CREDITING GUIDE

Designing and Implementing Domestic Carbon Crediting Mechanisms
What is crediting?

Implementation of emission reduction project

Emission reduction project
Methane captured and combusted to generate electricity

Issuance of carbon credits

Carbon credits generation
Creation of carbon credits equal to the emissions reduced in metric tons of CO₂

Carbon credits can be sold as offsets or to determine results-based climate finance payments, for instance.

What would occur absent this project?

**Policy objectives**

- Reduce emissions / help achieve climate targets
- Reduce compliance costs (eg in ETS/tax)
- Mobilize carbon finance
- Development benefits (eg helping indigenous communities, improve biodiversity. Eligibility rules or methodologies can help achieve specific benefits)

Extends the carbon price incentive to uncovered sectors or gives flexibility to companies under an ETS or carbon tax.
Crediting in the policy mix

- **Increase mitigation** in activities and sectors not covered
- **Reduce cost** of compliance
- **Avoid coverage overlap**
- **Needs external source of demand**

**South Africa and Colombia** companies use credits to satisfy carbon tax obligations

**Only a few ETSs do not allow for offsets**
Balancing priorities

E.g. Establishing additionality and baseline emissions can potentially add costs
Carbon credit quality

• Additionality
  • Eligibility criteria (baseline technologies or project scale), positive/negative lists or other tests: regulatory surplus, financial viability, is it common practice?

• Baseline setting
  • Conservative BAU baselines,

• Double counting
  • Robust monitoring and accounting provisions within crediting registries can play an important role

• Perrmanence: buffer pools, discounting

To be effective, crediting mechanisms should only credit projects that are additional
Governance

- Robust procedures and methodologies
- Rigorous validation and verification
- Competent regulatory body
- Safe registry structure

Validation and verification, including independent third-party auditors

- Stakeholder engagement on program design and methodologies
- Knowledge or technical gaps in government and private sector that need to be addressed

Registries
Using elements of existing crediting mechanisms

Korea Offset Program
CDM credits for meeting ETS compliance if from domestic projects (*gatekeeping*); their crediting mechanism is also based on the CDM, allowing CDM methodologies (a combination of *indirect reliance* and *outsourcing*).

California outsources administrative registry functions to certain approved independent crediting mechanisms.
THANK YOU