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Position paper from Project Developer Forum on the post-verification rating on climate action projects

The Project Developer Forum (PD Forum or PDF) is a collaborative association and collective voice of companies and practitioners that are offering services on climate action project development towards financing greenhouse gas (GHG) emission reduction and removal projects globally. The PDF members have been active in public, private and multilateral sectors in the past two decades and have contributed to the shaping of the first intergovernmental market mechanisms around the GHG emissions that led to hundreds million tons of emission reductions and removals i.e. under CDM/JI of the UNFCCC, regional/national compliance mechanisms and different voluntary standards that mostly copied majority of the UNFCCC's infrastructure, regulations and methodologies and over time added own additional features.

Welcoming initiatives and actions to increase integrity and transparency in the carbon market.

The PDF and its members always strive for an increase in the quality of climate action and PDF appreciates and often directly participates in the initiatives that aim to increase integrity of the carbon market.

In its strategic role, PDF through the vast experience and expertise of its members, has been continuously providing feedback to the standards, regulatory bodies and other stakeholders on how project design, operation and monitoring processes can be further improved and enhanced, focusing on accuracy, credibility and transparency of projects and subsequently, enhancing integrity and robustness of the carbon market.

One of the key areas of interest to the PDF is exploring ways to assure a long term, harmonised, effective and fair quality/integrity assessment process within climate action projects. The topic has received extreme traction in the past months linked to the globally applied methodologies and standards under different mechanisms. We believe it is the time for our industry and stakeholders to move towards validated, transparent and globally recognised processes that do not limit the performance assessment of the projects to quantified GHG emissions of projects or baselines but also take other relevant criteria/measures into account linked to projects' long term environmental performance and financial sustainability. Let's clearly remind ourselves that the baseline scenario we see in project boundaries go beyond only emissions, and that there are interlinked elements in every project that can affect projects performance and accuracy in accounting impacts. As market stakeholders, we shall ensure that any quality assessment and enhancement will follow harmonised principles that allow early design adjustments and preparations before the final verification & issuance, according to the most accurate and approved methods. This is necessary to avoid projects to be jeopardised on their accountability in an ex-post situation years after their financial modelling

is final and after applying the validated design documentation which are themselves based on latest applicable standards and methodologies.

In recent years and in the era of data and technology increasingly used and accepted in the carbon market, there has been a new service introduced throughout the climate sector called **Project Rating**. This well-intended business activity introduced a parallel assessment process to the existing certification cycle in order to rate projects' ERR results ex-post or ex-ante. The organizations supplying these project assessments are meant to be analogous to ratings agencies that operate in the financial world. This new business model started to gain traction by stakeholders who wanted to know more about the projects' performance status from a different point of view. The service of providing rating to specific project is often for the demand side that wants to ensure credibility of the projects they want to support through carbon finance. The PDF understands the aim of the Project Ratings and through its members have already worked with the service providers in a collaborative manner.

Observed issues and possible areas of improvement

- 1) We believe any parallel ex-post assessment of projects using non-validated non-harmonised approaches/models by rating agencies, without following proper principles in place can continuously undermine carbon finance mechanisms and lead to increased uncertainty within the climate action project development community and global stakeholders alike.
- 2) Further, it is observed that due to non-harmonised approaches among the service providers, the same project may get different ratings (or different levels of its being 'high quality'). E.g., report by carbon market highlights how same project can get different quality ratings¹. It is also observed rating of the same project by the same agency may change over a period of time without any change in information about the design or implementation of the project. This may lead to inferences that the evaluation of a project may not be very objective by one or more service providers or that evaluation methodologies of one or more service providers may not be comprehensive, appropriate or adequate.
- 3) It is also observed that often project rating service providers may have different views than the certification standard on critical topics such as additionality, baselines, safeguards, permanence, etc. This often creates confusion as the project is required to demonstrate compliance to the certification standard that is audited by an accredited third party. Often in cases, it is also observed that personnel evaluating a project (or project type) may lack fundamental understanding of key concepts and on ground reality of a project implementation and operations.

¹ Refer to page 57 of Assessing and comparing carbon credit rating agencies. Available here: <https://carbonmarketwatch.org/publications/assessing-and-comparing-carbon-credit-rating-agencies/>



It is clear that fragmented non harmonised methods, cannot effectively and efficiently lead to secure, clear and certain results to assure quality and integrity at the design and operation levels. Most of the results coming out of project ratings have played a big surprise factor at ex-post level and after all technical and financial considerations have been made final in the project documents. The lack of principles and harmonisation with standards and existing methodologies have added further insecurity and uncertainty to many project owners and developers.

Suggestions for improvement

The PDF sees it as very crucial for both the Voluntary Carbon Market (VCM) and any compliance mechanism in order to follow a very transparent and harmonised process when it comes to the performance and quality checks of climate action projects. Accuracy, transparency and credibility has been the core objective for the creation of emission reduction and removal mechanisms since its inception starting from UNFCCC procedures and methodologies to VCM standards. It is of clear interest to PDF members and all stakeholders involved to seek further improved methods, processes and tools that can lead to a more certain project impact outcome. An outcome that can be relied upon in our global battle against climate change, without which we cannot gauge our efforts in climate mitigation/removals against what needs to be yet done and achieved.

Therefore, we would like to urge all stakeholders to join a collective effort on shaping reliable and credible improvement solutions to be part of the formal project operation, monitoring and certification process, where all such improvements and additional monitoring will be incorporated in project design, registration and verification process, audited by third party independent auditors. We encourage the involved regulatory bodies, standards, non-profits, NGOs, public and private entities to work in coordination, to plan and shape towards globally harmonised principles on climate action integrity/quality monitoring, reporting & evaluation.

We would like to raise the following points to be further discussed, taken into account and hopefully implemented by current and future standards and mechanisms in order to avoid uncertainties and questions in the future when it comes to integrity and quality.

- 1) Any improved method and model for rating projects can be deemed as a more accurate and certain way to calculate the final impacts (ERRs) has to be validated and incorporated into an existing methodology/standard or developed as a new methodology. There are clear inclusive procedures on how proposed new methods can be officially validated and approved;
- 2) Any additional criteria for projects to be judged against including any risk elements, quantitative or qualitative, if credible shall be incorporated into the existing project design and monitoring guidelines, following the latest recommendations that has been put forward by the existing quality and integrity protocols;





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- 3) With the advent of supply-side governance mechanism in Integrity Council for Voluntary Carbon Market (IC VCM) that would also evaluate individual standards and methodologies, generic concerns pertaining to integrity of programs will be addressed by ensuring a minimum quality of requirements in all projects. Improvements considered by rating agencies could also be fed into broader conversation on key topics such as additionality, baseline, safeguards, etc via mechanism such as IC VCM, CORSIA and ICROA. This will increase trust of market on independent auditors (VVBs) and reviews conducted at the standard level.
- 4) Any ex-post re-evaluation and rating of the projects need to follow and refer to above incorporated elements and adjustments. It is utterly unfair if projects in need of severe climate finance design their project measures, finance and monitoring needs based on the existing rules, not knowing that they will be surprised by completely new criteria at the time of ex-post re-evaluation. Such a parallel and non-matching evaluation can only raise further doubts, mistrust and uncertainty among stakeholders involved in any efforts with the intention to mitigate/reduce GHG emissions.
- 5) Once harmonised and incorporated into the applied methodologies, any future ex-post evaluation and rating needs to follow full transparency on analytics, tools and data sources with a clear justification and link to the existing applied monitoring methodologies. Any new tool or method needs to be submitted for validation and approval (audited) to be part of a working (or a new) methodology.

With Regards

Dr Sven Kolmetz , on behalf of the membership
Chairman, Project Developer Forum

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