



EVALUATING THE USE OF CARBON CREDITS

**Critical questions for financial institutions
when engaging with companies**

March 2022



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We would like to express our deep appreciation for our many colleagues at Ceres who provided very useful assistance with this project, including Amit Bando, Blair Bateson, Maura Conron, Leslie Cordes, LJ DeLuca, Laura Draucker, Barbara Grady, Heather Green, Christine Gurdon, Nako Kobayashi, Emma Lane, Jane Mantey, Julie Nash, Bolaji Olagbegi, Karen Patterson Greene, and Taylor Powell.

Ceres wishes to fully credit the individuals and organizations whose initial thought leadership informed the discussion of social and environmental safeguards and benefits in this report:

Beto Borges, Forest Trends
Marielle Canter Weikel, Conservation International
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Maria Garcia Espinosa
Kelley Kizzier, Environmental Defense Fund
Bryson Ogden, Rights and Resources Initiative
Shyla Raghav, Conservation International
Colleen Scanlan Lyons, Governors' Climate and Forests Task Force
Charlotte Streck, Climate Focus
Joao Talocchi, Global Strategic Communications Council
Elijah Toirai, Conservation International
Bryan Van Stippen, National Indian Carbon Coalition
Architecture for REDD+ Transactions
Gold Standard for the Global Goals
Meridian Institute
Plan Vivo
Verra



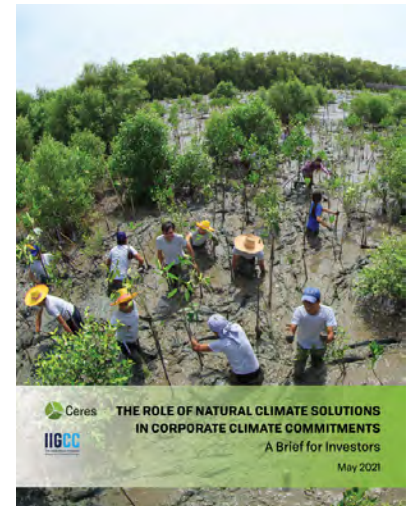
INTRODUCTION

In May 2021, Ceres released the [Role of Natural Climate Solutions in Corporate Climate Commitments: A Brief for Investors](#). The brief highlighted the clear but limited role that carbon credits from natural climate solutions (NCS) should play in corporate climate strategies. It encouraged financial institutions to engage with companies around several key suggested disclosures to ensure that companies follow appropriate guardrails around carbon credit use.

Since the launch of the brief, the discourse around the use of NCS and carbon credits in corporate net zero commitments has intensified. In 2021, the voluntary carbon market, where companies purchase credits to offset their emissions, surpassed a significant marker. The [total value of the market exceeded \\$1 billion](#), the highest ever tracked. Much of the growth in the voluntary carbon market is driven by corporate net zero commitments, which have also seen unprecedented growth in the last year. According to a [recent Ceres analysis](#), of 637 companies from the S&P 500 and high-emitting sectors, 27% of U.S. companies now have set net zero targets.

This activity has put the spotlight squarely on the details of corporate climate commitments. Some companies are being accused of making [empty net zero commitments](#) and skirting their responsibilities to limit warming to 1.5 °C, the target set by the Paris Agreement to avoid the worst impacts of the climate crisis. The [main critique](#) of net zero commitments is that companies are delaying action and relying too heavily on offsetting with carbon credits to reduce emissions. Amidst [increased public scrutiny](#) of corporate action on justice and equity, companies that rely heavily on offsetting are, in some cases, also being accused of pushing the costs and responsibility of mitigating climate change to less wealthy communities in the Global South, where much of the potential for forest carbon credits exists.

At the same time, corporate offsetting with carbon credits generates a vital source of finance for projects that contribute to climate mitigation, resilience, and sustainable development goals. To ensure that carbon credits contribute to a just and equitable transition, this report builds on Ceres' earlier brief. It provides financial institutions and companies with guardrails on the use of carbon credits in climate commitments and delves more deeply into key issues for which there is a lack of existing guidance, such as how to avoid carbon credit projects that exacerbate social inequities. Without guardrails on the appropriate use of carbon credits, companies and their investors become exposed to financially material risks outlined below. Projects that lack sufficient social and environmental safeguards further exacerbate those risks.



- **Systemic climate risk**

Relying on offsetting rather than reducing emissions would delay or avoid climate action and compromise our ability to limit warming to 1.5°C. This would expose companies to the physical and transition risks associated with climate change and exacerbate the systemic risk that climate change poses to economic systems. In addition, carbon projects that are not designed or implemented appropriately can negatively impact communities and ecosystems.

- **Reputation risk**

Net zero targets are under increasing public scrutiny, and companies that rely heavily on carbon credits to meet their targets increase the risk of [accusations of greenwashing](#), compromising their brand equity. Moreover, investments in carbon projects that exacerbate injustices and inequalities can expose companies to further reputational risks. Such harm often comes to light in [media exposés](#) that can tarnish a company's image.

- **Litigation risk**

A study conducted by the Rights and Resources Institute found that [only half of the total area traditionally held by Indigenous Peoples and local communities is legally recognized](#). Carbon projects that occur on land where traditional or customary rights are not respected could result in [land conflicts or disputes with Indigenous Peoples and local communities](#). Companies involved in the development or financing of such projects would be at risk if legal action is pursued.

As companies develop climate transition plans to achieve their net zero targets, it is in the financial interest of investors and banks to ensure that companies invest in carbon credits in a way that reduces the systemic risk of climate change and does not expose them to additional reputation or litigation risks. This guide is a resource for those in financial institutions evaluating the role of carbon credits in corporate climate strategies. It also provides guidance on how those credits can contribute to a just and equitable transition. This guidance is intended to provide critical questions for investors interested in evaluating and engaging portfolio companies on their corporate commitments and use of carbon credits. Similarly, banks can use this guidance to inform due diligence and engagements with their clients.

This guide aims to share best practices and compare existing standards for carbon projects. It is not intended to create a new standard for carbon projects or recommend new safeguards. Rather, it references social and environmental safeguards recommended by leading development and conservation organizations and the perspectives of Indigenous Peoples and local communities who were consulted in the report review process.

What is a carbon credit?

A **carbon credit** represents one unit of greenhouse gas (GHG) emissions reduced or carbon dioxide removed from the atmosphere. Most companies and financial institutions currently purchase carbon credits through the **voluntary carbon market**, which encompasses all carbon credit transactions that occur outside of regulated cap-and-trade systems implemented by governments to reduce emissions (e.g., European Union Emissions Trading System and California Cap and Trade system). The terms “carbon credit” and “offset” are not synonymous. Following convention, a “carbon credit” describes the verified GHG emission reductions or removals generated, traded, and retired. “Offset” describes the act of financing other climate mitigation to balance out a company’s GHG emissions footprint. Carbon credits can be used to offset emissions. Carbon projects generate carbon credits by voluntarily (1) reducing emissions or (2) removing carbon dioxide beyond business as usual. An emission reduction occurs when an activity is implemented to avoid or reduce the level of emissions typically associated with a practice or process. For example, switching from fossil fuel energy to renewable energy to power a factory reduces emissions. Carbon dioxide removal occurs when carbon dioxide is drawn out of the atmosphere and sequestered, such as through forest restoration. Figure 1 below explains the different mitigation activities that reduce emissions or remove carbon dioxide.

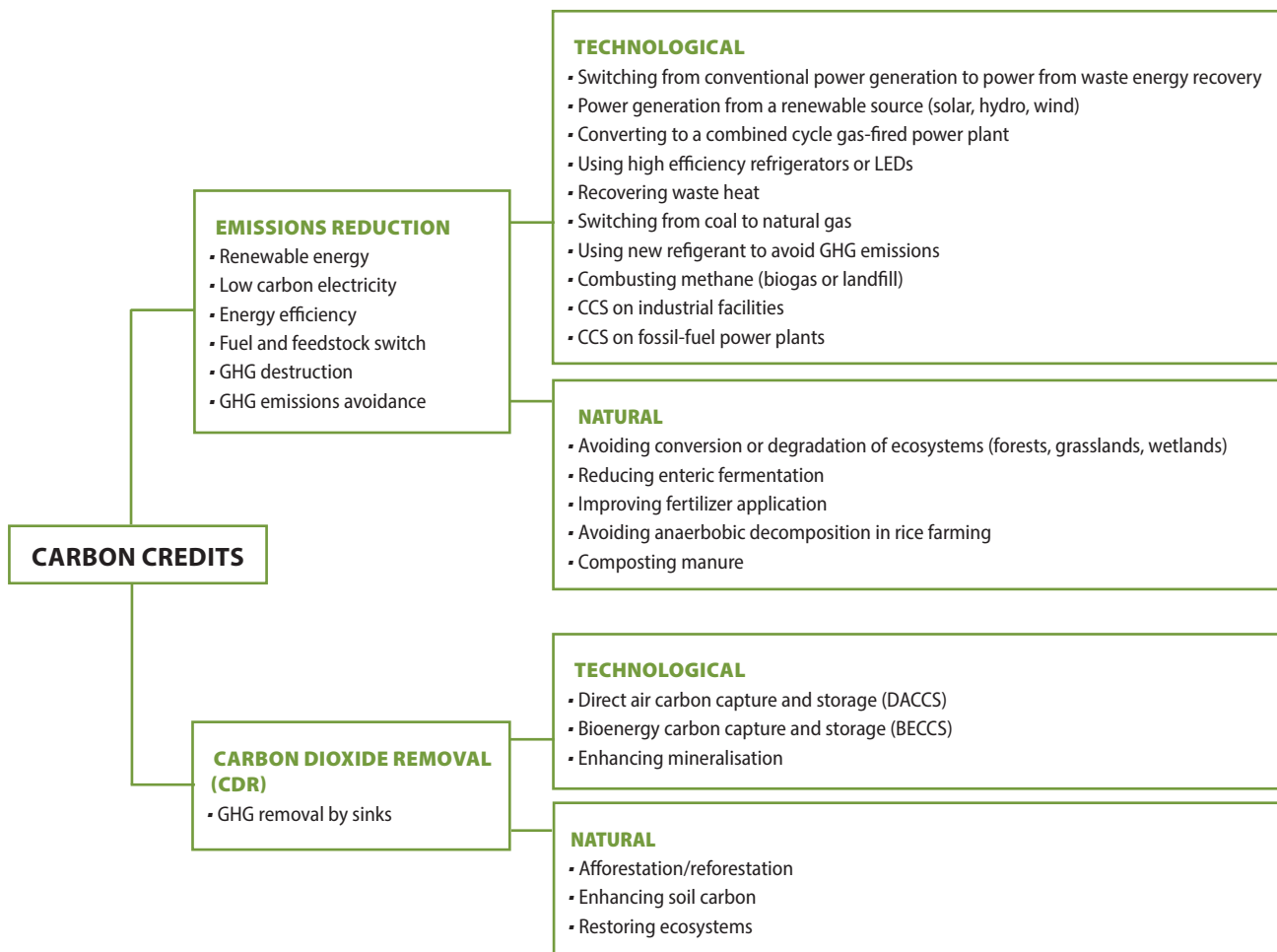


Figure 1: Taxonomy describing the different types of mitigation measures that can generate carbon credits. Adapted from [The Oxford Principles for Net Zero Aligned Carbon Offsetting](#).



CARBON CREDITS IN AMBITIOUS CORPORATE CLIMATE COMMITMENTS

Without a standard definition of what net zero means, companies have interpreted the path to achieving it in various ways, leading to a proliferation of dubious targets and public accusations of greenwashing. Companies that plan to rely heavily on offsetting with carbon credits have received most of the criticism. Many of these companies may have been genuine in their commitments, but until recently, there simply has not been an agreed-upon definition of net zero and the role of carbon credits in achieving these commitments. This has left investors and banks with little clear guidance on how to interpret the ambition of GHG reduction commitments and how to engage companies on them.

Ceres' investor brief, [The Role of Natural Climate Solutions in Corporate Climate Commitments](#), laid out several guardrails on the corporate use of carbon credits from natural climate solutions. Consensus around these guardrails has now coalesced in the form of [formal guidance from the Science Based Targets initiative](#) on setting net zero targets and the role of carbon credits (of any type) in these commitments. We encourage companies to set a net zero target following the guidance.

In short, companies must **(1)** prioritize reducing their value chain emissions (scope 1, 2, and 3) following an emission pathway that limits warming to 1.5 °C (Figure 2). Any remaining residual emissions that are unfeasible to abate must **(2)** be neutralized with carbon removals. While on the journey to net zero, some companies are **(3)** striving to go above and beyond, choosing to finance emission reductions and carbon removals outside their value chains (e.g., by purchasing carbon credits). Such action can make a critical contribution to limiting global climate change when it is carried out in addition to—not instead of—ambitious emission reductions in line with 1.5 °C. Carbon credits should only be used to raise the ambition of climate commitments, not to replace efforts to decarbonize and reduce emissions throughout the value chain.

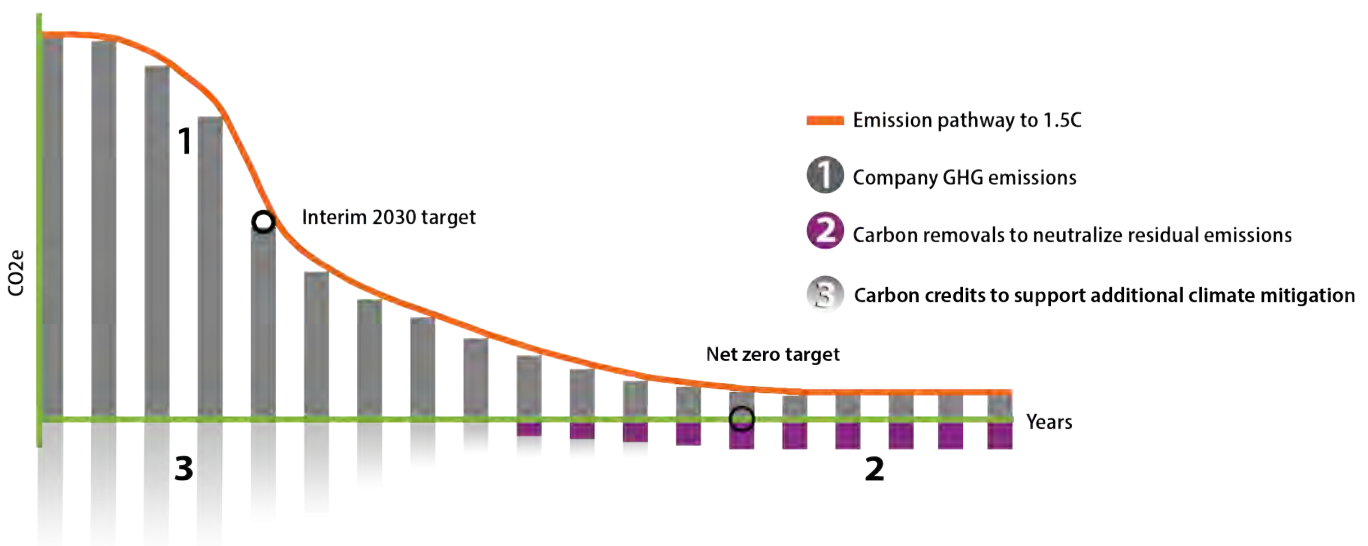


Figure 2: Use of carbon credits while on the journey to net zero.

From Ceres' [The Role of Natural Climate Solutions in Corporate Climate Commitments 2021](#).

Investors and banks can expect companies in most sectors to make very deep cuts in emissions to achieve net zero. To align with 1.5 °C pathways, GHG emissions must be reduced in all sectors by the percentage identified in Table 1 below. **Emissions from most sectors should be reduced by 90% or more by 2050 at the latest.** Emissions from forest, land, and agriculture sectors will be harder to abate and should be reduced by at least 80%. Some residual emissions will remain even in the most ambitious scenarios. Hard-to-abate sectors with larger residual emissions may rely more heavily on carbon removals to achieve net zero emissions. However, this may change as new emissions abatement technologies enter the market.

Absolute GHG emission abatement potential by 2050	
Sector	Percent
Cement	94%
Forest, Land, & Agriculture	80%
Iron & Steel	91%
Power Generation	97%
Residential Buildings	95%
Service Buildings	98%
Aviation	Data Not Yet Available
Commodity Pathways	
Maritime transport	
Other Industry	

Table 1: The absolute GHG emission abatement potential by sector. Data from the [SBTi Net Zero Standard](#) as of 2021.

How can financial institutions identify a strong corporate climate commitment?

Companies that make weak or vague net zero pledges without a real commitment to decarbonize their value chain emissions can expose investors and banks to material business risks and continue to exacerbate the systemic risk of climate change. In the interest of limiting these risks, financial institutions should ensure that companies make ambitious climate commitments that include the following elements:

1. A net zero target for 2040, or 2050 at the latest, that is aligned with 1.5 °C pathways
2. Interim (short- and medium-term) science-based targets that cover the entire value chain (scope 1, 2, and 3)
3. A transition plan for achieving those targets

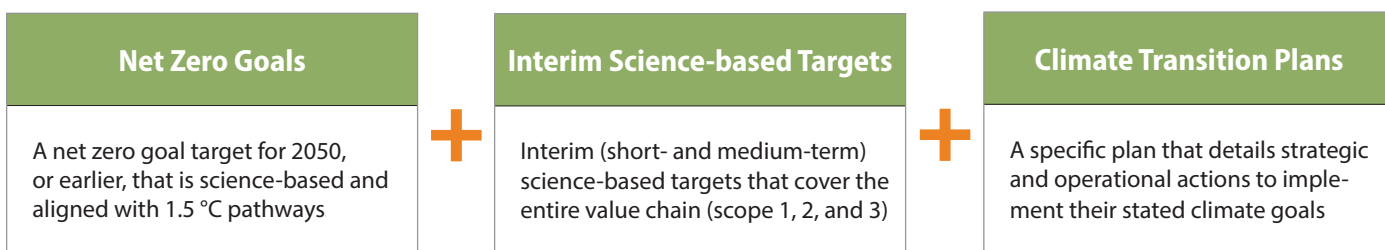


Figure 3: Elements of an ambitious climate commitment.

The Ceres report [Investor Guide to Corporate Greenhouse Gas Commitments](#) identifies common corporate climate commitments and where they fall on an ambition spectrum and provides guidance for pushing companies to make robust climate commitments.

Companies using carbon credits are making various claims about their GHG emission performance, for example, companies claim to be climate neutral, climate positive, and net zero. These claims are not used consistently, making it difficult to understand what companies have achieved. [The Voluntary Carbon Market Integrity \(VCMi\) initiative](#) was launched in 2021 to establish clear definitions and bring some consistency around corporate claims when using carbon credits. This guidance is currently under development. In the meantime, we provide guidance on recommended corporate disclosures so that investors and banks can clearly understand whether companies are meeting their climate targets and how carbon credits fit into their climate strategies.

Recommendations for financial institutions to engage companies on ambitious corporate climate commitments

Companies should use carbon credits in a way that raises the ambition of their climate commitments. Financial institutions should ask companies to disclose:

- Short-, medium-, and long-term emission reduction targets aligned with 1.5 °C and their progress against those targets
- A credible transition plan for achieving targets
- Their anticipated residual emissions and the percentage they plan to neutralized with carbon dioxide removals
- The volume of carbon credits purchased to counterbalance emissions and support climate change mitigation outside of their value chain



Case Study: Unilever's climate transition plan and the role of offsetting

In March 2021, [Unilever](#) published an ambitious climate transition action plan. The transition plan describes the company's climate targets, progress towards them, and information about how Unilever plans to use carbon credits. Specifically, it includes the following targets:

- In the short term, the company aims to reduce scope 1 and 2 emissions by 70% by 2025.
- In the medium term, the emissions reduction target is to reduce scope 1 and 2 emissions by 100% by 2030. The company also has an intensity target to reduce the value chain emissions (scope 1, 2, and 3) of its products per consumer use by 50% by 2030. This intensity target is aligned with 2°C emission pathways. Overall, Unilever's medium-term target meets SBTi criteria and is validated as aligned with 1.5 °C emission pathways; SBTi does not yet require the scope 3 component of targets to align with a 1.5 °C pathway.
- The company's long-term net zero target is to achieve net zero emissions across all scopes by 2039. This target includes upstream and mandatory downstream scope 3 emissions in line with the [GHG Protocol](#). Unilever has committed to validating its net zero target with SBTi.

Unilever notes that it will focus on reducing emissions this decade, not on offsetting. However, the company is also creating a €1 billion climate and nature fund to invest in NCS projects. While some of those NCS projects will generate credits for offsetting emissions in the future, the company does not know to what extent it will need to use carbon credits to neutralize residual emissions as it does not yet know to what extent it will reduce emissions by 2039.

Overall, Unilever's plan to prioritize decarbonization is in line with what is needed to reduce systemic climate risk, but there are areas where the company could improve further. The company's climate transition plan lays out short-, medium-, and long-term climate goals. The report also discloses the company's progress towards its goal and describes the strategy to meet those targets. Over time, the company should strengthen the medium-term intensity goal, particularly as SBTi requirements on scope 3 emissions become more stringent. As Unilever makes progress towards its climate goals, investors should look to see that the company discloses anticipated residual emissions and the percentage that will be neutralized with carbon removals. When Unilever purchases carbon credits that support climate mitigation outside of its value chain, it should transparently disclose the volume of credits purchased. For all carbon credits, investors will also look for disclosures on the GHG crediting programs, suppliers, and projects of those credits. These additions to Unilever's climate transition plan will strengthen the integrity of the company's climate commitment, achievements, and use of carbon credits.



HIGH-QUALITY CARBON CREDITS

How can financial institutions evaluate carbon credits that contribute to a just and equitable transition?

Historical negative experiences with carbon markets along with recent news exposés have created confusion for financial institutions and companies around the integrity of carbon credits. In particular, some companies purchasing credits from projects that reduce deforestation and improve forest management have [faced scrutiny regarding credit integrity](#). Those projects overstated their climate impact because the baseline scenarios used to estimate the GHG benefit incorrectly assumed that forests in a given area would have been cut down in the absence of the project. Such accusations create risk for companies and their investors, especially those that finance carbon projects.

Companies can reduce the risk of sourcing low-quality carbon credits by purchasing credits that are certified by a recognized GHG crediting program. The crediting programs have rules and requirements for carbon credits that take into account the need for emission reductions or removals to be additional, permanent, conservatively measured, leakage accounted for, verified, and exclusively claimed. Specific methodologies vary from program to program, and some may be more rigorous than others. Recognized GHG crediting programs that certify carbon credits for the voluntary carbon market include:

- [American Carbon Registry](#)
- [Architecture for REDD+ Transactions](#)
- [Climate Action Reserve](#)
- [Gold Standard for the Global Goals](#)
- [Jurisdictional and Nested REDD+ Framework](#)
- [Plan Vivo](#)
- [Verified Carbon Standard](#)

The Taskforce on Scaling Voluntary Carbon Markets—an initiative established in 2020 by financial institutions, companies, and carbon market actors—formed the [Integrity Council for Voluntary Carbon Markets](#), a governance body that intends to establish a threshold standard for high-quality credits by defining a set of Core Carbon Principles. It remains to be seen if this initiative alleviates concerns about quality. In the meantime, companies and financial institutions can conduct additional due diligence to ensure that credits provide credible climate change mitigation. Further guidance on this topic is provided in the Ceres report [The Role of Natural Climate Solutions in Corporate Climate Commitments: A Brief for Investors](#).

How does the Paris Agreement rulebook affect corporate carbon credit purchases?

At the 2021 United Nations climate conference in Glasgow ([COP26](#)), countries agreed to the rules that will operationalize [Article 6.4 of the Paris Agreement](#), which creates a new international carbon market mechanism for trading carbon credits to help countries meet their [nationally determined contributions](#) for cutting emissions. The U.N. will create a new standard with accompanying methodologies for countries to develop projects that reduce emissions. The Article 6.4 standard will set out stringent rules for assessing additionality and setting baselines. It will also require countries and companies to make GHG accounting adjustments to ensure that credits are not double counted with national efforts. Specifically, the country or company buying the credits can apply the reduction to its GHG balance sheet, while the country that sells the credit must make a corresponding adjustment so that the reduction is not counted toward its national GHG achievement. It remains to be seen whether the countries selling credits will be willing to make these adjustments.

While the rules for Article 6.4 only apply to carbon credits generated under the new U.N. mechanism, there may be implications for credits generated and sold on the voluntary carbon market in the future. For example, the voluntary GHG programs may adopt the rules on additionality and baselines. Over time, as countries implement policies that mandate climate action and more stringent rules are implemented, fewer projects will be eligible for crediting and the supply of credits in the voluntary market may decline. In addition, some countries may prefer to sell credits through the Article 6.4 mechanism instead of allowing projects to sell credits on the voluntary market. This underscores the limited role of carbon credits in corporate commitments, and companies should not rely on credits to reach their net zero commitments, but they can buy credits to support climate mitigation outside their value chain.



Carbon credit projects, especially those that protect, improve, and restore natural and working lands, can make an important contribution to meeting the goals of the Paris Agreement. However, the potential of such projects to meaningfully reduce the systemic risk of climate change depends substantially on whether they contribute to sustainable communities and resilient ecosystems. In the past, poorly executed carbon credit projects have resulted in [land grabbing](#) or [restricting communities from accessing critical resources](#), causing harm to communities. And projects that are ill-suited to their environment have caused negative ecological and societal impacts, for example, by [decreasing local biodiversity](#) or [depleting water resources](#). Conversely, carbon credit projects can bring substantial monetary and sustainable development benefits to the communities where they are located if they are designed appropriately and with full participation of those communities. Such projects are more likely to be sustained and meaningfully contribute to emission reductions and carbon sequestration over the long term, thus reducing the systemic risk of climate change.

Investors and banks also need to be aware of companies purchasing credits from projects that undermine the well-being and rights of communities and would expose them to reputation and litigation risks. Companies are under increased [pressure from consumers and employees](#) to reverse the trend of injustice towards historically marginalized communities, including low-income and [fence-line communities](#), people of color, Indigenous communities, and others across the Global South. As described in the [Ceres Roadmap 2030](#), companies must examine the human impacts of business decision-making across all levels of their organizations and in the carbon projects they develop or purchase. The guidance below can help ensure that corporate investments in carbon credits contribute to a just and equitable climate transition while reducing potential risks for shareholders.





Figure 4: Communities are central to ecosystem conservation and protection. NCS projects that integrate safeguards and generate benefits for communities are more likely to be sustained. Illustration: Euan Brown

Social and environmental safeguards

To reduce the risks to investors, companies should buy carbon credits from projects that implement processes and measures to prevent undesirable outcomes and ensure Indigenous Peoples,¹ local communities,² and Afro-descendant Peoples³ are at the center of these climate solutions. Safeguards help strengthen participation, improve the distribution of benefits and burdens, enhance cultural and political recognition, and lower business risks. Below, we have identified the critical social and environmental safeguards that NCS projects must address. These safeguards draw from carbon market standards. They align with internationally accepted conventions on human and labor rights, including the International Labor Organization, U.N. [Universal Declaration on Human Rights](#), and U.N. [Global Compact](#), but pertain specifically to NCS projects.

1. People who identify themselves as 'indigenous'; tribal peoples whose social, cultural, and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs or traditions or by special laws or regulations. In North America, this also includes Alaska Native, American Indians, First Nations, Meti, and Inuit. Traditional peoples are not necessarily called indigenous or tribal, but share the same characteristics. Indigenous Peoples are distinct from other stakeholders. They have a set of rights linked to their social, political, and economic situation as a result of their ancestry and stewardship of lands and resources vital to their well-being.

2. Communities that do not identify as 'indigenous' but share similar characteristics as Indigenous Peoples.

3. People of African origin who live in the Americas and in the region of the African Diaspora as a result of slavery and who have been denied the exercise of their fundamental rights.

Key questions that should be asked to ensure those safeguards are addressed include:

▪ **Does the project uphold the rights of Indigenous Peoples, local communities, and Afro-descendant Peoples?**

Projects should identify all impacted communities, including Indigenous Peoples, local communities, and Afro-descendant Peoples, that derive income, livelihoods, and cultural value from the area where the project is planned or takes place. Projects should be designed and implemented to ensure that the traditional ways of life of Indigenous Peoples, local communities, and Afro-descendant Peoples are upheld. In particular, the projects should ensure that they are recognizing and upholding their sovereignty, governance structures, and right to self-determination. [Rights and Resources Initiative](#) has a repository of resources on land rights and rights to carbon pertinent to Indigenous Peoples, local communities, and Afro-descendant Peoples.

▪ **Is land tenure and access secured?**

Projects should take place on lands where land tenure and access are secured. Land tenure is the relationship, either legal or customary, between people and land. In some areas, land tenure may be overlapping. Projects may have secured the legal rights to the land, but Indigenous Peoples, local communities, and Afro-descendant Peoples may also have customary rights to the land. Projects should not encroach on land where customary rightsholders have not granted approval to access. Communities should be able to maintain access to land because it constitutes the basis for accessing food, housing, water, and development, as well as traditional, cultural, and sacred practices and ways of life. Where viable, projects can help communities secure legal land tenure. Clear land tenure and access also help avoid potential litigation risks for corporate investors in carbon projects.

▪ **Does the project incorporate full and effective community participation?**

Rightsholders and community members should be active participants in the conception, design, and implementation phases of the project. There are multiple components to full and effective participation, including:

- All parties involved should have equal access to legal representation, translators, or other resources necessary to have informed conversations about the project. The information provided to them should be accessible and lawful and should promote self-determination. All parties should understand the likely positive and negative economic, social, cultural, and environmental impacts of the project.
- Significant efforts should be made to facilitate equitable participation of all community members, including women, youth, ethnic minorities, religious minorities, other marginalized groups, and groups who could be negatively impacted by the project, while taking into consideration cultural norms.
- The rights holders and community members should give [free, prior, and informed consent](#). That means consent should be given without coercion, and rightsholders and community members should have sufficient time to make decisions. They should have the right to refuse the project at any time should they choose to do so. If the project goes forward, all relevant rights holders and community members should have meaningful influence throughout the process.

▪ **Does the project have a grievance and redress mechanism?**

Projects must have formalized procedures that allow Indigenous Peoples and local communities to address disputes that may arise during project planning, implementation, and evaluation. They must also have a redress mechanism for receiving, hearing, and responding to grievances from the community. Mechanisms that are operated by a third party to receive and manage grievances independently from the project developer can reduce bias and be preferential for Indigenous Peoples.

- **Does the project have a benefit-sharing mechanism?**

All benefits, costs, and risks associated with the project should be equitably shared. Indigenous Peoples and local communities should lead the process to design a mechanism for sharing benefits equitably with community members (e.g., between the project developers and the community) and among all community members (including marginalized groups).

- **Does the project generate benefits?**

Benefits can be direct payments for maintaining existing carbon stock or reducing emissions, or they can be non-monetary. For example, non-monetary benefits can include creating employment opportunities, improving access to water, reducing hunger, adapting to climate change, improving crop productivity, improving access to education, improving access to financing, improving gender equality, and providing affordable clean energy. For Indigenous Peoples and local communities, benefits include recognition of their rights, as well as financing that would allow them to maintain their self-determined pathways for Indigenous governance and cultural and ecological integrity.

- **Does the project protect biodiversity and critical ecosystems?**

Projects should not jeopardize local biodiversity or the integrity of forests and other ecosystems. Biodiverse ecosystems play a key role in stabilizing the climate. For Indigenous Peoples, local communities, and forest-dependent people, biodiverse ecosystems also are critical sources of food, medicine, and other important resources necessary for supporting life and protecting cultural and linguistic heritage.

- **Does the project implement ecosystem appropriate practices and measures?**

Projects that restore ecosystems (e.g., plant trees or restore wetlands) or improve land management should use appropriate management practices that minimize environmental harm. For example, restoration projects should use a diversity of native species or species well suited to the project location. Invasive species or monoculture plantations may be effective at sequestering carbon, but they can have adverse impacts that undermine the ecological function of the NCS. Likewise, the use of fertilizers, pesticides, or herbicides could have negative impacts on water, soil, and essential pollinators.

To ensure that safeguards are followed, project developers should work with Indigenous Peoples and local communities to design a project that will produce desired outcomes. Supporting Indigenous Peoples and local communities to develop [life plans](#) that describe their organizational and territorial management systems can underscore a [robust benefit sharing mechanism](#). Furthermore, projects that generate benefits can help address inequality, social development, and justice and contribute to the United Nations' [Sustainable Development Goals](#). By following the safeguards outlined above, projects with full and effective participation that involve Indigenous Peoples and local communities in project design, implementation, monitoring, and benefit sharing can be critical to project success.

Standards for safeguards and benefits

Certification programs and standards are available to ensure the social and environmental integrity of carbon projects. Some standards only certify project design, while others also require monitoring and verification of safeguards and benefits. Those that require monitoring are best for ensuring that projects deliver on their objectives.

The table below shows whether the social and environmental standards include rules and procedures for certifying that critical safeguards are addressed. This scoring does not assess the quality

of the standards but rather the comprehensiveness of the standard to address the safeguard. [Architecture for REDD+ Transactions](#), the [Gold Standard for Global Goals](#), and [Plan Vivo](#) are programs that certify both climate mitigation and social and environmental safeguards. [Jurisdictional and Nested REDD+](#) only certifies climate mitigation. The [Climate, Community, & Biodiversity Standards](#), [REDD+ Social & Environmental Standards](#), and [Sustainable Development Verified Impact Standard](#) only certify social and environmental safeguards and benefits. Investors should encourage companies to purchase credits that are certified under one of the social and environmental standards. If a safeguard is not covered by a standard, companies are encouraged to conduct additional due diligence to inquire how safeguards were addressed.

Does the standard have requirements to fully address the safeguard of:	Project Level				Jurisdictional Level		
	Climate Mitigation and Safeguards		Safeguards Only		Climate Mitigation Only	Climate Mitigation and Safeguards	Safeguards Only
	Gold Standard for the Global Goals	Plan Vivo	Climate, Community, & Biodiversity Standards	Sustainable Development Verified Impact Standard	Jurisdictional and Nested REDD+	Architecture for REDD+ Transactions	REDD Social & Environmental Standards
Upholding the rights of Indigenous Peoples, local communities, and Afro-descendant Peoples?	Covered	Covered	Covered	Covered	Covered	Covered	Covered
Land tenure and access?	Covered	Partially covered, additional due diligence recommended	Covered	Covered	Partially covered, additional due diligence recommended	Covered	Covered
Grievance and redress mechanisms?	Covered	Covered	Covered	Covered	Covered	Covered	Covered
Protecting biodiversity and critical ecosystems?	Covered	Covered	Covered	Covered	Partially covered, additional due diligence recommended	Covered	Covered
Implementing ecosystem appropriate practices and measures?	Covered	Covered	Covered	Covered	Not covered	Covered	Covered
Full and effective community participation?	Covered	Covered	Covered	Covered	Partially covered, additional due diligence recommended	Due to the large scale of jurisdictional programs, they are inherently different from projects, which tend to be smaller. The difference is reflected in social and environmental safeguard requirements of jurisdictional standards. To ensure that a safeguard is addressed, additional due diligence is recommended.	Covered
Generating benefits for Indigenous Peoples, local communities, Afro-descendant peoples, and others?	Covered	Covered	Covered	Covered	Partially covered, additional due diligence recommended		Covered
Designing and implementing a benefit-sharing mechanism?	Partially covered, additional due diligence recommended	Covered	Partially covered, additional due diligence recommended	Not Covered	Covered		Covered

Table 2: Standards for certifying safeguards and benefits. Investors should encourage companies to purchase credits that are certified under one of these social and environmental standards. This table reviews standards applicable to project and jurisdictional approaches. Jurisdictional programs are implemented at national or sub-national scale. The scale of jurisdictional REDD+ programs allows governments to address deforestation at the appropriate national or sub-national level. Due to the scale of jurisdictional programs, they are inherently different from projects, which tend to be smaller and more local. These differences are also reflected in social and environmental safeguard requirements of jurisdictional standards. To ensure that a safeguard is fully addressed, additional due diligence is recommended. If a safeguard is partially covered or not covered by a standard, companies are encouraged to conduct additional due diligence to inquire how the safeguard is addressed. Standards were scored by reviewing program requirements and supporting documents. The assessment by the Rights and Resources Initiative in their report, [Status of Legal Recognition of Indigenous Peoples’ Local Communities’ and Afro-descendant Peoples’ Rights to Carbon Stored in Tropical Lands and Forests](#), was also considered and incorporated as appropriate.

Recommendations for financial institutions to engage companies on high quality carbon credits

To ensure that carbon projects provide social and environmental benefits in addition to credible climate change mitigation, investors should ask companies to disclose:

- The GHG crediting programs, suppliers, and projects from which they source carbon credits
- Whether their carbon credits have achieved additional certification from a social and environmental standard



ENGAGING COMPANIES ON THE APPROPRIATE USE OF CARBON CREDITS

At the COP26 climate conference in Glasgow, countries, [financial institutions](#), and companies re-affirmed their commitment to limiting warming to 1.5 °C. To reach this goal, we must cut emissions in half in the next decade to be on track to reach net zero emissions by 2050. Carbon markets can play a critical role in meeting this goal, but only if certain safeguards are followed. As more companies participate in the voluntary carbon market to complement or meet their climate targets, investors and banks must engage with companies on setting robust climate commitments and using carbon credits in a way that reduces—rather than exacerbates—financial risks. This means ensuring that (1) carbon credits complement rather than supplant ambitious emission reductions by companies and (2) carbon markets contribute to a just and equitable climate transition. Current corporate disclosures are too vague for investors and banks to adequately assess companies' involvement in carbon markets and potential risks. In order to allow such assessment, financial institutions should push companies to disclose:

- Short-, medium-, and long-term emission reduction targets aligned with 1.5 °C and the companies' progress against those targets
- A credible transition plan for achieving targets
- The companies' anticipated residual emissions and the percentage they plan to neutralize with carbon dioxide removals
- The volume of carbon credits purchased to counterbalance emissions and support climate change mitigation outside of the companies' value chains
- The GHG crediting programs, suppliers, and projects from which they source carbon credits
- Whether the companies' carbon credits have additional certification from a social and environmental standard

Full and transparent disclosure from companies allows investors and banks to understand the integrity of corporate climate commitments and ensure that companies are making meaningful progress towards their goals.

Where can financial institutions and companies find additional resources?

Natural climate solutions and the voluntary carbon market continue to be a dynamic space. Several new initiatives have emerged to bring more integrity to the voluntary carbon market. Investors and companies can track and refer to the following initiatives as new resources and guidance emerge:

- **Science Based Targets initiative** provides a standard for companies to set near-term emission reduction targets and 2050 net zero targets that are aligned with 1.5 °C pathways.
- **Voluntary Carbon Market Integrity Initiative** is developing guidance for the types of claims that companies can make when using carbon credits (e.g., carbon neutral or net zero).
- **Natural Climate Solutions Alliance** provides companies with best practices when purchasing credits from NCS projects and is developing a list of NCS projects that meet high-quality standards.
- **Carbon Credit Quality Initiative** provides scoring for carbon credits, which allows buyers to identify high-quality carbon credits.
- **Voluntary Carbon Market Global Dialogue** engages with stakeholders in the Global South to ensure that the voluntary carbon market can support climate action and development in their countries.
- **Taskforce for Scaling Voluntary Carbon Markets** is a private sector-led initiative working to scale an effective and efficient voluntary carbon market to help meet the goals of the Paris Agreement. The Taskforce has developed a governance body, **Integrity Council for Voluntary Carbon Markets**, to develop a set of Core Carbon Principles for credit quality.

Ceres can support investors interested in engaging on natural climate solutions and carbon credits

Ceres' **Working Group on Land Use and Climate** serves as a center of investor coordination and collaboration on climate and land use issues. Members of the Working Group on Land Use and Climate conduct and share research and best practices, expand their knowledge, and collaborate on efforts to address climate and land use issues. Through the Working Group, Ceres organizes and provides educational opportunities to enhance investor understanding of climate change and land use, including the role of NCS and carbon credits in corporate climate strategies.

Investors are also encouraged to join the **Ceres Investor Network on Climate Risk and Sustainability**. This network comprises more than 214 institutional investors collectively managing more than \$49 trillion in assets. It works to advance leading investment practices, corporate engagement strategies, and policy solutions to build an equitable, sustainable global economy and planet. The network engages directly with portfolio companies on ESG risks and opportunities through investor engagement tactics via multiple working groups, including the Shareholder Initiative for Climate and Sustainability (SICS) and the Working Group on Land Use and Climate.

Investors can also take action through **Climate Action 100+**, an investor-led initiative that engages the world's largest corporate GHG emitters to take bolder actions on climate change. To date, more than 615 investors with more than \$60 trillion in assets under management have joined the initiative.