact funds: low setup and running costs, flexibility, fast time-to-market, and pre-marketing and marketing to qualified EU investors due to the indirect regulation of RAIFs.

Innpact has created and launched numerous RAIFs for impact sponsors, guiding them from the fund concept to the first closing in under two months.

As an optimal solution for funds to meet the requirements of the AIFM law and the CSSF Circular 18/698, the Luxembourg law of 23 July 2016 created the Reserved Alternative Investment Fund (RAIF) with the simple appointment of an Alternative Investment Manager (AIFM) to ensure compliance with the regulatory requirements.

No CSSF approval is required. Funds can therefore be set up and operational in a short time.

TESTED AND TRUSTED

- > 2,000 Luxembourg
- High AIFMD standards
- Regulatory options for PE funds

LIGHT REGULATION

- Indirect supervision with AIFM
- No CSSF approval for launch
- No CSSF approval for changes

SHORT TIME TO MARKET

- Set-up within 6-8 weeks
- Select depositary, administrative agent, auditor
- Prepare legal documentation

EFFICIENT EU MARKETING

- EU distribution passport via AIFM
- Well-informed investors only
- Pre-marketing possible

How can Innpact help you?

Our expert team has structured and setup more than 40 impact funds investing across all United Nations Sustainable Development Goals (SDGs), all instruments (e.g. private equity / debt, carbon credits), and all regions (from single country to worldwide, Europe or emerging markets). **We guide you in launching and managing your fund:**

DESIGN YOUR CARBON CREDIT FUND

- Develop your fund concept and rationale
- Define your impact investment strategy
- Create your financial model
- Design your efficient fund structure, governance and operational system
- Develop your impact management framework
  - including theory of change, impact metrics, SDG alignment, impact report, and impact incentives mechanisms

SET UP YOUR CARBON CREDIT FUND

- Develop legal documentation with your preferred legal counsel
- Draft all necessary policies and procedures
- Select required service providers
- Ensure SFDR compliance
- Help in negotiations with prospective investors
- Coordinate incorporation and first closing

MANAGE YOUR CARBON / NATURE CREDIT FUND

- Act as your third-party authorised AIFM
- Provide additional hands-on fund management services (such as ALM, risk, cash, FX, annual report)
- Act as your impact officer and support impact report publication

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Innpact is a leading impact finance specialist providing advisory and third-party fund management services.

Our team, based in Luxembourg and Mauritius, has unrivalled expertise in designing impact funds and blended finance vehicles.

We work with fund managers, sponsors and investors around the world on impact investing projects totaling more than $8 bn targeting the Sustainable Development Goals.

We provide our services with motivation, dedication and smile, being faithful to our mission and our values.

Dedicated to Impact Finance.

innpact

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