Methodology for assessing the quality of carbon credits

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Authors and background
The World Wildlife Fund (WWF-US), Environmental Defense Fund (EDF) and Oeko-Institut are developing the “Carbon Credit Quality Initiative” (previously referred to as “Carbon Credit Guidance for Buyers”) to guide buyers of carbon credits amidst a complex market. The project is implemented in several phases: Phase 1 of the project identified criteria for assessing the quality of carbon credits. Phase 2 developed an initial version of a methodology for assessing carbon credits against the criteria developed in Phase 1. Phase 3 piloted the application of the methodology to different carbon credits. This paper presents a revised version of the methodology that has been improved based on lessons learned from its pilot application. Subsequent phases will expand the application of the methodology and combine the results from the previous phases with additional recommendations for carbon credit buyers.

The methodology was prepared by a research team (Lambert Schneider, Felix Fallasch, Felipe De León, Mandy Rambharos, Nora Wissner, Tani Colbert-Sangree, Sophie Progscha), WWF-US (Brad Schallert, John Holler), and EDF (Kelley Kizzier, Annie Petsonk, Alex Hanafi, Pedro Barata, Chista Ogata, Walter Stuart, Darcy Jones) and takes into account the findings from the pilot application as well as feedback from a 5-week stakeholder consultation from 5 August to 7 September 2020 and from technical reviewers. Boston Consulting Group (BCG) helped facilitate the stakeholder consultation and provided analytical support as part of this process.
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## Definitions

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<th>Definition</th>
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<tr>
<td>Additionality</td>
<td>In the context of carbon crediting, emission reductions or removals from a mitigation activity are additional if the mitigation activity would not have taken place in the absence of the added incentive created by the carbon credits.</td>
</tr>
<tr>
<td>Cancellation</td>
<td>Cancellation refers to the transfer of a carbon credit to a registry account that permanently removes the carbon credit from circulation, so that it is not possible to use the carbon credit for any purpose. Cancellation may involve different purposes, such as the fulfilment of mandatory obligations (e.g., under CORSIA) or voluntary goals (e.g., to achieve carbon neutrality). Note that some carbon crediting programs also use the terms “retirement” or “surrender” and differentiate the terminology according to the purpose for which the carbon credit is removed from circulation. In this methodology, only the term “cancellation” is used to cover all purposes.</td>
</tr>
<tr>
<td>Carbon credit</td>
<td>An emission unit that is issued by a carbon crediting program and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialized, issued, tracked and cancelled by means of an electronic registry.</td>
</tr>
<tr>
<td>Carbon crediting program</td>
<td>An organization that registers mitigation activities and issues carbon credits for the emission reductions or removals achieved by the mitigation activities.</td>
</tr>
<tr>
<td>Corresponding adjustment</td>
<td>An accounting entry applied in the context of Article 6 of the Paris Agreement in order to account for the international transfer of mitigation outcomes and avoid double counting of emission reductions or removals. A country transferring emission reductions or removals makes an addition to the total emissions covered by its NDC, and the country acquiring and using the emission reductions or removals makes a subtraction. Corresponding adjustments thereby aim to ensure that the transferring country can no longer use the emission reductions or removals to achieve its NDC, whereas the acquiring country may use them.</td>
</tr>
<tr>
<td>Crediting baseline</td>
<td>The emissions level against which emission reductions or removals of a mitigation activity are determined.</td>
</tr>
<tr>
<td>Decision to proceed with a project</td>
<td>The date on which the project owner committed to expenditures related to the implementation of the project (e.g., the date when contracts for the purchase or installation of the equipment required for the project have been signed). In the case where a project does not involve expenditure, it refers to the date when the first actions were taken to implement the project (e.g., the discontinuation of the use of land so that natural revegetation or succession may occur).</td>
</tr>
<tr>
<td>Double claiming</td>
<td>A situation in which the same emission reduction or removal is claimed by two different entities towards achieving mitigation targets or goals: once by the country or jurisdiction where the emission reduction or removal occurs by reporting lower emissions or higher removals when tracking progress and demonstrating achievement of its mitigation target or goal, and once by the entity using the carbon credit.</td>
</tr>
<tr>
<td>Double counting</td>
<td>A situation in which a single greenhouse gas emission reduction or removal is counted more than once towards achieving mitigation targets or goals. Double counting can occur through double issuance, double use and double claiming.</td>
</tr>
<tr>
<td>Double issuance</td>
<td>A situation in which more than one carbon credit is issued for the same emission reduction or removal. Double issuance leads to double counting if more than one of these carbon credits is counted towards achieving mitigation targets or goals.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Double use</strong></td>
<td>A situation in which the same carbon credit is counted twice towards achieving mitigation targets or goals (e.g., if two entities claim emission reductions or removals from the cancellation of one carbon credit).</td>
</tr>
<tr>
<td><strong>Leakage</strong></td>
<td>The net change of greenhouse gas emissions or removals that are attributable to the mitigation activity but occur outside the boundary of that activity. These include, for example, indirect emission changes upstream or downstream of the mitigation activity or rebound effects.</td>
</tr>
<tr>
<td><strong>Legal requirement</strong></td>
<td>Laws, statutes, regulations, court orders, decrees, executive orders, permitting conditions or any other legally binding mandates.</td>
</tr>
<tr>
<td><strong>Mitigation activity</strong></td>
<td>An activity that reduces anthropogenic emissions of a greenhouse gas or maintains or enhances removals by sinks. Mitigation activities can be implemented at different scales and could be projects, programmatic approaches or policies.</td>
</tr>
<tr>
<td><strong>Non-permanence</strong></td>
<td>Non-permanence refers to a situation where the emission reductions or removals generated by the mitigation activity are later reversed, for example, due to a natural disaster or project mismanagement. The mitigation activity thus only results in a temporary greenhouse gas benefit for the atmosphere.</td>
</tr>
<tr>
<td><strong>Offsetting</strong></td>
<td>The compensation of an entity’s emissions with climate mitigation outcomes that are achieved outside of the accounting boundaries of that entity.</td>
</tr>
<tr>
<td><strong>Quantification methodologies</strong></td>
<td>Documents established by a carbon crediting program to quantify a project’s net emission reductions or removals. These documents are often named by carbon crediting standards as baseline and monitoring methodologies, tools, protocols, or methodological guidelines.</td>
</tr>
<tr>
<td><strong>Normative program documents</strong></td>
<td>The documents adopted under a carbon crediting program that specify requirements, procedures, and administrative and operational aspects of the program. This typically includes standards (such as quantification methodologies), procedures, manuals, guidance documents, and forms.</td>
</tr>
<tr>
<td><strong>Program provisions</strong></td>
<td>The requirements, guidance and procedures included in normative documents adopted under a carbon crediting program.</td>
</tr>
<tr>
<td><strong>Project</strong></td>
<td>A mitigation activity implemented at one or several specific sites that is registered, or seeking registration, with a carbon crediting program for the purpose of receiving carbon credits for emission reductions and removals. This does not include mitigation activities implemented at the scale of sectors (e.g., jurisdictional REDD+) or crediting the adoption or implementation of government policies.</td>
</tr>
<tr>
<td><strong>Results-based climate finance</strong></td>
<td>A financing approach under which a donor disburses funds upon the achievement and independent verification of a pre-agreed set of results. Some donors use the delivery and subsequent cancellation of carbon credits as a vehicle to disburse results-based climate finance. In this case, the donor does not use the emission reductions or removals to achieve its own mitigation targets or goals.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<td>-------------------------------------------</td>
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</tr>
<tr>
<td>Validation and verification entity</td>
<td>An independent third-party entity that assesses whether a project requesting registration conforms to all program requirements (often referred to as validation) and whether a request for issuing carbon credits conforms to all program requirements (often referred to as verification). Verification and validation entities are often also referred to as auditors.</td>
</tr>
</tbody>
</table>
# 1 Introduction

Achieving the temperature goals of the Paris Agreement requires deep and fast decarbonization of our economies and the protection of biospheric carbon stocks. Although many entities, including countries, sub-national jurisdictions, corporates, other organizations, and individuals, are stepping up their climate efforts and pledges, current action is still insufficient to achieve these temperature goals. Carbon markets with high-quality credits could play an important role in raising the ambition of climate action and help close the gap between current climate commitments and the necessary decarbonisation of the global economy. If carbon credits lack quality, however, their use could also undermine climate action.

Carbon credits have gained revived interest as a carbon market instrument in recent years as climate ambition has grown. Given growing demand for carbon credits, practical and trusted guidance is critical to help buyers navigate the complicated carbon credit landscape and enable them to identify high-quality credits. The World Wildlife Fund (WWF-US), Environmental Defense Fund (EDF) and Oeko-Institut are therefore developing the “Carbon Credit Quality Initiative” (previously referred to as “Carbon Credit Guidance for Buyers”). The project is implemented in several phases. Phase 1 identified and described criteria for assessing the quality of carbon credits and is summarized in the report “What makes a high-quality carbon credit?: Phase 1: Definition of criteria for assessing the quality of carbon credits” (Schneider et al. 2020), released June 2020. Phase 2 developed an initial version of a methodology for assessing carbon credits against the criteria developed in Phase 1. In Phase 3 of the project, this initial methodology has been piloted and tested by a consortium of researchers led by Oeko-Institut. This paper presents a revised version of the methodology that has been improved based on lessons learned from its pilot application. Subsequent phases will expand the application of the methodology and combine the results from the previous phases with additional recommendations for carbon credit buyers.

The scoring and results from the application of this methodology can be used by prospective carbon credit buyers to inform their purchases. Applying the methodology, however, requires a thorough understanding of carbon crediting. The methodology itself is written for use by carbon market experts—not for a broader, non-technical audience. Some criteria for assessing carbon credits are straightforward to apply, but others require deep technical expertise, such as assessing the robustness of methodological approaches for quantifying emission reductions and removals. The methodology should be applied by independent experts that do not have financial or other interests in specific evaluation results.

Assessing the quality of carbon credits is methodologically challenging and often requires difficult judgments. The approaches presented in this document are the authors’ judgment of what quality features matter and how these could be practically assessed and weighed. The methodology was developed based on a literature review, the authors’ own research, and feedback from various experts and stakeholders. The authors intend to further improve the methodology over time and are grateful for any feedback on the methodology.
2 How the methodology works

Quality objectives and criteria

What makes a “high-quality” carbon credit is not a simple question. Many different questions can be evaluated to assess different quality features of carbon credits. The methodology presented in this paper evaluates carbon credits against seven overarching quality objectives (see Table 1). Each objective represents a different overarching feature of a carbon credit. This grouping aims to provide buyers of carbon credits a nuanced picture of how a carbon credit performs with regard to different quality features that are difficult to compare. The relative importance of these quality objectives may depend on the preferences of carbon credit buyers and the purposes for which carbon credits are used.

<table>
<thead>
<tr>
<th>Quality objective</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Robust determination of the greenhouse gas (GHG) emissions impact of the mitigation activity</td>
<td>1.1 Additionality&lt;br&gt;1.2 Vulnerability (applicable to collapsed markets only)&lt;br&gt;1.3 Robust quantification of emission reductions and removals</td>
</tr>
<tr>
<td>2 Avoiding double counting of emission reductions or removals</td>
<td>2.1 Avoiding double issuance&lt;br&gt;2.2 Avoiding double use&lt;br&gt;2.3 Avoiding double claiming</td>
</tr>
<tr>
<td>3 Addressing non-permanence</td>
<td>3.1 Significance of non-permanence risks&lt;br&gt;3.2 Robustness of approaches for addressing non-permanence risks</td>
</tr>
<tr>
<td>4 Facilitating transition towards net zero emissions</td>
<td>4.1 Enhancing adoption of low, zero or negative emissions technologies and practices</td>
</tr>
<tr>
<td>5 Strong institutional arrangements and processes of the carbon crediting program</td>
<td>5.1 Overall program governance&lt;br&gt;5.2 Transparency&lt;br&gt;5.3 Public consultation&lt;br&gt;5.4 Robust third-party auditing</td>
</tr>
<tr>
<td>6 Environmental and social impacts</td>
<td>6.1 Robustness of the carbon crediting program's environmental and social safeguards&lt;br&gt;6.2 Sustainable development impacts of the project type or project&lt;br&gt;6.3 Contribution to improving adaptation and resilience (optional)</td>
</tr>
<tr>
<td>7 Host country ambition</td>
<td>7.1 Host country commitment to the global temperature goal&lt;br&gt;7.2 Stringency and coverage of the host country's current NDC&lt;br&gt;7.3 Ability of the carbon crediting approach to enable the host country to use part of the emission reductions to achieve its own NDC</td>
</tr>
</tbody>
</table>

Each quality objective is assessed by evaluating several criteria (Table 1). In many instances, the evaluation of a criterion builds on the evaluation of several sub-criteria and indicators. The latter often assess specific design features of a carbon crediting program, such as how exactly stakeholder consultations are conducted. Overall, this results in more than 100 evaluation aspects, with some being more decisive for the quality of carbon credits than others. The rationale for using and assessing these quality objectives, criteria and sub-criteria is explained in detail in chapter 3 of this document.
The quality objectives and criteria in this document have been updated from the report “What makes a high-quality carbon credit?: Phase 1: Definition of criteria for assessing the quality of carbon credits,” released June 2020, and from version 0.1 of this methodology, released in August 2021. Updates to these quality objectives and criteria are based on findings from the development and piloting of the methodology, including feedback considered from a 5-week stakeholder consultation of the methodology from 5 August to 7 September 2020.

How the methodology should be used

The methodology presented in this document should be applied by carbon market experts. The application of the methodology should be based on the study of available evidence, which may include publicly available project or carbon crediting program documents, respected independent sources, or interviews with relevant stakeholders. Adherence to the requirements in the methodology may be subject to interpretation.

This methodology is mainly intended to be used at the project type level but several criteria can also be applied to individual projects. Where the methodology is applied at the project type level, the quantitative results generated using the methodology should be considered only as partial guidance for individual projects. In this case, buyers are encouraged to conduct additional due diligence, or have third-party experts do so on their behalf, to assess the specific circumstances of the project.

The methodology focuses on the use of carbon credits for offsetting—the compensation of an entity’s emissions with other climate mitigation outcomes. Carbon credits may, however, also be purchased and claimed towards other uses. For example, a company may decide to purchase carbon credits from a project to primarily support poverty reduction efforts and not use them for offsetting. Some of the assessment criteria in this methodology are indeed pertinent for credit buyers pursuing other environmental or social attributes, but such uses are not the primary target of this methodology.

What is evaluated under the methodology?

To date, more than 10,000 mitigation projects have been registered under carbon crediting programs. Assessing each individual project would provide the best picture of the quality of the carbon credits issued to the project but would require considerable resources. The methodology presented in this paper allows for assessing the quality of carbon credits at an aggregate level.

The methodology identifies five assessment levels that are considered to be key determinants for assessing carbon credits against the seven quality objectives set out above:

1. The carbon crediting program under which the project is registered. The provisions of a carbon crediting program determine, for example, which projects are eligible, how double counting is avoided, how risks of non-permanence are addressed, or what environmental and social safeguards projects must adhere to. Some of these provisions differ substantially between carbon crediting programs. A key element of the methodology is therefore the assessment of the provisions of the carbon crediting program under which a carbon credit is issued.

2. The type of project that is being implemented. Some quality features of carbon credits depend more strongly on the type of mitigation activity, rather than the specific provisions of the carbon crediting program. For example, some project types are subject to non-permanence risks while others are not. The available literature also indicates that the likelihood that projects are additional strongly differs between project types (Schneider 2009; Cames et al. 2017; Broekhoff et al. 2019). The methodology therefore also considers the typical features of the relevant project
type when assessing the quality of a carbon credit. In applying the methodology, it is important to clearly define relevant project types and to differentiate between project types that may have different quality features. For example, the likelihood of additionality may differ between projects that utilize landfill gas and those that flare landfill gas.

3. The quantification methodologies applied to determine the emission reductions and removals. Quantification methodologies specify how exactly the emission reductions and removals should be determined or how additionality is being assessed. Evaluating quantification methodologies is thus key for a thorough assessment of the quality of carbon credits. Although they are issued by carbon crediting programs, they are here not subsumed under the first point above, but treated separately, for three reasons: first, some carbon crediting programs allow for using quantification methodologies that were developed under other carbon crediting programs. For example, CDM methodologies are recognized under a number of other carbon crediting programs. In these instances it may be necessary to evaluate the quantification methodologies adopted under another program. Second, some carbon crediting programs issue several quantification methodologies for the same project type; and third, in some instances, quantification methodologies have been substantially changed over time such that using different iterations will lead to a different carbon credit quality. The methodology therefore separately considers the robustness of the quantification methodologies applied to issue carbon credits.

4. The host country in which the project is implemented can also play a role in the quality of a carbon credit. For example, some carbon crediting programs have different requirements for different host countries, such as simplified requirements for assessing the additionality of projects implemented in Least Developed Countries (LDCs).

5. The purpose for which the carbon credits are used. A key distinction is whether or not the carbon credits are used for purposes for which double counting with the nationally determined contribution (NDC) of the host country under the Paris Agreement should be avoided. To avoid such double counting, the carbon credits’ associated emission reductions or removals must be authorized by the host country for use under Article 6 of the Paris Agreement. If carbon credits are used in the context of Article 6, the international transfer and use of the associated emission reductions and removals is accounted for through the application of corresponding adjustments. In such instances additional quality considerations play a role, such as whether the carbon crediting program has the necessary procedures in place to obtain authorizations and track the application of corresponding adjustments by the host country, whereas such provisions are not relevant if carbon credits are used for purposes for which avoiding double counting with the host country NDC is not necessary. For this reason, this methodology recognizes two distinct types of carbon credits: carbon credits for which double counting with the host country NDC is avoided, and those for which this is not avoided. Quality objective 2 details under which conditions double counting with the host country NDC should be avoided. It should be noted that double claiming with the host country NDC can only be avoided if the host country in which the project is implemented is a Party to the Paris Agreement, has communicated and is maintaining an NDC, and has not announced an intention to withdraw from the Paris Agreement. These are therefore preconditions to assessing the quality of any carbon credits for which double counting with the host country NDC should be avoided.

The methodology identifies for each criterion or sub-criterion which of these five factors are most decisive for the assessment, and then evaluates the criterion or sub-criterion at these levels. In some instances, only one of these five levels is evaluated. For example, quality objective 4 (Facilitating transition towards net zero emissions) is only evaluated at the level of the project type. Another example is sub-criterion 1.1.3 which evaluates the typical financial attractiveness of the project type.
in order to assess the likelihood that the type of project may also be implemented without carbon credits.

In other instances, a criterion or sub-criterion is evaluated at two or more levels. This applies, for example, if the provisions of carbon crediting programs differ between different project types. In these cases a carbon crediting program's provisions are evaluated separately for different project types. Another example is criterion 2.1 (Avoiding double issuance) which is mainly evaluated at the level of the carbon crediting program. The provisions that a program has in place to reduce such risks are a key determinant for avoiding double issuance; however, double issuance risks also depend on the project type, which is therefore also considered when evaluating the risk of overlaps with other projects.

In some instances, further differentiation may be warranted and applied by the user of the methodology. For example, the requirements of a carbon crediting program sometimes depend on the size of a project. In this case, a criterion or sub-criterion may be evaluated separately for different project sizes. While the five factors identified above are—in the assessment of the authors—the most critical factors for evaluating the quality features of carbon credits, users of this methodology should consider in which instances the evaluation should be further differentiated by introducing additional assessment levels.

All carbon credits for which the five factors outlined above, or any further factors identified by the user of the methodology, are identical receive the same score. For example, the same scoring results would apply to all carbon credits from wind power projects that are implemented in India, that are registered under the CDM using the methodology ACM0002, and that are not used for purposes for which double claiming with the host country NDC should be avoided.

The main advantage of this approach is that it simplifies the quality assessment of carbon credits. It aims to minimize the resources required by evaluating for each criterion or sub-criterion only the most decisive determinants of carbon credit quality. The main disadvantage is that the approach does not necessarily account for the unique conditions of each individual project which may otherwise inform the quality of its issued carbon credits. For example, the financial attractiveness of wind power projects varies depending on local conditions; likewise, the sustainable development benefits of an afforestation activity will strongly depend on its design. The methodology therefore recommends users to apply some criteria or sub-criteria at the level of an individual project, as long as reliable information and sufficient resources are available.

Chapter 3 specifies for each criterion or sub-criterion the recommended level of assessments. In some instances, options are provided to assess a criterion or sub-criterion at a more disaggregated level (e.g., at the level of an individual project instead of the project type). The choice may here depend on the level of available resources and how precisely the user intends to assess the quality of the carbon credits.

**What types of carbon credits are assessed under the methodology?**

Most carbon crediting programs issue carbon credits only *after* the emission reductions or removals have occurred and been verified (*ex-post crediting*). Ex-post crediting ensures that a validation and verification entity can verify that the emission reductions or removals have actually taken place before carbon credits are issued and used for offsetting purposes. By contrast, some programs issue carbon credits for emission reductions or removals that are expected to occur in the future and allow these carbon credits to be used for offsetting purposes (*ex-ante crediting*).
Ex-ante crediting introduces a unique risk to the integrity of carbon credits because it is possible that the number of the credits issued will exceed the actual emission reductions or removals of the project. This could occur if the mitigation activity is discontinued or has a lower-than-expected performance.

Even if programs establish approaches to compensate for over-issuance (e.g., through buffer reserves), there remains uncertainty whether such compensation mechanisms will be effective and enforced further into the future, which may pose considerable integrity risks. Therefore, the methodology considers ex-post crediting best practice and only assesses ex-post credits. As a general principle buying credits issued through ex-ante crediting for offsetting purposes is not recommended.

**What type of scores are used?**

The methodology uses a standardized scoring system with a scale from 1 to 5. The number score represents the level of confidence or likelihood that the assessment subject meets the quality objective, criterion, or sub-criterion. A score of 5 represents the highest level of confidence and a score of 1 the lowest level of confidence. This scale aims to provide users a simple and intuitive picture of the quality of carbon credits. Table 2 provides an interpretation of the scores used in the methodology.

This methodology does not establish a threshold for what constitutes good or sufficient quality; rather, the methodology aims to provide a nuanced picture of how a carbon credit performs in relation to different quality objectives. Which quality objectives are considered particularly important, however, may depend on the preferences and priorities of the user of the carbon credit, the purpose for which a carbon credit is used, as well as additional considerations. For example, if it is evident from the specific context of a project that there are very low environmental and social risks, then the scoring on quality objective 6 may be less important.

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Very high confidence or likelihood that the assessment subject meets the criterion or quality objective.</td>
</tr>
<tr>
<td>4</td>
<td>High confidence or likelihood that the assessment subject meets the criterion or quality objective.</td>
</tr>
<tr>
<td>3</td>
<td>Moderate confidence or likelihood that the assessment subject meets the criterion or quality objective.</td>
</tr>
<tr>
<td>2</td>
<td>Low confidence or likelihood that the assessment subject meets the criterion or quality objective.</td>
</tr>
<tr>
<td>1</td>
<td>Very low confidence or likelihood that the assessment subject meets the criterion or quality objective.</td>
</tr>
</tbody>
</table>

The methodology is written to be applicable to a wide array of conditions and approaches toward ensuring high-quality carbon credits. To account for circumstances in which specific elements in the methodology may not adequately address all relevant scenarios (e.g., novel approaches applied by a carbon crediting program), the methodology identifies in which cases user discretion may be used.

**How are scores for individual criteria and sub-criteria combined?**

The methodology generates a score of 1–5 for each criterion or sub-criterion that is evaluated. The results from each evaluation are then combined into a score for each of the seven quality objectives.
The final result for each of the seven quality objectives will not be further aggregated but displayed separately. This provides a nuanced picture of the different quality features of carbon credits and allows buyers to determine which quality objectives are most important to them. In the final scoring for a quality objective, users of the methodology may round the results to full numbers.

**Figure 1: Score flow**

<table>
<thead>
<tr>
<th>Criterion score</th>
<th>Quality objective score</th>
<th>Full results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criterion 1.1: Additionality</td>
<td>Quality Objective 1: Robust determination of the GHG emissions impact of the mitigation activity</td>
<td>Quality Objectives</td>
</tr>
<tr>
<td>Sub-criterion 1.1.1: Eligibility of mitigation activities that are triggered by legal requirements</td>
<td>Criterion 1.1: Additionality</td>
<td>Quality Objective 1: Robust determination of the GHG emissions impact of the mitigation activity</td>
</tr>
<tr>
<td>Sub-criterion 1.1.2: Consideration of carbon credits before project implementation and restrictions on the eligibility of existing projects</td>
<td>Criterion 1.2: Vulnerability</td>
<td>Quality Objective 2: Avoiding double counting of emission reductions or removals</td>
</tr>
<tr>
<td>Sub-criterion 1.1.3: Financial attractiveness</td>
<td>Criterion 1.3: Robust quantification of emission reductions and removals</td>
<td>Quality Objective 3: Addressing non-permanence</td>
</tr>
<tr>
<td>Sub-criterion 1.1.4: Barriers</td>
<td>Weighted Score</td>
<td>Quality Objective 4: Facilitating transition towards net zero emissions</td>
</tr>
<tr>
<td>Weighted score</td>
<td></td>
<td>Quality Objective 5: Strong institutional arrangements and processes of the carbon crediting program</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality Objective 6: Environmental and social impacts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quality Objective 7: Host country ambition</td>
</tr>
</tbody>
</table>

*Source: Own representation*

The methodology deploys different methods to determine and weigh (i.e., consolidate) scores. Two approaches are frequently applied in the methodology and described here in further detail: a point system and "inverse weighing".

**Point system**

In several instances, the methodology uses a point system to determine the score for a criterion or sub-criterion. This means that a series of questions is assessed, for example, about how exactly a carbon crediting program conducts stakeholder consultations. For each of these questions—or subject matters—a point score is assigned. In many instances, one point is assigned if the subject matter is fulfilled. In some instances, higher point scores are assigned, depending on how the subject matter is addressed or to give more weight to some subject matters than to others.

The result of the evaluation determines the total number of achieved points, which is then translated into a score between 1 and 5 using a linear approach: the more points achieved, the higher the score. In addition, the methodology further defines two thresholds:

- **Maximum score threshold:** This represents the number of points needed to receive a score of 5. In most instances, a score of 5 is only assigned if the maximum number of achievable points is obtained. In many instances, however, the methodology assigns a score of 5 even if fewer points are achieved to acknowledge that obtaining fewer than the maximum achievable points likely still reflects a very high quality.
• **Minimum score threshold:** Any sum of points that is equal to or lower than this threshold will result in a score of 1. In many instances, the threshold is set at 50% of the maximum number of achievable points. In some instances different thresholds are used.

Between these two thresholds, the methodology uses a linear correlation to assign the respective score through the following general formula:

\[
\text{Score} = 1 + \frac{(\text{Points achieved} - \text{Minimum score threshold})}{(\text{Maximum score threshold} - \text{Minimum score threshold})} \cdot 4
\]

Figure 2 illustrate an example of this approach in which a point system with a maximum number of achievable points of 10 is assumed to evaluate a carbon crediting program. If the carbon crediting program receives 9 or more points, the criterion is assigned a score of 5. For points between 6 and 8, a proportional score between 2 and 4 is assigned. If the carbon crediting program receives 5 or fewer points, the score is 1.

**Figure 2 Illustration of the point system**

![Illustration of the point system](source: Own representation)

**Inverse weighing**

A key challenge in weighing different quality features of carbon credits is that an overall high quality is only ensured if a carbon credit scores high in *all* criteria. In many instances, a low score in one single criterion may already undermine quality. For example, if a carbon credit receives a low score on additionality it should not be considered high quality, even if it scores highly on how emission reductions or removals are quantified.

To address this challenge, the methodology draws on the approach of “inverse weighing” proposed by Trexler (2019). Inverse weighing means that as the score of a criterion increases, the overall weighing of the criterion decreases. This ensures that a low score in one criterion cannot be easily overcome by high scores in other criteria. At the same time, a high score in one criterion cannot by itself guarantee high quality.
The methodology implements inverse weighing by evaluating for each criterion or sub-criterion the distance from the maximum score of 5. The further a score deviates from 5, the more this influences the combined scoring result. The distance of the achieved score from the maximum possible score of 5 is weighed over-proportionally by using a power function with an exponent \( p \), with the effect that the greater the deviation of the sub-criterion score from the maximum score of 5, the worse the overall score for the criterion. The exponent \( p \) is here uniformly set at 1.3 for the entire evaluation, as a value in this order creates an influential effect on the score but at the same time does not overly weigh a poor score in one of several criteria or sub-criteria. The general formula used for inverse weighing is as follows:

\[
C_x = \text{MAX} \left\{ \frac{1}{6 - \left[w_1 \cdot (6 - SC_1)^p + w_2 \cdot (6 - SC_2)^p + \ldots + w_n \cdot (6 - SC_n)^p\right]} \right\}
\]

Where:
- \( C_x \) = Score for criterion \( x \)
- \( SC_1, SC_2, \ldots, SC_n \) = Scores for sub-criteria 1,2,...,n
- \( w_1, w_2, \ldots, w_n \) = Weighing of the sub-criteria, with \( w_1 + w_2 + \ldots + w_n = 100\% \)
- \( p \) = Exponent

The MAX function sets the lowest possible score that can be achieved at 1. The weightings of the sub-criteria \( (w_1, w_2, \ldots, w_n) \) are used to assign different sub-criteria different relative importance. While this methodology predefines proposed weightings for different criteria, users of the methodology may also develop their own weightings but should document this transparently.

The approach is illustrated in Table 3 for two sub-criteria, 1 and 2, where sub-criterion 1 is weighed with 60% and sub-criterion 2 with 40%. If a carbon credit scores 5 in both sub-criteria, it will receive an overall score of 5 for the criterion. The lower the score is in one of the sub-criteria, the more this influences the overall scoring. For example, if sub-criterion 1 is assigned a score of 3, the combined score varies between 1 and 3.10, depending on the score for sub-criterion 2. This ensures that sub-criterion 1, must be adequately addressed in order to obtain a high overall score.

<table>
<thead>
<tr>
<th>Score for sub-criterion 2 ((w_2 = 40%))</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1.28</td>
<td>2.16</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1.07</td>
<td>2.10</td>
<td>2.97</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1.83</td>
<td>2.85</td>
<td>3.73</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>1.38</td>
<td>2.51</td>
<td>3.54</td>
<td>4.42</td>
</tr>
<tr>
<td>5</td>
<td>1.96</td>
<td>3.10</td>
<td>4.12</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

**Example application of inverse weighing**

A number of criteria in the methodology include example applications in which the methodology is applied to existing examples in the carbon market. The examples in the methodology are included only for the purpose of illustrating how the methodology works. The project team does not assume any liability for the correctness of these applications.
3 The methodology

Quality objective 1: Robust determination of the GHG emission impact of the mitigation activity

This quality objective assesses the degree to which the GHG emissions impact of a project is robustly determined, i.e., whether a project reduces emissions or maintains or enhances removals by at least one tonne of CO₂ equivalent for each carbon credit issued. To assess this, the methodology uses the following criteria:

1.1 Additionality
1.2 Vulnerability (applies to specific market circumstance only)
1.3 Robust quantification of emission reductions and removals

The subsequent sections describe the methodology for each of the three above criteria.

Criterion 1.1: Additionality

Additionality is essential for the quality of carbon credits. Many researchers have highlighted the central role of additionality for the concept of carbon credits and as an essential criterion for determining their quality (see, e.g., Gillenwater (2012) for a seminal discussion on the concept of additionality and Trexler (2019) and Broekhoff et al. (2019) for additionality in the context of credit quality).

Emission reductions or removals from a mitigation activity are additional if the mitigation activity would not have taken place in the absence of the added incentive created by carbon credits. In other words, the ability to sell carbon credits must play a decisive role in the decision to implement the mitigation activity.

If a mitigation activity is not additional, purchasing carbon credits from such an activity does not trigger any further emission reductions or removals, and would thus not offset one’s own emissions. For the purpose of offsetting one’s own emissions, it is important that, for any amount of GHG emissions added to the atmosphere, someone else mitigates the same amount through an activity that they implemented due to the added incentive created by carbon credits. Likewise, if a mitigation activity is not additional, the use of scarce climate finance on an activity that does not need that finance in order to be implemented would lead to a poor overall allocation of resources. So even for uses other than offsetting, it can be argued that additionality is a key component of credit quality.

In practice, assessing whether a mitigation activity is additional can be difficult (Broekhoff et al. 2019; Cames et al. 2017; Schneider 2009; Gillenwater 2012; Michaelowa et al. 2019a) because mitigation activities are implemented for different reasons, either because they are required by laws or regulations or because there is a business case. Assessing additionality requires distinguishing which mitigation activities are implemented due to the incentives created by the carbon credits and which ones are due to other reasons. It requires comparing the mitigation activity to a scenario without the incentives created by the carbon credits. This scenario is hypothetical and must be determined using informed predictions of several parameters (e.g., the development of electricity prices). For this reason, assessment of additionality also faces information asymmetries between project owner and carbon crediting programs because only the project owner knows whether the incentives of carbon credits were indeed decisive for going ahead with the activity (Broekhoff et al. 2019; Gillenwater 2012; Schneider 2009). Because of these uncertainties the methodology can only provide an assessment of the likelihood of the additionality of a mitigation activity.
To assess the likelihood of additionality, the methodology uses the following sub-criteria:

1.1.1 Eligibility of activities that are triggered by legal requirements
1.1.2 Consideration of carbon credits before the decision to proceed with the project and restrictions on the eligibility of existing projects
1.1.3 Financial attractiveness
1.1.4 Barriers

**Sub-criterion 1.1.1: Eligibility of mitigation activities that are triggered by legal requirements**

**Rationale for using this sub-criterion**

Mitigation activities are very unlikely to be additional if their implementation is required by a law, regulation or other legally binding mandate. This sub-criterion therefore assesses whether a mitigation activity is legally required.

For this sub-criterion, a mitigation activity is considered legally required when there are laws, statutes, regulations, court orders, decrees, executive orders, permitting conditions or any other legally binding mandates in place that require its implementation. This includes legal requirements that do not explicitly mandate a certain mitigation activity but implicitly do so, such as a standard limiting emissions that can only be met through a particular technology. A Nationally Determined Contribution (NDC) under the Paris Agreement is not considered a legal requirement under this definition. The methodology addresses the role of NDCs for assessing the quality of carbon credits in detail in quality objective 7.

The regulatory environment in which the mitigation activity takes place may be subject to changes over time. This can lead to a situation in which a mitigation activity that may have originally been implemented due to the incentives from carbon credits would be implemented later on to fulfill newly adopted legal requirements if they are applicable to existing plants. For example, a new regulation for collecting gases from landfills could enter into force after the owner initially installed such systems with the support of the proceeds from carbon credits. In that case, the landfill owner would have to, without proceeds from carbon credits, install the treatment system when the regulation enters into force. Any emission reductions or removals that the system generates after the new legal requirement enters into force would then no longer qualify as additional.

These considerations hold if applicable legal requirements are enforced. Enforcement may vary considerably, however, across countries and even within a country. If legal requirements are not enforced, a legally required mitigation activity might still be additional. The level of law enforcement in a country is, however, hard to measure and an objective assessment remains vulnerable to errors due to information asymmetry between project owners and those that have to verify this information.

Researchers have raised concerns that excluding legally required mitigation activities could create perverse incentives for countries not to adopt such requirements, as enacting stricter environmental regulation would come at the cost of losing revenue streams from the proceeds of carbon credits. On the other hand, if carbon crediting programs would credit activities that are legally required, there is a risk that many non-additional activities would qualify. This dilemma is indeed considered an inherent shortcoming of crediting approaches (Bosi and Ellis 2005; Schneider et al. 2014; Spalding-Fecher 2013; Winkler 2004). In practice, there is no clear evidence that the perverse incentives for countries would be significant, whereas, on the other hand, the risk of non-additional projects would be high if mitigation activities that are legally required could generally be credited.
Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the carbon crediting program as well as the project type and host country, as for some project types or some host countries it may not be plausible that the project is legally required. If the carbon crediting program’s approaches differ between project types, quantification methodologies and/or geographical areas, then this sub-criterion should be separately assessed for the relevant project types, quantification methodologies and/or geographical areas.

Scoring approach

This methodology first assesses whether it is plausible that the relevant project type is or will be legally required in the relevant geographical area. For some project types and geographical areas, such as the use of efficient cookstoves in least developed countries, it may be very unlikely that any relevant legal requirements exist or will be introduced during the crediting periods. In this case, the provisions of the carbon crediting program regarding legal requirements are not relevant and a score of 5 is assigned to this sub-criterion. Otherwise, the scoring depends on the carbon crediting program’s provisions regarding legal requirements.

While most carbon crediting programs include provisions regarding legal requirements, the approaches and stringency of these provisions differ. Some programs grant eligibility to mitigation activities that are legally required in cases where host country authorities systematically do not enforce this requirement. Other programs deem such activities ineligible or do not explicitly address this situation. Some programs apply all of these approaches, differentiating between different project types.

Differences also exist in the extent to which programs have provisions in place for situations in which legal requirements enter into force at a point in time when the project is already operational. While some programs specify that they will cease issuing carbon credits, others do not explicitly address this situation.

The methodology evaluates separately how a program’s provisions treat the eligibility of projects that are required by existing or future legal requirements.

Indicator 1.1.1.1: Consideration of existing legal requirements

The registration of non-additional mitigation activities can be best avoided if the program’s provisions exclude eligibility of mitigation activities that are implemented due to existing legal requirements, regardless of whether the requirements are enforced. Programs with such provisions are scored at 5.

Allowing for exemptions in situations in which legal requirements are systematically not enforced and non-compliance is widespread in the country is more vulnerable to errors, as some activities might still be implemented in order to comply with the legal requirements. Moreover, such exemptions might create perverse incentives for countries not to enforce legal requirements in order not to lose carbon credit revenues. The methodology assigns a score of 3 to programs with such exemptions.

If a program’s provisions do not address the question of how to treat mitigation activities that are legally required or if a program allows mitigation activities to be registered that are required to be implemented due to existing and enforced legal requirements, there is a significant risk for registering non-additional projects. These programs are assigned a score of 1.
Table 4  Scoring approach for existing legal requirements

<table>
<thead>
<tr>
<th>Carbon crediting program requirement</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program’s provisions exclude from eligibility mitigation activities that are required to be implemented due to existing legal requirements, regardless of whether the legal requirements are enforced or not.</td>
<td>5</td>
</tr>
<tr>
<td>The program’s provisions exclude mitigation activities from eligibility that are required to be implemented due to existing legal requirements but allow for exemptions from this provision where the legal requirements are systematically not enforced and non-compliance is widespread in the country.</td>
<td>3</td>
</tr>
<tr>
<td>The program’s provisions do not specifically address this matter, or the program allows mitigation activities to be registered that are required to be implemented due to existing and enforced legal requirements.</td>
<td>1</td>
</tr>
</tbody>
</table>

Example application 1: Climate Action Reserve

The Reserve Offset Program Manual (in its version released on October 23, 2020) requires the incorporation of a legal requirement test in all of its protocols. Each project must pass this standardized additionality test. The Reserve Offset Program Manual defines that:

A project passes the legal requirement test when there are no laws, statutes, regulations, court orders, environmental mitigation agreements, permitting conditions or any other legally binding mandates requiring its implementation or similar measures that would achieve equivalent levels of GHG emission reductions.

In CARs protocols, the specific provisions of the legal requirement test may differ depending on the project type, but CAR further stipulates that no project type will be eligible under the Reserve’s program if the project is required by law. The Reserve’s provisions qualify for a score of 5 as they do not include exemptions in cases in which legal mandates are not systematically enforced.

Indicator 1.1.1.2: Consideration of changes in legal requirements

If a program ceases issuing carbon credits once new legal requirements mandate the implementation of a mitigation activity, this provides an additional safety valve for excluding mitigation activities that are not additional. The methodology assigns these programs a score of 5 if the program immediately ceases crediting once such new legal requirements enter into force, regardless of whether these new legal requirements are systematically enforced or not, and a score of 3 if this only applies to legal requirements that are systematically enforced. Some programs do not require checking for new legal requirements at each issuance of carbon credits, but only at each renewal of a crediting period, allowing projects to continue to issue carbon credits during the currently applicable crediting period. This is scored as 3 if the program ceases crediting regardless of whether they are systematically enforced or not, and a score of 2 if this only applies to legal requirements that are systematically enforced. If a program does not address this matter or allows projects to continue to issue carbon credits, the methodology assigns a score of 1.
Table 5  Scoring approach for future legal requirements

<table>
<thead>
<tr>
<th>Program requirements if new legal requirements enter into force which require the mitigation activity to be implemented</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program immediately ceases issuance of credits when the new legal requirements enter into force, regardless of whether they are systematically enforced or not.</td>
<td>5</td>
</tr>
<tr>
<td>The program immediately ceases issuance of credits when the new legal requirements are systematically enforced.</td>
<td>3</td>
</tr>
<tr>
<td>The program ceases issuance of credits at the end of the current crediting period if new legal requirements entered into force, regardless of whether they are systematically enforced or not.</td>
<td>3</td>
</tr>
<tr>
<td>The program ceases issuance of credits at the end of the current crediting period if new legal requirements entered into force and if these are systematically enforced.</td>
<td>2</td>
</tr>
<tr>
<td>The program does not specifically address this matter or allows projects to continue to issue carbon credits for the remainder of the project lifetime.</td>
<td>1</td>
</tr>
</tbody>
</table>

Example Application 1: Verified Carbon Standard (Verra)

Verra addresses the question of future legally binding mandates in the VCS Standard v4.0, which requires that projects re-assess the activity’s legal status during crediting period renewal:

*The following shall apply with respect to the renewal of the project crediting period under the VCS Program: 1) A full reassessment of additionality is not required when renewing the project crediting period. However, regulatory surplus shall be demonstrated in accordance with the requirements set out in the VCS Program rules and the project description shall be updated accordingly. (See VCS Standard v4.0, page 28)*

This corresponds to a score of 3 for projects implemented in both Annex I and non-Annex I countries.

Example Application 2: Climate Action Reserve (CAR)

The Reserve Offset Program Manual specifies that, as a general rule:

*All project monitoring plans must include procedures that the project owner will follow to periodically ascertain and demonstrate that the project passes the legal requirement test.*

*Notwithstanding any pre-defined crediting period, projects that become required by law will not be eligible to receive CRTs for the reductions they generate, unless otherwise specified in the protocol. Thus, in most cases, if a project becomes subject to a regulation, ordinance or permitting condition that effectively requires its implementation, the project can no longer be considered additional and its crediting period will be terminated. The crediting period will likewise be terminated if the emission sources affected by a project are included under an emissions cap (e.g., under a state or federal cap-and-trade program) or GHG emissions from the project/project site are directly regulated by a local, state or federal agency. As specified in each protocol, emission reductions may be reported to the Reserve until the date that a regulation or emissions cap takes place.*

In a concrete example, the Mexico Landfill Project Protocol Version 1.1 puts this general rule in practice using the following provision:
If an eligible project has begun operation at a landfill that later becomes subject to a regulation, ordinance or permitting condition that would call for the installation of a landfill gas control system, emission reductions can be reported to the Reserve up until the date that the landfill gas control system is legally required to be operational. The Legal Requirement Test must be applied at each verification. (Section 3.4.2.1)

The Reserve will issue CRTs for GHG reductions quantified and verified using this protocol for a period of ten years following the project start date. However, the Reserve will cease to issue CRTs for GHG reductions if at any point in the future landfill gas destruction becomes legally required at the landfill. (section 3.3 Project Crediting Period)

The provisions of the Mexico Landfill Project Protocol therefore meet the requirements outlined above for a score of 5.

**Determination of the score for sub-criterion 1.1.1**

If it is very unlikely that the relevant project type is not and will not be legally required in the relevant geographical area during the crediting periods, then an overall score of 5 is assigned to sub-criterion 1.1.1. Otherwise, the score is calculated based on the following weighing of the two indicators:

\[
SC_{1.1.1} = 0.7 \cdot I_{1.1.1.1} + 0.3 \cdot I_{1.1.1.2}
\]

Where:

- \( SC_{1.1.1} \) = Score for sub-criterion 1.1.1
- \( I_{1.1.1.1} \) = Score for indicator 1.1.1.1
- \( I_{1.1.1.2} \) = Score for indicator 1.1.1.2

The rationale for this weighing is that existing legal requirements are considered to have a greater importance for the likelihood of additionality than changes in legal requirements in the future.

**Sub-criterion 1.1.2: Consideration of carbon credits before the decision to proceed with the project and restrictions on the eligibility of existing projects**

**Rationale for using this sub-criterion**

The likelihood that a mitigation activity is additional is higher if the project owners considered the possibility of receiving carbon credits when they made the decision to proceed with the project (see definition for "decision to proceed with a project" above). If project owners publicly document their intent to register a project before their decision to proceed with it, it is evident that they have considered the possibility of receiving carbon credits. If a project has already been implemented or is under implementation at the time of submission for registration, this is less clear.

Furthermore, if revenues from carbon credits are decisive for the investment decision of a project, project owners will have an incentive to engage as soon as possible with the carbon crediting program to start the process of validation and registration so as to avoid any financial risks to the activity that might result from delays or rejection of the project.

If a mitigation activity operates for a longer time period without revenues from carbon credits and the project owners only, after several years, decide to pursue validation or registration with a carbon crediting program, the likelihood is higher that this activity would also have occurred without the incentives from carbon credits.
Level at which the sub-criterion is assessed

This sub-criterion is assessed on the level of the carbon crediting program. If the carbon crediting program’s approaches differ between project types, quantification methodologies and/or geographical areas, then this sub-criterion should be separately assessed for the relevant project types, quantification methodologies and/or geographical areas.

Scoring approach

The methodology uses two indicators to assess the quality of carbon credits under this sub-criterion. These are presented in the following section. The first indicator will determine the base score for this sub-criterion. Carbon crediting programs that meet the requirements of the second indicator will receive an upgrade by one score point to the score that they received under indicator 1 (with 5 remaining the highest score that can be achieved under this sub-criterion). This reflects that indicator 1 is deemed to be more relevant for the likelihood of additionality compared to indicator 2.

Indicator 1.1.2.1: Requirements for public documentation of the intent of using carbon credits before the decision to proceed with the project

Without any provisions that specify when project owners must publicly document their intent to register a project, the additionality of a mitigation activity becomes less likely. In the absence of deadlines, it may become difficult to ascertain the reasons for a decision to proceed with a project, which can depend on many factors.

This indicator assesses at which point in time a carbon crediting program requires project owners to publicly document their intent to register a project in order to be eligible for registration. This includes whether the intent must be documented before or after the decision to proceed with the project, and if after, the duration in which the intent needs to be documented. The likelihood of additionality is highest if the intent to register a project must be publicly documented before the decision to proceed with the project is made. Programs that have such provisions in place receive a score of 5. A score of 2 is assigned if a program requires that the intent is publicly documented within six months after the decision to proceed with the project is made. If a program allows more than six months to lapse, this indicates a low likelihood of additionality, a score of 1 is assigned, equivalent to a program with no such provisions.

The public documentation of the intent to register a project can take different forms, such as a written notification to the carbon crediting program that states the project owner’s intent, a public documentation that a stakeholder consultation meeting for the project was arranged with documented evidence of the intent to register the project, or a publicly documented initiation of validation. Non-public documents, such as internal meeting minutes, do not qualify as suitable evidence under the methodology.

The ways in which carbon crediting programs require project owners to publicly document their intent of registering a project are not part of the scoring approach, recognizing that different types of public documentation may achieve this purpose.
Table 6  Scoring approach for requirements for public documentation of the intent of using carbon credits before the decision to proceed with the project

<table>
<thead>
<tr>
<th>The program requires public documentation of intent of registering a project</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before the decision to proceed with the project is made</td>
<td>5</td>
</tr>
<tr>
<td>Within six months after the decision to proceed with the project is made</td>
<td>2</td>
</tr>
<tr>
<td>No such requirement, or more than six months are allowed to pass after the decision to proceed with the project is made</td>
<td>1</td>
</tr>
</tbody>
</table>

Example application 1: CDM

The CDM applies a time limit between the decision to proceed with the project and the notification of intent defined as follows:

[…] The project participants shall notify the designated national authority (DNA) of the host Party of the project activity, if the DNA exists, and the secretariat in writing of the commencement of the project activity and their intention to seek the CDM status for the project activity, or, through a DOE, publish the PDD for global stakeholder consultation […], within 180 days of the start date of the project activity as defined in the “CDM project standard for project activities”, by using the “CDM project activity prior consideration form” (CDM-PC-FORM) or the relevant PDD form, respectively.

The CDM grants a grace period of 180 days (i.e., six months) for project owners to submit a letter of notification to the UNFCCC Secretariat and host country designated national authority. This corresponds to a score of 2.

Example application 2: Gold Standard

The Gold Standard requires that project owners conduct a stakeholder consultation prior to the start date of the project. The project start date is defined as the date on which the project owner committed to expenditures related to the implementation of the project. The project owner must inform all relevant (local, affected and interested) stakeholders, including relevant local and national authorities, the Gold Standard Secretariat and all Gold Standard NGO Supporters active in the host country of the project. Although the Gold Standard does not require evidence of a prior consideration for regular projects, the mandatory stakeholder consultations before the decision to proceed with the project, which include the requirement to inform the Gold Standard Secretariat, can be seen as a public documentation of the intent to register the project. This rule therefore corresponds to a score of 5.

Example application 3: Climate Action Reserve

The Climate Action Reserve Offset Program Manual does not include any provisions that require a public documentation of the intent to register a project in relation to the investment decision. This corresponds to a score of 1.

Indicator 1.1.2.2: Restrictions on the eligibility of existing projects

The methodology assesses whether carbon crediting programs place a limit on the time that can lapse after a mitigation activity starts reducing or removing emissions for a project to be eligible under the program.
Placing a limit on the amount of time that can lapse ensures that no projects are accepted that have operated successfully without carbon credits for several years and are thus less likely to be additional.

The time restrictions that carbon crediting programs apply vary widely with regard to the reference points used for measuring the time allowed to lapse for projects to be eligible for registration. Moreover, some programs provide exceptions for specific activities. This is why this indicator only uses a binary assessment of whether or not the program has any restriction in place. The example applications below illustrate the variety of provisions that programs apply.

<table>
<thead>
<tr>
<th>Table 7</th>
<th>Scoring approach for eligibility of existing projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program has time restrictions until when validation or registration needs to be completed for projects that already started the mitigation activity</td>
<td>Upgrade to score received under indicator 1</td>
</tr>
<tr>
<td>Yes</td>
<td>+1 score point</td>
</tr>
<tr>
<td>No</td>
<td>No change</td>
</tr>
</tbody>
</table>

**Example application 1: Verified Carbon Standard (Verra)**

For **projects that do not apply standardized methods for determining additionality**, the VCS applies a time limit between the project start date (defined by Verra as the date when the activity starts to reduce or remove emissions) and the date of project validation as follows:

*Non-AFOLU projects shall complete validation within two years of the project start date. Additional time is granted for non-AFOLU projects to complete validation where they are applying a new VCS methodology. Specifically, projects using a new VCS methodology and completing validation within two years of the approval of the methodology by Verra may complete validation within four years of the project start date.*

*AFOLU projects shall complete validation within five years of the project start date.*

For **projects that do apply a standardized method for determining additionality** the above provisions do not apply. These projects instead must initiate the “project pipeline listing process” within the project validation timelines set out above. Validation may be completed any time thereafter. To initiate the pipeline listing process, project owners must submit the project documents to the Verra Secretariat which will review the documents and creates a project record on the project registry and lists the project status as either under development or under validation.

Verra’s provisions for projects that do not apply standardized methods for determining additionality receive qualify for an upgrade of one score point to the score received under indicator 1.1.2.1.

Verra’s provisions for projects that do apply standardized methods for determining additionality do not qualify for an upgrade under indicator 1.1.2.2. Although projects must initiate the pipeline listing process within two years of the project start date, this does not put a firm time restriction on eligibility of existing projects as validation may be completed any time thereafter. With this provision, a project can operate for two years before it must initiate the pipeline listing process. Once project owners have listed the project, there is no restriction for completing validation.
Example application 2: Climate Action Reserve

The Climate Action Reserve Program Manual specifies that “the timing of project registration may be independent of its start date” (defined by CAR as the as the start of the activity that generates GHG reductions or the “start of operations”) and projects “may be submitted after they begin operation […] or before they begin operation” For projects that are submitted after they begin operation, CAR uses a time limit between the project start date and a step called project listing (in accordance with the CAR provisions a project receives the status “listed” after the following has been met:

- The project owner has paid the project submission fee;
- The project submittal forms are complete;
- The project is eligible according to the eligibility criteria set forth within the appropriate protocol).

The CAR defines the time limit for listing as follows:

> For qualifying projects that have not previously been listed or registered on a greenhouse gas registry or program:

a) For a period of 12 months following the adoption by the Reserve Board of any new protocol, the Reserve will accept projects for listing with start dates (as defined in the protocol) that are no more than 24 months earlier than the date of the Reserve protocol’s adoption. These are considered pre-existing projects.

b) After the 12-month period following the date of the Reserve protocol’s adoption, the Reserve will accept projects for listing with start dates (as defined in the protocol) that are no more than six months prior to the date on which they are submitted. A project submitted within six months of its start date is considered a “new” project.

Unlike some other carbon crediting programs, CAR does not require validation because, it argues, the eligibility criteria are mostly standardized and require minimal interpretative judgement by verification bodies. The first time a project is verified, verification bodies are required to affirm the project’s eligibility according to the provisions defined in the relevant protocol.

Projects under the CAR must complete verification within 12 months of the end of their initial reporting period. The verification deadline is satisfied when project owners submit a completed verification report and signed verification statement. The length of the initial reporting period is defined separately for each methodology. For most methodologies the initial reporting period can cover between 1–2 years.

A project is considered “registered” when the project has been successfully verified by an approved third-party verification body, submitted by the project owner to the Reserve for final approval, and accepted by the Reserve.

A project that fails to meet its initial verification deadline can be re-submitted within 60 calendar days under the latest version of the applicable protocol. Projects that do so are not subject to the start date requirements described above, provided that the project met all applicable requirements at the time of initial submittal.

With these provisions, most projects must complete registration with CAR within 2–3 years after the start of operation. For example, for projects under the grassland methodology, a reporting period may not exceed 12 months in length except for the initial reporting period, which may cover up to 24
months. Furthermore, the initial verification period for a grassland project is limited to one reporting period. Depending on the length of the initial reporting period, a project would have to be verified after 2 years (12-month initial reporting period plus requirement to complete verification within 12 months of the end of the initial reporting period) or 3 years (24-month initial reporting period plus requirement to complete verification within 12 months of the end of the initial reporting period) after the start of operation. Some project types are granted more time as methodologies contain other provisions that extend the time limit for project registration.

The Climate Action Reserve's provisions therefore qualify for an upgrade of 1 score point to the score of 1 received under indicator 1.1.2.1.

**Score for sub-criterion 1.1.2**

To determine the score for sub-criterion 1.1.2, indicator 1.1.2.1 (Requirements for public documentation of the intent of using carbon credits before project implementation) is first assessed using the aforementioned scoring approach. Secondly, indicator 1.1.2.2 is evaluated, (i.e., whether the program has time restrictions until when validation or registration needs to be completed for projects that are already in operation). If the answer to this question is “no,” then the score for indicator 1.1.2.1 is used as the overall score for sub-criterion 1.1.2. If the answer is "yes," the score for indicator 1.1.2.1 is raised by 1 to determine the overall score for sub-criterion 1.1.2. The approach is summarized in Table 8.

### Table 8: Scoring approach for sub-criterion 1.1.2

<table>
<thead>
<tr>
<th>Result for indicator 1.1.2.1</th>
<th>1</th>
<th>2</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result for indicator 1.1.2.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

**Sub-criterion 1.1.3: Financial attractiveness**

**Rationale for using this sub-criterion**

The purpose of carbon credits is to unlock mitigation activities that economic actors would normally not pursue in a given market and policy environment because they are not financially attractive without carbon market revenues or face other barriers that carbon credits could alleviate. The key characteristic of these projects is that their internal rate of return (IRR) is not sufficient to clear the benchmark/hurdle rate that applies for the project type in the country. The financial attractiveness of projects, and whether revenues from carbon credits change the attractiveness, are therefore important indicators for the likelihood of additionality.

**Level at which the sub-criterion is assessed**

This sub-criterion may be assessed at the level of each individual project or at the level of the project type.

Previous analyses of the financial attractiveness of projects registered under carbon crediting programs suggest that financial feasibility without carbon revenues varies strongly between different types of mitigation activities (Cames et al. 2017; Schneider 2009; Sutter und Parreño 2007; Trexler 2019; Trexler et al. 2006). Assessments at the level of the project types can help inform buyers of carbon credits which project types generally have a higher or lower likelihood of being financially
Methodology for assessing the quality of carbon credits

viable. This can help them to identify project types that require more due diligence than others. Assessments at the level of the project type have, however, the disadvantage that they do not consider the specific circumstances of individual projects.

Assessments at the level of the specific project can reflect these differences but are costlier and more cumbersome to implement and—if based on data provided by project owners—might be subject to bias, although third party validation might reduce this risk. While some studies (Greiner und Michaelowa 2003) have pointed to the relative robustness of the investment analysis compared to the barrier analysis, others highlighted its vulnerability to errors (Cames et al. 2017; Schneider 2009). The main challenges include the subjectivity of input assumptions, the information asymmetry between project owners and validators, and a lack of transparency to the assumptions used for undertaking different aspects of the analysis. For a more detailed discussion on these challenges see Cames et al. 2017; Gillenwater 2012; Schneider 2009.

Scoring approach

The likelihood that a mitigation activity is additional depends on three factors that are considered in the assessment of projects or project types:

1. **Financial attractiveness without carbon credit revenues:** Several studies suggest that the likelihood of additionality crucially depends on the financial attractiveness of the project without carbon credit revenues (Greiner und Michaelowa 2003; Cames et al. 2017; Schneider 2009; Sutter und Parreño 2007; Trexler 2019; Trexler et al. 2006). A project that is financially highly attractive may also be implemented without carbon credits (except where barriers prevent its implementation), while projects with a very poor financial performance without carbon credits may be unlikely to be implemented without further support. The most commonly applied indicator for assessing the financial attractiveness of a mitigation activity is its internal rate of return (IRR) in relation to a required benchmark. The higher an activity’s IRR, the more desirable it is for an investor to undertake. If investors face a choice between investing in several different activities, they are likely to undertake the one with the highest IRR first. Therefore, mitigation activities with high IRRs have a lower likelihood of delivering additional emission reductions, whereas mitigation activities with negative or low IRRs have a higher likelihood of delivering additional emission reductions. For these reasons, the mitigation activity’s IRR without carbon credit revenues in relation to the required benchmark IRR is used as the first indicator to assess financial attractiveness.

2. **Change in financial attractiveness due to carbon credit revenues:** If the proceeds from carbon credits have a strong influence in changing the financial attractiveness of an activity, it is more likely that the carbon market revenues are decisive in making the activity financially viable. By contrast, for some activities carbon credit revenues have little influence on their financial viability. In these instances, it may be less likely that the revenues are decisive in making the activity financially viable.

   For this reason, the change in the IRR due to the carbon credit revenues is considered a second indicator to assess financial attractiveness. The higher the change in an activity’s IRR due to the revenues of carbon credits, the higher is the likelihood that this activity’s emission reductions are additional.

3. **Financial attractiveness with carbon credit revenues:** To determine the likelihood of the additionality of a mitigation activity, not only the absolute change in financial attractiveness due to the carbon credits is decisive, but also whether the activity becomes financially viable with
carbon credits. This depends on the extent to which the IRR with carbon credit revenues exceeds the required benchmark that applies in the host country or region for the project type. Therefore, a third indicator applies that assesses the ratio of the activity’s IRR with carbon credit revenues to the required benchmark. This can be derived by calculating the sum of the IRR without carbon credits and the change in the IRR due to the carbon credit revenues, then dividing it by the required benchmark.

The likelihood that the activity is additional is high for values that are clearly above one. Values that are clearly below one signal a low likelihood of additionality, while for values that are just below or above one, a degree of uncertainty remains, signalling a medium likelihood of additionality.

The IRR can be determined for the overall cash flow of a project (often referred to as “project IRR”) or to the cash flow in equity (often referred to as “equity IRR”). In principle, either of the two can be applied, as long as the IRR and the required benchmark IRR are determined consistently. Here, the equity IRR is used.

Which level of benchmark IRR is necessary for investors to proceed with a project depends on the individual risk of the project and the project owner’s access to capital. Usually, the project risk varies strongly between sectors and countries and their investment environments. The methodology therefore uses an expected return on equity (ROE) that applies to the sector and host country of the project. Data on the expected return on equity for different countries and project types is available in the CDM methodological tool for investment analysis.1 The tool differentiates between different project categories to reflect the risk of projects in different sectors, providing country-level data for three different groups of project categories (see Table 9).

To appropriately reflect differences between countries and sectors, the methodology evaluates all three indicators introduced above in relation to the expected ROE that applies in the sector and host country. This addresses differences in the capital markets of host countries. In a country with well-developed capital markets, a relatively small change in the IRR due to the revenues from carbon credits might be enough to clear the benchmark for the required ROE, whereas in countries with less developed capital markets this might not be the case.

**Table 9**  
Project categories in the CDM methodological tool for investment analysis (CDM TOOL 27)

<table>
<thead>
<tr>
<th>Group</th>
<th>Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Energy industries; Energy distribution; Energy demand; Waste handling and disposal</td>
</tr>
<tr>
<td>2</td>
<td>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 CO₂ in geological formations</td>
</tr>
<tr>
<td>3</td>
<td>Afforestation and reforestation; Agriculture</td>
</tr>
</tbody>
</table>

The following steps should be applied to yield 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 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 to calculate the change in financial attractiveness due
to carbon credit revenues. The methodology recommends using the current prices of the
relevant markets for which the project is developed. Assumptions made by the project
owners on expected carbon prices may be used if they are plausible. In the 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 (ΔIRR); 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+ΔIRR).

Step 5: Identify for each project to which group in Table 9 above the project belongs.

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 ΔIRR, and the sum
of IRR and ΔIRR in relation to the expected return on equity (ROE).

\[
V_{1.1.3.1} = \frac{\text{IRR}}{\text{ROE}}
\]
\[
V_{1.1.3.2} = \frac{\Delta \text{IRR}}{\text{ROE}}
\]
\[
V_{1.1.3.3} = \frac{(\text{IRR} + \Delta \text{IRR})}{\text{ROE}}
\]

Where:

\[
V_{1.1.3.1} \quad = \quad \text{Value of indicator 1.1.3.1}
\]
\[
V_{1.1.3.2} \quad = \quad \text{Value of indicator 1.1.3.2}
\]
\[
V_{1.1.3.3} \quad = \quad \text{Value of indicator 1.1.3.3}
\]

Step 8: Determine the score for indicator 1.1.3.1 by using the following formula:

\[
I_{1.1.3.1} = \max \left\{ \frac{1}{6 - \left(1 + 4 \cdot V_{1.1.3.1}^{2.5}\right)} \right\}
\]
Where:
\[ I_{1.1.3.1} = \text{Score for indicator 1.1.3.1} \]
\[ V_{1.1.3.1} = \text{Value of indicator 1.1.3.1} \]

The methodology uses an exponential function to assign indicator 1.1.3.1 a score between 1 and 5. The closer the IRR of a mitigation activity is to the required ROE (i.e., the closer the value of IRR/ROE is to 1), the more sharply the score decreases (Figure 3). This scoring approach aims to reflect that the likelihood of additionality is more similar among mitigation activities with relatively low IRR values (e.g., activities with a value of 0.1 or 0.2 score relatively similar), whereas the distance to the ROE matters more for mitigation activities with higher IRRs (e.g., the likelihood of additionality may differ more strongly between a mitigation activity with a value of 0.9 and one with a value of 0.8).

Figure 3 Illustration of scoring approach for indicator 1.1.3.1

Step 9: Determine the score for indicator 1.1.3.2 by using the following formula:

\[ I_{1.1.3.2} = \text{MAX} \left\{ \frac{1}{6 - \left(1 + 4 \cdot \left(1 - V_{1.1.3.2}^{2.5}\right)\right)} \right\} \]

Where:
\[ I_{1.1.3.2} = \text{Score for indicator 1.1.3.2} \]
\[ V_{1.1.3.2} = \text{Value of indicator 1.1.3.2} \]

Similar to indicator 1.1.3.1, an exponential function is also used for the scoring of indicator 1.1.3.2. As Figure 4 shows, in this case the score decreases exponentially with lower values for indicator 1.1.3.2, as low values indicate a low impact on the financial attractiveness of a mitigation activity.
Step 10: Determine the score for indicator 1.1.3.3 by using the following formula:

\[
I_{1,1.3.3} = \left[ \frac{4}{1 + e^{-1.9 \cdot V_{1,1.3.3} + 6 \cdot \left( \frac{4}{I} - 1 \right)}} + 1 \right]
\]

Where:
- \( I_{1,1.3.3} \) = Score for indicator 1.1.3.3
- \( V_{1,1.3.3} \) = Value of indicator 1.1.3.3

To determine the score for indicator 1.1.3.3, the methodology uses the formula for logistic growth, the so-called S function (Figure 5). The figure shows that the score for indicator 1.1.3.3 initially increases exponentially with increasing values for indicator 1.1.3.3. Around the value of one, which represents the point where IRRs with carbon credit revenues clear the benchmark, and which is the inflection point of the curve, the growth is highest. As for all values above one, IRRs with carbon credits exceed the benchmark, the score continues to increase and approaches the maximum value of 5. Once the benchmark has been cleared by a sufficient margin, the degree of the curve’s slope decreases and the amount by which the rate was cleared becomes less relevant to determining the likelihood of a mitigation activity’s additionality.
Step 11: If the methodology is applied to a project type, calculate the average scores for Indicator 1.1.3.1, Indicator 1.1.3.2 and Indicator 1.1.3.3 for the sample of projects.

Step 12: Determine the overall score for sub-criterion 1.1.3 (financial attractiveness) by using the following formula:

$$SC_{1.1.3} = \text{MAX}\left\{ \frac{1}{\text{MAX} - (0.4 \cdot (6 - I_{1.1.3.1})^{1.3} + 0.4 \cdot (6 - I_{1.1.3.2})^{1.3}) + 0.2 \cdot (6 - I_{1.1.3.3})^{1.3}}} \right\}$$

Where:
- $SC_{1.1.3}$ = Score for sub-criterion 1.1.3
- $I_{1.1.3.1}$ = Score for indicator 1.1.3.1
- $I_{1.1.3.2}$ = Score for indicator 1.1.3.2
- $I_{1.1.3.3}$ = Score for indicator 1.1.3.3

The methodology uses the general formula for inverse weighing to determine the overall score for sub-criterion 1.1.3; therefore, a good overall score for the sub-criterion can only be achieved by good scores for all indicators. At the same time, a bad score for one indicator cannot be compensated by a good score in another, due to the principle that the lower the score achieved for one indicator, the more it weighs in the overall score. Each indicator is weighed differently because both the IRR without carbon credit revenues and the change in IRR with carbon credit revenues are more relevant in determining financial attractiveness than is the extent to which the IRR with carbon credit revenues exceeds the required benchmark.

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.
Example application 1: CDM Project 4702

Project 4702 is a tapioca starch wastewater biogas extraction and utilization project that entails the installation and operation of an anaerobic digester system with biogas recovery, using the Up-flow Anaerobic Sludge Blanket (UASB) technology. The project owners estimated that without carbon credits this project would have an equity IRR of 2.52% and that carbon credit revenues would increase the IRR to 25.48%. The change in the equity IRR is thus 22.96 percentage points. The project is a waste handling and disposal project and falls in the group 1 project categories from Table 9. It takes place in Viet Nam, where the CDM methodological tool for investment analysis provides an expected return on equity of 14% for group 1 project categories. Using the formulas above, the following values are determined for the three indicators:

\[
V_{1.1.3.1} = \frac{\text{IRR}}{\text{ROE}} = \frac{2.52}{14} = 0.18
\]

\[
V_{1.1.3.2} = \frac{\Delta \text{IRR}}{\text{ROE}} = \frac{22.96}{14} = 1.64
\]

\[
V_{1.1.3.3} = \frac{(\text{IRR} + \Delta \text{IRR})}{\text{ROE}} = \frac{(2.52 + 22.96)}{14} = 1.82
\]

Where:
- \(V_{1.1.3.1}\) = Value of indicator 1.1.3.1
- \(V_{1.1.3.2}\) = Value of indicator 1.1.3.2
- \(V_{1.1.3.3}\) = Value of indicator 1.1.3.3

Inserting these values into the scoring formula results in a score of 4.93 for the project. Project owners assumed a carbon price of USD 10/ton CO₂e for their calculation of the IRR with carbon credits, which was considered a plausible assumption at the time of the project’s submission in 2006.

Example application 2: CDM Project 1550

Project 1550 is a renewable energy project involving the installation of eight 1250 kW wind turbine generators. The project owners estimated that without carbon credits this project would have an equity IRR of 9.19% and that revenues from carbon credits would increase it to 10.75%. The change in the equity IRR is therefore 1.56 percentage points. The project is an energy industry project and thus falls in the group 1 project categories. It takes place in India, where the CDM methodological tool for investment analysis provides an expected return on equity of 10.73 for group 1 project categories. Using the formulas above, the following values can be calculated for the IRR, the \(\Delta \text{IRR}\) and the sum of IRR and \(\Delta \text{IRR}\) in relation to the country benchmark:

\[
V_{1.1.3.1} = \frac{\text{IRR}}{\text{ROE}} = \frac{9.19}{10.73} = 0.86
\]

\[
V_{1.1.3.2} = \frac{\text{IRR}}{\text{ROE}} = \frac{1.56}{10.73} = 0.15
\]

\[
V_{1.1.3.3} = \frac{(\text{IRR} + \Delta \text{IRR})}{\text{ROE}} = \frac{(9.19 + 1.56)}{10.73} = 1
\]
Where:
\[ V_{1.1.3.1} = \text{Value of indicator 1.1.3.1} \]
\[ V_{1.1.3.2} = \text{Value of indicator 1.1.3.2} \]
\[ V_{1.1.3.3} = \text{Value of indicator 1.1.3.3} \]

Inserting these values into the formula for the combined score for sub-criterion 1.1.3 results in a score of 1 for the project.

While the carbon credits help the project clear the stated benchmark rate for this project, their contribution to the overall financial attractiveness is very small. Project owners assumed a carbon price of USD 10/ton CO\textsubscript{2}e for their calculation of the IRR with carbon credits, which was considered a plausible assumption at the time of the project’s submission in 2006.

**Sub-criterion 1.1.4: Barriers**

**Rationale for using this sub-criterion**

Some mitigation activities are financially viable but still face other obstacles to implementation, such as information deficits or capacity constraints. In some instances, the institutional set-up of carbon crediting projects and the issuance of carbon credits can help to overcome these barriers. For example, carbon credit revenues can be used to distribute for free a technology (e.g., clean cookstoves) that households would otherwise not acquire due to the upfront costs, even though its use would provide economic benefits to them. These barriers therefore can be important factors that prevent the implementation of a project even though it would be financially profitable.

An objective demonstration of barriers is difficult to operationalize because barriers are specific to local contexts. The CDM in its *Guidelines for objective demonstration and assessment of barriers* in 2009 introduced a requirement to monetize barriers as part of the investment analysis. The objective of this requirement is to ensure that project owners provide objective and verifiable evidence that barriers indeed prevent the implementation of the project.

In additionality tests of carbon crediting programs, the assessment of barriers often is used as a complement to the investment analysis. Project owners may apply the barrier analysis when their project is financially viable but is stalled by barriers.

The application of this sub-criterion is optional. This sub-criterion should be used in combination with the sub-criterion on *financial attractiveness*. It may function as an additional criterion for activities where the assessment has shown a high financial attractiveness even without carbon credits.

**Level at which the sub-criterion is assessed**

This sub-criterion may be assessed at the level of the project type, or a combination of project type and host country.

**Scoring approach**

The methodology employs an expert judgment on the likelihood that barriers prevent the implementation of a project type and that these barriers indeed can be overcome through the incentives of carbon credits. When arriving at this judgment the aspects in Table 10 should be evaluated.
Table 10  Questions for conducting an expert analysis on barriers

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the project type face considerable non-financial barriers that can be identified in an objective and verifiable manner?</td>
</tr>
<tr>
<td>Is it possible to produce objective and verifiable evidence that the identified barriers are unique to the project type and do not apply to alternatives?</td>
</tr>
<tr>
<td>Is the market uptake of the technology underpinning the project type low although it is financially viable/competitive?</td>
</tr>
<tr>
<td>Can the barriers for this project type not be mitigated by additional financial means (and hence be assessed through the investment analysis)?</td>
</tr>
<tr>
<td>Is it possible to produce objective and verifiable evidence that carbon credits are indeed decisive for overcoming the barrier, and does the incentive for carbon credits match the strength of the barrier? (Note that this criterion can be assessed by analyzing the ΔIRR in the analysis of financial viability. The higher the ΔIRR is, the more likely it may be that the revenues from the carbon credits help overcome the barriers.)</td>
</tr>
</tbody>
</table>

Table 11  Scoring approach for barriers

<table>
<thead>
<tr>
<th>Score</th>
<th>It is very likely that barriers prevent the implementation of this project type and that carbon credits incentivize overcoming them.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>It is very likely that barriers prevent the implementation of this project type and it is likely that the incentives through carbon credits will overcome these barriers. OR It is likely that barriers prevent the implementation of this project type and it is very likely that the incentives through carbon credits will overcome these barriers.</td>
</tr>
<tr>
<td>4</td>
<td>It is likely that barriers prevent the implementation of this project type and that the incentives through carbon credits overcome these barriers.</td>
</tr>
<tr>
<td>3</td>
<td>It is likely that barriers prevent the implementation of this project type, but it is uncertain that the incentives through carbon credits will overcome these barriers.</td>
</tr>
<tr>
<td>2</td>
<td>It is likely that barriers do not prevent the implementation of this project type and that the incentives through carbon credits do not help the project to overcome these.</td>
</tr>
<tr>
<td>1</td>
<td>Rationale for using this criterion</td>
</tr>
</tbody>
</table>

Criterion 1.2: Vulnerability (applicable to collapsed markets only)

In market situations in which the supply of carbon credits from already registered and implemented projects considerably exceeds the current and expected future demand for carbon credits, the purchase of carbon credits does not necessarily trigger further emission reductions. In such a market situation, carbon credits are stranded assets. Creating new demand for these carbon credits does not lead to further emission reductions if the projects would continue GHG abatement anyways, regardless of whether they can sell carbon credits.

This criterion therefore only applies to carbon credits from markets where the supply from already implemented projects exceeds the current demand and if there is no prospect for the market to return to an equilibrium in the future. The methodology refers to this situation as a “collapsed market” and below defines the conditions of a collapsed market. Currently, this situation only applies to the CDM.
In a collapsed market, a key consideration for the global GHG emissions effect of creating new demand for carbon credits is whether the projects would continue to reduce GHG emissions even without carbon credit revenues, or whether they are at risk of discontinuing GHG abatement without these revenues. This concept is also referred to as “vulnerability” to discontinuing GHG abatement (Warnecke et al. 2017; Warnecke et al. 2019; Schneider and Cames 2014). Two types of projects are distinguished:

- **Vulnerable projects** are at risk of discontinuing GHG abatement without ongoing carbon credit revenues. This typically applies to projects which do not generate revenues or cost savings other than from carbon credits or to projects for which the carbon credit revenues at the current market price are lower than the ongoing operational expenditure (OPEX) for continuing GHG abatement. This applies, for example, to landfill gas flaring or to N₂O abatement from nitric acid production. Purchasing carbon credits from vulnerable projects could enable these projects to continue their GHG abatement and may trigger further emission reductions that would not also occur without the demand for carbon credits.

- **Non-vulnerable projects** are likely to continue GHG abatement even without carbon credit revenues. The main feature of “non-vulnerable projects” is that they have a source of income besides revenues from selling carbon credits and that this income exceeds the OPEX for continuing GHG abatement. Although these revenues might not be enough to fully service debt obligations and other capital related cost of the project, these projects are likely to continue the mitigation activity because this is still financially more attractive than stopping the mitigation activity. Hence, project owners might be able to restructure their debt, or lenders would continue the mitigation activity in case a default of the current project owner cannot be averted. This situation usually applies, for example, to solar or hydro power generation. In a collapsed market, purchasing carbon credits from non-vulnerable projects is unlikely to trigger further emission reductions that would not also occur without the demand for carbon credits.

A collapsed market is usually unable to support the continuation of vulnerable projects, as the market prices are lower than the marginal costs to continue GHG abatement (Fearnehough et al. 2018; Warnecke et al. 2019). Buying carbon credits from these projects can be an intervention that ensures that these mitigation activities are not lost for the atmosphere.

While vulnerability hinges on market conditions and not the nature of the carbon credit itself, it is an important criterion in the event of a collapsed market to ensure that purchasing carbon credits has a global GHG emission effect. The methodology specifically recognizes that vulnerability is not a relevant consideration in a functioning market and cautions that applying the criterion in all market situations may disincentivize the initiation of mitigation projects that have high upfront investment costs compared to their operational expenditures. Its application is therefore limited to collapsed markets only.

**Level at which the criterion is assessed**

The criterion can be assessed on the project type level or on the individual project level in the second step. For some project types, an assessment at the level of the project type may be sufficient to inform buyers. For example, hydro and wind power projects are typically deemed not to be vulnerable to the risk of discontinuing GHG abatement. Clean cookstoves, HFC-23, and nitric and adipic acid projects, on the other hand are typically deemed to be vulnerable. Analysis has, however, shown that for some activity types, such as the use of biomass, the local conditions are an important factor for determining whether continuation of an activity results in further emission reductions (Warnecke et al. 2017). For these types of activities, an assessment at the project level may be useful.
Conceptually, the stepwise approach for assessing vulnerability presented in the following section can be applied both to the project type and project level.

**Scoring approach**

In the first step, the methodology provides guidance on how to define the market for a carbon credit and how to determine whether this market can be characterized as collapsed.

In the following steps, the methodology determines whether an individual project or a project type (in the context of a specific host country) is considered vulnerable. The approach draws strongly on a methodology developed by Warnecke et al. (2017), who applied it to assess the vulnerability of different types of mitigation activities. The methodology starts by identifying all plausible scenarios for the future course of a mitigation activity when losing the revenue from carbon credits. In the following steps the scenarios are ranked by their financial attractiveness and tested against potential factors that might prevent the occurrence of a scenario in a given environment and institutional setting. Figure 6 outlines the different steps of the methodology, which are presented in more detail in the following section.

**Figure 6 Steps for assessing the vulnerability of activities to discontinuing GHG abatement**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Identify continuation and discontinuation scenarios</td>
<td>Cont. scenario 1, Cont. scenario 2, Discont. scenario 1, Discont. scenario 2, Discont. scenario 3, Discont. scenario 4</td>
</tr>
<tr>
<td>2</td>
<td>Assess applicable laws and regulations</td>
<td>Cont. scenario 2, Discont. scenario 1</td>
</tr>
<tr>
<td>3</td>
<td>Assess financial benefits and costs</td>
<td>Discont. scenario 1, Discont. scenario 3, Cont. scenario 1</td>
</tr>
<tr>
<td>4</td>
<td>Assess whether barriers prevent scenarios</td>
<td>Discont. scenario 1, Discont. scenario 3, Cont. scenario 1</td>
</tr>
<tr>
<td>Result</td>
<td>Determine the most likely project scenario</td>
<td>The highest ranked remaining scenario is the likely course of action</td>
</tr>
</tbody>
</table>

Source: Warnecke et al. 2017

**Step 1: Assessment of the market condition**

This step provides guidance on how to define the market for a carbon credit and how to determine whether this market can be characterized as collapsed. The following sub-steps should be applied:
1. Identify the relevant market for the carbon credit:

In identifying the relevant market, it is important to consider the boundaries of a specific "market". A market is not necessarily defined by the type of credit (e.g., a CER issued under the CDM) but by the sources of demand under which the credits are eligible for use. It therefore makes sense to define a market in terms of the fungibility of credits. For example, all CERs that are eligible for use in the EU ETS could be considered one market. However, some of these CERs may also be eligible in markets that face scarcity and where prices might be higher, such as CERs that are eligible in the South Korean ETS or CERs from landfill gas projects that are eligible under the Pilot Auctioning Facility of the World Bank. Generally, a market is defined by the terms and conditions of specific compliance markets or purchase programs.

2. Assess whether the market is collapsed:

The most relevant indicator to determine whether a carbon market has collapsed is the carbon credit price. Low credit prices point towards an oversupply of carbon credits. The relevant price threshold may depend on the certainty the buyers would like to have that the market is not over-supplied. As a proxy, a market may be considered functioning if the credit price exceeds the marginal transaction costs of issuing carbon credits by at least by a factor of two or three.

Furthermore, a market may be considered collapsed if the credit supply from registered projects in the market significantly exceeds the known expected demand for carbon credits.

Currently, only the market for CERs is collapsed, with the exception of CERs that are eligible in markets that have scarcity, such as CERs eligible under the South Korea ETS or CERs eligible under the World Bank’s Pilot Auctioning Facility.

Step 2: Identifying continuation and discontinuation scenarios

There are many ways project owners can react when market conditions make the monetization of carbon credits from a mitigation activity impossible. One potential course of action could be to stop the activity and dismantle the mitigation equipment. Another could be to adjust the activity to make it financially viable without carbon credits. Yet another action the project owner could take is to abandon the mitigation equipment, but other actors might find a way to continue the mitigation activity without the revenues from carbon credits.

Mapping out the different courses into distinct scenarios is the first step of the methodology. Project design documents and other project documentation can serve as sources of information for constructing the scenarios. If applied on the project type level a representative sample of projects can be assessed.

The scenarios can be clustered into two categories:

- **Continuation scenarios**: All scenarios in which the mitigation activity continues to operate.

- **Discontinuation scenarios**: All scenarios in which the mitigation activity is not continued.

These scenarios form the basis for the assessment. In the following steps, the methodology identifies which of the scenarios is the most likely course of action that a project will take once it does no longer receives revenues from carbon credits.
Step 3: Assessing applicable legal requirements

This step considers how applicable legal requirements affect the feasibility of the scenarios identified in step 2. This step should be applied to both continuation and discontinuation scenarios. Scenarios that would breach relevant applicable legal requirements should be removed from further analysis.

This analysis may be applied at one of the following two levels:

- **Project or project type in the context of a specific host country**: This approach analyzes the specific situation in the relevant host country. For example, project owners might not be able to go ahead with dismantling the mitigation equipment because laws and regulations at that point in time require project owners to continue mitigation. Likewise, despite being financially feasible without carbon credits, a mitigation activity might not continue because it is not compliant with legal requirements.

- **Carbon crediting program**: This approach assesses whether a carbon crediting program has provisions in place for ceasing the issuance of carbon credits once new legal requirements enter into force. In this case the program prevents carbon credit issuance to projects that would continue GHG abatement due to new legal requirements. In this case, the project continuation scenario can be considered in compliance with relevant legal requirements. Other scenarios cannot be assessed in this simplified step and should be deemed to be also compliant with relevant legal requirements. To assess applicable legal requirements at the level of the carbon crediting program, the relevant indicator in the methodology to assess additionality can be used (indicator 1.1.1.2 in section 1.1.1).

Step 4: Assessing financial benefits and costs

After assessing applicable legal requirements, this step ranks the remaining scenarios in order of their financial attractiveness through a cost-benefit analysis of each scenario.

*Rational choice theory* assumes that economic actors will base their decision on whether to continue an activity on expected costs and benefits from that activity in the future. Past costs and expenditures (such as CAPEX) are not included in the decision-making process. This means that the financial attractiveness of a project depends on whether its income exceeds the operational expenditure in the absence of carbon credits. Only OPEX and benefits (i.e., revenues or cost savings, with the exception of carbon market revenues) are therefore considered in the analysis.

The analysis should exclude costs and benefits that uniformly occur under all scenarios. Warnecke et al. illustrate this with the example of capturing biogas through manure management on a livestock farm. A part of the operational cost, such as the cost for collecting the manure, might be the same under all plausible scenarios. Other costs, such as the operation of a biodigester, only apply to some scenarios. As the costs for manure collection occur in all scenarios, they are excluded in the cost-benefit analysis.

Data for costs and benefits could be obtained from different sources, such as project design documents. As these documents sometimes contain assumptions that no longer apply to the current market situation (e.g., on the price level for electricity), further due diligence through literature review and interviews with local experts may be conducted to validate the analysis.

The analysis may start with looking at the benefits of the mitigation activity. Because the purpose of the analysis is to determine whether the benefits exceed the costs, there is no further need to assess
the costs if there are no benefits under a scenario. In cases in which a scenario has benefits, an assessment of the costs is necessary to see how the two compare.

**Step 5: Assessing whether barriers prevent scenarios**

After the scenarios have been ranked in step 4, this step assesses whether any of the scenarios faces non-financial barriers that exclude it from being the course of action. For conducting the barrier assessment, the same approach described in section 1.1.4 (barriers) is applied using an expert judgement. All scenarios that face non-financial barriers and are scored at 5 or 4 should be removed from further consideration.

This analysis usually is quite specific to the local context and may be more reliable if applied in the specific context of a host country.

**Step 6: Determination of vulnerability**

Following the previous steps, the most financially attractive scenario is deemed the most likely course of action if revenues from carbon credits are no longer available. If this is a continuation scenario, the project is deemed to have a low vulnerability to discontinue GHG abatement (score of 1). If the scenario is a discontinuation scenario, and it is either the only remaining scenario or any other scenarios are financially significantly less attractive, then the vulnerability is deemed to be high (score of 5). In other instances (e.g., where a continuation and discontinuation scenario may be equally plausible) no clear conclusion can be drawn on vulnerability (score of 3).

<table>
<thead>
<tr>
<th>Degree of Vulnerability</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Vulnerability</td>
<td>5</td>
</tr>
<tr>
<td>Vulnerability not conclusive</td>
<td>3</td>
</tr>
<tr>
<td>Low Vulnerability</td>
<td>1</td>
</tr>
</tbody>
</table>

**Criterion 1.3: Robust quantification of emission reductions and removals**

A robust quantification of emission reductions and removals is key to ensuring integrity. The methodology uses two sub-criteria to assess this criterion:

1.3.1 The robustness of the general program principles and provisions for determining emission reductions and removals

1.3.2 The robustness of the quantification methodologies applied to determine emission reductions and removals

**Sub-criterion 1.3.1: Robustness of the general program principles and provisions for determining emission reductions and removals**

**Rationale for using this sub-criterion**

Carbon crediting programs should establish general principles and provisions that support the robust quantification of emission reductions and removals under the program. It is important to note that while programs must have such principles and provisions in place, adherence to these provisions does not guarantee that emission reductions and removals will be accurately and conservatively
estimated. Even with these provisions in place, individual quantification methodologies may vary significantly in their methods and quantification risks. Consequentially, this sub-criterion has a lower weight in the overall assessment of the robustness of the quantification of emission reductions and removals.

Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the carbon crediting program. If the carbon crediting program's approaches differ between project types and/or geographical areas, then this criterion should be separately assessed for the relevant project types and/or geographical areas.

Scoring approach

The methodology assesses different questions in relation to general program principles and provisions and uses a point system to arrive at an overall score (see Table 13).

<table>
<thead>
<tr>
<th>Table 13</th>
<th>Questions for program principles and provisions for determining emission reductions and removals</th>
</tr>
</thead>
<tbody>
<tr>
<td>General carbon crediting programs principles and provisions for quantification of emission reductions and removals</td>
<td></td>
</tr>
<tr>
<td>Methodology development process</td>
<td></td>
</tr>
<tr>
<td>1.3.1.1</td>
<td>The program has quantification methodologies in place and available for use, as well as a process for developing new or updating existing quantification methodologies.</td>
</tr>
<tr>
<td>1.3.1.2</td>
<td>Approved quantification methodologies (or general program provisions) address the following essential components:</td>
</tr>
<tr>
<td></td>
<td>• Applicability or eligibility criteria</td>
</tr>
<tr>
<td></td>
<td>• Determination of the project boundary</td>
</tr>
<tr>
<td></td>
<td>• Determination of additionality</td>
</tr>
<tr>
<td></td>
<td>• Establishing the baseline scenario</td>
</tr>
<tr>
<td></td>
<td>• Quantification of emission reductions</td>
</tr>
<tr>
<td></td>
<td>• Monitoring practices</td>
</tr>
<tr>
<td>1.3.1.3</td>
<td>The program requires that, as part of the approval process, new quantification methodologies undergo expert review by an independent technical panel or working group.</td>
</tr>
<tr>
<td>1.3.1.4</td>
<td>The program requires that the approval of new quantification methodologies must include a public stakeholder consultation.</td>
</tr>
<tr>
<td>1.3.1.5</td>
<td>The program requires that all quantification methodologies be reviewed and updated at least every five years to verify that they continue ensuring environmental integrity. The program may provide for exceptions from this rule (e.g. in case of rarely used quantification methodologies or if the review is pending due to forthcoming decisions by other bodies such as governments or guidance setting institutions).</td>
</tr>
<tr>
<td>1.3.1.6</td>
<td>The program has procedures in place to suspend the use of quantification methodologies in cases where new information, such as new scientific studies, indicate that emission reductions or removals are being over-estimated or that additionality may not be ensured.</td>
</tr>
<tr>
<td>Principles for quantifying emission reductions or removals</td>
<td></td>
</tr>
<tr>
<td>1.3.1.7</td>
<td>The program clearly defines that a carbon credit unit represents one metric ton of CO₂ equivalent of GHG emission reductions or removals and identifies the underlying GWP values used to calculate the CO₂ equivalence (e.g., the source of the GWP value and the time horizon used).</td>
</tr>
</tbody>
</table>
1.3.1.8 The program requires in its general program provisions (rather than only in its specific quantification methodologies) that emission reductions or removals be determined in a conservative manner (rather than using the most accurate estimate) to ensure that emission reductions or removals are not overestimated (this prioritization of conservativeness over accuracy acknowledges that uncertainty exists with even the most accurate estimates)
OR
The program requires in its general program provisions (rather than only in its specific quantification methodologies) that emission reductions or removals be determined in a conservative manner (rather than using the most accurate estimate) to ensure that emission reductions or removals are not overestimated, unless emission reductions or removals can be determined with a very high accuracy, in which case no conservativeness needs to be included in the quantification.

1.3.1.9 The program requires in its general program provisions that, before approving a methodology, the level of uncertainty of emission reductions and removals is identified, or that a provision is included in the methodology requiring that each project applying the methodology must determine the level of uncertainty in quantifying the emission reductions or removals.

1.3.1.10 The program requires in its general program provisions (rather than only in its specific quantification methodologies) that the degree of conservativeness in quantifying emission reductions or removals be based on the magnitude of uncertainty in the estimation of emission reductions and removals (i.e., applying a larger degree of conservativeness in case of higher uncertainties).

1.3.1.11 The program explicitly requires in its general program provisions (rather than only in its specific quantification methodologies) that existing government policies and legal requirements which lower GHG emissions (e.g., feed-in tariffs for renewable energy, minimum product efficiency standards, air quality requirements, or carbon taxes) must be included when determining the baseline emissions.

1.3.1.12 The program explicitly requires in its general program provisions (rather than only in its specific quantification methodologies) that new government policies and legal requirements which lower GHG emissions (e.g., feed-in tariffs for renewable energy, minimum product efficiency standards, air quality requirements, or carbon taxes) must be included when determining the baseline emissions, once they enter into force. This means that baseline emissions may need to be adjusted during the crediting period, and not only when a regular review of the baseline emissions is required (e.g., at the renewal of the crediting period).

1.3.1.13 The program has established procedures to invalidate and/or replace carbon credits under circumstances in which the emission reductions or removals are demonstrated to have been overestimated.

**Crediting period length and renewal**

1.3.1.14 The maximum length of the sum of crediting periods is

a. up to 40 years for afforestation/reforestation projects and up to 10 years for all other project types

OR

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2 This indicator does not apply to announcements that have not yet been operationalized within the country, such as mitigation targets communicated in Nationally Determined Contributions (NDCs) or Low Emission Development Strategies (LEDS), or other similarly broad national goal-setting policies. However, the implementing policies developed to accomplish objectives within NDCs or LEDS would need to be considered (if relevant to the project in question).
Methodology for assessing the quality of carbon credits

This sub-criterion is assigned a score of 5 if a carbon crediting program receives the maximum possible number of points (24 points). The sub-criterion is assigned a score of 1 if a carbon crediting program receives 12 or fewer points. For any points between 12 and 24, a proportional score between 1 and 5 is assigned using the general formula for point systems (see chapter 2).

Accordingly, the score for sub-criterion 1.3.2 is determined as follows:

\[
SC_{1.3.2} = 1 + \frac{(Points - 12)}{(24 - 12)} \cdot 4
\]

Where:

\[SC_{1.3.1} = \text{Score for sub-criterion 1.3.1}\]

Sub-criterion 1.3.2: Robustness of the quantification methodologies applied to determine emission reductions or removals

Rationale for using this sub-criterion

Whether emission reductions or removals are overestimated or underestimated depends largely on the robustness of the specific quantification methodologies used. The methodology therefore requires assessing the robustness of these quantification methodologies, drawing upon independent assessments in the literature if available.

Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the project type and the quantification methodologies used by carbon crediting programs to determine emission reductions and removals. In some instances, different versions of quantification methodologies may differ substantially. In these cases,

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3 Explanation: For some project types (e.g., the construction of a highly efficient cement plant), an alternative investment with a similar lifetime would be undertaken in the absence of the incentives from the carbon credits (e.g., the construction of a less efficient cement plant). In these cases, a reassessment of additionality at the renewal of the crediting period is not necessary because it is not possible that the project would be implemented at a later stage without the incentives from the carbon credits. By contrast, for some project types (e.g., installation of a landfill gas capture system), no alternative investment would be undertaken in the absence of the incentives from the carbon credits (e.g., no collection of landfill gas). In these cases, it is possible that in the absence of the incentives from the carbon credits, the project would become viable at a later stage and be implemented (e.g., due to higher electricity prices for electricity from landfill gas). In these cases, it is therefore necessary to reassess the additionality of at the renewal of the crediting period.
different versions of these quantification methodologies may need to be assessed separately. Some carbon crediting programs also combine different quantification methodologies to determine the overall emission reductions or removals (e.g., by combining a “baselines and monitoring methodology” with several “methodological tools”). In these instances, the assessment should cover all quantification methodologies that can be expected to have a material impact on the overall outcome.

**Scoring approach**

In crediting emission reductions or removals, it is good practice to estimate them in a conservative manner. This means that the approach should err on the side of underestimating emission reductions or removals resulting from the project. Furthermore, the degree to which emission reductions or removals are underestimated should depend on the uncertainty of the emission reductions or removals: the larger the uncertainty, the more conservative an approach is recommended. In practice, some quantification methodologies are likely to lead to underestimation of the emission reductions or removals, whereas others are likely to lead to an overestimation. The degree of underestimation or overestimation can also vary significantly.

Judging the conservativeness of quantification methodologies is challenging for three reasons. First, given that the emission reductions or removals are determined against a counter-factual baseline scenario, there can be considerable uncertainty as to how much emissions are reduced, or removals enhanced. Second, many mitigation activities can involve significant indirect emissions changes upstream and downstream of the mitigation activity. And third, whether the overall approach is conservative depends on many factors which need to be assessed in conjunction to arrive at an overall assessment. Some factors might lead to overestimation while others could lead to underestimation. The assessment for this sub-criterion therefore needs to reflect the likely net impact of all of these factors.

The various—and sometimes significant—revisions that many quantification methodologies have undergone over time demonstrate the difficulties that technical experts and policy-makers face when considering what methodological approaches are best suited to quantify emission reductions. The available experience and literature suggest that the suitability of different approaches depends on the project type, context, and data availability, among other factors.

The methodology therefore employs an expert judgment of the conservativeness of the quantification methodologies, based on a detailed and disaggregated consideration of the different assumptions and parameters used to qualify emission reductions or removals. In arriving at this judgment, the following aspects should be evaluated with regard to the overall robustness and conservativeness of emission reductions and removals:

1. **Selection of emission sources for calculating emission reductions or removals:** This relates to whether all major project and leakage emission sources are included and whether the choice of sources included and excluded is conservative.

2. **Determination of baseline emissions:** This includes:
   - the degree to which the baseline is conservative and below business-as-usual, in the light of the uncertainties and taking into account the choice of approaches, assumptions, parameters, data sources and other factors (e.g., whether sound science is applied);
   - whether implemented government policies and legal requirements are considered in determining the baseline;
• whether new government policies and legal requirements, once adopted, are considered in determining the baseline;

• whether any potential perverse incentives are appropriately taken into account in determining the baseline, where applicable;

• whether fast-changing circumstances, where applicable, are appropriately considered in establishing the baseline (e.g., by using dynamic baselines to reflect autonomous energy efficiency improvements);

• whether mitigation targets and actions in NDCs or LEDSs are considered in determining the emissions baseline, where applicable (e.g., where NDCs include specific goals for the renewable electricity penetration, these goals should be reflected in establishing an emission factor for the electricity system).

3. **Determination of project emissions**: This includes the degree of stringency or conservativeness of the approaches in light of uncertainties, taking into account the choice of approaches, assumptions, parameters, data sources and other factors (e.g., whether “sound science” is applied).

4. **Determination of leakage emissions**: This includes:

• the degree of stringency or conservativeness of the approaches in light of uncertainties, taking into account the choice of approaches, assumptions, parameters, data sources and other factors (e.g., whether “sound science” is applied);

• the degree to which indirect effects, such as perverse incentives, rebound effects or “market leakage” (e.g., reducing deforestation in one site could lead to an increase in deforestation in other sites if the underlying market drivers such as palm oil demand are not affected by the project) are material and, if so, whether and how they are taken into account.

The evaluation should be based on an analysis of the respective quantification methodologies, relevant literature and other relevant documents (e.g., stakeholder inputs to the methodology development process).

Some quantification methodologies include both ex-ante and ex-post methods to determine emission reductions. In these instances, only the ex-post methods (i.e., those used to issue carbon credits) should be considered in the evaluation.

The evaluation should identify all elements in the quantification methodologies that may potentially contribute to overestimating or underestimating emissions reductions or removals, as well as those elements that create significant uncertainty but for which the direction of the impact is uncertain (Table 14). For each identified element the following information should be provided where possible:

- **Fraction of projects affected by this element**: This parameter refers to the likely fraction of individual projects (applying the same methodology) that are affected by this element, considering the potential portfolio of projects. “Low” indicates that the element is estimated to be relevant for less than one third of the projects, “Medium” for one to two thirds of the projects, “High” for more than two third of the projects, and “All” for all of the projects. “Unknown” indicates that no information on the likely fraction of projects affected is available.

- **Average degree of under- or overestimation where element materializes**: This parameter refers to the likely average degree / magnitude to which the element contributes to an over- or
underestimation of the total emission reductions or removals for those projects for which this element materializes (i.e., the assessment shall not refer to average over- or underestimation resulting from all projects). “Low” indicates an estimated deviation of the calculated emission reductions or removals by less than 10% from the actual (unknown) emission reductions or removals, “Medium” refers to an estimated deviation of 10 to 30%, and high refers to an estimated deviation larger than 30%. “Unknown” indicates that it is likely that the element contributes to an over- or underestimation (e.g., overestimation of emission reductions in case of an omitted project emission source) but that no information is available on the degree/magnitude of over- or underestimation. Where relevant information is available, the degree of over- or underestimation resulting from the element may be expressed through a percentage range.

- **Variability among projects where element materializes:** This refers to the variability with respect to the element among those projects for which the element materializes. “Low” means that the variability of the relevant element among the projects is at most ±10% based on a 95% confidence interval. For example, an emission factor may be estimated to vary between values from 18 and 22 among projects, with 20 being the mean value. “Medium” refers to a variability of at most ±30%, and “High” of more than ±30%.

<table>
<thead>
<tr>
<th>Table 14</th>
<th>Relevant elements of assessment and qualitative ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Element</strong></td>
<td>Fraction of projects affected by this element</td>
</tr>
<tr>
<td>Elements likely to contribute to overestimating emission reductions or removals</td>
<td></td>
</tr>
<tr>
<td>Description of element #1</td>
<td>Low / Medium / High / All / Unknown</td>
</tr>
<tr>
<td>Description of element #2</td>
<td>Low / Medium / High / All / Unknown</td>
</tr>
<tr>
<td>Elements likely to contribute to underestimating emission reductions or removals</td>
<td></td>
</tr>
<tr>
<td>Description of element #3</td>
<td>Low / Medium / High / All / Unknown</td>
</tr>
<tr>
<td>Description of element #4</td>
<td>Low / Medium / High / All / Unknown</td>
</tr>
<tr>
<td>Elements with unknown impact</td>
<td></td>
</tr>
<tr>
<td>Description of element #5</td>
<td>Low / Medium / High / All / Unknown</td>
</tr>
<tr>
<td>Description of element #6</td>
<td>Low / Medium / High / All / Unknown</td>
</tr>
</tbody>
</table>

Based on this analysis, an overall expert judgment should be provided on the degree of conservativeness in light of the uncertainty of the emission reductions or removals, as set out in Table 15 below. The assessment is based on the likelihood that the emission reductions or removals are underestimated, estimated accurately, or overestimated, applying probability assignments used in IPCC assessment reports (IPCC 2010):

- A score of 5 is provided if it is very likely (i.e., a probability of more than 90%) that the emission reductions or removals are underestimated. This applies if the degree of conservativeness of the approach is sufficiently high in the light of the uncertainty. For example, if the uncertainty in the
Quantification of emission reductions or removals is very low (e.g., 5%), it may be sufficient to use slightly conservative approaches (e.g., underestimating the likely accurate estimate by about 5%). By contrast, if the uncertainty is high, the quantification approach would need to apply very conservative approaches. In other words, the critical parameter is the probability that emission reductions or removals are underestimated. A score of 4 is provided if it is likely (i.e., a probability of more than 66%) that the emission reductions are underestimated.

- If the emission reductions or removals are likely to be estimated accurately (i.e., there is about the same probability that they are overestimated or underestimated), the assessment depends on the degree of uncertainty in the estimates. If the uncertainty is low (i.e., up to 10%), a score of 4 is provided. With larger uncertainties, a score of 3 or 2 is assigned.

- If the emission reductions or removals are likely (i.e., a probability of more than 66%) or very likely (i.e., a probability of more than 90%) to be overestimated, the degree of overestimation is considered an important parameter. The larger an overestimation is, the lower is the assigned score.

If the quantification methodologies provide project owners with different options to determine the emission reductions or removals, these different options should be considered in the evaluation. Where information is available that one option is predominantly used (and likely to continue to be used in the future), the evaluation should be based on this predominant approach. If no such information is available or no approach is predominant, then the least conservative option (or combination of options) should be used to arrive at the scoring of the quantification methodology.

Quantification methodologies may also be applied in different local or project-specific contexts. For example, some solid waste disposal sites are covered with material that leads to some oxidation of landfill gas while sites may not have such a cover. If there is information available that a specific context is likely to be predominant (among existing and potential future projects), then the evaluation should be conducted for this predominant context. If no such information is available or if one context is not predominant, the evaluation should, as a conservative approach, be based on the context that leads to less robust quantification of the emission reductions or removals.
### Table 15

**Scoring approach for the robustness of the quantification methodologies applied to determine emission reductions or removals**

<table>
<thead>
<tr>
<th>Assessment outcome</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is very likely (i.e., a probability of more than 90%) that the emission reductions or removals are underestimated, taking into account the uncertainty in quantifying the emission reductions or removals</td>
<td>5</td>
</tr>
</tbody>
</table>
| It is likely (i.e., a probability of more than 66%) that the emission reductions or removals are underestimated, taking into account the uncertainty in quantifying the emission reductions or removals OR  
The emission reductions or removals are likely to be estimated accurately (i.e., there is about the same probability that they are underestimated or overestimated) and uncertainty in the estimates of the emission reductions or removals is low (i.e., up to ±10%) | 4     |
| The emission reductions or removals are likely to be estimated accurately (i.e., there is about the same probability that they are underestimated or overestimated) but there is medium to high uncertainty (i.e., ±10-50%) in the estimates of the emission reductions or removals OR  
It is likely (i.e., a probability of more than 66%) or very likely (i.e., a probability of more than 90%) that the emission reductions or removals are overestimated, taking into account the uncertainty in quantifying the emission reductions or removals, but the degree of overestimation is likely to be low (i.e., up to ±10%) | 3     |
| The emission reductions or removals are likely to be estimated accurately (i.e., there is about the same probability that they are underestimated or overestimated) but there is very high uncertainty (i.e., larger than ±50%) in the estimates of the emission reductions or removals OR  
It is likely (i.e., a probability of more than 66%) or very likely (i.e., a probability of more than 90%) that the emission reductions or removals are overestimated, taking into account the uncertainty in quantifying the emission reductions or removals, and the degree of overestimation is likely to be medium (±10-30%) | 2     |
| It is likely (i.e., a probability of more than 66%) or very likely (i.e., a probability of more than 90%) that the emission reductions or removals are overestimated, taking into account the uncertainty in quantifying the emission reductions or removals, and the degree of overestimation is likely to be large (i.e., larger than ±30%) | 1     |

### Determination of the combined score for quality objective 1

The overall score for quality objective 1 is determined through the following steps:

**Step 1: Assessment of the market condition**

1. Follow the steps outlined in section 1.2 to assess the market condition, i.e., whether the relevant market for the carbon credit can be considered functioning or collapsed.

2. If the market can be characterized as functioning, proceed with the additionality assessment in step 2. If the market can be characterized as collapsed, proceed with the vulnerability analysis in step 3.
Step 2:  Additionality

1. Determine the score for all sub-criteria using the scoring approach described in the respective section.

2. Apply the general formula for inverse weighing to determine the overall score for the additionality criterion:

$$\begin{align*}
\text{C}_{1.1} &= \text{MAX}\left\{ 1 \right. \\
&\left. \quad \left[ 6 - (0.4 \cdot (6 - \text{SC}_{1.1.1})^{1.3} + 0.2 \cdot (6 - \text{SC}_{1.1.2})^{1.3}) \\
&\quad \quad + 0.4 \cdot (6 - (\text{SC}_{1.1.3}; \text{SC}_{1.1.4})^{1.3}) \right] \right\}
\end{align*}$$

Where:

- $\text{C}_{1.1}$ = Score for criterion 1.1
- $\text{SC}_{1.1.1}$ = Score for sub-criterion 1.1.1
- $\text{SC}_{1.1.2}$ = Score for sub-criterion 1.1.2
- $\text{SC}_{1.1.3}$ = Score for sub-criterion 1.1.3
- $\text{SC}_{1.1.4}$ = Score for sub-criterion 1.1.4

Inverse weighing is here applied because a good performance in one of the three sub-criteria cannot compensate for a poor performance in another sub-criterion. To have high quality, projects should score highly on all three sub-criteria. The use of inverse weighing ensures that a credit that receives a poor score in one sub-criterion cannot receive a good overall score.

Note that sub-criterion 1.1.3 (financial attractiveness) and sub-criterion 1.1.4 (barriers) are used as alternative sub-criteria. While it is recommended to assess both sub-criteria, only the sub-criterion with the higher score is included in the calculation of the overall score for additionality. In exceptional circumstances, for project types where the available information clearly demonstrates that they typically face barriers, only barrier analysis may be applied. Likewise, where the available information suggests that barriers are very unlikely to exist or to be prohibitive, only the financial analysis may be applied. Further note that more weight is allocated to sub-criterion 1.1.1 (legal requirements) and sub-criterion 1.1.3 or 1.1.4 (financially attractiveness or barriers) than to sub-criterion 1.1.2 (prior consideration), as a high scoring against these two sub-criteria is deemed to provide a higher assurance of the likelihood of additionality.


Step 3:  Vulnerability

1. Follow the steps described in section 1.2 to determine the score for this criterion.

2. Proceed to step 4.

Step 4:  Robust quantification of emission reductions and removals

1. Determine the score for all sub-criteria using the scoring approach described in the respective sections.

2. Use the following formula to arrive at the overall scoring for this criterion:

$$\text{C}_{1.3} = 0.15 \cdot \text{SC}_{1.3.1} + 0.85 \cdot \text{SC}_{1.3.2}$$
Where:

\[ C_{1.3} = \text{Score for criterion 1.3} \]
\[ SC_{1.3.1} = \text{Score for sub-criterion 1.3.1} \]
\[ SC_{1.3.2} = \text{Score for sub-criterion 1.3.2} \]

Note that more weight is assigned to sub-criterion 1.3.2 as the robustness of the quantification methodologies is deemed to have a stronger influence on the overall robustness of quantification than the program provisions.

Step 5: Determine the overall score quality objective 1

1. Use the following formula to determine the overall score for cluster 1:

\[
Q_1 = \max\left\{ 6 - \left( 0.65 \cdot (6 - (C_{1.1} + C_{1.2}))^{1.3} + 0.35 \cdot (6 - C_{1.3})^{1.3} \right) \right\}
\]

Where:

\[ Q_1 = \text{Score for quality objective 1} \]
\[ C_{1.1} = \text{Score for criterion 1.1} \]
\[ C_{1.2} = \text{Score for criterion 1.2} \]
\[ C_{1.3} = \text{Score for criterion 1.3} \]

Note that more weight is given to criteria 1.1 and 1.2 because the additionality or vulnerability of the mitigation activity is considered more crucial to the robust determination of the GHG emission impacts of the mitigation action than the robust quantification of emission reductions and removals. Table 16 illustrates how different scores for the criteria translate into an overall score for quality objective 1.

<table>
<thead>
<tr>
<th>Score for criterion 1.3 (Robust quantification)</th>
<th>Score for criterion 1.1 (Additionality)</th>
<th>Score for criterion 1.2 (Vulnerability)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>1.20</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>1.71</td>
</tr>
</tbody>
</table>
Quality objective 2: Avoiding double counting of emission reductions or removals

Double counting of emission reductions or removals refers to a situation in which a single greenhouse gas emission reduction or removal is counted more than once towards achieving mitigation targets or goals. Double counting can occur in different ways. The methodology distinguishes between three forms of double counting:

1. **Double issuance** means that more than one carbon credit is issued for the same emission reduction or removal. Double issuance leads to double counting if more than one of these carbon credits is counted towards achieving mitigation targets or goals. Some programs and stakeholders also refer to double registration—the registration of the same project under two different carbon crediting programs or twice under the same program. Double registration can lead to double issuance if carbon crediting programs do not implement proper controls to ensure that, if a project is registered with more than one program, carbon credits are cancelled by one program before carbon credits are issued by another program for the same emission reductions or removals.

2. **Double use** means that the same carbon credit is counted twice to achieve a climate target or goal. This could, for example, occur if the same credit is cancelled twice or if two entities claim emission reductions or removals from the cancellation of one carbon credit.

3. **Double claiming** occurs if the same emission reduction or removal is claimed by a country, jurisdiction or entity that reports lower emission levels to demonstrate achievement of mitigation targets, goals or obligations, as well as by the country or entity using the carbon credit. For instance, a reduction or removal may be claimed by the host country when reporting lower emission levels to demonstrate implementation and achievement of its NDC, as well as by the country or entity using the carbon credit. Double claiming can also occur if carbon credits are issued for emission reductions or removals in sectors covered by an ETS or other mandatory domestic mitigation scheme.

The methodology addresses each of these forms of double counting. This includes assessing the robustness of registry and project database systems of carbon crediting programs, as such systems are a key prerequisite for avoiding all three forms of double counting. The methodology thus uses the following four criteria:

2.1 Robust registry and project database systems
2.2 Avoiding double issuance
2.3 Avoiding double use
2.4 Avoiding double claiming

The assessment of these criteria is mostly conducted at the level of the carbon crediting program and to some extent at the level of the host country. The methodology strongly draws on relevant decisions under the Paris Agreement and builds on the Guidelines for Avoiding Double Counting with CORSIA (ClimateWorks Foundation; Meridian Institute; Stockholm Environment Institute 2019).

The term “host country” is used here to denote the country where the mitigation activity is implemented (e.g., where the hydro power plant is located). In most instances, the emission reductions or removals occur in the same country; however, in some instances, mitigation activities in one country may result in emission reductions or removals in another country. In this case, avoiding double counting requires distinguishing these countries.
Applicability of the double counting criteria

What forms of double counting need to be avoided will depend on the purpose for which carbon credits are used. It is generally accepted that under all circumstances, registry and project database systems must be robust (criterion 2.1), and double issuance (criterion 2.2) and double use (criterion 2.3) must be avoided.

With regard to avoiding double claiming (criterion 2.4), the decisions on Article 6 of the Paris Agreement, adopted at COP26 in Glasgow, clarify that double claiming with the host country NDC must be avoided when the carbon credits are internationally transferred and used towards achieving NDCs or used for international mitigation purposes (e.g. CORSIA). There is also broad consensus that corresponding adjustments are not necessary for carbon credits issued and used in the host country towards domestic commitments (i.e. in the absence of international transfer). The same holds if carbon credits are used only as a vehicle to disburse results-based climate finance. Lastly, there is broad consensus that double counting due to overlap with ETSs or other mandatory domestic mitigation schemes (i.e. where a carbon credits is generated in a directly or indirectly covered sector) should be avoided.

Stakeholders hold varying views regarding whether, or under which circumstances, the use of carbon credits towards voluntary targets constitutes double claiming or whether and under which circumstances double claiming with host country NDC should be avoided when using carbon credits towards voluntary commitments. Concerns from different groups around the application of a corresponding adjustment include concerns about the flow of carbon finance towards carbon market activities; host country involvement, engagement and readiness to provide Article 6 authorizations; potential perverse incentives related to the progression in scope and ambition of the company targets and host country NDCs; concerns related to environmental integrity and the validity and transparency of claims by carbon credit buyers; incentives for companies to engage in beyond value chain mitigation; and incentives for companies to support ambitious climate policy in their own countries.

To reflect stakeholder views and the fact that many countries in the near term will lack the capacity and administrative readiness to provide authorization and implement corresponding adjustments, this methodology allows users to determine two different scorings:

1. **Scoring for Article 6 authorized carbon credits (ITMO scoring approach):** These credits must be authorized by the host country and, in accordance with Article 6 rules, the host country will apply a corresponding adjustments. This scoring approach includes criteria related to avoiding double claiming with the host country NDC and host country ambition (sub-criteria 2.4.1 and 2.4.2 and criteria 7.1 to 7.3); and

2. **Scoring for carbon credits that are not Article 6 authorized:** This scoring approach applies to carbon credits for which double claiming with the host country NDC is not avoided. As these credits are not authorized by the host country, a corresponding adjustment will not be applied. This scoring approach omits the criteria related to avoiding double claiming with the host country NDC and host country ambition.

**Criterion 2.1: Robust registry and project database systems**

**Rationale for using this criterion**

Robust registry and project database systems are a key prerequisite for avoiding all three forms of double counting and thus a cross-cutting requirement for addressing double counting risks. Avoiding double use requires that programs have registry systems in place that effectively prevent a carbon
credit from being duplicated, cancelled more than once, so that only a single cancellation claim is made for a carbon credit. To prevent double registration, project database systems need to include sufficiently detailed information on registered activities. Similarly, preventing double claiming requires robust tracking of transfers of carbon credits, next to other functionalities.

Level at which the criterion is assessed

This criterion is assessed at the level of the carbon crediting program.

Scoring approach

Drawing on the Guidelines for Avoiding Double Counting with CORSIA (ClimateWorks Foundation; Meridian Institute; Stockholm Environment Institute 2019), the methodology identifies key functionalities of a program’s registry and project data system for avoiding double use (and other forms of double counting) and assesses the extent to which the program has these functionalities in place, using a point system set out in Table 17.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.1 The registry is capable of securely effectuating the issuance, transfer, and cancellation of carbon credits.</td>
<td>1</td>
</tr>
<tr>
<td>2.1.2 The registry tags each carbon credit with a unique identifier (e.g., serial number) and each carbon credit is clearly associated with a specific issuance.</td>
<td>1</td>
</tr>
<tr>
<td>2.1.3 The program has established procedures to clearly identify the owner of a carbon credit, including which entities are entitled to request for the issuance, transfer or cancellation of a carbon credit.</td>
<td>1</td>
</tr>
<tr>
<td>2.1.4 The registry or project database system makes relevant information on carbon credits readily available to users and the public in a user-friendly format, including:</td>
<td>1</td>
</tr>
<tr>
<td>a. The project to which the carbon credit was issued, including unique identifying information about the project</td>
<td>1</td>
</tr>
<tr>
<td>b. The host country of the relevant project (i.e., the country where the project is implemented)</td>
<td>1</td>
</tr>
<tr>
<td>c. Information on the status of the credit (e.g., cancelled or active).</td>
<td>1</td>
</tr>
<tr>
<td>2.1.5 The program has established provisions that identify, or allow the public to identify, for each carbon credit, or each block of carbon credits, the period in which the emission reductions or removals occurred.</td>
<td>1</td>
</tr>
<tr>
<td>2.1.6 The program administers a publicly accessible, transparent and easily searchable project database that provides relevant information needed to avoid double counting. The project database may operate as a separately functioning system or be incorporated as part of the program’s registry system. The database provides a unique identifier for each project that can be cross-referenced with carbon credits issued in the program’s registry, so that project information can be identified for every carbon credit issued within the registry.</td>
<td>1</td>
</tr>
</tbody>
</table>

The project database makes, moreover, the following information accessible, either by means of data entries or by means of documents made available through the database:
Methodology for assessing the quality of carbon credits

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. A description of the project, including information on the mitigation</td>
<td>1</td>
</tr>
<tr>
<td>technologies</td>
<td></td>
</tr>
<tr>
<td>b. The emission sources, sinks, and greenhouse gases included in the</td>
<td>1</td>
</tr>
<tr>
<td>calculation of the project’s emission reductions or removals, along</td>
<td></td>
</tr>
<tr>
<td>with the location(s) of all relevant sources and sinks</td>
<td></td>
</tr>
<tr>
<td>c. The country and geographical location where the project is implemented,</td>
<td>1</td>
</tr>
<tr>
<td>and any other information needed for the project to be unambiguously</td>
<td></td>
</tr>
<tr>
<td>identified and distinguished from other projects that may occur in the</td>
<td></td>
</tr>
<tr>
<td>same location</td>
<td></td>
</tr>
<tr>
<td>d. The project owners.</td>
<td>1</td>
</tr>
</tbody>
</table>

**Maximum achievable points** 12

**Determination of the score for criterion 2.1**

The score for criterion 2.1 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (12 points). A score of 1 is assigned if 6 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[
C_{2.1} = 1 + \frac{(\text{Points} - 6)}{(12 - 6)} \cdot 4
\]

Where:

\[
C_{2.1} = \text{Score for criterion 2.1}
\]

**Criterion 2.2: Avoiding double issuance**

Double issuance can occur in different ways. Two sub-criteria are used to assess the extent to which double issuance is avoided:

2.2.1 Avoiding double issuance due to double registration

2.2.2 Avoiding indirect overlaps between projects

Double issuance can also occur if a project overlaps in scope with a sectoral crediting approach—for example, if individual REDD+ projects are not properly incorporated into sectoral REDD+ carbon crediting programs. The methodology assumes that the responsibility for avoiding such overlaps lies with the jurisdiction implementing the sectoral crediting approach. Such potential overlap is therefore not considered in the assessment of double issuance risk from individual projects.

**Sub-criterion 2.2.1: Avoiding double issuance due to double registration**

**Rationale for using this sub-criterion**

Double issuance could occur if the same project is registered twice (either under the same program or under two different programs) and if carbon credits are issued simultaneously under both programs for the same emission reductions or removals.

**Level at which the sub-criterion is assessed**

This sub-criterion is assessed at the level of the carbon crediting program.
Scoring approach

Carbon crediting programs can employ different approaches to manage this risk. Some programs have explicit provisions that address the transition of projects between carbon crediting programs. If a project is registered with more than one program, carbon crediting programs should ensure that carbon credits are cancelled by one program before carbon credits are issued by another program for the same emission reductions and removals. To ensure that these cancellations cannot be claimed for any other purposes, carbon crediting programs should also require that the cancellations be clearly designated for the purpose of allowing the reissuance under another program.

Some programs require legal attestations from project owners that confirm that they have not, and will not, request issuance of carbon credits for the same emission reductions or removals under more than one program. This requirement signals to project owners that they must not request registration under another program or must not request double issuance of carbon credits. It also provides a basis for taking legal or regulatory action against project owners that knowingly do so, within the same program or within multiple programs.

Some programs also conduct checks to verify that carbon credits issued for registered projects are not also issued by another program for the same emission reductions or removals (unless the credits have been cancelled under other programs prior to reissuance under the current program). Programs can coordinate with each other to implement such checks, which can consist of a review of the project databases of other programs and/or coordinated communication with other programs' staff at the time a project is submitted for registration or when project owners request an issuance. Checks may be undertaken by program staff or by verification bodies as part of required verification duties.

The scoring approach for this sub-criterion follows a point system based on the evaluation of these aspects (see Table 18). If a program has basic provisions in place to manage the transition of projects to another program, 2 points are awarded. An additional point is awarded if a program requires legal attestations from project owners or if the program conducts checks, or requires validation and verification entities to verify, that double issuance does not occur. The overall score depends on the total number of points: a score of 5 is given for 4 points, a score of 4 for 3 points, a score of 3 for 2 points, a score of 2 for 1 point, and a score of 1 for 0 points.
Methodology for assessing the quality of carbon credits

### Table 18: Scoring approach for avoiding double issuance due to double registration

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2.1.1</td>
<td>The program has basic provisions in place which manage the transition of projects from one to another program and either avoids registration of the same project under two programs or, if double registration is permitted, has basic provisions in place to ensure that carbon credits for the same emission reductions or removals cannot be issued under the same program or must be cancelled under one program before they can be issued under another.</td>
<td>2</td>
</tr>
<tr>
<td>2.2.1.2</td>
<td>The program also requires legal attestations from project owners that confirm that they have not and will not request issuance of carbon credits for emission reductions or removals from more than one program.</td>
<td>1</td>
</tr>
<tr>
<td>2.2.1.3</td>
<td>The program also conducts checks, or requires validation and verification entities to verify, that already registered projects have not, and will not, be issued carbon credits in any other programs for emission reductions or removals for which the program is also issuing carbon credits (unless the credits have been cancelled under other programs prior to reissuance under the current program).</td>
<td>1</td>
</tr>
</tbody>
</table>

**Maximum achievable points** 4

#### Example application: Clean Development Mechanism (CDM)

The CDM does not have provisions in place to avoid double issuance due to double registration with other carbon crediting programs. Designed to serve the Kyoto Protocol, the mechanism is considered the only mechanism applicable to developing countries for which carbon credits can be used under the Kyoto Protocol. The CDM includes a procedure to de-register projects, which may facilitate the avoidance of double registration if projects intend to register under another program. However, none of the criteria above is addressed. The CDM is thus assigned a score of 1. It should be noted that, in practice, the risk of double issuance due to double registration is low because most other carbon crediting programs have relevant procedures in place.

#### Sub-criterion 2.2.2: Avoiding indirect overlaps between projects

**Rationale for using this sub-criterion**

Double issuance can also occur indirectly, through overlapping claims by different entities involved in mitigation projects. Such overlapping claims can happen if two projects claim emission reductions or removals from the same greenhouse gas emission source or sink; they are not limited to projects implemented in the same geographical area. Overlapping claims can, for example, occur when different entities involved in the production and/or consumption of the same good or service, such as a biofuel, claim carbon credits for the same emission reductions or removals.

**Level at which the sub-criterion is assessed**

This sub-criterion is assessed at the level of the carbon crediting program and the project type, as this risk is only applicable to some types of projects. Moreover, if the carbon crediting program's approaches differ between quantification methodologies and/or geographical areas, then this sub-criterion should be separately assessed for the relevant quantification methodologies and/or geographical areas.
Scoring approach

This methodology first assesses whether there is a risk of indirect overlaps for the project type concerned. Indirect overlaps between projects can only occur in cases where projects, in calculating their emission reductions or removals, include emissions sources that occur at other sites than where the project is implemented (also referred to as "indirect" emissions or "upstream" or "downstream" emissions). Table 19 provides examples for which project types this risk is relevant. For project types for which this risk is not relevant, the score is 5. For other project types, the scoring depends on the carbon crediting program’s procedures to address this risk (Table 20).

Table 19 Examples of project types with and without potential indirect overlaps between projects

<table>
<thead>
<tr>
<th>Project types with potential indirect overlaps between projects</th>
<th>Project types without potential indirect overlaps between projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Landfill gas utilization</td>
<td>• Landfill gas flaring</td>
</tr>
<tr>
<td>• Renewable electricity generation</td>
<td>• Avoidance of N₂O from nitric or adipic acid production</td>
</tr>
<tr>
<td>• Biomass use</td>
<td>• Energy efficiency improvements in thermal on-site applications</td>
</tr>
<tr>
<td>• Composting</td>
<td></td>
</tr>
</tbody>
</table>

Some carbon crediting programs have explicit requirements, procedures or guidelines to address overlaps between registered projects, whereas others do not have respective provisions in place. Programs also differ in whether they only address overlaps between projects registered within the same program or also address overlaps with projects registered under other programs.

A simple and robust way of avoiding indirect overlaps is limiting the program scope to project types that do not involve this risk. This, however, considerably narrows the scope of the program. This approach is assigned a score of 5.

Within a program, overlaps between projects can be avoided if the program defines the boundaries for different project types such that overlap does not occur (e.g., in the quantification methodology used for forest management projects, excluding any accounting for carbon stored in wood products). In some cases, this may mean allowing eligibility for certain kinds of project activities and disallowing others (e.g., allowing only biomass consumers to register a project, not the biomass producers). Adopting appropriate eligibility criteria and quantification methodologies is usually straightforward within a single program. However, this approach does not address a possible overlap with projects registered under other programs. This approach is therefore assigned a score of 3.

An alternative approach is implementing the following two principles that aim to ensure that overlaps are avoided between projects registered under different programs:

- If a project’s quantification methodology includes emission reductions at a source that is not located at the project site but upstream or downstream of the project, and a second project reduces emissions directly at this same source, then the emission reduction calculation for the first project should use an emission factor for the source that takes into account the implementation of the second project. This ensures that the first project cannot claim the emission reductions caused and claimed by the second project. Likewise, the second project should not count any incremental reductions associated with the effects of the first project.
- If a project’s quantification methodology includes emission increases at a source that is not located at the project site but upstream or downstream of the project, and a second project...
reduces emissions directly at this same source, then the emission reduction calculation for the first project should use an emission factor for this source that ignores the effects of the second project (i.e., that reflects the emissions level that would occur in the absence of the second project). This ensures that the first project cannot (in effect) claim the emission reductions caused and claimed by the second project.

Examples for implementing these principles are included in the Guidelines for Avoiding Double Counting with CORSIA (ClimateWorks Foundation; Meridian Institute; Stockholm Environment Institute 2019). Programs that implement these principles receive a score of 5.

### Table 20 Scoring approach for avoiding indirect overlaps between projects

<table>
<thead>
<tr>
<th>Program requirements</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program only credits those types of projects for which overlaps between projects are very unlikely to occur.</td>
<td>5</td>
</tr>
<tr>
<td>The program has robust provisions in place that effectively identify and avoid overlaps between projects registered within the program and projects registered under other programs (see principles above).</td>
<td>5</td>
</tr>
<tr>
<td>The program has robust provisions in place that effectively avoid overlaps between projects registered within the same program.</td>
<td>3</td>
</tr>
<tr>
<td>The program does not have robust provisions in place to avoid indirect overlaps between projects.</td>
<td>1</td>
</tr>
</tbody>
</table>

### Criterion 2.3: Avoiding double use

**Rationale for using this criterion**

As indicated above, robust registry systems are a key prerequisite for avoiding double use. Whether these systems are in place is assessed as part of criterion 2.1 above. Double use could, however, also occur if the same carbon credit cancellation is used for more than one claim to achieve climate targets or goals. Currently, most carbon programs leave it up to the carbon credit buyers to ensure a single cancellation is not used for more than one purpose. Carbon crediting programs can ensure in two ways that such double use is avoided. First, their registry and project database systems can provide for functionalities that allow the carbon credit holders to specify the purpose for which a carbon credit is cancelled. Alternatively, carbon crediting programs could require all users to specify the purpose. The level of detail provided in documenting cancellations and requirements also plays a role for facilitating that double use is avoided.

**Level at which the criterion is assessed**

This criterion is assessed at the level of the carbon crediting program.

**Scoring approach**

Table 21 sets out the scoring approach for this criterion, using the point system introduced in chapter 2.
Table 21  Scoring approach for avoiding double use

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3.1</td>
<td>To address the risk of double use due to the cancellation of one carbon credit for more than one purpose, the registry system has functionalities to document the purposes for which carbon credits are used.</td>
</tr>
<tr>
<td>2.3.2</td>
<td>The program requires users of carbon credits (and/or their representatives) to transparently and unambiguously specify, either within the registry system or in another information system, the following information in relation to a cancellation:</td>
</tr>
<tr>
<td>a.</td>
<td>The voluntary goal or requirement that is achieved through the cancellation of the carbon credits (e.g., &quot;for voluntary offsetting purposes&quot; or &quot;CORSIA offsetting obligation&quot;)</td>
</tr>
<tr>
<td>b.</td>
<td>The beneficiary, i.e. which entity's voluntary goals or mandatory requirements are met (e.g. &quot;XYZ Airlines&quot;)</td>
</tr>
<tr>
<td>c.</td>
<td>The calendar year(s) for which these voluntary goals or requirements are achieved (e.g., &quot;2024 offsetting requirement covering the 2021-2023 compliance period under CORSIA&quot;).</td>
</tr>
<tr>
<td>2.3.3</td>
<td>The program enables the users of the carbon credits to voluntarily make the information in relation to a cancellation publicly accessible through the registry or project database system. OR The program requires that the information provided by the users of the carbon credits in relation to a cancellation be made publicly accessible through the registry or project database system.</td>
</tr>
</tbody>
</table>

Maximum achievable points 8

Determination of the score for criterion 2.3

The score for criterion 2.3 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (8 points). A score of 1 is assigned if no points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[ C_{2.3} = 1 + \frac{Points}{8} \cdot 4 \]

Where:

\[ C_{2.3} \quad = \quad \text{Score for criterion 2.3} \]

Criterion 2.4: Avoiding double claiming

Avoiding double claiming is essential for achieving environmental integrity. Double claiming can occur at two different levels:

1. **With host country NDCs:** This can occur if an emission reduction or removal is claimed by the host country when it reports lower emission levels to demonstrate implementation and achievement of its NDC and by the country or entity using the carbon credit. This form of double claiming is only applicable if double claiming with the host country NDC should be avoided.

2. **With mandatory domestic mitigation schemes:** This can occur if carbon credits are issued for emission reductions or removals in sectors covered by an ETS or other mandatory domestic mitigation scheme.
If double claiming is not prevented, actual greenhouse gas emissions could end up being higher than what the participating countries, jurisdictions or private entities report, thereby undermining the credibility of the carbon markets.

Avoiding double claiming with host country NDCs requires several procedures to be in place to enable robust accounting, consistent with Article 6 and relevant decisions under the Paris Agreement. Both host countries and carbon crediting programs need to have procedures to facilitate and implement the necessary steps to avoid double claiming. Avoiding double claiming with ETSs and other mandatory domestic mitigation schemes requires that carbon crediting programs establish standards and procedures to avoid such overlap. Therefore, the methodology uses three sub-criteria to assess double claiming risks associated with carbon credits:

2.4.1 Host country provisions for avoiding double claiming with its NDC
2.4.2 Carbon crediting program provisions for avoiding double claiming with NDCs
2.4.3 Avoiding double claiming with mandatory domestic mitigation schemes

The first two sub-criteria are only applicable to carbon credits for which double claiming with the host country NDC should be avoided. The third criterion is applicable to all carbon credits.

This section first provides background on the requirements arising from the Paris Agreement. This forms the basis for describing the methodology for the three sub-criteria.

**Overview of relevant decisions under the Paris Agreement**

The methodology draws on relevant requirements that arise from Articles 4, 6 and 13 of the Paris Agreement, including related decisions adopted under the Paris Agreement. These include:

- The "MPGs", i.e., the modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement, as contained in the Annex to decision 18/CMA.1.
- The "ICTU guidance", i.e., the information to facilitate clarity, transparency and understanding of nationally determined contributions, referred to in decision 1/CP.21, paragraph 28, as contained in Annex I to decision 4/CMA.1.
- The "NDC accounting guidance", i.e., the accounting for Parties’ nationally determined contributions, referred to in decision 1/CP.21, paragraph 31, as contained in Annex II to decision 4/CMA.1.
- The "Article 6.2 guidance", i.e., the Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, as contained in decision -/CMA.3.

Host countries and carbon crediting programs still need to implement these decisions. Nevertheless, this methodology already includes criteria and sub-criteria assessing whether and how host countries and carbon crediting programs fulfil the requirements arising from these decisions.

This methodology is only applicable to carbon credits expressed in tons of CO₂ equivalents. While the Article 6.2 guidance also allows other metrics for internationally transferred mitigation outcomes (ITMOs), using such metrics can pose risks for environmental integrity. Given these risks and given that carbon credits are commonly issued in tons of CO₂ equivalents, other metrics are not considered.
Sub-criterion 2.4.1: Host country provisions for avoiding double claiming with its NDC

This sub-criterion is only applicable to carbon credits for which double claiming with the host country NDC should be avoided.

Rationale for using this sub-criterion

Host countries that are a Party to the Paris Agreement need to implement several decisions that have been adopted under the Paris Agreement to effectively avoid double claiming with their NDC. Only if host countries have the necessary institutional arrangements and processes in place is there a satisfactory level of assurance that double claiming will be avoided.

Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the host country.

Scoring approach

The methodology identifies key requirements and assesses whether countries meet these requirements, using a point system as summarized in Table 22 below. The key requirements are clustered into themes that appear in different parts of the relevant decisions under the Paris Agreement, as follows:

1. Participation in the Paris Agreement and maintenance of an NDC: The host country must be a Party to the Paris Agreement and must prepare, communicate and maintain an NDC (paragraph 4a and 4b of the Article 6.2 guidance).
2. Clarification of the coverage of the NDC: For ITMOs in tCO$_2$e metrics, double claiming is avoided by applying corresponding adjustments to the emissions and removals from the sectors and GHG covered by the NDC (paragraph 8 of the Article 6.2 guidance, paragraph 77d(i) of the MPGs). This requires that countries clarify the sectors, sources, GHGs, time periods and, where applicable, emission or sink categories covered by the NDC (paragraphs 18d or 18f of the Article 6.2 guidance; similar requirements in paragraph 64 to the MPGs and paragraphs 1 to 3 of the ICTU guidance).
3. Quantification of the NDC in tCO$_2$e metrics: Likewise, applying corresponding adjustments, preparing the resulting emissions balance, and providing an adjusted emissions level for comparison with the quantified NDC target (paragraphs 70 and 77d of the MPGs) requires that Parties, in their initial report, quantify the mitigation information in their NDC in tCO$_2$e, or, where this is not possible, provide a methodology for the quantification of the NDC in tCO$_2$e (paragraphs 18d or 18f of the Article 6.2 guidance).
4. Selection of a relevant indicator for tracking progress towards the NDC: Reporting a complete time series of annual emissions covered by the NDC from 2021 onwards is a prerequisite for applying corresponding adjustments (paragraph 8 of the Article 6.2 guidance, paragraph 77d(i) of the MPGs). For this purpose, countries need to select a relevant indicator (paragraphs 65-70 of the MPGs). For NDCs quantified in GHG emissions terms, the most suitable indicator is that part of the national GHG inventory that corresponds to the coverage of the NDC.
5. Selection and specification of accounting approach in relation to single-year and multi-year targets: Host countries need to choose and communicate the method for corresponding adjustments for multi-year or single-year NDCs (paragraph 18c of the Article 6.2 guidance). The approach chosen has to be applied consistently throughout the period of NDC implementation (paragraphs 7 and 18c of the Article 6.2 guidance). For multi-year targets or budgets, countries need to clearly define their multi-year target or budget. For single-year targets, countries can
choose between averaging and establishing a multi-year emissions trajectory or budget. Averaging causes several challenges and may imply that aggregated GHG emissions due to the use of Article 6 can increase or decrease. Examples of challenging factors include: how the countries engage in ITMOs; whether the emissions in the target year are representative for the NDC implementation period; and the risk that countries may “cherry-pick” between averaging and multi-year trajectories. A multi-year emissions trajectory is therefore deemed more robust, as long as the trajectory is reasonably defined (e.g., as a linear interpolation between current emissions and the target level in the target year).

6. **Selection and specification of ITMO metric**: Host countries need to choose and communicate the ITMO metric used for measuring ITMOs (paragraph 18c of the Article 6.2 guidance). This methodology only considers carbon credits expressed in GHG emission terms. ITMOs in other metrics may lead to an increase or decrease in aggregate emissions from the cooperative approach and are thus not considered as ensuring environmental integrity.

7. **Arrangements for authorizing ITMOs and managing NDC compliance**: Host countries need to establish institutional arrangements and processes for authorizing the use of ITMOs (paragraph 4c of the Article 6.2 guidance). It is a good practice to include measures to manage compliance with the NDC (i.e., to ensure that the country does not over-sell ITMOs).

8. **Arrangements for tracking ITMOs**: Host countries need to have arrangements in place for tracking ITMOs (paragraph 4d of the Article 6.2 guidance). These may include a national registry or access to a (third-party) international registry (paragraphs 29-31 of the Article 6.2 guidance).

9. **Fulfilment of reporting obligations**: Host countries engaging in Article 6 need to provide relevant information in an initial report, annual reports and biennial reports (paragraphs 18 to 24 of the Article 6.2 guidance). This requires relevant institutional arrangement and processes for regular reporting to be in place. Non-submission of relevant reports, in particular on the application of corresponding adjustments, can pose a serious threat to avoiding double claiming.

Note that some aspects in Table 22 may be revised in the light of further decisions by the CMA on Article 6.

<table>
<thead>
<tr>
<th>Table 22</th>
<th>Scoring approach for host country provisions for avoiding double claiming with its NDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator</td>
<td>Points</td>
</tr>
<tr>
<td>Quantification of the NDC in tCO₂e</td>
<td></td>
</tr>
<tr>
<td>2.4.1.1</td>
<td>The NDC has been unambiguously quantified in tCO₂e, or the country has provided a methodology to unambiguously quantify it after the target year (e.g., in case of targets per gross domestic product), including a clear specification of the target level (e.g., in relation to a reference year).</td>
</tr>
<tr>
<td>2.4.1.2</td>
<td>The coverage of the NDC has unambiguously been clarified in GHG emissions metrics, including the NDC implementation period; the gases, sectors, and categories of anthropogenic emissions and removals covered; and the activities and pools covered in the case of the LULUCF sector.</td>
</tr>
<tr>
<td>2.4.1.3</td>
<td>The NDC target is an emission reduction compared to an historical reference year or a deviation from a business-as-usual emissions projection. In the latter case, the country has either specified that it will not update its business-as-usual projection or it has unambiguously specified the conditions and methodology for updating the business-as-usual emissions projection.</td>
</tr>
</tbody>
</table>
2.4.1.4 All mitigation information in the NDC has been appropriately considered in quantifying the NDC in tCO₂e, resulting in a target level that is consistent with the aggregated outcome of the mitigation information specified in the NDC. 2

Accounting for single- or multi-year targets

2.4.1.5 The country has communicated a multi-year emissions target. 4
OR
The country has a single-year target and established a robust and credible multi-year trajectory or budget to account for international transfers. 4
OR
The country has a single-year target and has chosen averaging to account for its single-year target. 0

Accounting for ITMOs

2.4.1.6 The GWP values and metrics used in accounting for the NDC are consistent with those used to issue carbon credits. 2

2.4.1.7 The country has established appropriate domestic institutional arrangements and processes for authorizing the carbon credits’ associated emission reductions or removals for use as ITMOs. 2

2.4.1.8 These institutional processes and arrangements include effective measures to manage compliance with the NDC, i.e., to ensure that the country does not over-sell ITMOs. 4

2.4.1.9 The country has institutional arrangements and processes in place for tracking ITMOs. 2

Reporting obligations under the Paris Agreement

2.4.1.10 The country has selected the relevant part of emissions from its national GHG inventory, consistent with the scope of its NDC, as the indicator to track progress towards the NDC. 2

2.4.1.11 The country has communicated its initial report and the report addresses all elements specified under relevant decisions under the Paris Agreement. 4

2.4.1.12 The country has established institutional arrangements and processes for reporting the relevant annual information and regular information as specified under relevant decisions under the Paris Agreement. 2

2.4.1.13 The most recent annual and regular reports are complete and provide the necessary level of detail of information. 1

2.4.1.14 Issues of non-implementation are observed (e.g., as part of relevant review processes), in particular in relation to the reporting of corresponding adjustments. -4

Maximum achievable points 31

The overall score for sub-criterion 2.4.1 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (31 points). A score of 1 is assigned if 15 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[ C_{2.4.1} = 1 + \frac{(\text{Points} - 15)}{(31 - 15)} \times 4 \]
Where:
\[ C_{2.4.1} = \text{Score for sub-criterion 2.4.1} \]

Sub-criterion 2.4.2: Carbon crediting program provisions for avoiding double claiming with NDCs

This sub-criterion is only applicable to carbon credits for which double claiming with the host country NDC should be avoided.

Rationale for using this sub-criterion

Avoiding double claiming with host country NDCs requires not only that the host country has respective processes and institutional arrangements in place, but also that carbon crediting programs have procedures in place to facilitate the application of corresponding adjustments by host countries. This sub-criterion therefore assesses the carbon crediting programs’ readiness and ability to facilitate the avoidance of double claiming, drawing on the relevant decisions under the Paris Agreement and the Guidelines for Avoiding Double Counting with CORSIA (ClimateWorks Foundation; Meridian Institute; Stockholm Environment Institute 2019).

Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the carbon crediting program.

Scoring approach

The methodology identifies key program design elements for avoiding double claiming with host country NDCs and assesses whether carbon crediting programs have these design elements in place, using a point system as summarized in Table 23 below. Note that some aspects in Table 23 may be revised in the light of further decisions by the CMA on Article 6.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Scoring approach for carbon crediting program implementation of provisions for avoiding double claiming with host country NDCs</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4.2.1</td>
<td>The program either does not allow registering multi-country projects (i.e., projects which implement the mitigation measures in more than one country, such as under a programmatic approach) or, if the carbon crediting program allows registering multi-country projects, it has established provisions to identify for each carbon credit the relevant host country, through an attribute to each issued credit (e.g., in the serial number of the credit or through an identifier in the relevant registry).</td>
<td>2</td>
</tr>
<tr>
<td>2.4.2.2</td>
<td>The program either does not allow registering projects that are implemented in one country but may (partially) reduce emissions or enhance removals in other countries (e.g., in the case of a multi-country electricity grid) or it has established provisions to identify whether such situations occur and, if yes, to identify in which country each carbon credit’s associated emission reductions or removals occurred. For each carbon credit, the country where the carbon credit’s associated emission reductions or removals occurred is identifiable, either through an attribute to each issued credit (e.g., in the serial number of the credit) or through an identifier in the relevant registry.</td>
<td>1</td>
</tr>
<tr>
<td>2.4.2.3</td>
<td>The program has established provisions that allow project owners to voluntarily identify for each carbon credit the calendar year in which the associated emission</td>
<td>1</td>
</tr>
<tr>
<td>Indicator</td>
<td>Points</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>reductions or removals occurred, and to assign to each issued carbon credit an attribute indicating the calendar year, ensuring that only one calendar year is assigned to each carbon credit OR The program has established provisions that require project owners to identify, for each carbon credit that is eligible to be used for purposes for which double claiming with the host country NDC should be avoided, the calendar year in which the associated emission reductions or removals occurred, and to assign to each issued carbon credit an attribute indicating the calendar year, ensuring that only one calendar year is assigned to each carbon credit. In addition, the carbon crediting program has established provisions that require that carbon credits are allocated proportionally to calendar years based on when the project caused emission reductions or removals to occur.</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2.4.2.4 The program has established provisions for project owners or the program to obtain and publicly report Article 6 authorizations from host countries (or, where applicable, the country where the project will cause emission reductions or removals), consistent with relevant decisions under the Paris Agreement.</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>2.4.2.5 The program has established provisions that require its own employees, subcontractors, as well as project owners to commit to anti-corruption policies and practices with regards to obtaining Article 6 authorization.</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2.4.2.6 The program has established provisions for reporting relevant information on authorized carbon credits to the host country, including on the cancellation or use of authorized carbon credits.</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2.4.2.7 The program has established provisions to obtain evidence of the appropriate application of adjustments from the host country (or, where applicable, the country in which the carbon credit's associated emission reduction or removal occurred).</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2.4.2.8 The program has established provisions to qualify and earmark carbon credits as eligible for uses for which double claiming with the host country NDC needs to be avoided, once all relevant requirements have been satisfied.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2.4.2.9 The program has established provisions to cease qualifying and earmarking carbon credits as eligible for uses for which double claiming with the host country NDC needs to be avoided in the event that evidence for the appropriate application of corresponding adjustments cannot be obtained within two years after the country was due to provide information on the appropriate application of corresponding in accordance with decisions by the CMA.</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2.4.2.10 The program has established robust provisions for replacing carbon credits for which the evidence of the appropriate application of corresponding adjustments cannot be provided within two years after the country was due to report on the application of corresponding adjustments in accordance with decisions by the CMA. The replacement provisions ensure that the relevant credits are only replaced by credits issued for emission reductions or removals that have been qualified by the program as eligible for uses for which double claiming with the host country NDC needs to be avoided.</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2.4.2.11 The program’s registry and project database system provides the following information:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Methodology for assessing the quality of carbon credits

Indicator | Points
--- | ---
a. The country where each carbon credit’s associated emission reductions or removals occurred (which in some instances may be different from the host country); | 1
b. Whether Article 6 authorization has been obtained from the host country (or, where applicable, the country where the project will cause emission reductions or removals) and documentation of this authorization, consistent with relevant international decisions under the Paris Agreement; | 1
c. Whether a “first transfer”, as defined by the host country in accordance with paragraph 2b of the Article 6.2 guidance, has occurred in relation to the carbon credit; | 1
d. Whether the country has applied the necessary corresponding adjustment related to the use of the carbon credit; | 1
e. An attribute indicating whether the carbon credit has been earmarked by the program as eligible for uses for which double claiming with the host country NDC needs to be avoided. | 1

Maximum achievable points | 25

The overall score for sub-criterion 2.4.2 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (25 points). A score of 1 is assigned if 12 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[
C_{2.4.2} = 1 + \frac{(\text{Points} - 12)}{(25 - 12)} \cdot 4
\]

Where:

\[C_{2.4.2} = \text{Score for sub-criterion 2.4.2}\]

Sub-criterion 2.4.3: Avoiding double claiming with mandatory domestic mitigation schemes

This sub-criterion is applicable to all carbon credits.

Rationale for using this sub-criterion

Double counting can also occur with mandatory domestic mitigation schemes. These refer to schemes that are legally binding through respective laws and regulations and that establish a target for a defined group of installations, entities, or sinks and sources, such as an ETS or a renewable electricity generation quota. For example, a renewable power plant could reduce emissions in an ETS which covers fossil fuel-based power plants. A project’s overlap with such schemes would raise concerns about the additionality of such a mitigation activity and pose risks for double counting. If it is not prevented, the same emission reductions may be claimed by entities under the mitigation schemes (e.g., entities covered by the ETS) and the buyers of the carbon credit.

In the context of carbon tax obligations that allow for the use of carbon credits to comply with a tax liability, double counting may be a risk if carbon credits may be generated from emission reductions at installations subject to the tax, or if the use of such credits results in a claim by the liable entity of an emission reduction. If instead the use of carbon credits is only counted towards the carbon tax obligation but not claimed on the entity’s account, then the emission reduction or removal is not being accounted for twice.
Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the project type, the host country, and the carbon crediting program. If the carbon crediting program’s approaches differ between quantification methodologies, then this sub-criterion should be separately assessed for the relevant quantification methodologies.

Scoring approach

The methodology first assesses whether there is a material risk that the project type concerned could overlap with mandatory domestic mitigation schemes (see definition above) in the relevant host country. Table 24 provides examples for which project types this risk is material. The evaluation may also need to consider the context of the relevant host country. For example, in LDCs it is less likely that mandatory domestic mitigation schemes are in place. For project types and host countries for which this risk is deemed immaterial, the score is 5. For other project types, the scoring depends on the carbon crediting programs’ procedures to address this risk (Table 25).

Table 24 Examples of project types with and without risks of overlapping with mandatory domestic mitigation schemes

<table>
<thead>
<tr>
<th>Project types with material risk of overlap with mandatory domestic mitigation schemes</th>
<th>Project types with low risk of overlap with mandatory domestic mitigation schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Renewable power generation</td>
<td>• Efficient cookstoves</td>
</tr>
<tr>
<td>• Energy efficiency improvements in industry (e.g. cement, steel)</td>
<td>• Landfill gas flaring</td>
</tr>
<tr>
<td>• Use of energy efficient electric devices (e.g. LEDs)</td>
<td></td>
</tr>
</tbody>
</table>

Carbon crediting programs can avoid this form of double counting in two ways, by:

1. Not registering projects or issuing carbon credits that overlap with mandatory domestic mitigation schemes;

2. Establishing provisions that require that the project’s impacts are not counted towards the achievement of the respective mandatory domestic mitigation schemes: Requiring that, if carbon credits are associated with activities or emission reductions/removals that are covered by these schemes, the project’s impacts (e.g., the emission reductions achieved or the kilowatthours of renewable electricity produced) are not counted towards the achievement of these targets or obligations (e.g., by cancelling ETS allowances before issuing carbon credits, to the extent that the project reduces emissions from sources and gases covered by the ETS, or by not counting the renewable electricity generated by the project towards a mandatory quota for renewable electricity generation).

The methodology assigns a score of 5 to carbon crediting programs that have any of these two approaches in place. If a carbon crediting program only addresses overlap with ETSs, for example by cancelling ETS allowances before issuing carbon credits, to the extent that the project reduces emissions from sources and gases covered by the ETS, but not with other potential mandatory domestic mitigation schemes (e.g., renewable electricity generation quotas), then a score of 3 is assigned. If a carbon crediting program does not have such procedures in place but nevertheless registers projects for which the emission reductions or removals may overlap with mandatory domestic mitigation schemes, a score of 1 is assigned (Table 25).
Table 25  Scoring approach for avoiding double claiming with mandatory domestic mitigation schemes

<table>
<thead>
<tr>
<th>Carbon crediting program requirement</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program has established provisions that do not allow registering projects or issuing carbon credits that overlap with mandatory domestic mitigation schemes.</td>
<td>5</td>
</tr>
<tr>
<td>The program allows registering projects and issuing carbon credits that could overlap with mandatory domestic mitigation schemes but it has established robust provisions that, if carbon credits are associated with activities or emission reductions/removals that are covered by these schemes, the project’s impacts are not counted towards the achievement of these targets or obligations.</td>
<td>5</td>
</tr>
<tr>
<td>The program allows registering projects and issuing carbon credits that could overlap with mandatory domestic mitigation schemes. It has established robust provisions that address overlap with ETSs but it has not established provisions to address overlap with other types of mandatory domestic mitigation schemes.</td>
<td>3</td>
</tr>
<tr>
<td>The program allows registering projects and issuing carbon credits that could overlap with mandatory domestic mitigation schemes and has not established provisions to address such overlap.</td>
<td>1</td>
</tr>
</tbody>
</table>

Example application: Clean Development Mechanism (CDM)

The CDM prevents CERs from being issued for emission reductions that occur in countries included in Annex I to the Convention. However, it does not have any procedures in place to avoid overlap with emissions trading systems or other mandatory domestic mitigation schemes. The CDM thus receives a score of 1 for project types where there is such a risk, and 5 for other project types.

Example application: Verified Carbon Standard (VCS)

The VCS Project Standard, version 4.0, section 3.20, stipulates that projects can claim either VCUs or other forms of environmental credit but not both. The provisions address, inter alia, the overlap with emissions trading systems and require that a respective amount of allowances be cancelled. The VCS is thus assigned a score of 5 for all project types.

Determination of the combined score for quality objective 2

Step 1: Robust registry and project database systems

Determine the score for sub-criterion 2.1 using the scoring approach described in the respective section above.

Step 2: Avoiding double issuance

1. Determine the score for all sub-criteria using the scoring approach described in the respective section above.

2. Apply the general formula for inverse weighing to determine the overall score for criterion 2.2:

   \[ C_{2.2} = \text{MAX} \left\{ 6 - (0.5 \cdot (6 - SC_{2.2.1})^{1.3}) + 0.5 \cdot (6 - SC_{2.2.2})^{1.3} \right\} \]
Methodology for assessing the quality of carbon credits

Where:
\[ C_{2.2} = \text{Score for criterion 2.2} \]
\[ SC_{2.2.1} = \text{Score for sub-criterion 2.2.1} \]
\[ SC_{2.2.2} = \text{Score for sub-criterion 2.2.2} \]

Step 2: Avoiding double use

Determine the score for criterion 2.3 using the scoring approach described in the respective section above.

Step 3: Avoiding double claiming

Determine the score for criterion 2.4. The score for criterion 2.4 depends on whether the carbon credits are used for purposes for which double claiming with the host country NDC should be avoided, given that two out of the three sub-criteria only apply in such instances.

If the carbon credits concerned are not used for purposes for which double claiming with the host country NDC should be avoided, then the score of sub-criterion 2.4.3 is used as the score for criterion 2.4.

If the carbon credits concerned are used for purposes for which double claiming with the host country NDC should be avoided, then the score for sub-criterion 2.4 is determined as follows:

\[
C_{2.4} = \max \left( 6 - \frac{1}{3} \cdot \left( 6 - SC_{2.4.1} \right)^{1.3} + \frac{1}{3} \cdot \left( 6 - SC_{2.4.2} \right)^{1.3} + \frac{1}{3} \cdot \left( 6 - SC_{2.4.3} \right)^{1.3} \right)
\]

Where:
\[ C_{2.4} = \text{Score for criterion 2.4} \]
\[ SC_{2.4.1} = \text{Score for sub-criterion 2.4.1} \]
\[ SC_{2.4.2} = \text{Score for sub-criterion 2.4.2} \]
\[ SC_{2.4.3} = \text{Score for sub-criterion 2.4.3} \]

Step 4: Determine the overall score quality objective 2

Determine the combined score of quality objective 2. The combined score of quality objective 2 depends on whether the carbon credits concerned are used for purposes for which double claiming with the host country NDC should be avoided.

If the carbon credits concerned are not used for purposes for which double claiming with the host country NDC should be avoided, then the score of quality objective 2 is determined as follows:

\[
Q_2 = \max \left( 6 - \left[ 0.2 \cdot \left( 6 - C_{2.1} \right)^{1.3} + 0.3 \cdot \left( 6 - C_{2.2} \right)^{1.3} + 0.2 \cdot \left( 6 - C_{2.3} \right)^{1.3} + 0.3 \cdot \left( 6 - C_{2.4} \right)^{1.3} \right] \right)
\]

Where:
\[ Q_2 = \text{Score for quality objective 2} \]
\[ C_{2.1} = \text{Score for criterion 2.1} \]
\[ C_{2.2} = \text{Score for criterion 2.2} \]
\[ C_{2.3} = \text{Score for criterion 2.3} \]
\[ C_{2.4} = \text{Score for criterion 2.4} \]

If the carbon credits concerned are used for purposes for which double claiming with the host country NDC should be avoided, then the score of quality objective 2 is determined as follows:
\[ Q_2 = \text{MAX} \left\{ 6 - [0.1 \cdot (6 - C_{2.1})^{1.3} + 0.2 \cdot (6 - C_{2.2})^{1.3} + 0.1 \cdot (6 - C_{2.3})^{1.3} + 0.6 \cdot (6 - C_{2.4})^{1.3}] \right\} \]

Where:
- \( Q_2 \) = Score for quality objective 2
- \( C_{2.1} \) = Score for criterion 2.1
- \( C_{2.2} \) = Score for criterion 2.2
- \( C_{2.3} \) = Score for criterion 2.3
- \( C_{2.4} \) = Score for criterion 2.4

Note that inverse weighing is used here in order to ensure that, in situations for which the scoring of one criterion is poor, this cannot be fully made up by high scores in other criteria.
Quality objective 3: Addressing non-permanence

Non-permanence refers to a situation wherein the emission reductions or removals generated by a mitigation activity are later reversed, for example, due to a natural disaster, project mismanagement or changes in local conditions that make carbon storage no longer viable. To assess the risk this creates for carbon credits, the methodology assesses two criteria:

3.1 Significance of non-permanence risks: The risk of non-permanence differs among projects. Reversal risks depend on several factors, including how project owners manage these risks and address the underlying drivers for reversals. For some project types, such as landfill methane destruction, the emission reductions cannot be reversed at all. This criterion determines for which project types reversal risks are considered material.

3.2 Robustness of the carbon crediting program's approaches for addressing non-permanence risks: Carbon crediting programs pursue varying approaches to reduce non-permanence risks and to compensate for any non-permanence. Thoroughness in the approach is crucial to appropriately addressing reversal risks. Key factors include establishment of liability for reversals, the duration for which the occurrence of reversals is monitored and accounted for, whether and how any reversals are compensated, and whether the compensation mechanisms are robust enough to also address disastrous events.

The overall score for quality objective 3 depends on these two criteria. The first criterion assesses whether the relevant project type faces material non-permanence risks. If a project type is deemed to have no material non-permanence risks, then approaches to address non-permanence risks are also not needed. In this case, quality objective 3 is assigned a score of 5. If a project type faces material non-permanence risks, the robustness of the approach to addressing non-permanence risks is important. In this case, the maximum score that can be achieved under this quality objective is 4, even if best practice approaches to address non-permanence are implemented. While there can be adequate measures in place to address non-permanence risks—as in the approaches presented below—future reversals cannot be entirely ruled out, and compensation for any reversals cannot be guaranteed. As such, the methodology only assigns a score of 5 if the project faces no material reversals risks.

Criterion 3.1: Significance of non-permanence risks

Rationale for using this criterion

Non-permanence relates to reversals of carbon from a reservoir. It occurs when a mitigation activity enhances or preserves carbon stocks in carbon reservoirs but, at a later point in time, some or all of the additional increments in stock caused by the mitigation activity are released to the atmosphere. Such reversals can occur due to natural processes, such as wildfires, or anthropogenic drivers, such as land conversion. A reversal is similar to leakage, except that it happens at a different time, rather than in a different place. In the case of leakage, reductions or removals from a mitigation activity are negated by increased emissions elsewhere in the system. With reversals, the reductions or removals from a mitigation activity could still have some temporary value as long as carbon stocks continue to stand. Non-permanence risk varies significantly between different types of mitigation activities and may also depend on the specific design of a mitigation activity.

Level at which the criterion is assessed

This criterion is assessed at the level of project types.
Scoring approach

Non-permanence risks apply to several types of potential carbon crediting projects. A permanent reduction can only be guaranteed in the context where a reversal is physically impossible. In principle, any mitigation measure associated with carbon reservoirs has a reversal risk, including fossil fuel or land-based carbon reservoirs. By contrast, greenhouse gas reductions that are not associated with the preservation or enhancement of carbon reservoirs are always permanent. This holds for mitigation activities that destroy non-CO₂ gases, such as the capture and flaring of methane from landfill sites, as well as for activities that prevent the formation of non-CO₂ gases, such as reducing methane emissions from rice cultivation. In these cases, there is no physical process by which such destruction or avoided formation can be undone. A reversal is therefore not possible.

Not all carbon-related mitigation activities associated with carbon reservoirs have the same non-permanence risk. This depends on various factors: whether and how the underlying mitigation activities address the anthropogenic drivers for the depletion of the carbon reservoir, including whether the carbon remains stored even if the mitigation measures are terminated; the susceptibility of the reservoir to natural disturbances; and, in some instances, the size of the reservoir.

Given that demand for fossil fuel is an indirect demand for the energy services they provide, and that these are increasingly competing with renewable energy, it is much less likely that the drivers for the exhaustion of the fossil fuel carbon stock will persist after an emission reduction. On the other hand, land-based carbon stocks face a multitude of potential drivers, including agriculture and logging industries. In conclusion, mitigation measures targeting terrestrial carbon reservoirs are exposed to higher levels of anthropogenic reversal risks as well as natural disturbance risks.

Table 26 provides an overview for which types of mitigation activities non-permanence risks are considered material and for which they are not. This list is not exhaustive. The table also provides examples and justifications.
Table 26  Non-permanence risks of different types of mitigation activities

<table>
<thead>
<tr>
<th>Mitigation activity</th>
<th>Non-permanence risk</th>
<th>Example activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Destruction of non-CO₂ gases</td>
<td>No risk: No reservoir involved. The destruction cannot be physically reversed.</td>
<td>HFC-23 destruction from HCFC-22 production</td>
</tr>
<tr>
<td>Avoidance of formation of non-CO₂ gases, without effecting the amount of carbon stored in reservoirs</td>
<td>No risk: No reservoir involved. The process cannot be physically reversed.</td>
<td>Reducing CH₄ emissions from rice cultivation, ruminant livestock or organic waste diversion</td>
</tr>
<tr>
<td>Reducing demand for fossil fuels</td>
<td>No material risk within time horizon relevant for avoiding dangerous climate change (except for possible lock-in effects in the case of activities that lead to a long-term increase in energy or feedstock demand).⁴</td>
<td>Adoption of renewable energy; energy efficiency measures</td>
</tr>
<tr>
<td>Reducing demand for non-renewable biomass (thereby reducing forest degradation)</td>
<td>Material risks: natural disturbance risks and anthropogenic factors.</td>
<td>Efficient cook stove projects</td>
</tr>
<tr>
<td>Enhancing, preserving, or slowing depletion of terrestrial carbon reservoirs</td>
<td>Material risks: The size of the risk depends on spatial scale, how underlying drivers are addressed, and stability of the reservoir(s) affected by the mitigation activity.</td>
<td>Afforestation/reforestation; improved forest management; avoided deforestation/conversion; soil carbon enhancements; peatland preservation or “rewetting”; etc.</td>
</tr>
<tr>
<td>Storing carbon in geologic reservoirs</td>
<td>Material risks: The size of the risks mainly depends on reservoir stability.</td>
<td>Carbon capture and storage (CCS BECCS, DACCS, or other)</td>
</tr>
<tr>
<td>Preventing or extinguishing accidental uncontrolled burning of fossil fuels</td>
<td>Material risks: The size of the risks mainly depends on reservoir stability.</td>
<td>Extinguishing or preventing ignition of fires at waste coal piles</td>
</tr>
<tr>
<td>Preventing or slowing exploitation of fossil fuel reserves</td>
<td>Material risks: If the protection measure is discontinued, the reservoir may be depleted.</td>
<td>Protecting an oil field from being extracted</td>
</tr>
</tbody>
</table>

Criterion 3.2: Robustness of the carbon crediting program's approaches for addressing non-permanence risks

Carbon crediting programs use a variety of approaches toward non-permanence risks. The approaches can be categorized in two main approaches:

1. **Accounting or compensating for reversals (Approach 1):** this entails different measures to account or compensate for (potential) reversals.

2. **Avoiding or reducing non-permanence risks (Approach 2):** this mainly entails conducting non-permanence risk assessments and, based on the results, either excluding higher-risk
mitigation activities from eligibility or providing incentives for project owners to avoid reversals from occurring.

Most carbon crediting programs combine approach 1 with approach 2, while some use only approach 1 and very few use only approach 2. In some instances, the approach applied also varies between different project types.

The methodology uses these two main approaches as sub-criteria. If a carbon crediting program uses only one of the two approaches, it will receive a lower score than a carbon crediting program that employs both approaches. A few carbon crediting programs may issue carbon credits to project types that are subject to material reversal risks but nonetheless do not have any measures in place to address non-permanence. For these project types, the respective carbon crediting programs are assigned a score of 1.

Sub-criterion 3.2.1: Approaches for accounting and compensating for reversals (Approach 1)

Rationale for using this sub-criterion

Many carbon crediting programs apply approaches to account and compensate for any reversals. The robustness of these approaches is critical for addressing non-permanence. This sub-criterion assesses the robustness of the relevant approaches.

Level at which the sub-criterion is assessed

This sub-criterion is assessed at the level of the carbon crediting program. If the carbon crediting program’s approaches differ between project types, quantification methodologies and/or geographical areas, then this sub-criterion should be separately assessed for the relevant project types, quantification methodologies and/or geographical areas.

Scoring approach

Carbon crediting programs employ the following three approaches for accounting and compensating for reversals:

- **Temporary carbon credits (Approach 1a):** credits that expire after a certain period and need to be replaced by other carbon market units, irrespective of whether a reversal occurred;

- **Monitoring and compensation for reversals (Approach 1b):** monitoring of any (potential) reversals and the compensation for the reversal through the cancellation of other carbon market units;

- **Discounting (Approach 1c):** discounting of emission reductions or using lower baselines that result in fewer emission reductions or removals that are credited in order to account for possible future reversals.

Usually, a carbon crediting program only pursues one of these three approaches for a given project type and geographical area. The assessment in this section should thus be applied to the relevant approach only and the scoring result for the relevant approach constitutes the score for sub-criterion 3.2.1. In situations where a program uses another approach than the above three approaches or combines the three approaches to account and compensate for reversals, the users of the methodology may use expert judgment to assess the robustness of the relevant approach.
Approach 1a: Temporary credits

Carbon crediting programs can address non-permanence risks by issuing carbon credits that are only valid for a pre-defined period and, following their expiry, must be replaced, regardless of whether a reversal has occurred. This approach thus treats carbon storage as “rented” mitigation that is inherently temporal (Maréchal und Hecq 2006; Marland et al. 2001; Marland und Marland 2009; Sedjo und Marland 2003).

In principle, treating emission reductions or removals as inherently temporal is a very conservative approach that can lead to a net reduction in global emissions, because all carbon credits must be ultimately replaced by permanent carbon market units while it can be expected that some carbon remains stored. Emissions could only increase for the time period between a reversal and the expiry of the temporary carbon credits. In principle, this ensures environmental integrity, as long as the replacement of expired units is secured.

This approach thus effectively addresses non-permanence as long as the necessary procedures and governance arrangements are in place to ensure the replacement of temporary carbon credits following their expiry. Assurance of replacement of credits must be demonstrated, for example, in the form of a verified legal documentation that attests to the replacement of these credits. If this is ensured, including in scenarios in which programs are no longer in operation, this approach receives a score of 4; otherwise, it receives a score of 1.

Example application: Clean Development Mechanism (CDM) for afforestation and reforestation activities

Temporary carbon credits are used under the CDM to address non-permanence risks of afforestation and reforestation projects. Two types of units are distinguished:

1. **Temporary certified emission reductions (tCERs)** expire at the end of the subsequent commitment period under the Kyoto Protocol for which they were issued. Project owners can request the issuance of new tCERs for each subsequent commitment period, subject to a verification that the carbon is still stored.

2. **Long-term certified emission reductions (lCERs)** are valid until the end of the last crediting period of the project (i.e., up to 60 years) but must be replaced by permanent units in the case of reversals or in the case that a monitoring report is not submitted.

In theory, this approach could ensure integrity for the reasons highlighted above. In practice, however, it was developed in the specific context of the Kyoto Protocol that is about to run out. As a third commitment period beyond 2020 is not envisaged in UNFCCC negotiations, permanent Kyoto units will no longer be available after the end of the true-up period of the second commitment period after 2023. It may thus become technically impossible to compensate for any reversals after 2023. In practice, the approach therefore no longer ensures environmental integrity. The CDM also does not have any provisions in place to replace tCERs and lCERs that were voluntary cancelled in the CDM registry. Because the necessary procedures and governance arrangements are not currently in place to ensure the replacement of temporary CDM credits, the non-permanence provisions of the CDM receive a score of 1.

Approach 1b: Monitoring and compensating for reversals

The predominant approach for carbon crediting programs to address non-permanence is to monitor, report, and compensate for reversed mitigation outcomes by cancelling issued carbon credits. The robustness of this approach depends on several aspects of its design. The methodology therefore
considers several indicators to assess the application of this approach. All of these indicators are assessed at program level and, where the program's requirements differ between project types, quantification methodologies and/or geographical areas, also taking into account the specific provisions of the program related to the relevant project types, quantification methodologies and/or geographical areas.

**Indicator 3.2.1.1: Time-horizon for monitoring reversals**

Ideally, emission reductions or removals should last indefinitely to keep global emissions within a carbon budget compatible with limiting global warming to 1.5°C. In practice, however, no risk can be insured against in perpetuity, including reversal risks. An important question regarding the compensation of reversals is for how long the occurrence of any reversals must be monitored and, if occurring, compensated for. Carbon crediting programs specify different minimum time periods when any reversals must be monitored, reported and compensated for.

The minimum period for which reversals must be monitored and reported varies considerably among carbon crediting programs—between 1 and 100 years from the start of the crediting period. A longer period of time provides a higher assurance that future reversals are addressed. Table 27 specifies which score is assigned for which minimum duration.

**Table 27 Scoring approach for the period for which monitoring and reporting of reversals are required**

<table>
<thead>
<tr>
<th>Period for which monitoring and reporting of reversals are required (from the start of the first crediting period)</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 years or longer</td>
<td>4</td>
</tr>
<tr>
<td>≥ 60 years</td>
<td>3</td>
</tr>
<tr>
<td>≥ 30 years</td>
<td>2</td>
</tr>
<tr>
<td>Shorter</td>
<td>1</td>
</tr>
</tbody>
</table>

**Example application 1: Climate Action Reserve (CAR)**

For forest projects implemented in the United States, the Climate Action Reserve (CAR) requires monitoring and compensation of reversals for 100 years (Reserve Offset Program Manual, March 2021, section 2.8 and Forest Project Protocol, version 4.0, section 3.5). The CAR thus receives a score of 4 for forest projects implemented in the United States.

**Example application 2: American Carbon Registry (ACR)**

The American Carbon Registry Standard (version 6.0, chapter 5) specifies a “minimum project term” of 40 years, during which projects must monitor and compensate for any reversals. It is thus assigned a score of 2.

**Indicator 3.2.1.2: Addressing potential reversals in case of discontinuation of monitoring prior to the required time horizon**

In cases where monitoring of reversals discontinues prior to the required time horizon, there is a risk that reversals occurring thereafter will not be accounted for. In some instances, project owners might even cease monitoring because of a reversal.
Carbon crediting programs pursue different approaches to address this risk. As it is possible that the project owners terminate monitoring due to a significant reversal, the most conservative approach would be to require compensation for all carbon credits that were issued to the project. If such compensation is required within 1 year after a monitoring or verification report is overdue, the program is assigned a score of 4. If such compensation is required at a later stage (e.g., after a grace period longer than 1 year to still submit a monitoring or verification report), the program is assigned a score of 3. Some carbon crediting programs compensate only for a fraction of the issued carbon credits (e.g., by retiring the project’s credits in a pooled buffer reserve). These are scored significantly lower, with a 2, as there is considerable uncertainty whether this is sufficient to compensate for any potential reversals that may have occurred. Some programs may not address reversals in case of discontinuation of monitoring at all, and are assigned a score of 1 (see Table 28).

Table 28  Scoring approach for potential reversals in case of discontinuation of monitoring prior to the required time horizon

<table>
<thead>
<tr>
<th>Program requirements</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>All carbon credits previously issued to the project must be compensated for within 1 year after the monitoring or verification report was due</td>
<td>4</td>
</tr>
<tr>
<td>All carbon credits previously issued to the project must be compensated for, with a grace period longer than 1 year after the monitoring or verification report was due</td>
<td>3</td>
</tr>
<tr>
<td>Only a fraction of carbon credits (e.g., those set aside in a pooled buffer reserve) must be used to compensate for a possible reversal</td>
<td>2</td>
</tr>
<tr>
<td>No action is required, or no time limit is indicated for compensation</td>
<td>1</td>
</tr>
</tbody>
</table>

Example application: Clean Development Mechanism (CDM)

CDM provisions for ICERs and for CERs issued to CCS projects require that all issued units must be replaced if a certification report is not submitted within five years of the last report. Following a grace period of 120 days (for ICERs) or six months (for CERs from CCS projects), all units must be replaced by the relevant buyers (decision 5/CMP.1, paragraphs 33 and 50, and decision 10/CMP.7, paragraphs 17 and 25). The approach therefore receives a score of 4.

Indicator 3.2.1.3:  Treatment of carbon credits held in a buffer reserve after the end of regular monitoring

Carbon crediting programs require monitoring of any reversals only for a limited period of time (see indicator 3.2.1.1Indicator 3.2.1.1:). As reversals can also occur after the end of this period, an important question to consider is whether and how carbon crediting programs address any reversals that might occur after the end of the required time horizon for monitoring reversals.

To address this risk, some carbon crediting programs require that the project's carbon credits that are held in a buffer reserve are cancelled after the end of the required time horizon for monitoring and compensating reversals. This approach implicitly discounts part of the emission reduction or removals to account for possible future reversals. It fully addresses future reversals, as long as the extent to which reversals occur after the monitoring period ends is equal to or smaller, on average, than the total credits cancelled in the buffer reserve. This approach is considered best practice and thus assigned a score of 4.
Some carbon crediting programs require that the project’s carbon credits that are held in a buffer reserve stay in the reserve without retiring them. These credits could then be used to compensate for reversals from other projects, in which case non-permanence would not be addressed beyond the monitoring period. Keeping carbon credits in the buffer reserve may also promote environmental integrity though to a lesser extent: it enhances the capitalization of buffer reserves for future compensation of reversals, which might help to address large-scale reversals. However, if the carbon credits are ultimately used to compensate for the reversals from other mitigation activities during their monitoring period, they no longer compensate for potential future reversals from the project. This approach receives a score of 3. Some carbon crediting programs may not address reversals beyond the regular end of the monitoring period. This approach is scored as a 1 (see Table 29).

### Table 29 Scoring approach for potential reversals after the end of regular monitoring

<table>
<thead>
<tr>
<th>Program requirements</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project's credits held in a buffer reserve are cancelled</td>
<td>4</td>
</tr>
<tr>
<td>The project's credits held in a buffer reserve stay in the reserve without retiring them</td>
<td>3</td>
</tr>
<tr>
<td>No action required (all credits are issued to the project owners)</td>
<td>1</td>
</tr>
</tbody>
</table>

**Example application: American Carbon Registry (ACR)**

The American Carbon Registry Standard, version 6.0, Appendix B, section B.6, states that, following the end of the Project Term (the time period for which monitoring takes place), the ACR shall decide to "continue to hold or retire any remaining offsets contributed to the Buffer Pool Account with respect to the Project." The program thus applies the first two approaches set out in Table 29 above. No further information could be identified for the conditions under which carbon credits will be held or cancelled. As it is unclear under which conditions ACR uses which of the two approaches, the program's approach is scored as a 3.

**Indicator 3.2.1.4: Types of reversals that require compensation**

Non-permanence is only truly ensured if all types of reversals are compensated for. Therefore, another important indicator is whether carbon crediting programs require compensation of all or only some types of reversals.

Some carbon crediting programs distinguish two types of reversals:

1. **Unintentional (or unavoidable) reversals** happen if stored carbon is lost due to natural disturbances, such as storms, wildfire or disease, that are not the result of human willful intent or negligence.
2. **Intentional (or avoidable) reversals** denote reversals that are caused by a landowner’s or project owner’s willful intent, including harvesting, land conversion or negligence (e.g., through poor management).

In practice, it may be difficult to draw a clear line between the two, as the extent of damage taken from natural disturbances can depend on how a forest is managed. For example, some intentional reversals, such as partial harvesting, may be undertaken to reduce risks from natural disturbances.

Many carbon crediting programs require that all types of reversals be compensated for. These receive a score of 4. Some programs only require that unintentional reversals be compensated for. This approach only partially addresses reversal risks and therefore receives a score of 1.
Table 30  Scoring approach for the types of reversals that must be compensated for

<table>
<thead>
<tr>
<th>Program requirements</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>All types of reversals must be compensated for</td>
<td>4</td>
</tr>
<tr>
<td>Only unintentional reversals (e.g., due to natural disturbances) must be compensated for</td>
<td>1</td>
</tr>
</tbody>
</table>

**Example application: American Carbon Registry (ACR)**

The American Carbon Registry Standard, version 6.0, section B, specifies that both intentional and unintentional reversals must be compensated for, and is thus assigned a score of 4.

**Indicator 3.2.1.5: Robustness of the approach for compensating for reversals**

Once reversals have been identified (or their occurrence cannot be excluded because no monitoring report is available), the reversed mitigation needs to be compensated for by cancelling an equivalent number of other carbon market units. The robustness of the approach used by carbon crediting programs to compensate for reversals is critical to addressing non-permanence.

Assessing the overall robustness of the approach to compensating reversals is complex, as the overall effectiveness may depend on how different measures are implemented or combined. This may depend on several factors, including which entities are responsible for compensating, in what sequence they assume responsibility, and what assurances are provided that the responsible entities have incentives and will be able to fully compensate for the reversals. The methodology uses a point system which identifies key questions for the overall robustness (see Table 32 below).

The methodology is structured around the different options for which entities are responsible for compensating and gives additional points if measures are in place that provide additional levels of assurance that compensation will take place. The methodology considers the following entities, or combinations thereof:

- **Project owners:** Many carbon crediting programs make project owners responsible for compensating for reversals. Making project owners the first responsible entity is particularly important for intentional reversals, as this approach avoids the moral hazard of other entities having to cover for the reversals intentionally caused by the project owners. To provide higher assurance that carbon crediting programs can enforce compensation by project owners, carbon crediting programs can require program owners to sign legal agreements. One risk to this approach is that, in case the project owners go bankrupt, they may not be able to compensate for reversals. Provisions to use other approaches, such as pooled buffer reserves in the event of bankruptcy, can mitigate such risks.

- **Pooled buffer reserves:** Many carbon crediting programs manage a “pooled buffer reserve” to compensate for reversals. Under this approach, a fraction of the carbon credits from projects with non-permanence risks is set aside into a common buffer reserve which can be drawn upon to cover reversals from any participating project. As with any kind of insurance, buffer reserves can only be effective at addressing non-permanence if they are sufficiently “capitalized” to cover reversal risks over time, including from catastrophic losses. It is therefore important which fraction of carbon credits is put into the reserve and how the reserve is replenished in case a reversal needs to be compensated for. What level of capitalization is appropriate, however, also depends on the level and diversification of non-permanence risks of the project portfolio (which may change over time as new projects are registered) and what type of reversals (unintentional, intentional, and/or bankruptcy) need to be covered by the reserve. Lastly, it is important that the
reserve continues to be available if the carbon crediting program ceases to exist or is no longer able to operate the reserve. This may, inter alia, depend on whether the reserve is sufficiently protected in case of insolvency.

- **Non-pooled buffer reserves:** Some carbon crediting programs use non-pooled buffer reserves which, like pooled reserves, set aside a fraction of the issued carbon credits, but establish a separate reserve for each individual project. Non-pooled buffer reserves provide a lower assurance that reversals are compensated than pooled buffer reserves because a more limited number of carbon credits is available to compensate for catastrophic reversals.

- **Insurances:** Some carbon crediting programs may allow or require project owners to provide insurances to manage the risk for compensation. In the event of reversals, the insurance could either directly compensate for the reversals or make a payment to the carbon crediting program which allows the program to purchase carbon credits to compensate for the reversal. The insurance could be used as an alternative approach to a pooled buffer reserve or as a complementary measure that project owners are allowed or required to implement. This methodology only assesses whether carbon crediting programs require project owners to use insurances as a complementary measure to fulfill liability against reversals. If insurances were used as an alternative to a pooled buffer reserve, the robustness of the approach would need to be evaluated using expert judgment by the user of the methodology.

The scoring approach, detailed in Table 31, follows a point system based on the evaluation of specific questions.

<table>
<thead>
<tr>
<th>Sub-indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compensation by project owners</strong></td>
<td></td>
</tr>
<tr>
<td>3.2.1.5.1 The project owners are the primary responsible entity for compensating for <em>intentional reversals or for all reversals</em> (e.g., they are required to top up units temporarily drawn from a pooled buffer reserve)</td>
<td>4</td>
</tr>
<tr>
<td>3.2.1.5.2 To facilitate compensation by project owners, the program has the following provisions in place:</td>
<td></td>
</tr>
<tr>
<td>a. The project owners are required to sign legal agreements obligating them to monitor, report and compensate for reversals. OR</td>
<td>4</td>
</tr>
<tr>
<td>b. Following a reversal, the program ceases the issuance of carbon credits to the project until the project owners have fully compensated for the reversals. OR</td>
<td>2</td>
</tr>
<tr>
<td>c. Both of these provisions are implemented.</td>
<td>5</td>
</tr>
<tr>
<td>3.2.1.5.3 The carbon crediting program ensures that full compensation for any monitored reversals takes place in the case that the project owners do not fulfill their obligation for compensating for reversals (e.g., due to bankruptcy or non-enforceable legal agreements), by establishing provisions that in such instances compensation takes place through other means, such as the pooled buffer reserve.</td>
<td>2</td>
</tr>
<tr>
<td><strong>Use of pooled buffer reserves</strong></td>
<td></td>
</tr>
<tr>
<td>3.2.1.5.4 The program uses a pooled buffer reserve to compensate for reversals.</td>
<td>6</td>
</tr>
</tbody>
</table>
3.2.1.5.5 The average fraction of carbon credits required to be placed into the pooled buffer reserve is X percentage points at the time of assessment. The assessment should include all projects from which carbon credits are held in the buffer reserve. 

3.2.1.5.6 The fraction of carbon credits set aside in the pooled buffer reserve is determined through a project-specific risk assessment, following a pre-defined methodology. 

3.2.1.5.7 X registered projects contribute to the pooled buffer reserve. The assessment should include all projects from which carbon credits are held in the buffer reserve at the time of assessment. 

3.2.1.5.8 The registered projects contributing to the pooled buffer reserve are implemented in X different regions. A region is a state or province within a country (e.g., states within the US, provinces within Brazil). The assessment should include all projects from which carbon credits are held in the buffer reserve at the time of assessment. 

3.2.1.5.9 The three largest projects contributing to the pooled buffer reserve represent X percentage points of the carbon credits held in the pooled buffer reserve. 

3.2.1.5.10 There are provisions in place to ensure the continued operation of the reserve if the carbon crediting program ceases to exist, including in the case of bankruptcy. 

3.2.1.5.11 The program funds part of its pooled buffer reserve with carbon credits from projects that do not have a material non-permanence risk, as defined in Table 26, and the fraction of these carbon credits makes up: 
   a. 50% or less of the pooled buffer reserve; 
   OR
   b. More than 50% of the pooled buffer reserve. 

Use of non-pooled buffer reserve

3.2.1.5.12 The program uses a non-pooled buffer reserve to compensate for reversals. 

3.2.1.5.13 The fraction of issued carbon credits that must be placed into the non-pooled buffer reserve is X percentage points. 

3.2.1.5.14 There are provisions in place to ensure the continued operation of the non-pooled buffer reserve if the carbon crediting program ceases to exist, including in the case of bankruptcy. 

Use of insurances

3.2.1.5.15 In addition to requirements for compensation by project owners and the use of a pooled buffer reserve, the program requires project owners to insure the risks associated with their obligation to compensate for reversals. 

3.2.1.5.16 The program establishes clear conditions for what type of insurance is considered sufficient, including provisions that only high-quality credits may be used for compensation. 

Maximum achievable points

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2.1.5.5</td>
<td>X divided by 5</td>
</tr>
<tr>
<td>3.2.1.5.6</td>
<td>2</td>
</tr>
<tr>
<td>3.2.1.5.7</td>
<td>X divided by 50, with a maximum of 2 points</td>
</tr>
<tr>
<td>3.2.1.5.8</td>
<td>X divided by 25, with a maximum of 2 points</td>
</tr>
<tr>
<td>3.2.1.5.9</td>
<td>X divided by 10 (subtraction)</td>
</tr>
<tr>
<td>3.2.1.5.10</td>
<td>4</td>
</tr>
<tr>
<td>3.2.1.5.11</td>
<td>2</td>
</tr>
<tr>
<td>3.2.1.5.12</td>
<td>1</td>
</tr>
<tr>
<td>3.2.1.5.13</td>
<td>X divided by 10</td>
</tr>
<tr>
<td>3.2.1.5.14</td>
<td>1</td>
</tr>
</tbody>
</table>

The score for indicator 3.2.1.5 is determined using the point system scoring method outlined in chapter 2, with the difference that the maximum score is 4 instead of 5. A score of 4 is assigned if a carbon crediting program uses a combination of compensation by project owners and a pooled buffer reserve—which is considered best practice in this methodology—and satisfies all relevant indicators to a high degree. Assuming that the buffer reserve is well capitalized and diversified, this corresponds to a score of 38.5 points. A score of 1 is assigned if 19 or fewer points are achieved.
For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[ I_{3.2.1.5} = 1 + \left( \frac{\text{Points} - 19}{38.5 - 19} \right) \cdot 3 \]

Where:

\[ I_{3.2.1.5} = \text{Score for indicator 3.2.1.5} \]

**Indicator 3.2.1.6: Possibility to update the baseline in the case of reversals**

Some carbon crediting programs allow or require that a new baseline be established in the event of a reversal. However, if the baseline is adjusted upwards by adding the reversals to the baseline, then the reversal would no longer be accounted for (i.e., the cumulative emission reductions that may be claimed could be equal to the situation when the reversal had never occurred). Such provisions could thus undermine the effectiveness of fully accounting for reversals. Carbon crediting programs are assessed depending on the extent to which they allow or require adjusting baseline emissions upwards in the case of reversals (see Table 32). Such upward adjustments of the baseline might occur either as part of a regular renewal of the crediting period or within a crediting period following a reversal event.

**Table 32  Scoring approach regarding updates of baselines in the case of reversals**

<table>
<thead>
<tr>
<th>Program provisions in the case of reversals</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program provisions do not allow or require adjusting the baseline upwards (i.e., towards higher emissions) in the case of reversals.</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>The program provisions allow or require adjusting the baseline upwards (i.e., towards higher emissions) in the case of reversals, but only to a much smaller extent than the actual reversals.</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>The program provisions potentially allow or require adjusting the baseline upwards (i.e., towards higher emissions) in the case of reversals, to the same extent as the reversals that occurred.</td>
<td>1</td>
</tr>
</tbody>
</table>

**Example application: Verified Carbon Standard (VCS)**

The VCS Standard, version 4.0 from September 2019, paragraph 3.2.17 allows project owners to re-establish the baseline in the case of catastrophic events. There are no limitations as to how the baseline is adjusted. The program is thus assigned a score of 1.

**Determination of the combined score for approach 1b**

After determining the score for each of the six indicators above, the following weighing formula should be applied to determine the combined score for approach 1b:

\[ A_{1b} = \text{MAX} \left\{ \frac{1}{5 - \left[ 0.25 \cdot (5 - I_{3.2.1.1})^{1.3} + 0.15 \cdot (5 - I_{3.2.1.2})^{1.3} + 0.15 \cdot (5 - I_{3.2.1.3})^{1.3} + 0.10 \cdot (5 - I_{3.2.1.4})^{1.3} + 0.25 \cdot (5 - I_{3.2.1.5})^{1.3} + 0.10 \cdot (5 - I_{3.2.1.6})^{1.3} \right]} \right\} \]
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Where:

\[ A_{1b} = \text{Score for approach 1b} \]
\[ I_{3.2.1.1} = \text{Score for indicator 3.2.1.1} \]
\[ I_{3.2.1.2} = \text{Score for indicator 3.2.1.2} \]
\[ I_{3.2.1.3} = \text{Score for indicator 3.2.1.3} \]
\[ I_{3.2.1.4} = \text{Score for indicator 3.2.1.4} \]
\[ I_{3.2.1.5} = \text{Score for indicator 3.2.1.5} \]
\[ I_{3.2.1.6} = \text{Score for indicator 3.2.1.6} \]

**Approach 1c: Discounting**

Some carbon crediting programs aim to address non-permanence by discounting emission reductions or removals from projects that imply reversal risks. The discount rate may be set in different ways. In principle, non-permanence would be fully addressed if the non-credited emission reductions or removals are equal to, or larger than, the future reversals.

In terms of environmental integrity, this approach can be problematic for several reasons. First, it provides weak incentives for project owners to avoid reversals. Project owners only have incentives for avoiding reversals as long as they intend to continue requesting carbon credits. Once the project is abandoned (e.g., due to harvesting) or the crediting period ends, any reversal would not have any consequences for the project owners. This could create moral hazards (i.e., the project owners may pursue activities even if they have higher reversal risks as they do not face higher costs in case of reversals).

Second, if credited reductions are completely reversed after a certain period of time, these reversals would not be compensated for, which could ultimately result in higher future CO₂ emission concentrations compared to crediting activities without non-permanence risks. For these reasons, this approach receives a score of 1 (except if it is used as a complementary approach to compensating for potential reversals after the end of a required period for monitoring and compensating for reversals—see indicator 3.2.1.3).

**Sub-criterion 3.2.2: Approaches for avoiding or reducing non-permanence risks (Approach 2)**

*Rationale for using this sub-criterion*

If the risk of non-permanence is effectively reduced, this increases the likelihood that the emission reductions or removals will be permanent. Fewer reversals may occur and the chances that any that do occur can be compensated for are higher. Carbon crediting programs that have measures in place to avoid or reduce reversal risks are thus given a higher score than carbon crediting programs that do not have these approaches in place. Moreover, the carbon crediting programs may differ in how well their approaches reduce or avoid reversal risks.

*Level at which the sub-criterion is assessed*

This sub-criterion is assessed at the level of the carbon crediting program. If the carbon crediting program's approaches differ between project types, quantification methodologies and/or geographical areas, then this sub-criterion should be separately assessed for the relevant project types, quantification methodologies and/or geographical areas.
Scoring approach

Some programs require project owners to conduct a risk assessment of the respective activity, following a pre-defined methodology. The outcome of this risk assessment can be used in several ways. Activities with a high risk may be deemed ineligible for crediting; the amount of carbon credits to be put into a buffer reserve may depend on the determined reversal risk; or the level of a discount rate applied to the emission reductions may be informed by the determined reversal risk. This provides incentives to project owners for managing and reducing risks. Some programs also require updating risk assessments, which can include regular updates or new assessments. Some carbon crediting programs also have specific regulatory safeguards in place, such as requirements for project owners to have land titles or legally binding agreements with landowners. The scoring approach for this sub-criterion follows a point system based on the evaluation of specific questions. Table 33 specifies the questions and the points allocated.

Table 33 Scoring approach for avoiding or reducing non-permanence risks

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Scoring approach for avoiding or reducing non-permanence risks</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2.2.1</td>
<td>The program requires a risk assessment of the specific project.</td>
<td>5</td>
</tr>
<tr>
<td>3.2.2.2</td>
<td>The risk assessment follows a pre-defined and thorough methodology, taking into account the likelihood and significance of non-permanence risks, the measures taken by project owners to manage these risks and their capacity to do so.</td>
<td>4</td>
</tr>
<tr>
<td>3.2.2.3</td>
<td>The application of the risk assessment is validated by validation and verification entities.</td>
<td>3</td>
</tr>
<tr>
<td>3.2.2.4</td>
<td>The risk assessment is used to exclude from eligibility projects with a significant unaddressed reversal risk.</td>
<td>5</td>
</tr>
<tr>
<td>3.2.2.5</td>
<td>The program requires project owners to update the risk assessment in case of reversals.</td>
<td>4</td>
</tr>
<tr>
<td>3.2.2.6</td>
<td>The program requires project owners to have legal titles to the land and/or relevant carbon reservoirs on the land (e.g., timber rights), or legally binding agreements require the project owner’s consent to undertake any measures that may lead to intentional reversals.</td>
<td>2</td>
</tr>
<tr>
<td>3.2.2.7</td>
<td>The program requires the use of legal covenants or agreements (e.g., conservation easements, trusteeships) that restrict or prevent land management practices that would result in reversals (whether by the project owners or other parties). OR The program does not require that the above measures are in place but their existence leads to a lower specific risk assessment.</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Maximum achievable points</td>
<td>27</td>
</tr>
</tbody>
</table>

The score for sub-criterion 3.2.2 is determined using the point system scoring method outlined in chapter 2 above with the difference that the maximum score is 4 instead of 5. A score of 4 is assigned if a carbon crediting program satisfies all indicators except for 3.2.2.6 because it is considered good practice and sufficient to have legal agreements or covenants in place (indicator 3.2.2.7). This corresponds to 25 points. A score of 1 is assigned if 12 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

$$SC_{3.2.2} = 1 + \frac{(Points - 12)}{(25 - 12)} \cdot 3$$
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Where:

\[ \text{SC}_{3.2.2} = \text{Score for sub-criterion 3.2.2.} \]

For example, if a program has a basic risk assessment (5 points) and its application is audited by a validation and verification entity (3 points) and the outcome affects the number of carbon credits the project receives (5 points), this would result in a total of 13 points.

### Determination of the combined score for quality objective 3

1. Apply the methodology for criterion 3.1 to determine whether the relevant project type raises material non-permanence risks. If not, a score of 5 is assigned to quality objective 3. If yes, proceed to the next step.

2. Apply the methodology for sub-criterion 3.2.1 and determine which of the three approaches (1a, 1b or 1c) the carbon crediting program applies (for the relevant project type and relevant geographical area, where applicable). Determine the score for the relevant approach, which is the score for sub-criterion 3.2.1. If the carbon crediting program does not apply any approach for accounting and compensating for reversals (Approach 1), then sub-criterion 3.2.1 is assigned a score of 1.

3. Apply the methodology for sub-criterion 3.2.2 and determine the resulting score. If the carbon crediting program does not apply any approaches for avoiding or reducing non-permanence risks (Approach 2), then sub-criterion 3.2.2 is assigned a score of 1.

4. Determine the overall score for quality objective 3 by applying the following formula:

\[
Q_3 = \max \left\{ \frac{1}{5 - (0.8 \cdot (5 - \text{SC}_{3.2.1})^{1.3} + 0.2 \cdot (5 - \text{SC}_{3.2.2})^{1.3})} \right\}
\]

Where:

\[ Q_3 = \text{Score for quality objective 3} \]

\[ \text{SC}_{3.2.1} = \text{Score for sub-criterion 3.2.1} \]

\[ \text{SC}_{3.2.2} = \text{Score for sub-criterion 3.2.2} \]

Inverse weighing is used to ensure that a poor score in one criterion cannot be compensated for by a good score in another criterion, thereby misconstruing the overall score. Approach 1 is weighed at 80%, while approach 2 is weighed at 20% of the total score. Approach 1 is weighed at a higher value as it can provide a better indication for a program’s ability to mitigate and compensate for potentially at-risk projects and credits, whereas Approach 2 indicates that procedures are in place within a program to curb said risk, without necessarily accounting for what would occur following a reversal. Further note that the formula here is slightly different from other parts of the methodology in order to reflect that the maximum achievable score for mitigation activities with material non-permanence risk is 4. The formula and weighing also ensures that a program cannot receive a score higher than 3 if it applies only one of the two approaches.
Quality objective 4: Facilitating transition towards net zero emissions

Facilitating transition towards net zero emissions (i.e., ensuring that the implementation of the project facilitates, rather than delays or impedes, a transition towards achieving global net zero greenhouse gas emissions) is one important feature of carbon credits, and some projects more directly facilitate that transition than others.

This quality objective is concerned with avoiding lock-in of technologies and practices that lead to continuous GHG emissions, and creating positive incentives for innovative technologies and practices that will be necessary for the long-term net zero goal.

Both carbon lock-in and the promotion of innovative technologies and practices can have indirect emission impacts beyond the project. Locking-in continued emissions may result in stranded investments or require embarking on more expensive negative emission technologies to compensate for the continued emissions, which increases the costs to achieve the goals of the Paris Agreement. Similarly, using any less efficient than the best available technology can lead to an inefficient use of scarce resources such as biomass, and likewise undermine the ability to achieve net zero emissions. By contrast, promoting innovative technologies and practices can lead to increased technology learning effects and lower their costs. Such spill-over effects can lead to a faster uptake of these technologies or practices and may thereby induce further indirect emission reductions.

This quality objective is therefore complementary to quality objective 1, which is limited to the robust determination of the GHG emissions impact that directly results from the project. It provides an added safeguard to the contribution of a project towards the long-term goals of the Paris Agreement. The importance of this quality objective may vary among buyers.

Criterion 4.1: Enhancing adoption of low, zero or negative emissions technologies and practices

Rationale for using this criterion

To evaluate this quality objective, the methodology assesses the degree to which the project employs a technology or practice that is consistent with a zero/low carbon economy, avoids carbon lock-in, fosters innovation, and/or leads to transformational change. The methodology assesses whether the project uses a technology type or practice that will be transformational and is consistent with the net zero goal. The methodology also assesses the extent to which the project supports or enables innovation and/or the application of the best-available technologies or processes that underpin them, demonstrating progression from common practice.

Level at which the quality objective is assessed

This quality objective is assessed at the level of the project type.

Scoring approach

The scoring approach assesses the degree to which the technologies or practices applied under the project facilitate the transition towards net zero emissions. The main consideration is whether the project employs negative, zero or low emission technologies or practices. Moreover, it considers whether the project poses risks for locking-in technologies or practices that may result in an increase in GHG emissions in the long-term, thereby undermining the achievement of net zero emissions, or whether the project employs innovative technologies or practices which may accelerate the transition to net zero emissions.
The following categories for assessing the technologies and practices are considered: negative emission technologies and practices; zero emitting technologies and practices; avoided emissions technologies and practices; and low emitting technologies and practices. Emission reductions and removals are both considered as they are essential for achieving the net zero goal. The examples provided for each category are for guidance and are by no means exhaustive.

Table 34 outlines the scoring approach. Technology types that will be required in the long term to achieve a net zero goal are generally assigned a score of 5. There may be technologies that are required now to enable a transition towards net-zero but carry a risk of locking-in continued GHG emissions. Due to this risk, these technologies are scored with a 3 as a default, or alternatively 4 or 2, depending on the degree of the lock-in risk and whether best available technology is used.

Further exceptions for specific technologies within the broader categories are indicated where there is a superior option within that same category. For example, both CFLs and LEDs contribute to avoided emissions, but LEDs are the superior technology. Therefore, CFLs are scored lower than LEDs. Similarly, the use of biomass for energy purposes involves certain risks and is thus scored lower than other renewable energy technologies (see Box 1). The score for a specific technology takes precedence over the score for the category. Given that the examples provided are not exhaustive, where a technology type is not listed in the table, the user must apply the definition of the category in assessing the technology.

**Box 1 Risks associated with using biomass for energy purposes**

The use of biomass for energy purposes is a key GHG mitigation strategy. In the methodology, the use of biomass for energy purposes is, however, scored with a lower score than other sources of renewable energy. This is because it can be difficult to assess the extent to which biomass production and use for energy purposes involves zero emissions, as the emissions depend on a number of site-specific factors which influence direct and indirect emissions. Emissions related to feedstock cultivation, harvesting, collection and recovery, processing and extraction, transportation, and other processes will have direct effects on a biomass feedstock’s lifecycle emissions. In addition to these direct emissions, the use of biomass may also induce land-use change or reduce carbon stocks on the land (e.g., in dead wood, litter or soil carbon). The large-scale cultivation of biomass for energy purposes can compete with other land uses, particularly agriculture for food production, which can lead to conversion of natural ecosystems and their respective carbon stocks. In addition to these diverse greenhouse gas emissions implications, it should also be noted that biomass use may have other consequences for sustainability, including biodiversity and social risks (e.g., land use rights, water rights). Whether the use of biomass can actually be considered a zero emissions technology is therefore highly dependent on individual circumstances, and biomass can thus only play a limited role in the transformation towards net-zero emissions.
### Table 34  Scoring approach for enhancing adoption of low, zero or negative emission technologies and practices

<table>
<thead>
<tr>
<th>Technology type</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Negative emissions technologies and practices</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Description:</strong> Technologies and practices that remove CO$_2$ from the atmosphere, such that more CO$_2$ is sequestered in the process than greenhouse gases are emitted:</td>
<td></td>
</tr>
<tr>
<td>• Direct air carbon capture and storage (capture of CO$_2$ from the atmosphere and storage in long-term reservoirs) (DACCS)</td>
<td>5</td>
</tr>
<tr>
<td>• Bioenergy with carbon capture and storage (BECCS)</td>
<td>4</td>
</tr>
<tr>
<td>• Afforestation, reforestation and restoration (ARR)</td>
<td>5</td>
</tr>
<tr>
<td><strong>Zero emissions technologies and practices</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Description:</strong> Technologies and practices that result in net zero GHG emissions during their operation. <strong>Exception:</strong> A score of 4 applies to technologies or practices that are less innovative than the best available technology. For example, this holds for biomass power generation using less efficient plants than the best available technology.</td>
<td></td>
</tr>
<tr>
<td>• Cement production with renewable energy sources combined with carbon capture and storage (CCS) with high efficiency rate (e.g., &gt;90%)</td>
<td>5</td>
</tr>
<tr>
<td>• Fuel switching to zero-emitting technology (e.g., fuel switch from natural gas to &quot;green&quot; hydrogen produced from renewable energy sources and with minimal hydrogen leakage throughout the value chain)</td>
<td>5</td>
</tr>
<tr>
<td>• Change in practice or components along the process or production cycle leading to change from high to zero emissions (e.g., steel production using &quot;green&quot; hydrogen produced from renewable energy sources and with minimal hydrogen leakage throughout the value chain)</td>
<td>5</td>
</tr>
<tr>
<td>• Zero emissions renewable energy generation, such as</td>
<td></td>
</tr>
<tr>
<td>o Wind and solar power generation</td>
<td>5</td>
</tr>
<tr>
<td>o Hydro power generation from run-of-river plants or dams with negligible CH$_4$ and CO$_2$ emissions</td>
<td></td>
</tr>
<tr>
<td>o Geothermal energy use with negligible fugitive emissions</td>
<td></td>
</tr>
<tr>
<td>• Use of biomass residues or other forms of sustainable/renewable biomass using best available technology</td>
<td>4</td>
</tr>
<tr>
<td><strong>Avoided emissions technologies and practices</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Description:</strong> Technologies and practices that generate indirect upstream or downstream emission reductions as a result of the use of technology or practice, or practices that intervene with the release of existing of terrestrial carbon stocks. <strong>Exceptions:</strong> A score of 4 applies to technologies or practices that have a superior alternative or do not represent the best available technology, for example, because they are less energy efficient than already available alternatives (e.g., compact fluorescent lamps (CFLs) compared to light-emitting diodes (LEDs)).</td>
<td></td>
</tr>
<tr>
<td>• Highly efficient demand side technology (e.g., LED lamps)</td>
<td>5</td>
</tr>
<tr>
<td>• Efficient demand side technology (e.g., CFL lamps)</td>
<td>4</td>
</tr>
<tr>
<td>• Battery or pump storage enabling greater renewable electricity generation</td>
<td>5</td>
</tr>
<tr>
<td>• Recycling of waste</td>
<td>5</td>
</tr>
<tr>
<td>• Composting of organic waste</td>
<td>5</td>
</tr>
<tr>
<td>• Reducing emissions from deforestation and degradation</td>
<td>5</td>
</tr>
<tr>
<td><strong>Low emissions technologies and practices</strong></td>
<td></td>
</tr>
</tbody>
</table>
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**Technology type**

<table>
<thead>
<tr>
<th>Description: Technologies and practices that emit comparatively lower levels of GHG emissions during their operation. The default score is 3, given that these technologies or practices lead to continuous GHG emissions and could thus compromise the goal of achieving net-zero emissions in the future. A score of 4 applies to technologies or practices that use best available technology, and for which the risk of locking-in investments that lead to continuous GHG emissions is low. This holds, for example, for the use of landfill gas for energy generation from already closed landfills. In the case of closed landfills there is no risk that, as a result of the project, landfilling is continued rather than embarking on more sustainable waste handling practices, such as recycling and composting. A score of 2 applies to technologies or practices that do not use best available technology and for which the risk of locking in investments which lead to continuous GHG emissions is significant. This holds in particular for technologies with a long lifetime, such as fossil fuel-based power plants.</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology type</strong></td>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>Carbon capture and storage (CCS) from fossil fuel fired power plants</td>
<td>Rationale: While CCS can avoid any direct emissions from fossil fuel fired power plants, the continued use of fossil fuels causes unavoidable emissions from their mining, exploration, processing and transportation, such as CH₄ emissions from coal mining and oil and gas exploration. Given that power plants may operate for decades, there is a significant risk of locking-in investments that may undermine achieving net-zero emissions in the future. In addition, superior alternatives, such as renewable power generation in combination with storage systems, are already available.</td>
</tr>
<tr>
<td>Fuel switching to a less carbon intensive fossil fuel (e.g., from coal to natural gas)</td>
<td>3</td>
</tr>
<tr>
<td>Carbon capture and utilization (CCU)</td>
<td>3</td>
</tr>
<tr>
<td>Use of landfill gas from closed landfills for energy generation</td>
<td>4</td>
</tr>
<tr>
<td>Use of landfill gas from open landfills for energy generation</td>
<td>3</td>
</tr>
<tr>
<td>Waste to energy</td>
<td>3</td>
</tr>
<tr>
<td>Landfill gas flaring</td>
<td>3</td>
</tr>
<tr>
<td>Greenfields natural gas power plants</td>
<td>2</td>
</tr>
<tr>
<td>Use of “blue” hydrogen from fossil fuel sources combined with carbon capture and storage (CCS)</td>
<td>3</td>
</tr>
</tbody>
</table>
Quality objective 5: Strong institutional arrangements and processes of the carbon crediting program

Carbon crediting programs are the standard-setters and issuers of carbon credits. They hold an enormous amount of responsibility for ensuring that each carbon credit issued under their programs accurately represents an emission reduction or removal of one metric ton of CO₂ equivalent. Their capacity to do so largely depends on having in place strong institutional arrangements and processes to ensure that the program is governed consistently with their mission, that the crediting standards they put forth are adhered to, and that stakeholders have a transparent and accessible view into their decision-making. Carbon credits issued from carbon crediting programs that score well against this quality objective are more likely to be of high quality.

The methodology assesses carbon crediting programs against the following three criteria:

5.1 Overall program governance
5.2 Transparency
5.3 Robust third-party auditing

Criterion 5.1: Overall program governance

Rationale for using this criterion

Good program governance is an important safeguard for the quality of carbon credits. This includes whether the carbon crediting program has provisions and procedures in place that regulate how the program is governed to effectively support its mission and whether there have been past cases of non-compliance with program standards and procedures, fraudulent conduct, or conviction of key personnel.

Level at which the criterion is assessed

This criterion is assessed at the level of the carbon crediting program. If the carbon crediting program’s approaches differ between project types and/or geographical areas, then this criterion should be separately assessed for the relevant project types and/or geographical areas.

Scoring approach

The overall program governance is assessed based on a series of questions, included in Table 35 below. The total points depend on how many questions can be answered positively. The overall score depends on the total points achieved.
### Table 35: Scoring approach for overall program governance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carbon crediting program governance structure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1.1</td>
<td>The program has a Secretariat comprised of paid and fully employed staff that is responsible for the administration of the program.</td>
<td>2</td>
</tr>
<tr>
<td>5.1.2</td>
<td>The program provides contact details for the Secretariat on the program’s website.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.3</td>
<td>The program defines who is responsible for the administration of the program and has established formally defined procedures for the decision making process on key programmatic functions, such as the approval of the normative program documents, the registration of projects, and the issuance, transfer and cancellation of carbon credits.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.4</td>
<td>The program is overseen by a Board of Directors or Trustees.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.5</td>
<td>All non-staff individuals serving in a professional capacity to support the administration of the program (e.g., members of the Board, advisory groups or expert committees) are subject to conflict of interest provisions to address any financial or other conflicts that may arise in their role supporting the administration of the program (e.g., in providing expert opinions or reviewing quantification methodologies).</td>
<td>1</td>
</tr>
<tr>
<td>5.1.6</td>
<td>The program has established a code of conduct (or similar document) that identifies the provisions by which program staff and registry administrators must conduct themselves, including conflict of interest provisions to address any conflicts that may arise in the administration of the program (e.g., in registering projects or issuing carbon credits).</td>
<td>1</td>
</tr>
<tr>
<td><strong>Carbon crediting program governance procedures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1.7</td>
<td>The normative program documents are developed and updated in accordance with formally defined procedures.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.8</td>
<td>Material program updates (e.g., new or updated normative program documents) are subject to public consultation and the process for doing so is clearly defined in the program’s provisions.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.9</td>
<td>The program actively performs outreach to gather public input when conducting public consultations on material program updates (e.g., through messages on their websites or messages to listservs).</td>
<td>1</td>
</tr>
<tr>
<td>5.1.10</td>
<td>Material program updates (e.g., new or updated normative program documents) are developed with the participation of experts (e.g., through advisory groups or expert committees).</td>
<td>1</td>
</tr>
<tr>
<td>5.1.11</td>
<td>The program has established procedures for receiving complaints and resolving disputes from any carbon crediting program stakeholders. This includes the possibility for project owners to appeal decisions by the carbon crediting program relating to their projects.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.12</td>
<td>Potential issues with the program’s provisions as identified through public consultation or complaints by any carbon crediting program stakeholders, are addressed and the process for doing so is clearly defined in the normative program documents.</td>
<td>1</td>
</tr>
<tr>
<td>5.1.13</td>
<td>The procedure for handling stakeholder disputes and complaints has defined time-bound requirements for the program to respond to disputes or complaints.</td>
<td>1</td>
</tr>
</tbody>
</table>
Carbon crediting program history

5.1.14 There is no evidence that the current program staff have ever engaged in fraud on behalf of the program or that key personnel have been convicted of fraud. Web searches or other publicly accessible information may inform this indicator.  

5.1.15 The program has never been sanctioned by a regulator or other relevant authority for noncompliance with relevant laws and regulations, or for not complying with its own provisions. Web searches or other publicly accessible information may inform this indicator.  

Maximum achievable points 16

Notes: The Secretariat of a carbon crediting program is the entity with responsibility for administering the program. Program staff and registry administrators fulfill the Secretariat functions, such as developing the normative documents of the standard, reviewing requests for registration and requests for issuance by project owners, or operating the registry and project database system of the program. These Secretariat functions are typically supported by a Board of Trustees or Board of Directors, advisory groups, and expert committees who are not employed by the carbon crediting program but offer advice, review proposed changes to standards documents, and provide oversight to the Secretariat. The Board is a permanent structure that provides high-level program guidance while advisory groups and expert committees may be established on a more ad-hoc basis targeting specific processes or targeted objectives (e.g., developing or updating a specific quantification methodology or providing input to the program standards and operations within a specified sector). In some cases, the carbon crediting program Secretariat may outsource the duties associated with registry services. If this is the case, the administrator of the registry will be a separate entity from the Secretariat.

The score for criterion 5.1 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (16 points). A score of 1 is assigned if 8 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

$$C_{5.1} = 1 + \frac{(\text{Points} - 8)}{(16 - 8)} \cdot 4$$

Where:

$C_{5.1}$ = Score for criterion 5.1

Criterion 5.2: Transparency

Rationale for using this criterion

Transparency is essential for good governance. Carbon crediting programs should be transparent by facilitating access to relevant non-confidential information, including that sufficiently detailed information on all projects is publicly available and program requirements are transparent. Non-program-staff persons or organizations that support the program in a professional capacity should be identified and conflicts of interest must be handled in a robust and transparent manner. Procedures should be in place that ensure transparent and consistent decision-making based on criteria that are clearly formulated and, as much as possible, subject to easy interpretation. It is important that key information on the credited activity is made publicly available, including project design documents, monitoring and verification reports, and issuance requests and host party approvals. Public consultation on the program is also valuable for transparency and programs should publicly respond to address comments received.

Level at which the criterion is assessed

This criterion is assessed at the level of the carbon crediting program. If the carbon crediting program's approaches differ between project types and/or geographical areas, then this criterion should be separately assessed for the relevant project types and/or geographical areas.
Scoring approach

The overall program transparency is assessed based on a series of questions, included in Table 36.

<table>
<thead>
<tr>
<th>Table 36</th>
<th>Scoring approach for transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator</strong></td>
<td><strong>Points</strong></td>
</tr>
<tr>
<td>Internal program governance</td>
<td></td>
</tr>
<tr>
<td>5.2.1</td>
<td>1</td>
</tr>
<tr>
<td>5.2.2</td>
<td>1</td>
</tr>
<tr>
<td>5.2.3</td>
<td>1</td>
</tr>
<tr>
<td>5.2.4</td>
<td>1</td>
</tr>
<tr>
<td>5.2.5</td>
<td>2</td>
</tr>
<tr>
<td>5.2.6</td>
<td>1</td>
</tr>
<tr>
<td>5.2.7</td>
<td>1</td>
</tr>
<tr>
<td>Requirements for project documentation</td>
<td></td>
</tr>
<tr>
<td>5.2.8</td>
<td>1</td>
</tr>
<tr>
<td>5.2.9</td>
<td>1</td>
</tr>
<tr>
<td>5.2.10</td>
<td>1</td>
</tr>
</tbody>
</table>

**Maximum achievable points** 11
The score for criterion 5.2 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (11 points). A score of 1 is assigned if 5 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[
C_{5.2} = 1 + \frac{(\text{Points} - 5)}{(11 - 5)} \cdot 4
\]

Where:

\[C_{5.2} = \text{Score for criterion 5.2}\]

**Criterion 5.3: Robust third-party auditing**

**Rationale for using this criterion**

Accredited third-party validation and verification entities (i.e., auditors) must confirm that a project fulfils all requirements of the carbon crediting program. Auditing is typically conducted for the initial approval of a project’s design, often referred to as “validation,” and to confirm that the emission reductions or removals determined through project monitoring were correctly quantified and the project was implemented in accordance with the approved methodology, often referred to as “verification.” Following successful auditing, the project documentation and the auditing reports are submitted to the carbon crediting program for final approval, where programs may apply their own oversight of validation and verification entities and project quality control measures. A strong auditing system ensures that validation and verification entities are thoroughly scrutinized and that auditing activities provide reliable reassurance that carbon credits are only issued to projects that comply with all program requirements, including methodologies.

**Level at which the criterion is assessed**

This criterion is assessed at the level of the carbon crediting program or the combination of the carbon crediting program with a complementary certification standard. If the carbon crediting program’s approaches differ between project types and/or geographical areas, then this criterion should be separately assessed for the relevant project types and/or geographical areas.

**Scoring approach**

The overall third-party auditing approach is assessed based on a series of questions, included in Table 37 below.
### Table 37  Scoring approach for robust third-party auditing

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3.1</td>
<td>The program requires that accredited third-party validation and verification entities assess the adherence of a project against all program provisions, including whether the design of the activity and the determination of emission reductions or removals conforms with all program provisions. This auditing must take place prior to the issuance of carbon credits.</td>
<td>3</td>
</tr>
<tr>
<td>5.3.2</td>
<td>Validation and verification entities are accredited by an International Accreditation Forum (IAF) member body or the CDM Executive Board (EB). The eligibility requirements of third-party validation and verification entities are available on the program’s website.</td>
<td>1</td>
</tr>
<tr>
<td>5.3.3</td>
<td>The program has in place standards, procedures or guidance that validation and verification entities must comply with in performing their auditing functions (e.g., validation and verification standards and procedures, audit manuals) to ensure consistent auditing practices under the program.</td>
<td>1</td>
</tr>
<tr>
<td>5.3.4</td>
<td>The validation and verification entities’ auditing functions extend to the review of stakeholder consultations by evaluating whether public comments have been duly considered by the project.</td>
<td>1</td>
</tr>
<tr>
<td>5.3.5</td>
<td>The program has in place provisions which restrict a project owner’s use of the same validation and verification entity. These restrictions, sometimes referred to as “rotation” provisions, may limit the frequency of audits (e.g., if an auditor provided the initial verification, then that auditor may not provide the subsequent verification), the total number of audits (e.g., an auditor may only perform verification for six consecutive years of the project, thereafter another auditor must perform verification), or the types of audits which may be performed by the same entity for the same project (e.g., if an auditor performed the validation, another auditor must perform verification). Programs may provide exceptions to such provisions as long as such exceptions are only granted in circumstances specified by the program. For example, geographic scarcity of auditors may necessitate the use of the same auditor for multiple verifications.</td>
<td>1</td>
</tr>
</tbody>
</table>
| 5.3.6     | The program provisions as set out in the standards, procedures or guidance for validation and verification entities, or otherwise indicated in the normative program documents, require that audit reports from validation and verification entities include at least:  
  * Details of audit dates  
  * Locations and scope of auditing  
  * The team composition of the validation and verification body  
  * Main findings  
  * Corrective action requests | 1 |
<p>| 5.3.7     | The program has procedures in place to perform oversight of the validation and verification entities that have been approved under the program. Oversight should include review of individual project validation or verification reports and systematic monitoring of the validation and verification entity’s job performance. Any identified non-compliances must be reported to the validation and verification entity and its accreditation body(ies). | 1 |</p>
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3.8</td>
<td>1</td>
</tr>
<tr>
<td><strong>The accreditation bodies recognized by the carbon crediting program, or the carbon crediting program if it itself accredits validation and verification entities, have monitoring procedures in place to regularly assess the performance of validation and verification entities in providing auditing services to the relevant carbon crediting program (e.g., through regular accreditation surveillance, requirements for re-accreditation).</strong></td>
<td></td>
</tr>
<tr>
<td>5.3.9</td>
<td>1</td>
</tr>
<tr>
<td><strong>The program has procedures in place for program personnel to perform their own quality control reviews of individual projects seeking registration and carbon credit issuance requests. Examples of quality control reviews of project compliance may include desk reviews of submitted project documentation, interviews with project owners, and/or in-person site visits.</strong></td>
<td></td>
</tr>
<tr>
<td>5.3.10</td>
<td>1</td>
</tr>
<tr>
<td><strong>The program and/or the accreditation bodies recognized by the program have procedures in place to apply sanctions against validation and verification entities in cases of performance issues, including suspension or increased oversight (e.g., spot checks). Sanctions could be in response to accreditation lapses or other non-compliances identified by the program.</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Maximum achievable points** | 12 |

The score for criterion 5.3 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if the maximum number of achievable points is reached (12 points). A score of 1 is assigned if 6 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[
C_{5.3} = 1 + \left( \frac{\text{Points} - 6}{12 - 6} \right) \cdot 4
\]

Where:

\[
C_{5.3} = \text{Score for criterion 5.3}
\]

**Determination of the combined score for quality objective 5**

1. Determine the score for all criteria using the scoring approach described in the respective section.

2. Apply the general formula for inverse weighing to determine the overall score for quality objective 5:

\[
Q_5 = \text{MAX} \left\{ \frac{1}{6 - \frac{1}{3} \cdot (6 - C_{5.1})^{1.3} + \frac{1}{3} \cdot (6 - C_{5.2})^{1.3} + \frac{1}{3} \cdot (6 - C_{5.3})^{1.3}} \right\}
\]

Where:

\[
Q_5 = \text{Score for quality objective 5}
\]

\[
C_{5.1} = \text{Score for criterion 5.1}
\]

\[
C_{5.2} = \text{Score for criterion 5.2}
\]

\[
C_{5.3} = \text{Score for criterion 5.3}
\]

Note that inverse weighing is used in determining the combined score for this quality objective in order to ensure that in situations where the scoring is poor with respect to one criterion, this cannot be fully made up by high scores for other criteria.
Quality objective 6: Environmental and social impacts

The climate crisis is inextricably linked to every aspect of modern production and consumption, making it also a development issue, rather than only an environmental issue. The climate crisis must therefore be addressed in a way that does not only reduce GHG emissions to net-zero, but does so in a way that is widely inclusive and firmly grounded in the respect of human rights, particularly of the most vulnerable populations, and the promotion of sustainable development. To that effect, the methodology evaluates the degree to which the project avoids adverse environmental or social impacts and generates benefits beyond reducing GHG emissions, contributes to enhancing adaptation and resilience, and supports those least responsible but most affected by the climate emergency.

The main challenges of evaluating environmental and social impacts are identifying the potential impacts a project may have, understanding the trade-offs between these potential impacts, assessing the degree of these potential impacts, and then consolidating these impacts into indicators that enable comparisons. This complexity is further compounded by the subjective and highly contextual nature of some of the judgments associated with these issues. This is one of the reasons why there is such a diversity of frameworks and approaches, including the Universal Declaration of Human Rights, the Sustainable Development Goals (which are often used as standardized frameworks with nationally determined obligations and/or targets from virtually every country in the world), the United Nations Development Program’s Social and Environmental Standards (UNDP 2020), and the International Finance Corporation’s Performance Standards (IFC 2012), among others.

In the light of these challenges, the methodology establishes a framework to help users systematically assess these issues. To assess this quality objective, the following criteria are evaluated:

6.1 Robustness of the carbon crediting program’s environmental and social safeguards
6.2 Sustainable development impacts of the project type or project
6.3 Contribution to improving adaptation and resilience

Criterion 6.1: Robustness of the carbon crediting program's environmental and social safeguards

Rationale for using this criterion

Project impacts are rarely limited to GHG emission reductions or removals, and their overall social and environmental impact is often very important to buyers of carbon credits, whether because they want to limit potential liability or reputational risks and/or because they want to maximize the overall economic return on their investments. Many carbon crediting programs have established environmental and social safeguards with the view to ensuring a do-no-harm approach to social and development impacts, particularly by enabling global as well as local and affected stakeholders to voice concerns and demand fair treatment and, when appropriate, redress or compensation. The rigor and comprehensiveness of these requirements, however, varies among programs. This criterion therefore aims to evaluate the carbon crediting program’s requirements for environmental and social safeguards.

Level at which the criterion is assessed

This criterion is assessed at the level of the carbon crediting program, or the combination of the carbon crediting program with a complementary certification standard. For example, a project
applying a combination of the Verified Carbon Standard (VCS) and the Climate, Community and Biodiversity Standard (CCB) would receive a “Yes” for the indicators in Table 38 if the specified safeguard is part of the VCS or the CCB. Furthermore, if the carbon crediting program’s approaches differ between project types and/or geographical areas, then this criterion should be separately assessed for the relevant project types and/or geographical areas.

**Scoring approach**

Strong environmental and social safeguards set by the carbon crediting program, or through the application of complementary certification standards, ensure that there is a framework in place through which project owners and validation and verification entities must examine the project’s risks. It is important to note that while these safeguards are essential, they cannot be assumed to anticipate all potential environmental and social issues, nor guarantee compliance with the program’s requirements.

The methodology assesses the social and environmental safeguards that a carbon crediting program and any complementary certification standard requires a project to have in place, assuming that effective safeguards generally reduce the likelihood of harm. Table 38 lists the indicators for the program requirements that are evaluated. This list of indicators was informed by several sources, including the existing requirements of carbon crediting programs, requirements by international finance institutions, as well the literature. Moreover, the Universal Declaration of Human Rights and the Sustainable Development Goals are used as standardized frameworks with nationally determined obligations and/or targets from virtually every country in the world. The United Nations Development Program’s Social and Environmental Standards (UNDP 2020) and the International Finance Corporation’s Performance Standards (IFC 2012) were also considered during the development of the indicators in Table 38 and may provide further details.

Each indicator from Table 38 adds the specified number of points to the total for this criterion. Recognizing the importance of ensuring a robust focus on a do-no-harm approach to implementation, some indicators are considered of more importance than others. The fulfilment of these indicators therefore results in a higher number of points.

### Table 38 Scoring approach for the robustness of the crediting program’s social and environmental safeguards

<table>
<thead>
<tr>
<th>Procedural requirements</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1.1 The program requires the project owners to identify and mitigate potential negative environmental and social impacts, including to local and affected stakeholder wellbeing.</td>
<td>2</td>
</tr>
<tr>
<td>6.1.2 The program clearly defines the types of environmental and social impacts that the project owners must identify and mitigate.</td>
<td>1</td>
</tr>
<tr>
<td>6.1.3 The program requires the project owners to assign roles and responsibilities for managing environmental and social risks of the project.</td>
<td>1</td>
</tr>
<tr>
<td>6.1.4 The program assesses the institutional arrangements and capacities of the project owners to identify and manage the environmental and social risks associated with the project.</td>
<td>1</td>
</tr>
<tr>
<td>6.1.5 The program requires the project owners to identify and adhere to any national or local legal requirements which may be relevant to the project.</td>
<td>1</td>
</tr>
<tr>
<td>6.1.6 The program requires the disclosure of all relevant information from the project owner’s evaluation of environmental or social impacts and any Environmental</td>
<td>1</td>
</tr>
</tbody>
</table>
Impact Assessments, if relevant or required to be carried out in the project’s local legal context.

6.1.7 The program requires, at least for any potential negative impacts, that a validation and verification entity validates the evaluation of social and environmental impacts by the project owner prior to registration.

6.1.8 The program requires a follow-up on any potential negative impacts identified in the evaluation of social and environmental impacts prior to registration, e.g., by including measures to mitigate any negative impacts in monitoring plans.

6.1.9 The program requires, at least for any potential negative impacts, that social and economic impacts be monitored throughout the crediting periods of the project.

6.1.10 The program requires the project owners to establish an environmental and social management plan, at least for projects that the program classifies as having high environmental and social risks.

6.1.11 The program has a grievance mechanism in place that allows local stakeholders to submit grievances throughout the lifetime of the project without any barriers (e.g. liability for expenses associated with the investigation). Such grievances must be duly considered by the carbon crediting program.

6.1.12 The program requires that project owners have a culturally appropriate grievance mechanism in place for local stakeholders to submit grievances to them throughout the lifetime of the project. Such grievances must be duly considered by the project owner.

6.1.13 The program requires that the grievance mechanism to be established by the project owners provide the possibility of providing anonymous grievances.

6.1.14 The program requires that grievances received by the carbon crediting program and/or the project owners must be responded to within a specific response time.

Requirements for local stakeholder consultations

6.1.15 The program requires the project owners to conduct an assessment of which local stakeholders will be impacted by the project.

6.1.16 In assessing which local stakeholders will be impacted by the project, the program explicitly requires, at least for projects affecting land use, that the project owners identify local stakeholders that hold any legal or customary tenure or access rights to the land.

6.1.17 The program requires the project owners to conduct a local stakeholder consultation in a way that is inclusive and culturally appropriate for local communities (taking into account, e.g., literacy, culture and language).

6.1.18 The program requires that the local stakeholder consultation be conducted before the decision of the project owners to proceed with the project and before the validation of the project.

6.1.19 The program requires the project owners to take due account of any input received in the local stakeholder consultation and to publicly document how inputs received are addressed.

6.1.20 The program requires that a validation and verification entity assesses whether the project owners have taken due account of all inputs received in the local stakeholder consultation.

6.1.21 The program requires that project owners make key information on the project available to local stakeholders prior to conducting the local stakeholder consultation, such as the project design documents and any supplemental project documentation.
Methodology for assessing the quality of carbon credits

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1.22</td>
<td>The program requires free, prior and informed consent if indigenous, tribal or traditional people are directly affected by a project (e.g., in case of re-locations or where property rights or land inhabited or used by people is affected).</td>
</tr>
<tr>
<td>6.1.23</td>
<td>The program requires the project owners to establish mechanisms for ongoing communication with local stakeholders (e.g., periodic consultations) in a manner appropriate to the context of the stakeholders (e.g., literacy, culture and language) and take due account of input received.</td>
</tr>
<tr>
<td>6.1.24</td>
<td>The program requires that records of how issues have been addressed from local stakeholder consultations (6.1.18), grievances communicated to project owners (6.1.12), and ongoing communication (6.1.23) are made publicly available or made available upon request.</td>
</tr>
<tr>
<td>6.1.25</td>
<td>The program requires project validation and verification entities to contact and engage with affected local stakeholders during validation.</td>
</tr>
</tbody>
</table>

**Requirements for global stakeholder consultations**

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1.26</td>
<td>The program requires that projects be subject to public consultation on the global level via online facilities (e.g., submitting comments on an online platform or portal) prior to project registration.</td>
</tr>
<tr>
<td>6.1.27</td>
<td>The program requires that global public consultations of projects make available key information on the project, such as the project design documents and any supplemental project documentation.</td>
</tr>
<tr>
<td>6.1.28</td>
<td>The program requires that input received through global public consultations of projects is publicly documented, that the project owners must take due account of the inputs received, and that it is publicly documented how inputs received are addressed.</td>
</tr>
<tr>
<td>6.1.29</td>
<td>The program requires that a validation and verification entity assesses whether the project owners have taken due account of all inputs received in the global stakeholder consultation.</td>
</tr>
<tr>
<td>6.1.30</td>
<td>The program has established provisions that allow the public (both global and local project stakeholders) to submit comments to the program about a project at any time during project operation. This includes provisions for the program’s due consideration of the comments received and possible action to address the concern (e.g., halting the issuance of credits, deregistering the project, or requiring compensation for over-issuance).</td>
</tr>
</tbody>
</table>

**Requirements for environmental and social safeguards**

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1.31</td>
<td>The program provisions explicitly ban any violation of human rights by the project owner or any other entity involved in project design or implementation.</td>
</tr>
<tr>
<td>6.1.32</td>
<td>The program has safeguards in place that require preserving and protecting cultural heritage in projects.</td>
</tr>
<tr>
<td>6.1.33</td>
<td>The program has safeguards in place in relation to health that at least address the need to avoid or minimize the risks and impacts to (community) health, safety and security that may arise from projects.</td>
</tr>
<tr>
<td>6.1.34</td>
<td>The program provisions specifically require that projects avoid physical and economic displacement in its projects and that, in exceptional circumstances where avoidance is not possible, displacement occurs only with appropriate forms of legal protection and compensation as well as informed participation of those affected.</td>
</tr>
<tr>
<td>6.1.35</td>
<td>The program has safeguards in place in relation to labour rights that at least require projects to ensure decent and safe working conditions, fair treatment, sound worker-management relationships and equal opportunity for workers.</td>
</tr>
</tbody>
</table>
The score for criterion 6.1 is determined by using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if 44 or more points are achieved. A score of 1 is assigned if 23 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[ C_{6.1} = 1 + \frac{(\text{Points} - 23)}{(44 - 23)} \cdot 4 \]

Where:

\[ C_{6.1} = \text{Score for criterion 6.1} \]

**Criterion 6.2: Sustainable development impacts of the project type or project**

**Rationale for using this criterion**

While program requirements, as assessed in the previous criterion, are critical for ensuring minimum environmental and social safeguards, the overall sustainable development impacts of projects can still vary considerably. Some project types may provide few benefits or even have some negative impacts, while others may catalyze significant positive social and economic benefits that go beyond GHG emission reductions. The available literature suggests that sustainable development impacts depend, to a degree, on the project type but clearly depend on the individual project.
**Level at which the criterion is assessed**

This criterion is best assessed at the level of the individual project. Alternatively, if the necessary data or resources are not available, the criterion may also be assessed at the level of the project type. Application at the level of the project will provide more reliable results and is necessary to ensure that a do-no-harm approach was carried throughout. If applied at project level, the specific impacts associated with the individual project and its management should be considered. An assessment at project type level can give orientation towards the typical sustainable development impacts for the project type. A clear definition of project types is important for this. If the methodology is applied at project type level, it is recommended that the sustainable development impacts of the specific project be assessed as part of the project-specific due diligence.

**Scoring approach**

The methodology assesses the extent to which a specific project or project type contributes to or hinders the achievement of each of the 17 Sustainable Development Goals (SDGs), with the exception of Goal 13 on climate action, which is the primary goal of the climate mitigation projects (https://www.un.org/sustainabledevelopment/sustainable-development-goals/). The SDGs are used here, as they are a well-established, standardized framework with nationally determined obligations and/or targets from virtually every country in the world.

The evaluation should consider both positive and negative impacts with respect to the SDGs. To reduce complexity, the assessment at the project level will mostly be based on expert judgement and available literature. Project type and individual project-level impacts should be compared to a baseline scenario to identify the net effect of the project whenever possible. For example, a hydroelectric power plant may directly employ a number of people but could have a net negative effect on employment if the flooding an area for the reservoir destroys valuable agricultural land.

To assess the impacts of a project type or individual project on each SDG (other than Goal 13), the methodology draws on a scale developed by Nilsson et al. (2016) and Weitz et al. (2018). Given the integrated nature of the SDGs and the well-documented interlinkages, potential synergies and trade-offs between different SDGs, Weitz et al. (2018) developed an approach which classifies interactions between SDGs on a seven-point ordinal scale that indicates the nature of the interaction and the extent to which it is positive or negative (see Figure 7 below).

**Figure 7** Seven-point typology of interactions between SDGs

Based on Weitz et al. (2018).
The International Council for Science describes the approach as follows: “[T]he magnitude of the score, in whichever direction, provides an indication of how influential a given SDG or target is on another. For instance, a value of +1 corresponds to an ‘enabling’ relationship, wherein the achievement of one objective (such as providing electricity access in rural homes, SDG 7) creates conditions for furthering another (such as child and adult education, SDG 4). Meanwhile a higher score of +3 corresponds to an ‘indivisible’ relationship, wherein one objective is inextricably linked to the achievement of another. For example, ending all forms of discrimination against women and girls (target 5.1) is absolutely necessary for ensuring women’s full and effective participation in society (target 5.5). As an example of a negative interaction, the relationship between on the one hand boosting a country’s economic growth (target 8.1) and on the other reducing waste generation (target 12.5) might be assigned a score of -2 (‘counteracting’), since the former potentially clashes with the latter (unless mechanisms are put in place to prevent this, such as circular economy strategies that include effective waste prevention or substantially increasing recycling rates). Finally, for SDGs and targets exhibiting no significant positive or negative interactions, a score of 0 (‘consistent’) is assigned” (International Council of Science 2017).

The same scale from -3 to +3 points is used to identify the impact of a project or project type on sustainable development. In this case, the scale assesses whether an individual project or a project type contributes to the achievements of SDGs other than Goal 13 or whether it negatively affects progress on other SDGs. The adapted scale is illustrated in Table 39 below.

<table>
<thead>
<tr>
<th>Impact of the project on the SDG goal</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indivisible: The successful implementation of the project automatically delivers progress on this SDG goal.</td>
<td>+3</td>
</tr>
<tr>
<td>Reinforcing: The successful implementation of the project directly makes it easier to make progress on this SDG goal.</td>
<td>+2</td>
</tr>
<tr>
<td>Enabling: The successful implementation of the project indirectly creates conditions that enable progress on this SDG goal.</td>
<td>+1</td>
</tr>
<tr>
<td>Consistent: There is no significant link between the project and this SDG goal.</td>
<td>±0</td>
</tr>
<tr>
<td>Constraining: The successful implementation of the project constrains the options for how to deliver on this SDG goal.</td>
<td>−1</td>
</tr>
<tr>
<td>Counteracting: The successful implementation of the project makes it more difficult to make progress on this SDG goal.</td>
<td>−2</td>
</tr>
<tr>
<td>Cancelling: The successful implementation of the project automatically leads to a negative impact on this SDG goal.</td>
<td>−3</td>
</tr>
</tbody>
</table>

Source: Adapted from Weitz et al. (2018), this scoring approach would need to be applied to each SDG individually.

The score for criterion 6.2 is determined by using the point system scoring method outlined in chapter 2 above, except if any individual SDG achieves -3 points, in which case criterion 6.2 is assessed as 1. A score of 5 is assigned if 20 or more points are achieved. A score of 1 is assigned if 1 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[
C_{6.2} = 1 + \frac{\text{Points} - 1}{20 - 1} \cdot 4
\]
Where:

\[ C_{6.2} = \text{Score for criterion } C_{6.2} \]

The scoring method presented here enables an assessment of how the implementation of a project (contributing to SDG Goal 13) influences progress on other SDGs. The assessment may be applied on the level of broad SDG goals. Each SDG has, however, a number of sub-targets which specify a development goal. Therefore, a more nuanced alternative approach is to assess the interactions on the target level of SDGs, depending on the capacity of the users. Such a detailed analysis would require assessing the impact of the project on each of the 164 SDG targets, with the exception of SDG 13. The points assigned for the impact on individual targets under one SDG would have to be added up depending on the (development) focus or preference of the users.

Some buyers of carbon credits may recognize that projects in Least Developed Countries (LDCs) and Small Island Development States (SIDS) face structural challenges that go beyond what is faced by equivalent projects elsewhere, a recognition that is well established at the UNFCCC and other international fora. Recognizing this, they may choose to prioritize supporting projects in these countries.

Hence, as an additional step of the evaluation, it is assessed whether the project is implemented in LDCs or SIDS, which are recognized to face special circumstances that require additional support.

Projects implemented in these countries receive an upgrade of one score point (e.g., from 3 to 4) in the overall evaluation of criterion 6.2. Note that the overall score cannot exceed 5.

**Example application at project type level**

In this example, a project of a hypothetical project type “X” is evaluated. For the sake of this example, projects of type “X” are known to typically create more jobs, produce renewable energy and therefore enable responsible production, which may result in the project-type evaluation illustrated in Table 40. In this example, the project type evaluation results in a total of 5 points and would therefore receive a score of 1.84.

| SDG goal | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | Total |
|----------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|-----|
| Points   | +1| 0 | 0 | 0 | 0 | 0 | +3| 0 | 0 | 0   | 0   | +1 |   | -  | 0  | 0  | 0   | 5   |

**Example application at the level of an individual project of type “X”**

In this example, project-specific positive and negative SDG impacts, as identified through a due diligence check, are incorporated into the project-type assessment. This should include, as a minimum, a “do-no-harm” approach to human rights impacts, particularly with regard to indigenous people and local communities.

During the due diligence of the specific project of type “X”, in this example, the project turns out to have a capacity building program to certify green job skills and an outreach program to support women in Science, Technology, Engineering and Math (STEM) which would lead to adjusting the evaluation of SDG 4 and SDG 5, and the total score respectively. The evaluation of the individual project results in an adjusted total of 9 points and would therefore receive a score of 2.68.
Table 41: Example evaluation of the SDG impacts of a project of type “X”

<table>
<thead>
<tr>
<th>SDG goal</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Points</td>
<td>+1</td>
<td>0</td>
<td>0</td>
<td>+2</td>
<td>+2</td>
<td>0</td>
<td>+3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

**Criterion 6.3: Contribution to improving adaptation and resilience**

**Rationale for using this criterion**

The best available science currently tells us that, barring large-scale negative emissions, we have already locked-in well over 1 degree of heating above pre-industrial levels by the end of the century, with further heating to be expected unless drastic and immediate measures are taken to reduce GHG emissions. Given the scale and intensity of impacts already being experienced, it is imperative to ensure that all communities, but particularly those in developing countries, adapt and increase their resilience. Some buyers may therefore prioritise projects that directly or indirectly contribute to improving adaptation and resilience (A&R).

**Level at which the criterion is assessed**

This criterion is assessed at the individual project level and is therefore optional.

**Scoring approach**

Drawing on a guidebook for results-based monitoring of climate change adaptation projects (GIZ 2013), the methodology assesses the extent to which the project supports or hinders adaptation and resilience in the host country across three dimensions: building adaptive capacity, reducing identified risks/vulnerabilities and successful development in spite of climate change (i.e., sustainable development).

Host country adaptation plans, policies and priorities as set out in National Adaptation Needs Assessments, National Adaptation Plans and Strategies, Adaptation Communications, adaptation elements of previous National Communications and the adaptation elements of the NDC should be used as a reference for the evaluation, where available. These documents provide valuable information on what adaptation and resilience mean in the specific context of the host country and on how well the project fits in with the host country’s broader adaptation and resilience approach.

To evaluate the project's positive and negative A&R impacts against the host country's broader A&R approach, relevant project documentation may be evaluated, as well as additional information reported on the project in relevant literature or by the media or NGOs.

Drawing on the same methodology developed by Weitz et al. (2018) in the context of SDG goals, Table 42 provides for a -3 to +3-point scale to assess the impact of the project on adaptation and resilience in the host country. This scoring should be applied separately to each of the three dimensions introduced above. The scores for the three dimensions are added up and used to determine the final score for the criterion.
Table 42 Scoring approach for assessing the impact of the project on improving different dimensions of adaptation and resilience

<table>
<thead>
<tr>
<th>Impact of the project on improving different dimensions of adaptation and resilience</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has direct positive A&amp;R impacts (high impact)</td>
<td>+3</td>
</tr>
<tr>
<td>Reinforces positive A&amp;R impacts</td>
<td>+2</td>
</tr>
<tr>
<td>Enables positive A&amp;R impacts</td>
<td>+1</td>
</tr>
<tr>
<td>Does not have A&amp;R impacts</td>
<td>0</td>
</tr>
<tr>
<td>Constrains A&amp;R advancement</td>
<td>-1</td>
</tr>
<tr>
<td>Counteracts A&amp;R advancement</td>
<td>-2</td>
</tr>
<tr>
<td>Has indisputable negative A&amp;R impacts (high impact)</td>
<td>-3</td>
</tr>
</tbody>
</table>

The score for criterion 6.3 is determined using the point system scoring method outlined in chapter 2 above. A score of 5 is assigned if 7 or more points are achieved. A score of 1 is assigned if -2 or fewer points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the formula below:

$$C_{6.3} = 1 + \left( \frac{\text{Points} - (-2)}{7 - (-2)} \right) \times 4$$

Where:

$$C_{6.3} = \text{Score for criterion } C_{6.3}$$

**Determination of the combined score for quality objective 6**

1. Determine the score for all criteria using the scoring approach described in the respective section.

2. Given that criterion 6.3 is resource-intensive and therefore optional, apply one of the following formulas to determine the overall score for quality objective 6:

   If all three criteria are applied:

   $$Q_6 = \text{MAX} \left\{ 6 - (0.3 \cdot (6 - C_{6.1})^{1.3} + 0.5 \cdot (6 - C_{6.2})^{1.3} + 0.2 \cdot (6 - C_{6.3})^{1.3}) \right\}$$

   Where:

   $$Q_6 = \text{Score for quality objective 6}$$
   $$C_{6.1} = \text{Score for criterion 6.1}$$
   $$C_{6.2} = \text{Score for criterion 6.2}$$
   $$C_{6.3} = \text{Score for criterion 6.3}$$

   If optional criterion 6.3 is not applied:

   $$Q_6 = \text{MAX} \left\{ 6 - (0.35 \cdot (6 - Q_{6.1})^{1.3} + 0.65 \cdot (6 - Q_{6.2})^{1.3}) \right\}$$
Where:

\[ Q_6 \] = Score for quality objective 6

\[ C_{6.1} \] = Score for criterion 6.1

\[ C_{6.2} \] = Score for criterion 6.2

The sustainable development impacts of the project type or project are here deemed most important for the assessment of the environmental and social impacts, which is why criterion 6.2 is weighed higher in the overall evaluation (0.5 respective 0.65) than criteria 6.1 and 6.3 (if applied).
Quality objective 7: Host country ambition

This quality objective is only applicable to carbon credits used for purposes for which double claiming with the host country NDC should be avoided and that are internationally transferred in the context of Article 6 of the Paris Agreement. In this case, the ambition of the NDC and any long-term mitigation targets of the host country are important, for several reasons.

First, Article 6 requires that engagement in cooperative approaches shall promote ambition and help achieve the overarching aim of the Paris Agreement to hold the increase in global average to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit temperature increase to 1.5 degrees Celsius. The main tool among Paris Agreement Parties to achieve this goal are the NDCs. When we consider that many countries are not close to reaching their current NDC targets, which when added up are significantly insufficient, the scale of the challenge ahead is clear.

To achieve the goals of the Paris Agreement, it is essential that countries engaging in cooperative approaches under Article 6 participate in and remain Parties to the Paris Agreement. If countries could transfer ITMOs without being Party to the Paris Agreement, this could create a perverse incentive to leave the Paris Agreement, since it may be perceived that participation in carbon markets is easier outside the Paris Agreement.

Second, the potential for participation in cooperative approaches under Article 6 should provide incentives for host countries to enhance the ambition of their NDCs over time, rather than create perverse incentives not to do so, as host countries could perceive that they can sell a larger number of ITMOs if they adopt less stringent targets. Such perverse incentives for climate action under the Paris Agreement could be avoided if buyers focus on purchasing credits from host countries that have ambitious NDCs and long-term goals. Similarly, perverse incentives could be reduced if carbon market approaches are designed so that only a part of the emission reductions or removals achieved through a cooperative approach are internationally transferred to a buyer, while another part can be used by the host country to achieve its own NDC.

Third, ambitious NDCs and long-term goals of the host country provide essential safeguards for assuring the quality of carbon credits. If a country with an ambitious NDC sells ITMOs that do not present actual mitigation actions, it would have to compensate for the shortfall to still achieve its NDC by further reducing its own emissions or purchasing ITMOs on the market. By contrast, a country with an NDC target that will be over-achieved without taking any climate action could sell ITMOs that are not backed by actual emission reductions and still achieve its NDC (Schneider und La Hoz Theuer 2019). A country with an ambitious NDC and long-term goal has incentives to only authorize ITMOs that represent actual emission reductions or removals. As long as the country has a multi-year target or uses a multi-year trajectory or budget to account for ITMOs, the country may also have incentives to only authorize ITMOs that have low non-permanence risks, as any future reversals would make it more difficult for the country to achieve its future NDCs. The ambition of the host country’s NDC and long-term goals may thus indirectly impact the emissions outcome from engaging in carbon markets.

In summary, this quality objective is introduced to avoid that the engagement in carbon markets provides perverse incentives that could undermine mitigation action beyond the project concerned, and to assess whether the project and its implementation context provides incentives for enhancing ambition.
To assess this objective, the methodology uses the following criteria:

7.1 Host country commitment to the global temperature goal
7.2 Stringency and coverage of the host country’s current NDC
7.3 Ability of the carbon crediting approach to enable the host country to use part of the emission reductions to achieve its own NDC

**Criterion 7.1: Host country commitment to the global temperature goal**

**Rationale for using this criterion**

A commitment to the global temperature goals could be demonstrated if a country communicated a net zero emissions target (i.e., a target under which any remaining emissions by sources are balanced with removals by sinks) supported by a Low Emissions Development Strategy (LEDS). As highlighted above, ambition provides a safeguard for ensuring that emission reductions or removals are additional, real and permanent since a host with an ambitious NDC, when accounting for transferred credits, may need to compensate for carbon credits that do not “track back” to real emission reductions or removals. A host with a net zero emissions target and/or a clear long-term decarbonisation strategy communicated in a LEDS is more likely to approve only projects that are likely to generate additional, real and permanent emission reductions and removals, and to consider crediting periods consistent with an increase in ambition over time.

**Level at which the criterion is assessed**

The assessment is applied at host country level.

**Scoring approach**

The scoring approach assesses whether the host country has communicated a LEDS and whether it has an explicit commitment in the form of a net zero emissions target, including: the time-frame of the target, differentiating between LDCs/SIDS and other economies; the coverage of greenhouse gases and sectors; whether the target is a domestic target or whether it includes the use of international carbon credits; and the legal status of the target.

Based on these elements, the methodology uses the point system scoring method outlined in chapter 2 above to determine the score for criterion 7.1 (see Table 43). A score of 5 is assigned if the maximum number of achievable points is reached (15 points). A score of 1 is assigned if no points are achieved. For any achieved points between these thresholds, the score is determined based on a linear interpolation using the following formula below:

\[
C_{7.1} = 1 + \frac{\text{Points}}{15} \cdot 4
\]

Where:

\[
C_{7.1} = \text{Score for criterion 7.1}
\]
### Table 43: Scoring approach for the host country commitment to the global temperature goal

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1.1 The country has communicated a LEDS.</td>
<td>3</td>
</tr>
<tr>
<td>7.1.2 The country is an LDC and has adopted a net zero emissions target for</td>
<td></td>
</tr>
<tr>
<td>a. 2050 or earlier;</td>
<td>5</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>b. 2051 to 2069;</td>
<td>3</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>c. 2070 or later.</td>
<td>1</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>The country is not an LDC and has adopted a net zero emissions target for</td>
<td></td>
</tr>
<tr>
<td>d. 2040 or earlier;</td>
<td>5</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>e. 2041 to 2059;</td>
<td>3</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>f. 2060 or later.</td>
<td>1</td>
</tr>
<tr>
<td>7.1.3 The adopted net zero emissions targets covers</td>
<td></td>
</tr>
<tr>
<td>a. all sectors of the economy, including international aviation and shipping, and all main greenhouse gases (CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, NF₃);</td>
<td>3</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>b. at least 90% of the country's GHG emissions;</td>
<td>2</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>c. less than 90% of the country's GHG emissions;</td>
<td>1</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>d. No information is available or it is insufficiently clear.</td>
<td>0</td>
</tr>
<tr>
<td>7.1.4 The adopted net zero emissions target is</td>
<td></td>
</tr>
<tr>
<td>a. a domestic target (i.e., without the purchase of international carbon credits but possibly with linking of emissions trading systems);</td>
<td>2</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>b. a target to be achieved with the purchase of international carbon credits, or no information is available.</td>
<td>0</td>
</tr>
<tr>
<td>7.1.5 The adopted net zero emissions target</td>
<td></td>
</tr>
<tr>
<td>a. has been communicated to the UNFCCC in the country’s NDC and/or LEDS, and has been enshrined in domestic law;</td>
<td>2</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>b. has been communicated to the UNFCCC in the country’s NDC and/or LEDS, or has been enshrined in domestic law;</td>
<td>1</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>c. has only been announced or adopted by government or relevant legislative bodies but neither been communicated to the UNFCCC in the country’s NDC and/or LEDS nor been enshrined in domestic law.</td>
<td>0</td>
</tr>
<tr>
<td><strong>Maximum achievable points</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>
Criterion 7.2: Stringency and coverage of the host country’s current NDC

Rationale for using this criterion

The stringency of the host country’s current NDC is an important safeguard for the quality of carbon credits and for avoiding perverse incentives for host countries not to enhance the ambition of their NDC when they engage in cooperative approaches. If emission reductions or removals were not additional, real or permanent, the country would report higher emissions and would thus need to pursue further mitigation action to still achieve its NDC, thereby compensating for the non-additionality, overestimation or non-permanence of the emission reductions or removals. In practice, however, there are several caveats and challenges to making this happen:

- **Lack of ambition of NDC targets**: The ambition of NDC targets differs widely. Independent assessments of current NDC targets suggest that many countries have NDC targets that correspond to higher levels of emissions than their likely emissions with the policies in place at the time of target setting—an issue that has also been referred to as ‘hot air’ in the context of the Kyoto Protocol (Boehringer 2000; Woerdman 2005; Kollmuss et al. 2015). In this case, countries may not need to compensate for any reversals, as they would achieve their NDC targets anyways. The more ambitious an NDC target is, the more likely it is that a country would compensate for reversals.

- **Coverage of NDCs**: When accounting for their NDCs, countries only account for those sectors, gases, categories, activities, sources and sinks, and carbon pools that are included within the scope of their NDC. Any non-additionality, overestimation or reversals would only be compensated for if covered by the NDC. Moreover, determining what is inside and outside of NDCs can be difficult, due to the lack of clarity and diversity of NDCs and methodological challenges in determining which fraction of the mitigation occurred within and outside NDCs (Schneider et al. 2020).

- **Visibility of reversals in indicators used to track progress**: Under the Paris Agreement, countries need to select ‘indicators’ to track progress towards their NDC targets. For countries with emissions targets, the GHG emissions covered by the NDC can be used as indicators. For a country with an afforestation target, the hectares of afforested land may be a suitable indicator. In practice, reversals are not always “visible” in these indicators, as they sometimes lack the necessary granularity to capture the emissions.

- **Single-year targets**: Many countries communicated in their NDCs only targets for single years such as 2030. In the case of reversals, any occurring in the target year would be accounted for when demonstrating achievement of the NDC. Reversals in other years, however, may only be reported, without implications for the achievement of the target and hence not requiring the country to compensate for such reversals in order to still achieve its NDC. By contrast, if countries have continuous multi-year targets, such as under the Kyoto Protocol, or establish emissions trajectories for NDC accounting, reversals from all years would be accounted for.

- **Treatment of natural disturbances and harvested wood products in NDC accounting**: Countries pursue different approaches in how they account for natural disturbances and harvested wood products in their NDCs. Some countries exclude natural disturbances. In this case, reversals may not necessarily be accounted and compensated for. Also, the treatment of removals after disturbances is crucial; removals occurring after natural disturbances should not be accounted towards NDCs.
Whether host countries of projects would compensate for emission reductions or removals that were not additional, real or permanent, depends on various factors.

**Level at which the criterion is assessed**

The assessment is applied at host country level, in combination with information on the project or project type.

**Scoring approach**

The assessment is applied in several steps:

**Step 1:** First, the methodology assesses whether the emission reductions or removals of the project or project type are covered by the NDC of the host country. If the emission reductions or removals are not covered, then this criterion receives a score of 1, as the country does not have incentives to only authorize projects that are additional, do not overestimate emission reductions, and have low non-permanence risks. In this case, the subsequent steps are not applicable.

**Step 2:** If the emission reductions or removals are covered by the NDC, this step of the methodology assesses to what degree the NDC target deviates from the emissions level that would most likely occur in the target year or period with policies in place at the time of communicating the NDC. This is critical for the likelihood that the country would actually need to compensate for non-additional projects or overestimated or non-permanent emission reductions. The more climate action the country needs to pursue to achieve its NDC, the more likely it is that compensation would be required, and the higher the incentives for the country to only authorize ITMOs from projects that are truly additional and do not overestimate emission reductions or removals. The same may not be true, however, for a country with a target that is less stringent than its likely business-as-usual (BAU) emissions with current policies in place—i.e., which does not require the country to take mitigation action to achieve its target. In these instances, the country might accrue more financial revenues from over-estimating emission reductions and selling the resulting units without infringing its ability to achieve its NDC (Schneider und La Hoz Theuer 2019). This is supported by evidence from Joint Implementation under the Kyoto Protocol, wherein units from countries with ambitious Kyoto Protocol targets were assessed to have a significantly higher quality than those from countries with targets less stringent than the likely BAU emissions. Some researchers (Kollmuss et al. 2015; Michaelowa et al. 2019b) even propose additionality testing at the level of the host country.

Assessing to what degree NDC targets are below realistic projections of BAU emissions is prone to uncertainty and may be subject to change over time. Nevertheless, independently established assessments of NDCs can provide an indication of the likelihood that coverage by NDCs provides a safeguard for environmental integrity. The methodology recommends using independently established assessments, such as those from the Climate Action Tracker project, to assess NDCs. The assessment is based on the extent to which the NDC target level deviates from these independently-established, most likely BAU emission projections, with policies in place at the time of communicating the NDC, as illustrated in Table 44 below. In cases in which a country has communicated several targets in its NDC (e.g., a target that is unconditional upon international support and one that is conditional upon such support, or a GHG emissions target and a renewable energy target), the more ambitious target (i.e., the one resulting in lower levels of greenhouse gas emissions) should be evaluated.
Table 44 Scoring approach for stringency of the current NDC

<table>
<thead>
<tr>
<th>Percentage band within which the NDC target level is below the likely emissions level in the target year or period with policies in place at the time of communicating the NDC</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 30%</td>
<td>5</td>
</tr>
<tr>
<td>20-30%</td>
<td>4</td>
</tr>
<tr>
<td>10-20%</td>
<td>3</td>
</tr>
<tr>
<td>0-10%</td>
<td>2</td>
</tr>
<tr>
<td>&lt; 0% (target level is less stringent than likely emissions level with current policies in place)</td>
<td>1</td>
</tr>
</tbody>
</table>

Step 3: This step assesses whether the emission reductions of the project or project activity are likely to be visible in the GHG emissions reported by the country to track progress towards its NDC. This may be undertaken by assessing the generic risk that GHG emissions are not visible in GHG inventories (e.g., because higher IPCC Tiers are needed in GHG inventories) or by also assessing the quality of the GHG inventory of the country. If the emission reductions or removals are likely to be visible, the score from step 2 is maintained. If it is questionable whether the emission reductions are visible, then the result from Table 44 is downgraded by one score point, but should in any case not be higher than 3. This step is optional, because the quality of GHG inventories is only temporarily relevant, given that countries can conduct recalculations of their GHG inventories over time in order to improve the quality.

Step 4: In this step, the methodology assesses whether any reversals are likely to be accounted and compensated for by the country. This fourth step is only applicable to projects or project types that have material non-permanence risks. Whether reversals are accounted for, depends critically on two questions:

1. Does the NDC fully account for natural disturbances?
2. Does the NDC have a multi-year target or use a multi-year trajectory or budget for NDC accounting purposes?

The score from the previous steps is maintained if both questions are answered with a yes. If one of the two questions is answered negatively, the result from the previous steps is downgraded by 0.5 points, but should in any case not be higher than 4. If both questions are answered negatively, the result from the previous steps is downgraded by one score point, but should, in any case, not be higher than 3.

**Criterion 7.3:** Ability of the carbon crediting approach to enable the host country to use part of the emission reductions to achieve its own NDC

**Rationale for using this criterion**

Carbon market approaches can help enhance the ambition of host countries’ climate action if part of the emission reductions or removals through the carbon market approaches are not internationally transferred, but can be used by host countries to achieve their own NDCs. This can be achieved in different ways, particularly by establishing ambitious baselines that are below business-as-usual (BAU) emission levels or by choosing crediting periods that are shorter than the period over which the project will reduce emissions.
Level at which the criterion is assessed

At which level the assessment is applied depends on how the carbon crediting approach enables the host country to use part of the emission reductions to achieve its own NDC. The criterion may be assessed at the level of the host country, the quantification methodology, and/or the carbon crediting program.

Scoring approach

Some host countries may apply approaches to ensure that they can use part of their emission reductions to achieve their own NDC. This may, for example, include authorizing only a part of the achieved emission reductions under Article 6, while using the remainder of the emission reductions to achieve their own NDC.

Second, it can be important to consider the relevant carbon crediting program provisions and quantification methodologies to assess whether, and to what extent, fewer credits are issued than emission reductions or removals occur as a result of the project. This requires a thorough assessment of the relevant methodological aspects, such as the ambition of the baseline level or the length of the crediting period. Similar to the evaluation of the robustness of the emission reductions quantification, the scoring approach therefore relies on a thorough evaluation of the respective quantification methodologies and carbon crediting program provisions, and an expert judgment of to what degree the emission reductions are under-credited over the period in which the project will generate emission reductions or removals.

The scoring assesses what fraction of the emission reductions or removals can be used by the host country to achieve its own NDC. The higher this share is, the higher is the respective score (see Table 45).

<table>
<thead>
<tr>
<th>Fraction of emission reductions or removals achieved through the project that can likely be used by the host country to achieve its own NDC</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 50%</td>
<td>5</td>
</tr>
<tr>
<td>30-50%</td>
<td>4</td>
</tr>
<tr>
<td>10-30%</td>
<td>3</td>
</tr>
<tr>
<td>0-10%</td>
<td>2</td>
</tr>
<tr>
<td>None</td>
<td>1</td>
</tr>
</tbody>
</table>

Determination of the combined score for quality objective 7

1. Determine the score for all criteria using the scoring approach described in the respective section.

2. Apply the following formula to determine the overall score for quality objective 7:

\[ Q_7 = 0.3 \cdot C_{7,1} + 0.5 \cdot C_{7,2} + 0.2 \cdot C_{7,3} \]
Methodology for assessing the quality of carbon credits

Where:

\[ Q_7 = \text{Score for quality objective 7} \]
\[ C_{7.1} = \text{Score for criterion 7.1} \]
\[ C_{7.2} = \text{Score for criterion 7.2} \]
\[ C_{7.3} = \text{Score for criterion 7.3} \]

Note that the stringency and coverage of the host country's current NDC is weighed higher than the other two criteria because of its safeguard function for avoiding perverse incentives for host countries not to enhance the ambition of their NDC when they engage in cooperative approaches, as outlined above.
4 References


Methodology for assessing the quality of carbon credits


Annex: Changes from previous methodology versions

The following table describes the main substantive changes implemented in comparison to version 1.0 of this methodology.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Avoiding double counting</td>
<td>The decisions relating to Article 6 of the Paris Agreement have been incorporated into the methodology for quality objective 2 on avoiding double counting.</td>
</tr>
<tr>
<td>Minor improvements</td>
<td>Minor improvements have been implemented throughout the document</td>
</tr>
</tbody>
</table>