

## Application of the Oeko-Institut/WWF-US/ EDF methodology for assessing the quality of carbon credits

This document presents results from the application of version 3.0 of a methodology, developed by Oeko-Institut, World Wildlife Fund (WWF-US) and Environmental Defense Fund (EDF), for assessing the quality of carbon credits. The methodology is applied by Oeko-Institut with support by Carbon Limits, Greenhouse Gas Management Institute (GHGMI), INFRAS, Stockholm Environment Institute, and individual carbon market experts. This document evaluates one specific criterion or sub-criterion with respect to a specific carbon crediting program, project type, quantification methodology and/or host country, as specified in the below table. Please note that the CCQI website [Site terms and Privacy Policy](#) apply with respect to any use of the information provided in this document. Further information on the project and the methodology can be found here: [www.carboncreditquality.org](http://www.carboncreditquality.org)

Sub-criterion:	<a href="#">1.1.3 Financial attractiveness</a>
Project type:	<a href="#">Establishment of Natural Forest</a>
Date of final assessment:	<a href="#">20 May 2022</a>
Score:	5

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## Assessment

### Relevant scoring methodology provisions

The methodology assesses the financial attractiveness of the individual project or project type to estimate the likelihood that economic actors would normally not pursue the respective mitigation activity in a given market and policy environment without carbon market revenues. The assessment considers three indicators that are important for determining financial attractiveness: The financial attractiveness without carbon credit revenues, the change in financial attractiveness due to carbon credit revenues, and the financial attractiveness with carbon credit revenues. The following steps should be applied to derive the score:

- Step 1: Decide whether to apply the methodology to an individual project or at the level of a project type. If the methodology is applied at the level of a project type, clearly define the project type and the geographical scope for the assessment (e.g. global, region, country). Project types may be further differentiated into sub-categories, e.g. considering the project size (e.g. classes of wind turbine sizes), the type of project technology (e.g. on-shore or off-shore wind power), or other project features.
- Step 2: Collect the relevant data. Where the methodology is applied to an individual project, data provided by the project may be used, as long as this data can be reasonably verified. Where the methodology is applied at the level of the project type, different data sources could be used, including literature information or a sample of individual projects for which the necessary data is available. To the extent possible, the sample should represent different investment conditions and locations within the geographical scope
- Step 3: Define the carbon credit price used in the calculation of the change in financial attractiveness due to carbon credit revenues. The methodology recommends using the current prices of the relevant markets the project is developed for. Assumptions made by the project proponent on expected carbon prices may be used if they are plausible. In absence of further information, the methodology recommends using a consistent proxy for all projects.
- Step 4: Identify for each project the respective value for:
  - a. The equity IRR without carbon credit revenues (IRR);
  - b. The change in equity IRR due to carbon credit revenues ( $\Delta$ IRR); and
  - c. The equity IRR with carbon credit revenues, calculated as the sum of equity IRR without carbon credit revenues and the change in equity IRR due to carbon credit revenues (IRR+ $\Delta$ IRR).
- Step 5: Identify for the project the relevant project category in the CDM Methodological Tool for Investment Analysis (CDM TOOL 27) according to the following table:

Group	Categories
1	Energy Industries; Energy Distribution; Energy Demand; Waste handling and disposal
2	Manufacturing industries; Chemical Industries; Construction; Transport; Mining/Mineral production; Metal production; Fugitive Emissions from fuels; Fugitive Emissions from production and consumption of halocarbon, and Sulphur hexafluoride; Solvent use; Carbon capture and storage of CO <sub>2</sub> in geological formations
3	Afforestation and reforestation; Agriculture

Step 6: Retrieve for each project the country-level expected return on equity (ROE) in the CDM methodological tool for investment analysis for the respective group identified in step 5 (The respective table can be found on page 12 of version 08.00 of CDM TOOL 27).

Step 7: Determine for each project the three indicators, by putting the IRR, the  $\Delta$ IRR, and the sum of IRR and  $\Delta$ IRR in relation to the expected return on equity (ROE).

Step 8: If the methodology is applied to a project type, calculate the average values for Indicator 1.1.3.1, Indicator 1.1.3.2, and Indicator 1.1.3.3 for the sample of projects.

Step 9: Apply the scoring approach in the methodology to determine the score for indicator 1.1.3.1.

Step 10: Apply the scoring approach in the methodology to determine the score for indicator 1.1.3.2.

Step 11: Apply the scoring approach in the methodology to determine the score for indicator 1.1.3.3.

Step 12: Apply the scoring approach in the methodology to determine the overall score for sub-criterion 1.1.3.

If a project or project type does not have revenues or cost savings other than carbon market revenues, an IRR cannot be calculated. As these projects fully rely on carbon market revenues, they are clearly not financially viable without carbon market revenues and are therefore assigned a score of 5.

### Information sources considered

- 1 CDM Project Search <https://cdm.unfccc.int/Projects/projsearch.html>

### Assessment outcome

The carbon crediting program is assigned a score of 5.

### Justification of assessment

The project type does not have revenues or cost savings other than carbon market revenues. Therefore, IRRs for these projects cannot be calculated. As these projects fully rely on carbon market revenues, they are clearly not financially viable without carbon market revenues and are therefore assigned a score of 5.