

OFFSETS AS ORDERED: BUYER DUE DILIGENCE TO ENSURE CARBON CREDIT QUALITY



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INTRODUCTION

Very little seems certain in the voluntary carbon markets (VCM) right now, except this: that everyone in the market or writing about the market has opinions on how to improve supply and/or demand-side quality.

While several high-profile working groups, like the [Voluntary Carbon Markets Integrity Initiative \(VCMI\)](#) and the [Integrity Council for the Voluntary Carbon Markets \(IC-VCM\)](#), promise to set a clear bar for quality, it remains to be seen whether they can fully accomplish these goals.

In the meantime, buyers of voluntary carbon credits face increasing scrutiny in a rapidly changing, hard-to-define market. How do they manage these risks? What steps do buyers currently take to ensure they receive high-quality credits?

We asked these questions to 24 demand-side actors, which included a mix of end buyers, investors, resellers, and credit portfolio consultants, along with a handful of other demand-side stakeholders. The findings in this report were derived from the 12 survey responses and 20 informal interviews we conducted with these participants (see [Methodology](#)).

Our questions sought to uncover what due diligence buyers conduct when they transact carbon credits. Through this study, we hope to:

- **Help buyers share insights to make the due diligence process easier for all via roundtable discussion on topics raised in this report,**
- **Enable buyers to advocate for high quality in carbon markets,**
- **Inform the standards of buyers' perceived weaknesses within their programs, helping them improve methodologies, communications, and information, and**
- **Provide insights to ongoing working groups focusing on market integrity to help them create achievable and realistic guidance.**

Buyers are uniquely positioned to influence the VCM and ensure the market bends towards production of higher-quality projects and programs. The achievement of high-quality credits ultimately comes down to the demand-side. Without robust due diligence and advocacy from buyers, carbon markets will not reach their potential in addressing climate change.

METHODOLOGY

Sample Group

Twenty-four participants were surveyed and/or interviewed for this study between April and June 2022. This included 15 investors, 13 end buyers, 9 resellers, 3 consultancies, 2 membership organizations,¹ and 1 auditor. Most groups play multiple roles in carbon markets.² Each participant had the option to respond to an online survey, answer questions via an informal interview, or do both. A total of 14 organizations completed only an interview (2 end buyers, 1 project developer, 1 consultancy, 1 membership organization, 1 auditor, and 8 groups with multiple roles), 5 organizations submitted only a survey (1 reseller, 1 investor, and 3 groups with multiple roles), and 5 organizations took part in both the survey and interview (1 end buyer, 1 investor, and 3 groups with multiple roles).

Terminology

We will use the term “**buyer**” to mean end buyer, investor, reseller or organization that advises these groups on corporate credit purchases. The term “**company**” will also refer to any type of organization that participated in this study, whether for-profit or not-for-profit.

Data Collection

As mentioned, data were collected via both informal interview and short survey (see [Appendix](#)). Most topics covered in the survey were also covered in the interview, such as market role(s), use of third-party consultants, number of projects assessed, accepted, and rejected each year, most common quality concerns, and specific methodology, standards, or geography concerns. In interviews, we were able to dive deeper into each topic and further discuss the due diligence process and information gaps that participants grapple with.

Analysis

We allowed all respondents to provide open-ended answers to questions wherever possible. This enabled us to better capture the reasoning behind participants’ perceptions. After data collection, we combed through and methodically categorized the elements of each answer, allowing us to pinpoint commonalities and differences between responses. Survey respondents did not always answer every question, and interviewees often touched on additional topics not covered in the survey. When analyzing the responses, we tried to systematize the data as much as possible.

¹ Membership organizations in this context refer to groups representing carbon credit buyers.

² While it was not our intention to examine project developers, 3 of the participating organizations identified as such in addition to another demand-side role.

Box 1: Selection Bias

The Nature Conservancy drew from known demand-side partners to determine the list of potential participants. Given TNC's focus on nature-based solutions (NBS), it is likely that the conclusions reached in this report better reflect the views of organizations that are supportive of NBS than those that are not.

DISCLAIMER

The views provided in this report do not necessarily represent the views of The Nature Conservancy (TNC). We do not intend for these conclusions to be definitive or prescriptive. Not all the takeaways in the study apply to all organizations or projects. We advise readers to interpret the document in the context of their own organization, understanding that objectives and capabilities vary company to company. To our knowledge, all information was provided in good faith that participants were truthful and forthright.

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FINDINGS

Third parties: Who conducts the due diligence for companies?

The majority of buyers conduct most, if not all, of their due diligence **in-house**. However, some use **consultants** or **rating agencies** to supplement information, enhance capacity, and/or provide technical expertise. For rating agencies in particular, companies are skeptical of their usefulness but also recognize their utility for comparing projects.

IN HOUSE

“In-house due diligence” refers to carbon project screenings that are performed almost exclusively by employees of the company purchasing the credits. Most of our respondents described their due diligence process as in-house only. This fact may be less surprising for credit resellers, who inherently have more internal expertise. For end buyers and investors, on the other hand, internal due diligence experts may have to juggle multiple responsibilities, making them more likely to seek external support. Carbon project screening teams for these latter groups tended to be small, even for large multinational companies. Beyond capacity constraints, there are a few other reasons companies may seek help with due diligence, which are detailed below.

RATING AGENCIES

Rating agencies, like Sylvera, Pachama, Calyx, or BeZero, use their own set of procedures to “grade” individual carbon projects. Participants of this study noted that they use the agencies to manage reputational risk and fill information gaps. While only a few companies reported using them during due diligence, many participants see their value. There is a strong need for comparability across projects, even more so across standards, and rating agencies are the only groups offering that service. However, feelings towards them are lukewarm at best. Companies are hesitant to trust agencies’ secondhand analyses over the verified work of the project developers. Our sense is that rating agencies will need thorough peer review before they gain full credibility in the market. In the meantime, buyers primarily watch the horizon for poor ratings to ward off reputational risk.

"With ratings agencies, ratings can be orders of magnitude different from what [project developers] claim."

CONSULTANTS

Companies also occasionally turn to general consultants or trusted partners to help with their due diligence work. In these cases, the third party provides technical expertise and additional capacity for review. Many consultancies exist in the market solely to help companies choose which credits to purchase, but oftentimes the resellers that companies purchase credits from also give direction. There are some instances where most screening is outsourced to an expert consultant, but this was clearly not the norm amongst our participants.

Table 1: Overview of rating agencies.

RATING AGENCY	YEAR EST.	MARKET FOCUS	SERVICES	METHODOLOGY
Pachama	2018	Forest-based credits	Publicly lists and sells credits from self-determined high-quality projects	Published basic tenets of project assessment but no technical details
Calyx Global	2021	All credits	Assesses the greenhouse gas integrity and Sustainable Development Goal impact of carbon credits	Not yet public
Sylvera	2020	All credits (predominantly REDD+ at the time of publication)	Generates separate ratings of greenhouse gas and co-benefit impact, with emphasis on GHG impact	Published in-depth description of project rating process for avoided unplanned/planned deforestation projects
BeZero	2020	All credits	Provides public project ratings based on the likelihood of a credit equating to one tonne of carbon removed or avoided	Published in-depth description of project rating process
Renoster	2022	Forest-based credits	Provides public project ratings based on the likelihood of a credit equating to one tonne of carbon removed or avoided	Published in-depth description of project rating process

Processes: What do companies' due diligence processes look like?

Broadly, due diligence procedures are designed using external market analysis and internal priorities, so they can vary widely. For most buyers, though, due diligence is an evolving process primarily based on risks. With more scrutiny on carbon projects than ever before, buyers feel that they need a more in-depth review of projects. Depending on the buyer, due diligence can take anywhere from a few weeks to several months. Companies often simplify this process by creating a template that guides them through a list of criteria.

"The standards do resemble each other in many ways... the project-specific due diligence is the crucial exercise."

To help whittle down the options, some buyers will post a request for proposals (RFP), either inviting specific projects or the greater market to apply for purchase consideration. The RFPs usually have prerequisites to apply, like the preferred standard, project type, co-benefits, etc. Once the projects for review are determined, buyers use a longer list of criteria, which, a few companies noted, are weighted by importance. The criteria cover the central accounting tenets of carbon projects, like additionality, permanence, baselines, and so on, but the greatest concern for buyers is on credit qualities “beyond carbon”. The most mentioned “beyond carbon” criteria were related to political risk, counterparty risk, social and environmental safeguards, and reputational risk, among others (see [Criteria](#)).

Regardless of whether the company used an RFP, participants emphasized the importance of looking project-by-project (55%), methodology-by-methodology (22%), or both (22%) rather than standard-by-standard. Standards certainly can give some indication of quality, but no credits should be purchased based on that attribute alone. One respondent noted that the methodology reveals the quality of carbon accounting, but social and biodiversity benefits are always specific to the project.

Where do companies get all the information they need to conduct due diligence? Aside from the obvious project documentation, which can be found on the public registries, buyers do quite a bit of information triangulation. They may perform desk research to find government resources or media coverage, scope out a counterparty using a reputational risk tool, or search a rating agency’s catalogue. Personal interactions are also invaluable: companies may look to trusted experts or reach out to the project developer directly to get their questions answered. A smaller subset of participants, all of them investors, even visit the project on-site.

"As a rule of thumb, I'd say the carbon elements of 'quality' tend to be correlated to the methodology. The social and biodiversity levels of 'quality' are more project specific."

As you consider these points, keep in mind that the buyers interviewed for this study come in different shapes and sizes. The approaches and risks to carbon credit purchases for an investor, for example, might not be the same as they are for an end buyer. From the perspective of participant role, we did see some clear distinctions:

- **Resellers**, who work exclusively in carbon markets day to day, seem surer of their approach to due diligence. We suspect this is because they've had plenty of time to build close relationships with trusted partners, helping them feel more confident in their purchases.
- **Investors** also mentioned relying on trusted partners, but for credit delivery, not just assurance of quality. Because investor engagements are inherently more drawn out, their due diligence tends to also be more extensive. They also have the authority to influence credit quality before issuance, so are more motivated to sift through the finer details.
- **End buyers** showed the least amount of confidence in their due diligence approaches. Some companies have managed to find their footing in the complex market space, but many find it difficult to conduct due diligence with all the intense scrutiny, inconsistent guidance, and gaps in project transparency. Some with more experience in the market have started to invest in projects from an early stage to ensure the quality of their supply.



Criteria: What criteria do companies use in their due diligence?

Credit quality considerations fall generally into five criteria – technical, social/environmental, political, counterparty, and other issues. Each criteria carries a different weight depending on the project and the company looking to purchase, but there were a few overarching trends in prioritization. Through the informal interviews, we found that social and environmental concerns often matched or even outweighed carbon accounting in terms of importance to review, while the third most cited criteria was counterparty integrity. In this section, we break down each criterion and the rationale behind it.

TECHNICAL

Our survey asked participants to indicate which three technical metrics were the most concerning in carbon projects. Baselines, additionality, and permanence were the most cited. When assessing these, companies tend to focus more on the methodology than the project itself (though the project’s accounting is still reviewed). Because third-party verifiers ensure compliance with the methodology, participants reason that the methodological specifics are of greater concern than the project specifics. Even then, buyers generally feel they can trust the standards (see [Standards](#)). While methodologies may not be perfect, they have seen the standards respond to critique and adapt to emerging science to the point where buyers feel they can usually trust project accounting.

SOCIAL AND ENVIRONMENTAL

On the other hand, buyers have less faith in the integrity of projects’ safeguards, especially social safeguards. Though all major standards include safeguards in their requirements, buyers are still dissatisfied with how minimally and the degree to which they are addressed. For example, several buyers noted that project documentation will list the Sustainable Development Goals (SDGs) the project meets, but not specify how it meets them. A project covering four SDGs, for example, might not be more impactful than a project covering three SDGs, but a buyer wouldn’t know unless more information was given.

Other social safeguard considerations, such as climate justice contributions and land rights, are not disclosed at all. Several participants defer to CCBA’s Climate, Community and Biodiversity (CCB) or Verra’s SD VISTa certifications as a marker for robust safeguards but also acknowledge that even those markers need more transparency.

POLITICAL

Policy risks plague projects from multiple angles. At the global level, uncertainty around the use of corresponding adjustments (CA) for voluntary purchases weighs heavily on buyers' minds. Since there is no direct mandate implicating voluntary carbon markets in Article 6, buyers aren't sure how the new accounting mechanism will impact price and availability of credits.

National policy can have the same effect. Indonesia, for example, halted the issuance of VCS REDD+ projects until further notice in April 2022 (see Table 4). These concerns were raised most often by investors, likely because in the span of a the lengthy project development process, a new policy could completely turn a project on its head.

COUNTERPARTY

The trustworthiness of counterparties, specifically project proponents, is often a less discussed but important consideration in buyers' minds, particularly for investors. Investors claim they have seen far too many projects fail because of counterparty inexperience. As a result, word of mouth is critical to vetting a project proponent. Companies want to know that a project's counterparty has a good reputation, solid experience, and strong ties to local communities.

OTHER ISSUES

Companies mentioned a number of other risks, including whether the project meets their internal needs around price, storytelling potential, or brand alignment. But most of all, companies assess the reputational risk.

End buyers, in particular, receive constant media attention and market-wide scrutiny around which credits they buy and how they are claimed. There are many ways for a credit to gain a bad reputation, so buyers must really consider all aspects of a project to address this risk. Naturally, the more complicated a project is, the more inspection it will need. For this reason, a couple of companies noted project complexity as a screening criterion.

"Our primary quality concern is the counterparty. Our experience is bad quality projects are mostly a reflection of an unreliable counterparty. Promising projects have fallen apart due to lack of experience in delivering."

Table 2: Specific criteria mentioned in due diligence assessments.

Technical	<ul style="list-style-type: none"> • Additionality • Baselines 	<ul style="list-style-type: none"> • Data sources • Leakage 	<ul style="list-style-type: none"> • Permanence • Uncertainty
Social	<ul style="list-style-type: none"> • Benefit-sharing • Climate Justice • Community leadership and engagement 	<ul style="list-style-type: none"> • Contributions to SDGs • Co-benefits certification • Displacement risk 	<ul style="list-style-type: none"> • Land rights • Worker health and safety
Environmental	<ul style="list-style-type: none"> • Biodiversity • Contribution to SDGs 	<ul style="list-style-type: none"> • Co-benefits certification • Water quality 	
Counterparty	<ul style="list-style-type: none"> • Delivery risk • Experience 	<ul style="list-style-type: none"> • Implementation capacity • Local relationships 	<ul style="list-style-type: none"> • Project history • Reputation
Political	<ul style="list-style-type: none"> • Border disputes • Corresponding adjustments 	<ul style="list-style-type: none"> • Corruption • Methodological revisions 	<ul style="list-style-type: none"> • National/sub-national policy shifts • Political instability
Other	<ul style="list-style-type: none"> • Brand alignment • Financial viability (for investment) • Media coverage 	<ul style="list-style-type: none"> • Price • Project complexity • Project narrative and storytelling potential 	<ul style="list-style-type: none"> • Project scalability and replicability • Reputational risk • Site selection

DUE DILIGENCE FOR NATURAL CLIMATE SOLUTION (NCS) CREDITS

Of the companies screened, the vast majority rely on NCS for over half of their credit purchases. The most common projects buyers purchased from were REDD+, improved forest management (IFM), afforestation, reforestation, and revegetation (ARR), and agriculture. While several participants reported an interest in focusing on removal credits, nearly all companies' portfolios involve a mix of removal and reduction activities, for now. Some participants plan to keep this diverse portfolio; others are waiting to transition exclusively to technology-based removals.

Were there any notable differences between buyer due diligence for NCS credits and other credit types? Not really. At a high level, the focus remained on technical and social/environmental criteria, though certainly the details varied. When asked about nature-specific concerns, one or two participants noted site selection, source of data, and complexity as unique considerations. Project complexity increases with the involvement of Indigenous Peoples and Local Communities (IPLCs), who are often engaged in land-based projects. Another participant expressed that the maturity of the methodology and project proponent is especially useful in mitigating the risks of NCS projects.

Though it varied widely participant to participant, some project types were noted as non-starters, including high forest, low deforestation (HFLD), IFM, REDD+, ARR, sustainable livestock, regenerative agriculture, and monocrop plantation credits. The emphasis on NCS projects here could be for one of two reasons: 1) our outreach was biased towards buyers who purchase mostly NCS credits, and 2) many NCS projects are inherently more complex – both ecologically and socially – than renewable energy or other project types, thus increasing the risk and need for due diligence.

Standards: How do companies perceive the carbon standards?

As all our participants noted, standards are a clear pre-requisite for high quality carbon credits, but often do not represent the full story on quality. Many buyers drill down into the methodologies and projects when conducting due diligence.

Our survey focused on the most common carbon standards: American Carbon Registry (ACR), Climate Action Reserve (CAR), Clean Development Mechanism (CDM), Gold Standard (GS), and Verra. In general, buyers trusted Gold Standard the most, though ACR, CAR, and Verra were also seen as high-quality standards.

Figure 1: Survey respondent ratings of major carbon accounting standards.

	ACR	CAR	CDM	GS	Verra
Extremely high quality	11%	11%		44%	30%
Moderately high quality	66%	66%		55%	50%
Neither high nor low quality	22%	11%	25%		20%
Moderately low quality		11%	62%		
Extremely low quality			12%		

Respondents: 8-10, depending on the standard

In general, buyers preferred to purchase from one of the “big four” standards (ACR, CAR, GS, and Verra), with higher preference given to those standards with additional focus on co-benefits. While Gold Standard has historically led on sustainable development impacts, many buyers also appreciate the VCS and Climate, Community and Biodiversity (CCB) combination – one noting that VCS leads on some social issues (such as documenting worker health and safety) while CCB leads on others (such as stakeholder engagement). Some buyers also noted that the differences between CCB, SD VISTa, SOCIALCARBON, Gold Standard and other co-benefits standards were unclear.

BOX 2: THE LEGACY OF THE CDM

The standard that was most often perceived as low quality is the CDM; it is perhaps worth wondering how much due diligence concerns appeared after the Oko Institute’s seminal research in 2016, which found that 85% of CDM projects analyzed had a “low likelihood that emissions reductions are additional and are not over-estimated.”⁴

We raise this point as many of the original methodologies approved under ACR, GS and Verra were identical or heavily based on CDM methodologies. Since then, however, these standards have begun to introduce additional requirements.

- **American Carbon Registry**, for example, once accepted some methodologies and tools approved for use by the CDM with special ACR review. As of December 2020, though, CDM methodologies are no longer eligible under the standard.⁵
- **Gold Standard**, which once acted more as a secondary certification to existing CDM credits, developed updated requirements for CDM projects looking to transition into their program in 2020.⁶
- **Verra**, however, accepts both methodologies approved by CAR and by the CDM, and does not necessarily require any modifications to those methodologies. This has caused some issues: while many Verra methodologies were approved for use in CORSIA, for example, the standard had to create its own methodological approach for afforestation, reforestation, and revegetation (ARR) projects because the ARR CDM methodologies did not meet permanence requirements.⁷ The updated methodology was announced in 2022 and is expected to be released in Q4 2022.⁸

³ This point came from one respondent, who claimed that Verra at least asks about worker health and safety while other standards do not cover the issue at all.

⁴ https://ec.europa.eu/clima/system/files/2017-04/clean_dev_mechanism_en.pdf

⁵ <https://americancarbonregistry.org/carbon-accounting/standards-methodologies/american-carbon-registry-standard/acr-standard-summary-of-changes-v6-0-to-v7-0-final.pdf>

⁶ <https://sustain-cert.com/cdm-project-transition/>

⁷ <https://verra.org/the-verified-carbon-standard-program-has-been-accepted-to-supply-carbon-credits-under-corsia/>

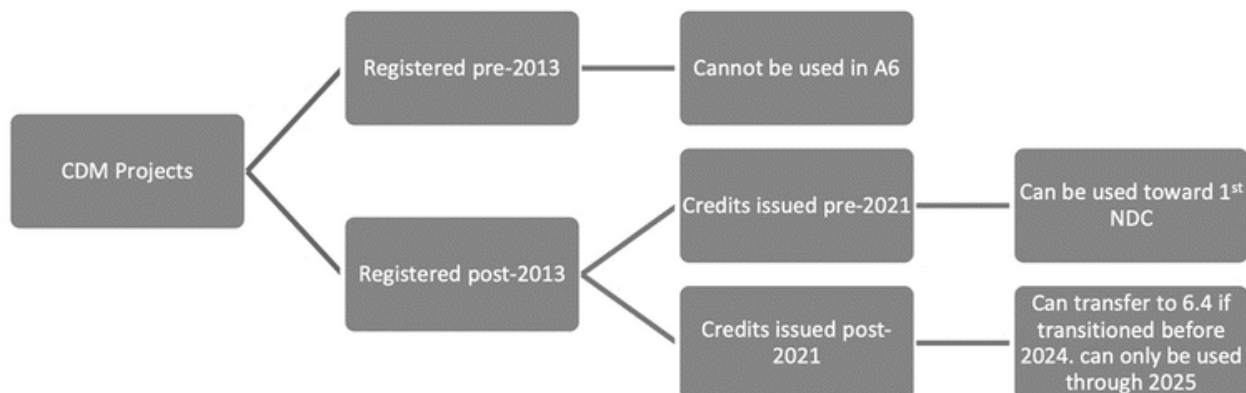
⁸ <https://verra.org/verra-replaces-cdm-ar-acm0003-and-ar-ams0007-methodologies-with-new-methodology-for-afforestation-reforestation-and-revegetation-projects/>

One final non-carbon related issue emerged consistently through our talks and surveys: standards' guidance or rules around the need for a corresponding adjustment (CA). There are a number of written documents about whether VCM buyers should or shouldn't use a CA; we will not opine on this here. However, buyers did note that these requirements could risk the delivery of credits and was a consideration for due diligence.

Table 3: Standards' positions on a corresponding adjustment requirement.

Standard	CA Position
American Carbon Registry	Will provide more guidance once CA guidance is further developed – initial proposal would not require CA for domestic purchases
Clean Development Mechanism	See Figure 2: a CA will not be needed if used towards a country's first nationally-determined contribution (NDC) target
Climate Action Reserve	Will not require a CA
Gold Standard	Originally planning to require a CA for all offsetting (including domestic purchases), but recently changed the requirements given the lack of CA units in the market
Verra	Will not require a CA

Figure 2: CDM requirements around CAs.



BOX 3: CAVEATS AROUND THE STANDARDS

Buyer experiences with and perceptions of standards may be limited by their geographical or project activity interests. The Gold Standard, for example, only allows for a handful of NCS methodologies (mostly tree-planting projects) so buyers interested in purchasing REDD+ credits may not be familiar with this standard. Meanwhile, companies purchasing credits from developing countries will likely not be familiar with ACR and CAR, two standards that predominantly have projects based in the United States.

Additionally, we did not explicitly ask about other standards – though several buyers mentioned them without prompting. These included:

- **Plan Vivo:** One respondent noted their appreciation for Plan Vivo’s transparency around revenue sharing, while another mentioned they were wary of its “technical gaps.” A third respondent noted that Plan Vivo’s lack of ICROA-endorsement was a barrier to investment; as that has now changed as of July 2022, it will be interesting to watch how demand for Plan Vivo credits shifts.
- **Soil Carbon Standards:** Finally, we did not ask about newer standards that have appeared in the market recently, many of which focus on building a market for soil carbon or other removal-based approaches (like Puro.Earth, Nori, etc). While some of these standards have generated high levels of interest from buyers, assessing them could be an entire report on its own – and such reports already exist.⁹

⁹ <https://www.edf.org/sites/default/files/content/agricultural-soil-carbon-credits-protocol-synthesis.pdf>

Geography: How does geography influence corporate credit purchases?

A spate of recent announcements by governments have thrown the voluntary carbon market (VCM) into uncertainty. Historically, VCM projects have operated outside of any legislation or government input; however, that is at risk of changing – regardless of the ongoing arguments that it should or shouldn't.

Additionally, buyers must contend with the “traditional” risks that have been present in VCM projects since their inception: the risk of human rights violations, land tenure issues, etc., that may be exacerbated by weak governance and corruption, political instability, and the likelihood of armed conflict in a host country. Buyers mentioned wariness about purchasing from several specific countries with these concerns, including Brazil, China, the Democratic Republic of Congo (DRC), Iran, and Papua New Guinea. While least developed countries (LDCs) presented a higher risk of political instability, some buyers found that the higher conservation and sustainable development values outweighed those risks.

Most respondents had at least a few restrictions on where they would buy credits, though some were more particular than others. Buyers with the strongest restrictions usually limited purchases to domestic credits only, typically from the United States. Others didn't rule out specific countries but noted that they would be wary of buying from a country where they don't have existing relationships.

"Volatility is worse than [high-risk] predictability."



Table 4: Statements about the VCM – Recent Announcements by Countries

Country	Date	Statement
Bahamas, The	April 2022	The Bahamas has introduced a bill that would require all VCM projects be approved by the government and obtain a corresponding adjustment for all trades.
Belize	June 2022	The Ministry of Sustainable Development, Climate Change, and Disaster Risk Management issued a public notice against VCM sales without government approval.
Brazil	May 2022	Brazil announced a Presidential Decree to establish carbon market opportunities for various sectors in the country. The announcement is light on the details, but Brazil has made a position that VCM activity is independent of the Paris Agreement (thus would not require a CA).
Honduras	June 2022	Honduras recently declared a moratorium on the sale of forest carbon credits that are not recognized by the UNFCCC or within the Paris Agreement.
Indonesia	April 2022 / Nov 2021	After announcing Presidential Decree #98 last year, Indonesia stated that any credits with a post-2020 vintage must get approval from the government. However, additional details and regulations are needed to operationalize such approval; in the meantime, as of April 2022, Indonesia sent a letter to Verra asking the standard to halt any issuances.
Malaysia	May 2022	Sarawak, a state in Malaysia, passed the Forests Amendment Bill which will require all forest carbon activities to be registered and approved by the government; the rule will also let Sarawak collect royalties or taxes on carbon credit activities.
Mexico	June 2022	The Mexican government met with CAR, Verra, Plan Vivo, ART, and Fundacion Carbono Social in late June 2022 to discuss the importance of a community-inclusive, equitable and just approach towards the VCM. The standards agreed to work with the government of Mexico to develop mechanisms to improve safeguards and to share updates on projects within the country.
Papua New Guinea	March 2022	The Minister for Environment, Conservation and Climate Change announced a moratorium on REDD+ projects in the country.
Colombia, Costa Rica, Fiji, Finland, Marshall Islands, Peru, Switzerland	Nov 2021	Signatories of the updated San Jose Principles committed to applying corresponding adjustments to VCM transactions, though many of these countries have not provided further guidance on this process.
United States	June 2022	The Commodity Futures Trading Commission convened a discussion to better understand VCM trading, particularly whether regulation is needed around futures contracts. In opening statements by Chairman Behnam: “... we are now past the point of wondering whether our derivatives markets are implicated by the Voluntary Carbon Markets. The answer very clearly is yes, and we as a regulator have an imperative to examine these markets to assess credibility and integrity.”

RECOMMENDATIONS

We've now detailed the many topics that affect buyers looking to purchase high-quality carbon credits. Perhaps the most pressing question of all remains: how can we improve the quality of carbon credits so that extensive screening and due diligence practices aren't necessary?

For starters, there needs to be more clarity around what "quality" means. Everyone wants high quality credits, but there is no standardized definition... and yet initiatives like the Integrity Council for the Voluntary Carbon Markets (IC-VCM) and rating agencies are racing to set this bar. What remains to be seen is whether these various initiatives will converge on a similar definition, or if they will reach different conclusions.

The latter scenario could throw the market into further confusion. A project rated as IC-VCM compliant but awarded a low score from a rating agency, for example, would ironically shift the burden back to buyers, who would then need to understand the technical differences to form their own opinion on who to trust. This would be worse than the market conditions of today.

Yet even with core carbon principles or standardized ratings, some project details will remain difficult to quantify. Multiple buyers expressed frustration with:

- Lack of sustainable development benefit quantification,
- Absence of specific details around stakeholder consultation processes,
- Project grievances not being publicly available,
- Poorly cited data sources (used for calculating baselines, etc.),
- Overly technical project documents, and
- Lack of comparison across multiple methodologies (e.g., when a project may use several methodologies that result in different potential baselines)

"[we] need a common standard for quality."

Finally, buyers seeking to avoid negative media coverage are highly attuned to the more “intangible” risks associated with a project. This includes a preference for project developers with more experience and a strong reputation within the VCM; as supply bottlenecks have appeared in the market, there is an increasing risk that newer entrants will not understand the nuances that projects have paid dearly to learn in the past. How to balance capacity constraints with the need for expertise was a problem noted at both the project development and standard levels.

At a macro-level, buyers must also remain alert to changing perceptions of quality. As a voluntary market, there are usually no hard and fast rules; yet norms can become so pervasive as to constitute a rule. The use of third-party standards is an example of this; nearly all the credits transacted on the market have been verified. In the future, it remains to be seen how market perception of quality will form around topics like the use of corresponding adjustments and the role of removals.

"Another key risk moving forward is how quality is perceived... and how issues like corresponding adjustments and avoidance/removals are being treated."



Table 5: Key issues around buyer due diligence and proposed next steps.

ISSUES	NEXT STEPS		
	BUYERS	CIVIL SOCIETY	STANDARDS/RATING AGENCIES
Most buyers don't have the time, resources or experience to conduct extensive due diligence of projects.	<p>Experienced buyers should help to shape the market by sharing knowledge and due diligence approaches with the broader market. This could have a twofold effect: it can raise the bar by signaling to project developers and standards what is expected, and it can help educate other buyers and create new norms.</p> <p>One possibility here is the creation of a roundtable amongst experienced buyers that would better define the complex due diligence needs in the present market and propose what simplified due diligence would look like in a more streamlined market.</p> <p>With a roundtable, buyers could collectively draft a "due diligence checklist" to share and promote best practices around purchasing quality carbon credits and determine how those best practices will change once the market starts providing clearer information on projects.</p>		
Civil society doesn't always trust buyers to want to raise the bar.	Where possible, buyers should seek to showcase raising the bar through: publication of internal guidance around quality, soliciting feedback from civil society on public consultation responses, and transparently sharing difficulties and concerns about the VCM via various working groups.	Civil society should ensure that there are more opportunities for buyers to be participants in round tables and working groups instead of merely a recipient of a final product. Demand-side involvement is critical to ensuring that market guidance is actionable.	
Rating agencies may confuse buyers if there are conflicting ratings for the same project/methodology.	<p>Buyers currently patronizing or planning to patronize a rating agency should ensure that methods are publicly listed before engaging. Buyers should not patronize ratings agencies with opaque approaches.</p> <p>Buyers confirm that ratings agencies are consulting with external market experts before subscribing to their services.</p>	Civil society and/or market experts should assess rating agency approaches and work with rating agencies to limit opportunities that will result in divergent conclusions. This should occur before ratings are publicly available. When divergent results appear, every effort should be made to understand and publicize the different conclusions that resulted in these ratings.	Rating agencies should document their processes publicly. This may mean working in best-faith efforts to share information despite proprietary concerns.
Projects don't report on sustainable development benefits or stakeholder consultation processes in a detailed and/or quantifiable way.	Buyers convene to create a list of realistic, key metrics that standards should require around projects' sustainable development benefits and stakeholder consultations.		Standards should seek to develop and require such practices and endeavor to align their requirements with those of other standards (particularly pre-existing approaches).
Technical documentation within projects must provide details yet be understandable to buyers.	Buyers convene to create a list of technical calculations to be included in project documentation, and collectively determine the ideal format for project documentation and submit recommendations to standards.		Standards should assess how to simplify project documentation without sacrificing details; this could perhaps include a summary at the top of each section in the project documentation. CCB is already doing this and could be a useful example. Standards should also require more transparent documentation, such as citations, throughout project documents.
Projects need more capacity and technological innovation.	Buyers should increase investment in remote sensing innovations and university training programs.		Standards should have streamlined processes in place to include better data and technology within methodologies.
Multiple baseline options for a given project can result in inconsistent crediting amounts.			In cases where projects may be able to meet criteria for multiple methodologies, standards should evaluate and share the range of crediting differences that could arise from using one methodology over another and should require project developers to defend their choice of methodology.

CONCLUSION

If one thing is clear from this study, it's that buyers experience an inordinate amount of pressure to get quality 'right'. What 'right' means in this context, however, is still up for debate. We won't contend that there is a silver bullet to solving the quality question. Many participants emphasized that it's critical to avoid oversimplifying due diligence - policies shift, ecosystems differ, and communities contrast. We agree. Rather than a silver bullet, the definition of credit quality is more like a Gordian knot - it requires careful untangling.

Likely, no company would disagree that due diligence will always be a necessary part of purchasing carbon credits, but most feel that the current burden is far too high. There are many examples of initiatives and standards stepping up to streamline the market, a fact buyers acknowledge and appreciate. These efforts have helped advance the markets in the past, and they must continue to do so into the future.

Through this report, we have seen a serious appetite for buyers to share knowledge with each other. Coordination on the demand-side can send a clear signal to the rest of the market on how to improve. We look forward to seeing how buyers can lead to create positive change.

ABBREVIATIONS

ARR – Afforestation, Reforestation, and Revegetation
ACR – American Carbon Registry
CA – Corresponding Adjustment
CAR – Climate Action Reserve
CCB – Climate, Community and Biodiversity
CDM – Clean Development Mechanism
GS – Gold Standard
HFLD – High Forest, Low Deforestation
IC-VCM – Integrity Council for the Voluntary Carbon Markets
IFM – Improved Forest Management
IPLC – Indigenous Peoples and Local Communities
LDC – Least Developed Country
NBS – Nature-based Solutions
NCS – Natural Climate Solutions
NDC – Nationally Determined Contribution
REDD+ – Reducing Emissions from Deforestation and Forest Degradation
RFP – Request for Proposals
SDG – Sustainable Development Goal
VCM – Voluntary Carbon Markets
VCMi – Voluntary Carbon Markets Integrity Initiative

APPENDIX

Survey Questions

1. Company Name
2. Email Address
3. In what capacity does your organization screen carbon credit projects?
4. Does your organization outsource this screening to a third-party assessor or service (such as Pachama, Sylvera, etc)? If so, how?
5. On average, how many carbon credit projects does your organization assess for investment, purchase and/or resale each year?
6. On average, what percentage of the projects assessed are nature-based projects? Please describe the types of nature-based projects (REDD+, IFM, ARR, blue carbon, etc.).
7. When screening projects, have you seen specific methodologies or project types appear more frequently with quality concerns (if so, which ones)? Or so quality concerns typically arise on a project-by-project basis?
8. On average, how many projects per year does your organization flag for quality concerns?
9. Please list any quality concerns that would immediately disqualify a project from purchase.
10. What are your organization's most common concerns around quality? (Select the 3 most common)
 - a. Baselines
 - b. Additionality
 - c. Permanence
 - d. Leakage
 - e. Uncertainty
 - f. Safeguards
 - g. Benefit-sharing
 - h. Other
11. Specifically for nature-based projects, what are your organization's most common concerns around quality? (Select the 3 most common)
 - a. Baselines
 - b. Additionality
 - c. Permanence
 - d. Leakage
 - e. Uncertainty
 - f. Safeguards
 - g. Benefit-sharing
 - h. Other
12. Please indicate your organization's opinion of each standard's level of quality. (Extremely Low Quality; Moderately Low Quality; Neither High Nor Low Quality; Moderately High Quality; Extremely High Quality; NA)
 - a. Clean Development Mechanism (CDM)
 - b. Climate Action Reserve (CAR)
 - c. Gold Standard
 - d. Verified Carbon Standard (VCS)
 - e. American Carbon Registry
13. In your opinion, are there any particular countries or regions where there are often high concerns about project quality?
14. Would your organization be interested in participating in a round table discussion on project quality following this survey? (Yes; No; Possibly, depending on the proposed topic of discussion).