



II-AMT TOOL03



TOOL FOR MONITORING, REPORTING AND VERIFICATION OF EMISSIONS AND EMISSION REDUCTIONS



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CONCEPT NOTE

International Initiative for Development
of Article 6 Methodology Tools

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Introduction

Background

1. Transparency assured through robust monitoring, reporting and verification (MRV) processes is pivotal to ensure environmental integrity under the market mechanisms defined under Article 6 of the Paris Agreement (PA). Monitoring methodologies under Article 6 need to consider host country nationally determined contributions (NDCs) and the national reporting commitments of both host and buyer country under the Enhanced Transparency Framework, particularly in the context of the Biennial Transparency Reports (BTRs).
2. In January 2022, the “International Initiative for Development of Article 6 Methodology Tools” (II-AMT) was launched with the aim of developing methodological tools that guide the revision of existing methodologies when applied to activities implemented in the context of Article 6 of the Paris Agreement.

Objectives

3. Clean Development Mechanism (CDM) rules and procedures provide a good starting point for the development of a new MRV framework, thereby eliminating the need to “reinvent the wheel”. This methodological tool will describe how existing CDM monitoring methodologies are to be enhanced to satisfy the principles and criteria of Article 6.
4. During the concept phase of the II-AMT, spanning from January until April 2022, this concept note for a tool on MRV has been developed, outlining the key components of the future tool.
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Rules and Principles

7. This tool is developed based on the following principles enshrined in the decisions 2/CMA.3 and 3/CMA.3 as well as 18/CMA.1 and 5/CMA.3 adopted by the Parties to the Paris Agreement:

8. Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement

“1. Internationally transferred mitigation outcomes (ITMOs) from a cooperative approach are:

(a) Real, **verified** and additional; [...]”

(c) **Measured** in metric tonnes of carbon dioxide equivalent (**t CO₂ eq**) in accordance with the **methodologies and metrics** assessed by the **Intergovernmental Panel on Climate Change** and adopted by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA)¹

[...]

18 f). For a first or first updated NDC consisting of policies and measures that is not quantified, **quantify the emission level resulting from the policies and measures** that are relevant to the implementation of the cooperative approach.

22. Each participating Party shall also include, as an annex to its biennial transparency reports [...], the following information on how each cooperative approach in which it participates:

(b) Ensures environmental integrity, including:

[...]

(ii) Through robust, transparent governance and the quality of mitigation outcomes, including [...] addressing **uncertainties** in quantification

(iii) [...] when **reversals** of emission removals occur, ensuring that these are addressed in full;”

9. Rules, modalities, and procedures of the Article 6.4 Mechanism

“24. The Supervisory Body shall, in accordance with relevant decisions of the CMA (a) Establish the requirements and processes necessary to operate the mechanism, relating to, inter alia: [...]

(xi) The development of tools and approaches to assess and **report information about how each activity is fostering sustainable development**,

32. The activity shall apply a mechanism methodology that has been developed in accordance with chapter V.B below (Methodologies) and approved by the Supervisory Body following its technical assessment, in order to: [...]

(c) Ensure **accurate** monitoring of emission reductions.

50. The activity participants shall **monitor** emission reductions achieved by the activity during each monitoring period, in accordance with the relevant requirements adopted by the Supervisory Body. The activity participants shall also **monitor potential reversals** over a period to be decided by the Supervisory Body.

¹ The Article 6.2 guidance also allows for ITMOs to be measured in other non-greenhouse gas (GHG) metrics determined by the participating Parties that are consistent with the nationally determined contributions (NDCs) of the participating Parties. However, this tool only focuses on MRV of GHG metrics.

51. A designated operational entity shall independently review and determine the implementation of, and the emission reductions achieved by, the Article 6, paragraph 4, activity during the monitoring period (hereinafter referred to as verification) against the requirements set out in these rules, modalities and procedures, further relevant decisions of the CMA and relevant requirements adopted by the Supervisory Body, and provide written assurance of the **verified** emission reductions (hereinafter referred to as certification).”

10. Modalities, procedures, and guidelines of the enhanced transparency framework

“3. The guiding principles of these modalities, procedures, and guidelines (MPGs) are:

[...]

(d) Promoting **transparency, accuracy, completeness, consistency** and **comparability**;

[...]

31. Each Party shall use notation keys where numerical data are not available when completing common reporting tables, indicating the reasons why emissions from sources and removals by sinks and associated data for specific sectors, categories and subcategories or gases are not reported. These notation keys include: [...]

(e) “C” (confidential) for emissions by sources and removals by sinks of GHGs where the reporting would involve the **disclosure of confidential information**

[...]

37. Each Party shall use the **100-year time-horizon global warming potential (GWP)** values from the **IPCC Fifth Assessment Report**, or 100-year time-horizon GWP values from a subsequent IPCC assessment report as agreed upon by the CMA.”

11. Further principles

The Marrakech Accords of 2001 defined requirements for the monitoring plan of CDM and JI activities as follows (wording taken from the JI section, it is repeated verbatim in the CDM section):

“(a) The collection and archiving of **all relevant data** necessary for estimating or measuring anthropogenic emissions by sources and/or anthropogenic removals by sinks of greenhouse gases occurring **within the project boundary during the crediting period**;

(b) The **collection and archiving** of all relevant data necessary for determining the baseline of anthropogenic emissions by sources and/or anthropogenic removals by sinks of greenhouse gases within the project boundary during the crediting period;

(c) The identification of all potential sources of, and the collection and archiving of data on increased anthropogenic emissions by sources and/or reduced anthropogenic removals by sinks of greenhouse gases **outside the project boundary** that are **significant** and **reasonably attributable** to the project during the crediting period. The project boundary shall encompass all anthropogenic emissions by sources and/or removals by sinks of greenhouse gases under the control of the project participants that are significant and reasonably attributable to the [...] project;

[...]

(e) **Quality assurance and control procedures** for the monitoring process;

(f) Procedures for the periodic calculation of the reductions of anthropogenic emissions by sources and/or enhancements

of anthropogenic removals by sinks by the proposed [...] project, and for leakage effects, if any. Leakage is defined as the net change of anthropogenic emissions by sources and/or removals by sinks of greenhouse gases which occurs outside the project boundary, and that is **measurable** and **attributable** to the [...] project;

(g) **Documentation of all steps** involved in the calculations referred to in subparagraphs (b) and (f) above.”

Decision 9/CMP.7 on the “Materiality standard under the clean development mechanism” specifies that

“The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [...]”

1. Decides that the concept of **materiality** should be applied in a **consistent manner** under the clean development mechanism; [...]

4. [...] decides that information related to a clean development mechanism project activity shall be considered material if its omission, misstatement, or the non-compliance with a requirement might lead, at an aggregated level, to an **overestimation of the total emission reductions** or removals achieved by a clean development mechanism project activity equal to or higher than:

(a) 0.5% of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than 500,000 t CO₂e per year;

(b) 1% of the emission reductions or removals for project activities achieving a total emission reduction or removal between 300,000 and 500,000 t CO₂e per year;

(c) 2% of the emission reductions or removals for large-scale project activities achieving a total emission reduction or removal of 300,000 t CO₂e per year or less;

(d) 5% of the emission reductions or removals for small-scale project activities other than project activities covered under paragraph 4(e) below;

(e) 10% of the emission reductions or removals for the type of project activities that are referred to in decision 3/CMP.6, paragraph 38 [i.e., renewable energy projects <5 MW and energy efficiency projects projecting energy savings <20 GWh per year]”

Scope and Applicability

12. This tool will provide for a general guidance on updates to the monitoring elements of CDM methodologies, as well as related reporting and verification elements, to ensure alignment with the Article 6.2 guidance; the rules, modalities, and procedures (RMP) of the Article 6.4 mechanism; and MPGs of the enhanced transparency framework (ETF). The tool is structurally different from other Article 6 methodology tools as it focuses on reforming the existing CDM MRV framework rather than building a new tool for Article 6. Where existing standards for monitoring, such as standards for monitoring equipment or sustainable development (SD) monitoring, appropriately capture the principles of Article 6, the tool shall provide a direct reference to such standards.

13. The key elements for updating the existing framework are listed below:

a) ELEMENT 1: Ensuring conservativeness of:

- i. the baseline
- ii. project emissions and/or removals

b) ELEMENT 2: Ensuring monitoring of all relevant policies, including potential new policies

- c) **ELEMENT 3: Ensuring full identification and monitoring of reversals**
- d) **ELEMENT 4: Ensuring identification and monitoring of all relevant sustainable development parameters through use of robust methodological guidance and tools.**

14. The Article 6 MRV tool also recognises the following elements sufficiently addressed under the existing CDM framework, which will only require minor modification:

- a) **ELEMENT 5: Accuracy**
- b) **ELEMENT 6: Completeness**
- c) **ELEMENT 7: Consistency**
- d) **ELEMENT 8: Comparability**
- e) **ELEMENT 9: Leakage**
- f) **ELEMENT 10: Materiality**
- g) **ELEMENT 11: Confidential information**
- h) **ELEMENT 12: IPCC AR6 GWPs**
- i) **ELEMENT 13: Quality assurance (QA)/Quality control (QC)**

Terms and Definitions²

15. The following terms and definitions will be agreed upon in the development phase of the II-AMT, based on an assessment of how these terms are used in other methodological frameworks

16. Conservativeness

- Baseline emissions are underestimated, baseline removals are overestimated
- Project emissions are overestimated, project removals are underestimated

17. Relevant policy

- A policy is relevant if it is applicable to the activity and leads to regulatory impacts or financial repercussions for the activity.

18. Reversal

- Release of previously removed greenhouse gases into the atmosphere, or;
- Destruction of a previously protected reservoir of greenhouse gases

19. Accuracy

- A relative measure of the exactness of an emission or removal estimate. Estimates should be accurate in the sense that they are systematically neither over nor under true emissions or removals, so far as can be judged.

20. Activity boundary

- The activity boundary should encompass all anthropogenic emissions by sources of greenhouse gases (GHG) influenced by the activity.
- An activity boundary may vary by the type of activity

² As the tool develops over the development phase, this section will evolve with addition of new terms.

21. Completeness

- Coverage of parameters relevant and material for baseline and activity emissions and removals

22. Consistency

- Choice of parameters and monitoring processes is done in similar ways within the monitoring of one activity, and for all activities of a similar category under similar circumstances.
- Internal consistency of a monitoring, reporting and verification process over time

23. Comparability

- Monitoring of all activities of a similar category under similar circumstances leads to similar outcomes.

24. Leakage

- Emissions occurring outside the activity boundary that are measurable and attributable to the proposed activity.
- Increased emissions, or reduced removals, occurring as a result of the activity but not related to the activity's primary or intended effect.
- Leakage must be estimated based on a comparison to the baseline scenario for the activity causing the leakage and applied to the sources/sinks affected.

25. Materiality

- Emissions / removals are material if they are significant.

26. Monitoring period

- Must be aligned with the annual emission balances of sources and sinks covered by the NDC to allow for robust accounting³.
- The end of a monitoring period must coincide with the end of the NDC implementation period, thereby allowing for monitoring of updated baseline parameters of the new NDC implementation period in a new monitoring period⁴.

27. Permanence

- Permanence refers to a situation where the mitigation outcomes generated by a mitigation activity cannot be reversed later.
- Non-permanence risk is associated with mitigation activities that enhance the storage of carbon in a reservoir, either by reducing carbon emissions from a reservoir, or by removing carbon from the atmosphere and storing it in a reservoir.
- Degree to which generated mitigation outcomes cannot be reversed needs to be clearly defined.

28. Removal

- Anthropogenic activities removing CO₂ from the atmosphere and durably storing it in geological, terrestrial, or ocean reservoirs, or in products. It includes existing and potential anthropogenic enhancement of biological or geochemical sinks and direct air carbon capture and storage but excludes natural CO₂ uptake not directly caused by human activities.

³ See II-AMT GUIDE01 for further details.

⁴ See II-AMT GUIDE01 for further details.

29. Reporting

Is done on two levels

- The activity level: through the monitoring report, which is submitted to the accredited auditor for verification and certification of the emission reductions from the activity.
- The national level: by participating Parties (e.g., the host country) through their initial and regular information on the activity and how it ensures environmental integrity and contributes to NDC/long-term low emission development strategy (LT-LEDS) implementation. If this information is provided by the activity design documentation and monitoring reports, it reduces the reporting burden for host countries⁵.

New Elements to be Considered in Light of Article 6

30. This section of the tool discusses in detail and provides guidance on how the new elements relevant under Article 6 must be incorporated in the existing MRV framework. The tool will use the existing guidance on the monitoring process and will update it with the new additional elements to be considered. The elements will be fully developed in the development phase of the II-AMT.

31. ELEMENT 1: Conservativeness

32. Conservativeness implies that more actual emissions are reduced or removed than credited. Interpretations of conservativeness under Article 6 are going beyond those used in CDM methodologies. Conservativeness can be ensured in two ways:

33. a) Conservativeness regarding baseline emissions

- Setting conservative baselines results in higher mitigation benefits for the host country and supports its NDC achievement.
- In order to set conservative baselines, the activity developer must consider the choice of baseline parameters to be monitored and to ensure that these parameters lead to a baseline being below business as usual. (see II-AMT TOOL02, para 18-20)

b) Conservativeness regarding activity emissions⁶

- The activity developer must ensure that monitoring parameters are leading to an overestimation of emissions, rather than an underestimation of emissions. Similarly, they need to lead to an underestimation of removals, not an overestimation.

34. ELEMENT 2: Monitoring of all relevant policies

35. This element will develop a high-level criterion on what constitutes a relevant policy, what the level of aggregation of policies is that the activity developer must monitor and the relevant parameters of the policy universe that must be monitored. If baselines are appropriately defined, necessary parameters are automatically included in the monitoring process (see II-AMT TOOL02, para 18g, 19e, 20c). Furthermore, identifying the policies to be monitored will heavily depend on the design of NDCs and LT-LEDS, if applicable⁷. The module will also ensure that heterogeneity in NDC formulation is reflected in the monitoring methodology⁸.

⁵ See II-AMT GUIDE01 for further details.

⁶ There is no structural shift from the CDM approach in measuring project emissions

⁷ See II-AMT GUIDE01 for further details.

⁸ See II-AMT GUIDE01 for further details.

36. Additionally, the element will provide guidance on how policy contributions are to be measured at the activity level and provide options on the frequency of monitoring policies while trying to strike a balance between robust monitoring of policies and lowering transaction costs. Initial ideas for such options include continuous annual monitoring of policies or monitoring at renewal of crediting periods. The guidance will also consider how monitoring of policies will be undertaken when an activity crediting period covers different NDC periods.
37. It is also important to consider future policies that may be relevant for the ongoing activity. In such cases, options for a 'grace period' to incorporate new policies into the monitoring plan will be discussed.
38. The high-level criteria for monitoring policies are also relevant for additionality determination. Monitoring the financial effect of the policy for the activity developer feeds into the (financial) additionality determination. Monitoring activities that help fulfil host-country NDCs and LT-LEDS feeds into target additionality determination (see II-AMT TOOL01, para 21).
39. This element also has strong links to materiality and will identify a materiality threshold for policy monitoring.

40. ELEMENT 3: Monitoring of reversals

41. The element will adopt best practices from existing standards and specify relevant approaches for monitoring of GHG reservoirs enhanced by removal or emission reduction activities, including capture of GHG emissions at source. Where relevant, the element will provide provisions for monitoring beyond a mitigation activity's crediting period.
42. The element will also address key challenges that may arise in monitoring GHG reservoirs subject to reversal risk⁹, including the need for longer monitoring periods than what is required in the MRV protocol of the activity. This could be addressed, for example, by linking monitoring requirements to the host country's reporting.
43. The element on monitoring of reversals is highly relevant for projects in the agriculture, forestry, and other land-use (AFOLU) sector¹⁰, where the risk of reversal continues beyond the crediting period due to carbon being stored in "leaky" reservoirs.
44. To address reversals, most carbon offset programmes such as Verified Carbon Standard (VCS), Gold Standard (GS), Architecture for REDD+ Transactions/ The REDD+ Environmental Excellence Standard (ART/TREES), and Forest Carbon Partnership Facility's (FCPF) Carbon Fund establish "buffer reserves" wherein a portion of the credits issued for a project are set aside and can be drawn upon to compensate any future reversals.
45. Some key parameters for addressing leakages are listed in paragraph 46 below. Element 3 will focus on monitoring of reversals, mentioned in paragraph 46 (d), and discuss monitoring provisions in detail:
 46. a) Determining issuance eligibility criteria for projects or programmes based on reversal risk assessment
 - b) Percentage of credits issued to be placed in buffer reserves:
 - Option 1: Fixed percentage of credits to be placed in buffer reserves.
For example, Gold Standard Compliance Buffer requires projects to reserve 20% of Emission Reduction (ER) issuance (Gold Standard 2021).
 - Option 2: Varying percentage of credits to be placed in buffer reserves based on the likelihood of reversals.
 - c) Replenishment of buffer reserves

⁹ Provisions may be provided for cases where ITMOs have already been transferred but reversals occur later.

¹⁰ Specific guidance for Land Use, Land-Use Change and Forestry (LULUCF)/AFOLU sector may be developed under the II-AMT in the future.

d) Monitoring reversals:

- Option 1: Reversal events trigger monitoring and assessment, as is done by the VCS (Chagas et al. 2020).
- Option 2: Ongoing monitoring to identify variations in ERs and monitoring of reversal events, as is done under FCPF Carbon Fund and ART/TREES (Chagas et al. 2020)

e) Compensating reversals:

- A criterion that determines when the buffer reserves will be eligible for compensation of reversals. For instance, a buffer reserve may be used to compensate only natural reversals and other intentional reversals must be compensated outside the buffer.

47. ELEMENT 4: Monitoring Sustainable Development impacts

48. Given a strong political mandate to track sustainable development impacts – both positive and negative - under the Article 6.4 mechanism, there is a need to revisit the CDM SD tool and fill the gaps identified by carbon market experts to design a robust SD assessment system under Article 6.

49. Some of the gaps in the CDM SD tool are lack of quantification of co-benefits, lack of safeguards against negative SD impacts, voluntary and not mandatory monitoring, reporting and verification of co-benefits, and lack of guidance on stakeholder consultations.

50. This element consists of two sub tools: a) Tool to track and monitor SD impacts; and b) Safeguards tool.

51. The SD tool will provide a high-level guidance on identifying relevant SD parameters and monitoring SD impacts in a consistent approach that bridges the gaps in the CDM SD tool. This will be done by consolidating the ongoing initiatives that are developing SD tools. Article 6.4 Supervisory Body has been tasked to develop a tool to assess and report on SD impacts of an Article 6.4 activity. The tool will provide a reference to the Article 6.4 SD tool in the future. A range of qualitative and quantitative options for project developers to perform an ongoing monitoring of SD impacts rather than an ex-ante assessment as done under the CDM SD tool will be presented in this guidance.

52. The Safeguards tool with robust social and environmental safeguards will provide a minimum threshold that an activity must adhere to in order to ensure that it abides by the “do-no-harm” principles. The tool will refer to some existing frameworks that define the environmental and social responsibilities of project participants including the International Finance Cooperation’s (IFC) Environmental and Social Performance Standards and the World Bank’s Environmental and Social Framework.

53. A non-exhaustive list¹¹ of ongoing initiatives on SD impact assessment is provided below:

54. a) **Gold Standard Sustainable Development Goals (SDG) Tool methodology** (Gold Standard 2019):

- Identify positive and negative impacts
- Mapping of impacts against SDGs
- Identify monitoring indicators with relevant metrics and information to enable tracking of SDG contributions of activity:
 - Option 1: using SDG indicators as monitoring indicators
 - Option 2: applying GHG Reduction methodology parameters
 - Option 3: identifying new proxy indicator

¹¹ The list will be expanded as the development phase of II-AMT progresses

- Safeguards: identify, monitor and mitigate negative impacts; stakeholder engagement; good governance

b) **Sustainable Development Initiative (SDI)**, an initiative by UNEP-DTU (now UNEP-CCC) and Gold Standard, follows a similar approach to identifying and monitoring SD benefits as under the GS SDG tool. The process recommended includes identifying key SD benefits, prioritising impacts, mapping SDG targets to priorities, identify and review published SDG indicators that directly fit the prioritised impacts and finally, to create an MRV plan that identifies metrics of monitoring indicator, monitoring approach, data sources and QC (Gold Standard 2020).

c) **Joint Crediting Mechanism (JCM) contributions to SDGs**: Bilateral agreements and rules of implementation JCM dictate that JCM must contribute towards SD. Recognising difficulties in quantifying some SDGs and contributions, the JCM developed quantitative as well as qualitative indicators to evaluate the progress of a JCM project towards achievement of SDGs. Each SDG is linked to JCM specific indicators (IGES 2020).

Key MRV Elements Addressed under the CDM Framework

55. This section briefly discusses the MRV elements sufficiently addressed by the CDM framework. They may require some adjustments in light of new rules and regulations; however, these are expected to be minor and will not fundamentally change the elements.

56. ELEMENT 5: Accuracy

- The accuracy element will entail specification of confidence intervals for measurement equipment and monitoring parameters, as it helps eliminate uncertainty, as well as specification of calibration requirements for measurement equipment in order to ensure accuracy.
- The general approach under the CDM of setting confidence intervals for monitoring parameters presents a good starting point to address uncertainty. However, determining the degree to which each parameter needs to be quantified and accounted for in the calculation of uncertainty needs to be discussed and will be addressed in this element. 2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories and the Monitoring and Reporting Regulation of the EU ETS contain uncertainty assessment guidance for GHG reporting that may be referred to when addressing uncertainty concerns.

57. ELEMENT 6: Completeness

- The completeness element will specify a set of parameters needed to achieve completeness.

58. ELEMENT 7: Consistency

- The consistency element will include specification of approaches to achieve consistency.

59. ELEMENT 8: Comparability

- To achieve comparability, the element will specify a set of parameters, boundaries, scope, and quantification approaches.

60. ELEMENT 9: Leakage

- The element will specify a set of parameters needed to cover significant and reasonably attributable emissions outside of the activity boundary. Additional guidance will be provided on addressing leakages for upscaled mitigation actions.

61. ELEMENT 10: Materiality

- In this element, thresholds for emissions sources and/or reversals to be monitored will be specified, taking into account the possibilities available through digitization. It is important for activity developers to ensure that they stay within the specified thresholds.

62. ELEMENT 11: Confidential information

- The element will aim to develop a criterion which determines the type of information that may be deemed confidential. Approaches to aggregating confidential information in order to allow its use will also be laid down. As was the case under the CDM, nothing related to baselines and additionality should be confidential. However, challenges may arise in the context of national benchmarks, as sensitive data may be used in the process.

63. ELEMENT 12: IPCC AR6 GWPs

- The element will specify GWPs to be applied in all methodologies.

64. ELEMENT 13: Quality assurance (QA)/Quality control (QC)

- The QA/QC element will entail the specification of QA/QC procedures to be applied which will then improve accuracy, consistency, and completeness.

Guidance on Verification for Independent Third-party Auditors

65. The tool will explore developing a detailed guidance for independent third-party auditors on what their role would entail. Auditors are responsible for carefully assessing and verifying the credibility of data sources, assumptions, calculations, justifications and other information provided by activity participants in activity development documents. Beyond the documentation submitted by activity developers, the auditors must also consider any independent sources available to allow for consistent validation. Digitisation will play an important role in increasing access to publicly available information sources.
66. An important drawback observed during the Kyoto Protocol era was the presence of negative incentives due to activity developers selecting auditors themselves for the verification process of their activity. Auditors lowered their fee in order to secure verification contracts and they were also criticised for being too lenient to receive assignments from activity developers in the future.
67. The verification guidance will aim to eliminate this negative incentive through random allotment of verifiers to an activity owner by the regulatory body. A fixed fee per verification procedure must be agreed upon to abolish the market competition of auditors. This fee must be exclusive of additional costs such as travel costs. In order to avoid skyrocketing costs due to travel expenses, the auditing system should explore options for relying on qualified local experts in certain cases rather than always requiring physical visits by internationally accredited auditors. The auditing system should also explore options to allow the flexibility of the verification without on-site visit after the first verification if the auditors can justify the reason.
68. The fee of auditors must be such that it prevents perverse incentives. It is important to ensure that verifiers are appropriately compensated under current market conditions such that their compensation is higher than or sufficiently covers the costs they incur for a verification procedure.

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