A guide to implementing the contribution claim model

Nicolas Kreibich
Johanna Fraling
Max Schulze-Steinen
Markus Kühlert
Wuppertal Institut

FOUNDATION Development and Climate Alliance

Wuppertal Institut

The research project upon which this guide is based was carried out on behalf of the Foundation Development and Climate Alliance.
Scientific cooperation and editing: Sina Brod, Vera Bünte, Dr Olivia Henke, Dimitrios Karatassios, Peter Renner.
Project duration: November 2023 - July 2024

Table of contents

Table of figures:

Table of boxes:

Table of tables:

Background

Climate change is continuing to progress dramatically. 2023 was the hottest year since records began, with the 1.5 degree Celsius limit regarding the increase in the global average temperature being exceeded on almost every second day of the year (C3S, 2024). The impact on people and nature is devastating, especially in the Global South. Against the backdrop of rising global temperatures and increasing losses and damage caused by climate change, corporate climate action is of key importance. More and more companies are setting their own climate change mitigation targets and intend to supplement their internal reduction activities by supporting climate change mitigation outside their own value chains.

This form of private climate financing plays a key role, particularly against the backdrop of insufficient intergovernmental climate finance. Despite the increase in funds being made available globally, there is still a glaring gap. In addition, the existing financial resources are unevenly distributed in geographic terms and demand is particularly high in the Global South (CPI, 2023).

The voluntary carbon market (VCM), which allows companies and other organisations to support the implementation of climate change mitigation activities outside their own value chains by purchasing carbon credits, plays an important role in this context. Since the early 2000s, carbon credits worth over ten billion US dollars have been traded (Forest Trends' Ecosystem Marketplace, 2024). The voluntary carbon market has thus made a significant contribution to private climate financing with many projects also promoting the implementation of the Sustainable Development Goals (SDGs).

In 2023, however, the market was rocked by media attacks that damaged the reputation of the companies involved. Articles about inflated baselines in avoided deforestation projects (Fischer & Knuth, 2023), cases of fraud at individual companies (Blake, 2023) and lack of transparency, particularly in trading of carbon credits (Allied Offsets, 2023), have tarnished the market's reputation. This has exacerbated the market decline trend observed since 2021. Companies involved in the voluntary carbon market also often face greenwashing accusations and organisations that communicate their commitment to the public are sometimes mistrusted. However, carbon offsetting and the use of carbon neutrality claims not only present a reputational risk for companies but can also have legal consequences under certain circumstances. In Germany, for example, numerous companies have already been sued for injunctive relief by non-governmental organisations, competition authorities and even competitors. More legal certainty will be provided in the future by regulations at European level, which will also significantly restrict use of the term 'carbon neutrality'. The "Empowering Consumers Directive for the Green Transition", which came into force in March 2024, prohibits companies within the EU from marketing their products as 'carbon neutral' in the future if this carbon neutrality is achieved through carbon offsetting outside the product's value chain (EU, 2024). It remains to be seen what effect the ban will have on advertising claims that concern the company as a whole. In this context, the Green Claims Directive is of key importance. This directive, which is currently still being negotiated, is intended to specify and supplement the directive to empower consumers in favour of ecological change through detailed requirements.[1]

In a period of changing conditions in the voluntary carbon market, the contribution claim model is becoming increasingly important. An alternative model to the carbon offsetting approach has been under consideration since 2016. The main impetus for these considerations was the double counting issue facing the carbon offsetting model under the Paris Agreement. As the agreement commits all countries to climate change mitigation, all mitigation projects contribute in principle and in the medium term to the realisation of national climate targets. Simultaneous utilisation of the carbon credits generated within the projects, for example for offsetting remaining emissions to count them against a company's carbon neutrality target, would result in double counting of emission reductions. To avoid such double counting, Article 6 of the Paris Agreement makes it possible for the host country to adjust its reported emissions according to the quantity of carbon credits sold. However, the implementation of these so-called corresponding adjustments (CAs) comes with considerable challenges. Due to the failure of the Article 6 negotiations at COP 28 in Dubai, it has not yet been possible to definitively resolve the outstanding implementation issues. Furthermore, the extent to which host countries will agree to implement CAs is unclear, as these adjustments make it more difficult to reach the national climate change mitigation target, at least in the short term. Access to carbon credits, which are backed by CAs and can be used by companies for carbon offsetting, therefore involves overcoming considerable hurdles.

In view of the challenges of carbon offsetting, the contribution claim model presents an alternative for companies and other organisations that want contribute to tackling the climate crisis beyond their value chain and live up to their responsibility. However, there is still no common understanding of the model and the limited acceptance of it to date stands in the way of broader implementation. In order to create a clearer common understanding of the model and identify its basic elements, the first phase of the project "The contribution claim as an alternative approach

[1] The directive is now being negotiated in the so-called trilogue procedure between the Council of the EU, the European Parliament and the European Commission after the Council of the EU published its position in June 2024 (see Council of the EU, 2024).

to carbon offsetting" was initiated in September 2022 by the Foundation Development and Climate Alliance (SAEK) and carried out by the Wuppertal Institute (WI). The key results of the first project phase are summarised in a concept paper that was published in May 2023.[2] The key elements of the concept paper are the new narrative and ten basic principles of the contribution claim model. Accordingly, the contribution claim model is intended to enable companies and other organisations to align their activities with the goals of the Paris Agreement and contribute responsibly to implementing the global net zero target. This initially requires ambitious activities to avoid and reduce one's own greenhouse gas emissions[3], while non-avoided emissions are subject to a carbon price. The resulting budget is used to finance high-quality, ideally transformative, climate change mitigation activities outside the company's own value chain.

The contents of the concept paper formed the starting point for the work in the second project phase "The contribution claim model – development of an implementation guide". The result of this second project phase is this guide to implement the contribution claim model, which was finalised in July 2024. The guide was developed with the aim of contributing to the development of an alternative model for climate financing in the Global South and showing how the contribution claim model could be usefully designed for this purpose. The aim of this project phase was to develop general requirements for organisations that would like to use this model and the mitigation activities supported as part of this approach. The requirements take up existing approaches and consider suggestions that have been fed into the debate. The use of known and recognised approaches is intended to ensure the model's connectivity and minimise associated transaction costs, while at the same time demonstrating the most ambitious approach possible. A collaborative research and development approach was used to develop the requirements, whereby key stakeholders were involved in individual so called Living Labs and worked on selected issues in a participatory manner. Further details of the development of the guide and the project process can be found in Annex 1.

Structure of the guide

The guide comprises two interwoven parts. Figure 1 outlines this structure. Part 1 sets out the requirements for organisations wishing to use the contribution claim model (green). In addition to overarching requirements (Chapter 1), these include specifications for greenhouse gas emissions accounting (Chapter 2), setting targets and implementing internal climate change mitigation activities (Chapter 3), supporting climate action outside the organisation's own value chain (Chapter 4), and reporting and communication (Chapter 6). Part 2 focuses on the requirements for mitigation activities outside the organisation's value chain (red). These requirements (Chapter 5) include meta requirements as well as specifications regarding governance and implementation. These are applied in the context of three different financing options: Purchase and retirement of carbon credits (chapter 5.1), support for climate funds (chapter 5.2), and direct financing of one's own projects (chapter 5.3).

The structure of the individual chapters follows a standardised format. Each topic area is first introduced by an accompanying text and its significance in relation to the contribution claim model is explained. In some chapters, additional text boxes are included to describe individual aspects. The specific requirement is emphasised (underlined) in the text. Supplementary information on individual requirements can be found in the Annex to the guide.

Further information on implementation and possible solutions to overcome existing challenges are set out in Annex 5. The information summarised in a table shows central strands for the further development of the approach in order to get it from piloting to implementation.

[2] The concept paper "Grundprinzipien eines Contribution Claim-Ansatzes" [URL: https://allianz-entwicklung-klima.de/wp-content/uploads/2023/10/2304_Konzeptpapier_CC.pdf] is available in German only.

[3] For ease of reading, the term carbon is used as a synonym for CO_2 and other greenhouse gases in this guide.

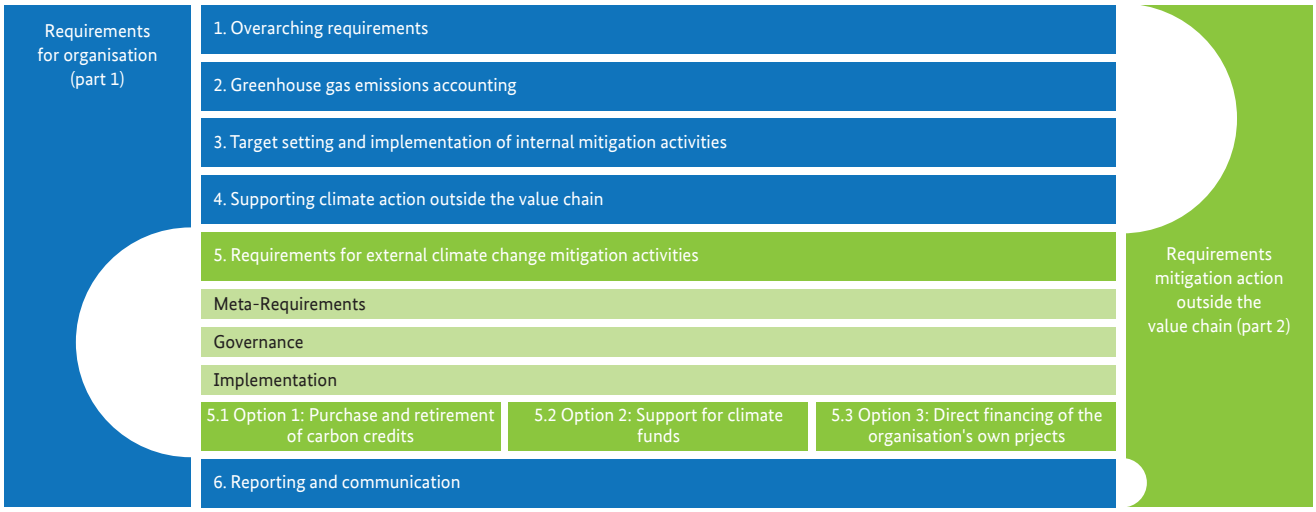

Figure 1: Structure of the guide

1. Overarching requirements

Despite its increasing importance, the implementation of sustainability goals at companies is still insufficiently anchored. In order to take this into account, a written commitment to the goals of the 2030 Agenda and the Paris Agreement will be obtained from the participating organisations.

In addition to the commitment, the organisations are called upon to align their lobbying activities with the goals of the Paris Agreement and the 2030 Agenda.

1.1 Commitment to the Paris Agreement and the 2030 Agenda

The organisation commits itself in writing to the goals of the 2030 Agenda and the Paris Agreement. The aim of using the contribution claim model is not to make statements about the carbon neutrality of the organisation or its products (including services) in public communication (self-presentation, advertising).

1.2 Representation of interests, lobbying

The organisation does not participate in lobbying activities aimed at undermining ambitious climate policies. The organisation declares that its own actions to influence public policy are in line with the objectives of the Paris Agreement and the 2030 Agenda, including the representation of interests by associations and other organisations in which it participates.

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

2. Greenhouse gas emissions accounting

The organisation's GHG inventory, which is based on a robust database, is a basic prerequisite for ensuring transparency and serves as a reference point when setting climate targets. External verification underpins transparency and credibility. The development of GHG inventories and the corresponding reporting obligations are also increasingly being dictated by the regulatory framework of the European Union (see e.g. Box 1 below).

2.1 Accounting for all emissions (Scope 1, 2 and 3)

The organisation accounts for its emissions in accordance with established standards and discloses the methods, emission factors, significant assumptions and justification used in the calculation or activity.

Scope 1 and Scope 2: Accounting regarding direct and indirect energy-related GHG emissions is carried out annually (SMEs every two years) on the basis of the Greenhouse Gas Protocol (WRI & WBCSD, 2004). Alternatively or as a supplement, "ISO 14064 - Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals" can also be used (DIN, 2019).

Scope 3: Upstream and downstream emissions are recognised in accordance with the "GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard" (WRI & WBCSD, 2011). Significant Scope 3 emissions are determined on the basis of the 15 emission categories, with justification provided for the excluded Scope 3 categories (relevance analysis with regard to GHG emissions and reduction potential). The following criteria are taken into account (see "GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard", own translation):

- Size: Share of total emissions (corresponds to "relevance of GHG emissions")
- Influence: Influence of the company on the reduction (corresponds to "reduction potential")
- Risk: Risks GHG emissions present for the company (e.g. regulatory risks)
- Stakeholders: Relevance for important company stakeholders
- Outsourcing: Extent of emissions induced by contractors
- Sector guidance: Emissions that have been identified as significant by sector-specific guidance

Greenhouse gas emissions are calculated using current emission factors from established databases. Reporting in accordance with the Corporate Sustainability Reporting Directive (CSRD (EU) 2022/2464 - hereinafter "CSRD") and the corresponding European Sustainability Reporting Standards (ESRS) fully covers the requirement for greenhouse gas accounting (see Box 1).

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

2.2 Activities to improve the data situation

"The organisation should repeat the calculations or measurements regularly and improve them over time to track changes and incorporate new methods and data."

Organisations must explain how structural changes within the organisation, methodological changes and changes in the activity data or the emission factors applied have affected the GHG inventory of the last reporting year (see Box 2).

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

2.3 External verification of the GHG inventory

The GHG inventory must be verified externally. Verification is carried out by external, competent, independent organisations. Expertise is verified by means of relevant references.

Box 1: The CSRD Directive

The CSRD Directive is a comprehensive extension of the Non-Financial Reporting Directive (NFRD), which has governed the sustainability reporting of certain companies in the EU since 2014. These regulations are now being significantly expanded through the CSRD Directive, both in terms of requirements and scope of application. The CSRD Directive came into force on 5th January 2023 and must be transposed into national law within 18 months. It will be introduced gradually:

- from 1st January 2024 for all companies of public interest with more than 500 employees
- from 1st January 2025 for all other large companies under accounting law
- from 1st January 2026 for small and medium-sized capital market-oriented companies
- from 1st January 2028 for non-EU companies with a turnover of over EUR 150 million in the EU with EU branches or EU subsidiaries in certain size categories

Key elements include an extended, standardised reporting obligation and reporting in the sense of "double materiality", i.e. both on the impact of business operations on people and the environment and on the impact of sustainability aspects on the company. In addition, audit standards are defined for the mandatory external sustainability reporting audit. The depth of the audit is to be gradually expanded (BMAS, 2024).

The reporting requirements of the CSRD Directive are specified in the European Sustainability Reporting Standards (ESRS), which were published by the European Commission at the end of 2023 in the form of a delegated regulation (European Commission, 2023). The mandatory disclosure and validation of sustainability information by many companies based on the CSRD can be used in part as a basis for meeting the requirements of the contribution claim model. This is especially the case for the accounting of greenhouse gas emissions (ESRS E1-6) and the setting of reduction targets (ESRS E1-1 and E1-4).

Box 2: Gradual improvement of the data situation using the example of Scope 3 emissions "employee travel/commuter traffic"

The company first determines the GHG emissions on the basis of distances between home and work and the German mobility mix in order to derive the possible relevance of commuting. However, the generalised assessment is a) merely an estimate and b) does not provide any specific information on GHG drivers. Reduction activities (e.g., promoting commuting by bicycle) cannot be recorded using this accounting method. Against this backdrop, the company collects primary data on commuting using an employee survey on the means of transport, the number of passengers, and the distance. In addition, the attractiveness of corporate incentives (work bike, etc.) is analysed in order to initiate targeted reduction activities. An annual survey allows the effects of reduction activities to be evaluated and adjustments to be made.

3. Target setting and implementation of internal mitigation activities

At international level, the Paris Agreement of 2015 set the most concise goal of global climate change mitigation efforts: Limiting the temperature rise to well below 2 degrees Celsius compared to pre-industrial levels and endeavouring to limit global warming to 1.5 degrees (UNFCCC, 2016). Building on this, more and more companies are setting themselves ambitious targets for reducing greenhouse gases. Targets provide orientation and motivation and serve as a basis for implementing targeted climate change mitigation activities. They are therefore also of key importance to the contribution claim model. It is important that the level of ambition is appropriately high and that the 1.5 degree target is adhered to.

Validation of the target increases commitment, credibility and transparency and gives the company a clear direction. Initiatives such as the Science Based Targets Initiative (SBTi) and right. based on science can be used here (see Box 3).

Building on the long-term reduction target, a climate strategy including a roadmap with short and medium-term targets is essential both for the internal management of activities within the company and for credible external communication to external stakeholders.

Box 3: Science Based Targets Initiative (SBTi) and right. based on science

The **Science Based Targets Initiative** (SBTi) is an alliance that validates corporate targets that demonstrate a clearly defined path to reducing emissions in line with the 1.5 degree target. Certain criteria must be met when setting the target. For example, a GHG inventory must be drawn up in accordance with the GHG Protocol (Science Based Targets, 2024). In addition, there are other approaches that provide guidance for target setting, e.g., the X-Degree Compatibility (XDC) model from **right. based on science**. This is an instrument that indicates the climate impact of a company as a key figure in degrees Celsius, thus enabling a direct comparison with the 1.5-degree target. It calculates the remaining emissions budget for the company in line with the 1.5-degree target and shows the corresponding reduction paths as well as the most important influencing factors in the scopes (right, 2024).

3.1 Setting a long-term reduction target in line with the 1.5 degree target

The organisation sets itself a long-term reduction target that is in line with the 1.5 degree target and covers all three scopes (in the case of Scope 3, limited to the main emissions).

3.2 Validation of the reduction target

The target is validated by a report from the Science Based Targets initiative or a comparable approach.

Validation can also be performed by an auditor or an audit firm that deals with the organisation in the course of other, thematically related audits using information on defined climate-related targets (e.g. CSRD reporting) (see Box 4).

In addition to validation, the organisation declares that the target is in line with the 1.5 degree target and that a reduction to a maximum of 10 percent of the emissions of the reference year will be achieved by 2050 at the latest. To this end, a reduction plan for the organisation's emissions must be submitted. In this context, the extent to which the target is in line with the goals of the Paris Agreement is explained. The reduction plan follows a budget approach that harmonises the CO_2 residual budget still to be emitted with the Paris climate targets.

Box 4: Example of reduction targets validation in the context of CSRD reporting

A company reports in accordance with CSRD and sets itself an absolute long-term reduction target that is in line with the 1.5-degree limit and covers all three scopes. As this target is published as part of CSRD reporting and is therefore confirmed by an audit or auditing firm, the requirement to validate the reduction target is met.

3.3 Climate strategy including ambitious interim targets and activities

The organisation presents a climate strategy with ambitious interim and long-term targets and corresponding reduction activities.

The organisation sets itself ambitious and transparent interim targets for a maximum period of five years that contribute to implementing the long-term target and are in line with it. The interim targets describe a (at least) linear reduction path, such as the annual reduction rate of 4.2 per cent calculated by the SBTi. The organisation explains the extent to which the interim targets are in line with the organisation's long-term climate targets.

The organisation provides information on the reference year and the reference year emissions as well as the methods used to calculate them. The interim targets cover the emissions of the entire value chain (Scope 1, 2, 3). The interim targets are submitted every five years at the latest. The interim targets can be updated at any time if this leads to an increase in ambition.

The organisation states how emissions are monitored, and which standards are used as a basis. The organisation explains any gaps in the target for reducing Scope 3 emissions and what activities are to be initiated to close these gaps. Concrete activities underpin meeting the interim targets. The organisation explains which activities have already been implemented, are planned or are still to be implemented in order to achieve the interim targets.

3.4 Implementation of internal mitigation activities

The organisation prioritises effective and rapid mitigation activities within its own value chain.

For the purpose of prioritisation, the organisation includes tools (such as internal carbon pricing) in the decision-making process. This is intended to incentivise the organisation to reduce its own emissions.

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

4. Supporting climate action outside the value chain

While efforts must focus on reducing direct and indirect emissions as quickly and drastically as possible, organisations should also support climate change mitigation activities outside their own value chain in order to meet their responsibility.

The contribution claim model can combine these objectives by using the "money per tonne approach" to determine the contribution to climate change mitigation beyond the company's own value chain (for a comparison of the different approaches, see Annex 2: Different approaches to determining the level of mitigation beyond one's own value chain). With this approach, the company's yet unavoided emissions are assigned a company-specific carbon price. This carbon price is not an internal management tool, but rather determines the budget for financing climate change mitigation outside the value chain.[4] The "money per tonne approach" makes it possible to maintain the link between the organisation's emissions and external climate change mitigation activities without setting these as the sole parameter.

4.1 Budget determination through the pricing of emissions

The organisation sets an increasing price per tonne of carbon, justifies the price level and shows how it will increase in the future. The organisation applies the carbon price to its total emissions (Scope 1 to 3) by multiplying the carbon price by its emissions in a certain period (e.g., one year) and thus determines the budget available to support climate change mitigation outside the value chain.

In the interest of transparency, a uniform carbon price is applied at each organisation across all three scopes. External parameters can be used to determine the carbon price (see Box 5), whereby the price level must be justified, and the associated considerations disclosed. A uniform carbon price is not applied across the different organisational sizes and sectors because of the considerable differences between organisations (see Box 6).

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

4.2 Financing climate change mitigation outside the organisation's own value chain

The organisation supports climate change mitigation outside its own value chain. The promotion of mitigation activities outside the organisation's own value chain does not replace or delay the organisation's own emission reductions but rather complements them.

In accordance with the basic principle of additionality, the funds are provided in addition to climate change mitigation commitments already made by the organisation. Climate change mitigation commitments already made and ongoing financing cannot be claimed retrospectively under the contribution claim model. Furthermore, the contributions are not to be seen as investments, which means that there is no prospect of a return on investment when financing a climate change mitigation activity outside the value chain. However, implementing the contribution claim model and supporting climate change mitigation outside the value chain offers organisations other benefits in various forms - from reputational gain to an improved ESG rating.

Three financing options are available for financing climate change mitigation activities outside the value chain. There are no specifications regarding the combination of options or mandatory shares under the contribution claim model. The three financing options are as follows:

Option 1: Purchase and retirement of carbon credits

The organisation buys carbon credits from climate change mitigation projects on the voluntary carbon market and has them retired. The financing ensures that the project is realised. Relevant requirements are taken into account when selecting the credits and projects, which ensures high quality.

[4] The carbon price set here must be distinguished from the internal CO_2 pricing instrument some companies use for internal management. If available, the price set here for internal CO_2 pricing can be used. However, organisations do not need to have introduced an internal carbon price in order to set a carbon price to use the contribution claim model.

Option 2: Supporting a climate fund

This financing option provides support for climate change mitigation activities by paying into funds. This is primarily intended to support a climate fund that serves as a funding pot for mitigation projects and does not pay a return to the contributing organisations. In addition to supporting non-financial climate funds, the financial resources can also be used to support green bonds. It should be emphasised here that only the return foregone by the organisation and reinvested can be taken into account as a contribution to supporting climate change mitigation outside its own value chain.

Option 3: Direct financing of one's own projects

A third option for organisations is to finance their own activities and projects directly. In particular, this option means that the climate change mitigation projects can be tailored precisely to the needs of the organisation.

The financing options can be used individually or in combination with each other. Both internal and external organisational factors come into play when selecting the financing option and compiling the portfolio of activities to be supported. Details of the individual factors and the decision-making process can be found in Annex 3.

Box 5: The role of the social cost of carbon and climate change mitigation targets in determining the carbon price

One key indicator is the social cost of carbon. Greenhouse gas emissions contribute to climate change and therefore cause considerable damage to society, i.e., the **social cost of carbon**. However, they are not usually borne by those who cause them, but rather as external costs by society as a whole. For emissions caused in 2023, the German Environment Agency recommends using a cost rate of EUR 250 per tonne of CO_2 (German Environment Agency, 2024).

Another option for determining a suitable carbon price is **to derive** it **from a global climate change mitigation target**. In 2017, the World Bank calculated a range of USD 50 to 100 per tCO_2 in 2030 in order to limit global warming to 2° C (High-Level Commission on Carbon Prices, 2017).

Box 6: Ability to pay vs. polluter pays principle

The polluter pays principle is a firmly established principle in environmental policy. According to this principle, the costs arising from environmental pollution must be borne by the polluter. This principle may be contrasted with the polluter's ability to finance climate change mitigation activities beyond its own value chain (ability to pay). Ability to pay is determined by the profit generated per tonne emitted and the investment required to reduce the polluter's own emissions.

In an analysis by Carbon Gap (Höglund & Mitchell-Larson, 2022), the 250 largest companies in 2020 were analysed. The results clearly show that the solvency of companies is distributed very differently: a few large emitters in the electricity and heat supply, chemicals and cement sectors have relatively low solvency, only generating profits of less than USD 100 per tonne of CO_2. Companies in economic sectors with low emissions (insurance, banking, information technology) generate between USD 10,000 and USD 100,000 per tonne of CO_2. The latter are therefore significantly more solvent. For example, a carbon price of EUR 1/tCO_2 would push a chemical company to the limits of its ability to pay. However, the same price would be far too low for most IT companies. This clearly shows why a financing model for climate change mitigation activities beyond the company's own value chain that relies exclusively on the polluter pays principle without taking ability to pay into account falls short.

5. Requirements for external climate change mitigation activities

To ensure that the activities supported under the contribution claim model are of high quality, make an effective contribution to overcoming the climate crisis, and contribute to the goals of sustainable development, they must meet various requirements. These basic requirements apply in principle to all activities to be financed, regardless of the specific financing option (purchase and retirement of carbon credits, supporting non-financial climate funds, financing one's own projects directly). However, not all requirements are of equal relevance to each activity and they are reflected to varying degrees.

This section begins by presenting the various requirements in their entirety. The requirements are then operationalised for the three financing options in the chapters that follow.

The requirements are divided into three areas: I) Meta requirements are overarching requirements that describe the basic orientation of the activities. II) Governance summarises requirements that relate to the various responsibilities for implementing the activity. III) Implementation specifies the requirements that must be taken into account when designing and realising the activity. Table 1 provides an overview of the requirements.

		Requirement
Meta-Requirements	1	Assignment to project type
	2	Regional orientation
	3	Climate impact
	4	Social and ecological sustainability
	5	Focus on the underlying problem
	6	Reproducibility through transparency
	7	Theory of Change
Governance	8	Relationship between activity and organisation
	9	Legal framework
	10	Recognition by governments
	11	Involvement of partners and experts in project development
Implementation	12	Additionality
	13	Robust baseline
	14	Validation and MRV
	15	Reference to NDC and LT-LEDS
	16	Long-term nature and subsequent utilisation
	17	Contribution to global net zero emissions
	18	Mapping and involvement of stakeholders
	19	Grievance mechanism

Table 1: Overview of the requirements

Meta requirements

1. Assignment to project type

The activity can be assigned to one of the four project types characterised by a transformative sustainability effect, which reduces the implementation costs of scalable climate change mitigation activities and/or promotes new solutions in light of the pressure to act in response to the climate crisis. For certain project types, it is also possible to provide funding for activities that are still under development and have not yet received sufficient financing (venture capital), e.g., due to uncertainties about their success. The four project types are as follows:

Technology promotion through feasibility demonstrations. The project focuses on niche technologies that are not widely used and are too risky for commercial investors in the region. The project implementers explain why implementing the activity can be considered new and transformative, taking into consideration other countries (in the region but also worldwide) with comparable framework conditions.

Support for research and development. New technologies can be promoted or the application of known technologies in new areas can be advanced.

Climate change mitigation through scaling. The project helps existing approaches to be applied more widely, while also ensuring the additionality of the activity.

Capacity building and climate advocacy. The activity supports political stakeholder groups that are committed to promoting climate change mitigation or contribute to capacity building in the target region.

2. Regional orientation

In principle, activities from any country or region can be supported. However, projects in the Global South, especially the least developed countries, are usually better able to meet the requirements regarding additionality and contributions to sustainable development (see requirements 4 and 12) than projects in the Global North. In addition to this, the former can usually contribute more efficiently to closing the existing financing gap.

3. Climate impact

The activity makes a (direct or indirect) contribution to tackling the climate crisis. In line with the pillars of the Paris Agreement, this is achieved by the activity contributing to climate change mitigation. Moreover, an allocation can be made to adaptation to climate change and dealing with loss and damage caused by climate change if the activity achieves corresponding effects.

4. Social and ecological sustainability

The activity makes a contribution to sustainable development according to the SDGs. Activities in the Global South usually have greater potential to contribute to sustainable development, as the need for support is often much greater here with comparatively lower financial capacities.

5. Focus on the underlying problem

The activity is aimed as far as possible at the underlying cause of the problem. The cause of the problem to be addressed by the activity is explained and an attempt is made to address the problem as close as possible to the cause. Reasons are given as to why an aspect closer to the underlying problem could not be addressed. The review is case-specific.

6. Reproducibility through transparency

In order to encourage replication and initiate scaling, the most comprehensive information possible is disclosed regarding the support provided and the activities made possible as a result. The organisation reports on implementation and uses previously identified indicators for this purpose. It discloses which (unforeseen) challenges were identified in the course of project implementation and how these were dealt with. The reporting is publicly accessible and comprehensible. If information is not disclosed, this must be justified accordingly.

7. Theory of Change

The design of the activity is based on open and conservative assumptions regarding its expected effectiveness. An impact chain is used that distinguishes between the following elements within the meaning of the Theory of Change: Input, activity, output, outcome, and effect. The assumptions and approaches used to explain the results chain are publicly available and should be reviewed by external, independent experts.

Governance

8. Additionality

The activity is additional, meaning that it would not have been implemented without the funding provided. The likelihood of additional activities is greater in the Global South, especially in the least developed countries, as the framework conditions here can make it more difficult to finance and implement activities. The activity does not displace any existing or planned funding (short-term) or existing legal requirements for the implementation of a project or activity.

9. Robust baseline

A conservative baseline is determined at the beginning of implementation of the activity and used as a reference for the project impacts that are to be monitored. The baseline is used as a reference for the climate change mitigation impact of the activity and also includes the social and environmental impacts of the project.

10. Validation and MRV (Monitoring, Reporting and Verification)

Comprehensive monitoring of the implementation of the activity is carried out in accordance with recognised methods and the associated transparent reporting.

In addition to the climate change mitigation effect, monitoring and reporting also includes the sustainability contributions of the activity. Monitoring not only covers the activity as such, but also includes relevant changes beyond the project boundaries. If necessary, ongoing monitoring also extends beyond the end of the project term.

The selection of indicators to be monitored and the assumptions on which the selection is based are published and made available to the public so that they can be understood.

The impact of the climate change mitigation activity is reviewed by an independent third party (verification). The verifying organisation is independent, recognised and external. In addition to the climate change mitigation effect, the positive and negative sustainability effects of the activity are also verified.

11. Reference to NDC and LT-LEDS

The activities support the implementation of the Nationally Determined Contribution (NDC) and the Long-Term Low Emissions Development Strategy (LT-LEDS) of the host country by complementing existing and planned activities, not replacing them. Any incentive that could lead to climate change mitigation policies being withdrawn or weaken commitments in the host country is avoided.

12. Long-term nature and subsequent utilisation
The positive contributions of the activities have an impact beyond the actual project implementation period. The project or individual elements of it can be continued after project implementation ends.

13. Contribution to global net zero emissions
The activity contributes to global net zero emissions by avoiding lock-in effects that delay the phase-out of greenhouse gas-intensive technologies and practices. Temporal and spatial leakage effects that could be triggered by the project must be avoided as far as possible or addressed through counteractivities.

14. Mapping and involvement of stakeholders
Stakeholder mapping is carried out at the start of the project in order to take all relevant stakeholders into consideration during project design and implementation. The project design is developed with local stakeholders, utilising existing structures and instruments of international development cooperation. Ideally, an implementation gap is identified with the stakeholders in the host countries and closed with the help of the project. If indigenous groups or the local community are affected by the planned projects, these groups are involved in accordance with free, prior and informed consent (FPIC).

15. Grievance mechanism
In order to identify and address unforeseen negative consequences at an early stage, the project has a grievance mechanism that can be used by those affected at a low threshold, leading to adjustments being made to the activity.

5.1 Option 1: Purchase and retirement of carbon credits

By purchasing and retiring carbon credits, an effective contribution can be made to promoting climate change mitigation and sustainable development outside the company's own value chain, provided that the credits used and the projects behind them are of high quality and emphasise the promotion of the SDGs. This financing option supports activities in the area of "climate change mitigation through scaling" in particular, which are characterised by a direct climate change mitigation effect.

In the voluntary carbon market, minimum criteria have been developed over the years to ensure the quality of climate change mitigation projects and carbon credits. As carbon credits have been used in the past to offset greenhouse gas emissions in particular, the requirements focus on ensuring robust quantification of the climate change mitigation effect. The contribution claim model does not provide for offsetting the climate change mitigation performance of carbon credits against the emissions of organisations or products. Weaknesses in the quantification of the climate change mitigation effect, for example due to a weak baseline or a lack of additionality of the activity, therefore do not pose a direct risk to environmental integrity. From this perspective, compromises could theoretically be made in regard to individual requirements. However, using the contribution claim model to market low-quality carbon credits should be avoided. It should also be ensured that the use of carbon credits under the contribution claim model actually adds value in terms of climate change mitigation and contributions to sustainable development. Against this background, the quality criteria and tools from the voluntary carbon market are used to operationalise the requirements listed above for the "purchase and retirement of carbon credits" financing option.

Additional requirements for the use of carbon credits
In addition to the requirements listed above, the following additional requirements must be taken into account when using this financing option:

Avoidance of certain forms of double counting
As projects in the voluntary carbon market generate carbon credits, it must be ensured that these credits are not counted more than once. A distinction is made between three different forms of double counting: The issuance of several carbon credits for one mitigation outcome (double issuance), the multiple use of a credit for different reduction targets (double use) and the multiple utilisation of the mitigation impact with only one credit being issued (double claiming).

Double issuance and double use are prevented by technical precautions, including clearly identifying and allocating projects and credits using serial numbers and publicly accessible registers. These types of double counting must also be excluded in the context of the contribution claim model. However, there is no risk of double claiming between the government of the host country and the organisation using the credit as part of the contribution claim model, as the organisation does not count the mitigation impact towards its reduction target.

Permanence

As the contribution claim model does not allow for offsetting, the lack of permanence regarding the mitigation impact does not pose a risk to environmental integrity. However, in order to prevent the contribution claim model being used to sell low quality credits, permanence is applied as an additional requirement for this financing option.

Cost transparency

On the voluntary carbon market, carbon credits are usually traded over-the-counter between sellers and buyers, which is why there is no standardised information on the prices of the carbon credits. However, it can be stated that prices are generally low. For example, a study by Forest Trends' Ecosystem Marketplace found an average price of just under USD 7 per carbon credit in 2023, with prices for intermediaries significantly lower than those paid by end users (Forest Trends' Ecosystem Marketplace, 2024). Other analyses (MSCI, 2024) come to similar conclusions, with significant price differences found between project types, ranging from USD 2 for renewable energy projects to more than USD 10 for nature restoration projects.

A low carbon credit price does not automatically mean that the project in question is of low quality. Large-scale projects that use established methods may be able to keep their transaction costs low and therefore offer carbon credits at more favourable conditions. Smaller projects that promote innovative technologies and develop corresponding methods are generally faced with higher transaction costs. While the former make a greater direct contribution to climate change mitigation, the latter often have a transformative effect on the market. Both types of projects are therefore warranted. In the interest of transparency, however, disclosure of the prices paid in price increments of EUR 5 is required. In addition, the share of funds paid to the project through the carbon credits must be published.

5.1.1 *Operationalisation of the requirements*

Four test steps are distinguished for the operationalisation of the requirements. It should be emphasised here that only a single test step is necessary for some requirements, whereas several test steps are necessary for other requirements in order to ensure that they are met.

By combining the four different steps, the aim is to build on the existing infrastructure in those areas where possible. At the same time, the model goes beyond the infrastructure of the current voluntary carbon market by requiring separate checks. This combination aims to ensure that the requirements are met to a high standard and at the same time to limit the additional effort and transaction costs. Table 2 shows which steps are applied to the various requirements (highlighted in green).

		Requirement	Financing option	Standard	VCM tools	Due diligence
Meta-requirements	1	Assignment to project type	■			
	2	Regional orientation				■
	3	Climate impact	■			
	4	Social and ecological sustainability		■		
	5	Focus on the underlying problem				■
	6	Reproducibility through transparency		■		
	7	Theory of Change		■		
Governance	8	Relationship between activity and organisation	■			
	9	Legal framework			■	
	10	Recognition by governments				■
	11	Involvement of partners and experts in project development	■			
Implementation	12	Additionality		■	■	■
	13	Robust baseline		■	■	■
	14	Validation and MRV		■	■	■
	15	Reference to NDC and LT-LEDS			■	■
	16	Long-term nature and subsequent utilisation				■
	17	Contribution to global net zero emissions				■
	18	Mapping and involvement of stakeholders		■	■	■
	19	Grievance mechanism		■		■
Additional A.	20	Avoidance of double counting			■	
	21	Permanence			■	
	22	Cost transparency				■

Table 2: Operationalisation of the requirements in the various test steps

The application of the test steps is embedded in the overall process of purchasing carbon credits. This process takes place in several phases. The organisation usually publishes a tender for the purchase of carbon credits specifying the characteristics of the desired carbon credits. These are derived from the requirements set out below and the organisation's additional specifications. The bids received are then reviewed and any changes and conditions are negotiated in dialogue with the bidders. The information required for the review can be requested with the tender documents. In principle, it would also be conceivable in the course of the tender to request that those bidding for the carbon credits enclose proof of meeting the requirements with the bid. However, the organisation itself should also take a close look at the project from which it wishes to obtain carbon credits. The test steps described below may be applied at different points in the process and there may be case-specific differences that cannot be discussed in detail here. When assessing the bids, the project as a whole is considered, not just the climate change mitigation effect as the sum of the carbon credits offered. The bids are assessed according to a weighting of various criteria.

Box 7: Disclosure of information and influence on negotiations

The purchase and retirement of carbon credits is one of three possible options for financing climate change mitigation outside the value chain. Whether this option is used and the extent to which a combination with other financing options is sought is up to the organisation. The disclosure of information concerns, among other things, the emissions for a specific period and the carbon price set for this period. By multiplying the emissions by the carbon price, the budget available for supporting climate change mitigation outside the value chain can be determined. The organisation determines what proportion of this total budget is used for the purchase and retirement of carbon credits (up to 100%). This can be determined either before the negotiations start with the carbon credit providers or defined during the negotiations. However, the proportion should not be published before the negotiations start as this can be used to determine the available budget and could have a negative impact on negotiations with project developers and suppliers.

Step 1

Some requirements are already operationalised by the funding option. These do not need to be considered further by the organisation in its tender. The operationalisation of the requirements can be found in Table 3 below.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through	Further testing necessary?
1	Assignment to project type	VCM projects are financed via carbon credits as a results-based payment. The projects are therefore categorised as "climate change mitigation through scaling". Operationalisation takes place through the choice of financing option.	Financing Option	no
3	Climate impact	The projects on which the carbon credits are based aim to protect the climate, whereby any contributions to climate change adaptation are recognised as contributions to sustainable development.	Financing Option	no
8	Relationship between activity and organisation	The requirement is ensured by purchasing the carbon credits from providers/project implementers. They are not part of the organisation that uses the carbon credits either.	Financing Option	no
11	Involvement of project development partners and experts	VCM projects are carried out by project developers, which is why they are operationalised through the financing option.	Financing Option	no

Table 3: Operationalisation of the requirements through the financing option

Step 2

The next step is to focus on those requirements that are operationalised by selecting the certification standard. They are partially or fully met by only using carbon credits that have been certified by selected certification standards. The Foundation Development and Climate Alliance maintains a list of recommended certification standards, which is regularly updated, and is used here (SAEK, 2022). In order to further increase integrity, the use of voluntary carbon market tools (VCM tools) is also required in some places, and/or a separate review must be carried out as part of the due diligence process. Details can be found in Table 4.

	Requirement	Significance for the financing option and operationalisation	Operational-isation through	Further testing necessary?
4	Social and ecological sustainability	VCM projects are often associated with positive contributions to social and environmental sustainability, although isolated cases of negative impacts have also been documented. An additional label (or a combined label in the case of the Gold Standard) ensures that positive social and environmental contributions are also achieved, and conflicting objectives are avoided.	Certification standard	no
6	Reproducibility through transparency	The disclosure of project information is part of the requirements of the certification standards and can be operationalised in this way.	Certification standard	no
7	Theory of Change	In their methods, certification standards require that the impact of the project be presented as part of an impact chain. Operationalisation therefore takes place via the certification standard.	Certification standard	no
12	Additionality	Proof of additionality has always been part of the requirements of certification standards, but in the past it has not always been possible to ensure the additionality of the activities beyond doubt, which is why the application of additional test steps is necessary.	Certification standard	yes (VCM tools, due diligence)
13	Robust baseline	Certification standards require the creation of baselines using standardised methods in order to calculate the climate change mitigation impact of projects on this basis. However, the methods used vary in their robustness, which is why additional test steps are required.	Certification standard	yes (VCM tools, due diligence)
14	Validation and MRV	Certification standards require external validation of the project, ongoing monitoring and comprehensive reporting and verification. By combining these with additional standards (or using a combined standard), the validation and MRV of sustainability impacts is ensured. However, further checks are required to close existing gaps.	Certification standard	yes (due diligence)
18	Mapping and involvement of stakeholders	Certification standards require mapping and the involvement of stakeholders in the course of the project.	Certification standard	no
19	Grievance mechanism	Only certification standards that provide for a grievance mechanism are used. However, external units are not always commissioned to receive and process complaints. An additional check is therefore required.	Certification standard	yes (due diligence)

Table 4: Operationalisation of the requirements by the certification standard

Step 3

In a third step, the VCM tools are used to support the selection of high-quality carbon credits. The most important initiatives include the Integrity Council of the Voluntary Carbon Market (ICVCM) and the Carbon Credit Quality Initiative (CCQI). While carbon credits can be labelled for categories that have been successfully validated by the ICVCM, the CCQI evaluates project types based on several quality criteria (see Box 8 below for details).

Because of the different approaches, the two tools are applied differently during the process, whereby three cases are distinguished. If the VCM tools cannot be used for a specific requirement, the three other operationalisation options are used (see the overview in Table 3 above).

Case 1

The ICVCM applies the criterion at certification standard level and assesses individual standards as CCP-eligible. The organisation builds on this assessment and only uses credits from certification standards that have been assessed as CCP-eligible.

Case 2

The ICVCM applies the criterion at category level and thus enables individual credits to be labelled. The organisation uses this award and only uses credits that are labelled.

Case 3

The CCQI applies the criterion in its scoring tool to a specific type of credit. The organisation builds on the result of this assessment and decides on this basis whether further checks are necessary.

With regard to the use of VCM tools, it should be emphasised that these are not yet used across the board and are constantly evolving. The number of certification standards audited by the ICVCM is growing steadily and auditing at category level is also increasing. At the same time, the ICVCM requirements are gradually being made stricter. At CCQI, the areas of application are being extended to new project types. This presents organisations with the challenge of keeping up with developments. At the same time, it is increasingly possible to cover individual due diligence steps using the VCM tools. Details can be found in Table 5.

Box 8: VCM tools: The Integrity Council for the Voluntary Carbon Market and the Carbon Credit Quality Initiative

The **Integrity Council of the Voluntary Carbon Market (ICVCM)** is an independent body that establishes a global minimum standard for carbon credits in the voluntary carbon market. The central element of the ICVCM is the Core Carbon Principles (CCPs), a set of principles that are closely interlinked and must be taken into account in their entirety. The CCP label is intended to make it possible to identify high-quality carbon credits. The ICVCM works on two levels:

- At certification standard level, standards must apply to be assessed by the ICVCM. Successfully assessed standards are considered CCP-eligible. Only carbon credits according to standards that have been assessed as CCP-eligible can bear a CCP label.
- At category level, carbon credits in certain categories are analysed. Credits are grouped in one category if they originate from the same type of mitigation activity, the project was registered under the same standard (and additional standards if applicable) and the same quantification methods are used. Carbon credits that are successfully assigned to validated standards and categories can bear a CCP label.

Certification standards and categories are reviewed on an ongoing basis, with the requirements being gradually developed and made stricter. For details, see ICVCM (2024).

The **Carbon Credit Quality Initiative (CCQI)** is a joint initiative by the WWF, the Environmental Defence Fund and the Öko-Institut. The initiative aims to help buyers identify high-quality credits by providing scores to assess the quality of carbon credits, along with additional guidance. For details see CCQI (2024).

	Requirement	Significance for the financing option and operationalisation	Operational-isation through	Further testing necessary?
9	Legal framework	In the area of sustainable development benefits and safeguards, the ICVCM requires compliance with national and local legal frameworks and relevant international agreements. The requirement is operationalised through the use of certification standards that have been assessed by ICVCM as CCP-eligible (case 1).	VCM tools	No
12	Additionality	ICVCM and CCQI have developed comprehensive guidelines to ensure additionality, which are used to operationalise this requirement. It may be possible to limit the number of credits with a CCP label (case 2) and utilise the results of the CCQI audit (case 3).	VCM tools	Under certain circumstances (due diligence)
13	Robust baseline	The ICVCM's requirements at category level for the creation of baselines are comprehensive in that they require, among other things, conservative assumptions, the consideration of uncertainties and misaligned incentives, as well as frequent updates. The limitation to CCP-labelled credits (case 2) would increase integrity.	VCM tools	Yes (due diligence)
20	No double counting	The ICVCM avoids double counting through specifications at the certification standards and categories level. The risk of double counting can be reduced by using credits bearing the CCP label (case 2).	VCM tools	No
21	Permanence	The ICVCM has established guidelines to ensure permanence, but these have weaknesses with regard to the countermeasures to be taken. The use of the CCQI is therefore also recommended here (case 3). No further assessment is necessary as there is no environmental integrity risk within the framework of the contribution claim model.	VCM tools	No

Table 5: Operationalisation of the requirements by the VCM tools

Box 9: Good practice for the purchase and retirement of carbon credits

In the medium term, this financing option can be used in two ways that lead to an increase in ambition and support alignment with the structure of the Paris Agreement. One option is a **direct contribution to raising ambition**. The organisation uses carbon credits that have been authorised by the host country and are provided with corresponding adjustments. This achieves a direct ambition-raising effect in the host countries. The project has been authorised by the national government of the host country (or the subordinate authority). Another option is to **support the Paris Agreement**. Here, the organisation uses carbon credits issued by the Supervisory Body of the Article 6.4 mechanism. This option, which will only be available once the Article 6.4 mechanism has been fully operationalised, strengthens the UN structure and promotes international cooperation.

Step 4

Organisations should carry out their own due diligence or commission external due diligence to ensure the highest possible quality. This due diligence focuses on those areas that have not yet been adequately covered by the certification standards and VCM tools. This concerns, for example, the long-term nature and subsequent utilisation of the activity as well as the alignment of the activity with the underlying problem. The operationalisation is shown in Table 6.

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through
2	Regional orientation	The majority of VCM projects are implemented in the Global South. The regional focus is examined as part of the due diligence process.	Due diligence
5	Focus on the underlying problem	As VCM projects are geared towards the short-term generation of carbon credits. A focus on the underlying problem is often not recognisable. The extent to which the project focusses on the underlying problem is examined.	Due diligence
10	Recognition by governments	Recognition/authorisation by the host government is not usually required for private certification standards in the voluntary carbon market. A separate assessment is therefore required for this.	Due diligence
13	Robust baseline	Baselines created on the basis of standardised methods are a prerequisite for calculating the climate change mitigation impact of certification standards. However, the methods are not independently verified for all standards. As a review by internal experts alone is not sufficient, it must be ensured that the certification standard uses independent experts to review the methods.	Due diligence
14	Validation and MRV	Existing gaps in the requirements for monitoring negative sustainability impacts in particular can be closed through separate due diligence. Additional requirements for projects, such as SDG-based monitoring, can improve quality.	Due diligence
15	Reference to NDC and LT-LEDS	Specifications for taking into account the unconditional NDC and the LT-LEDS in the additionality test and baseline determination have not yet been finalised as part of the ICVCM. An examination of the extent to which the project contributes to the country's LT-LEDS and whether the activity is listed in the conditional part of the NDC must therefore be carried out separately as part of the due diligence.	Due diligence
16	Long-term nature and subsequent utilisation	To ensure the long-term utilisation of the project, what happens to the project after the end of the crediting period and whether the project implementers or the government are willing to continue the project without distributing credits should be checked.	Due diligence
19	Grievance mechanism	The certification standard should be reviewed to determine whether an external unit is authorised to receive and process complaints.	Due diligence
22	Cost transparency	In order to maximise cost transparency, the price of the carbon credits must be disclosed in price increments of EUR 5. In addition, the proportion of the funding paid via the carbon credits that goes directly to the project must be published (in increments of 10 per cent). This is to ensure that a large proportion of the funding goes to the project.	Due diligence

Table 6: Operationalisation of the requirements in the context of due diligence

5.2 Option 2: Support for climate funds

Another way for organisations to get involved in climate change mitigation outside of their value chain is to pay into a non-financial climate fund. By pooling financial resources in a fund, it is sometimes possible to implement capital-intensive activities whose financing requirements would exceed the capabilities of a single organisation.

Projects such as technologies that are not yet marketable and are capital-intensive can also be financed here, which would not be supported using conventional financing models. It is also possible to use the fund to support activities that are unable to demonstrate any direct quantifiable success.

Support from climate funds therefore enables organisations to promote a wide range of activities. While the focus is often on climate change mitigation activities with a direct impact, climate funds also offer the opportunity to promote activities with indirect effects. This could be supporting smaller, civic environmental organisations, financing campaign work or research and development. As several projects are bundled in one fund, its performance on average can be solid.

If a project does not achieve the previously set goals, this can be offset by other projects. At the same time, however, the focus can be expanded beyond closing the financing and implementation gap in the Global South by also implementing indirect activities in the Global North and the country of the donating organisation. This increases the attractiveness of the contribution claim model for the organisation, which signals increased interest in local climate change mitigation projects. Activities with a direct impact should continue to be located in the Global South in particular, as they can be implemented more efficiently here due to their additionality and lower implementation costs. The financial resources provided can therefore achieve a high degree of effectiveness.

The focus here is on funds that are not of a financial nature and therefore do not distribute a return on the money paid in. This means that climate funds are not financed on the basis of expected returns. Rather, these funds are to be understood as (earmarked) funding pools from which different types of activities can be financed and also certified by Gold Standard, for example. The financial return is replaced by the social and ecological returns, which are fuelled by the contributions the financed activities make to sustainable development.

Box 10: Current climate funds (as of June 2024)

There are already a few climate funds in the current funding landscape. One well-known example is the Climate Transformation Fund (CTF), which was founded in 2021 as a non-profit organisation and is managed by Milkywire. The stated aim of the CTF is to support organisations in identifying and promoting pioneering projects that contribute to the global net zero target. By the end of the 2023 funding year, the fund had distributed more than USD 8 million to 30 projects in over 20 countries. The CTF has identified three funding areas along which the projects to be funded must operate:

- Nature conservation and restoration, such as reforestation and forest protection
- Decarbonisation, such as promoting renewable energies and funding advocacy work
- CO_2 removal technologies, such as direct air capture, enhanced rock weathering and CO_2 removal from the oceans

Other climate funds include the WWF's Climate Recovery Fund and NABU's Climate Fund. The former focuses on projects that rebuild destroyed or vulnerable ecosystems, while the latter is concerned with the (re)rewetting of moors.

5.2.1 *Operationalisation of the requirements for a climate fund*

Due to the currently limited range of existing climate funds and in order to provide organisations with guidance on how future funds should be structured under the contribution claim model, the requirements for climate funds described above are outlined below. Basically, it should be noted here that a climate fund functions as a kind of funding pot that distributes the financial resources paid in by organisations to the projects. In order to be considered for funding, projects apply for inclusion in the fund. The information required for this, derived from the requirements, is collected and submitted with the application, reviewed by the climate fund and an external council set up by the climate fund, and subsequently made publicly available.

Table 7 provides an overview of the categorisation of the requirements of this financing option.

Some of the requirements described above are categorised according to the structure of the fund. These are shown in Table 8.

		Requirement	Structure of the climate fund	Project level
Meta-Requirements	1	Assignment to project type		
	2	Regional orientation		
	3	Climate impact		
	4	Social and ecological sustainability		
	5	Focus on the underlying problem		
	6	Reproducibility through transparency		
	7	Theory of change		
Governance	8	Relationship between activity and organisation		
	9	Legal framework		
	10	Recognition by governments		
	11	Involvement of project development partners and experts		
Implementation	12	Additionality		
	13	Robust baseline		
	14	Validation and MRV		
	15	Reference to NDC and LT-LEDS		
	16	Long-term nature and subsequent utilisation		
	17	Contribution to global net zero emissions		
	18	Mapping and involvement of stakeholders		
	19	Grievance mechanism		

Table 7: Overview of the categorisation of the requirements

	Requirement	Significance for the financing option and operationalisation	Operationalisation through	Further operationalisation
1	Assignment to project type	The climate change mitigation activities financed by the fund can be categorised into the four types of activities. The allocation is based on the structure of the climate fund.	Structure of the climate fund	No
2	Regional orientation	The fund finances climate change mitigation activities that are implemented worldwide. It is important to ensure that the majority of projects managed by the fund are located in the Global South.	Structure of the climate fund	No
3	Climate impact	The fund supports climate change mitigation projects that have a direct or indirect impact on minimising the concentration of CO_2 in the atmosphere.	Structure of the climate fund	No
4	Social and ecological sustainability	The fund can support projects involving all types of activities. Projects that cannot demonstrate a positive impact on social and environmental sustainability are not supported. The fund's contributions to social and environmental sustainability are recognised.	Structure of the climate fund	No
6	Reproducibility through transparency	The climate change mitigation fund makes information about its structure (decisions on project funding, financing structure, etc.) freely accessible. The fund's processes are evaluated in annual reports by external third parties.	Structure of the climate fund/ project level	Project level
8	Relationship between activity and organisation	No returns are generated or promised through payments into the climate fund. The activities within the fund must be outside the paying organisation's own business area. In principle, however, organisations should have the option of creating climate funds themselves. Here, too, it must be ensured that the fund does not materialise any capital interests for the benefit of the organisation.	Structure of the climate fund	No
9	Legal framework	The climate change mitigation fund as a whole must not violate applicable law. The projects within the climate change mitigation fund comply with the applicable law of the countries and regions in which they take place.	Structure of the climate fund	Project level
16	Long-term nature and subsequent utilisation	The financing structure of the climate fund must be set up in such a way that it can exist in the long term. A climate fund should not be deliberately set up for a short period of time. This ensures that the resources required to create the infrastructure of a fund can have maximum impact. The financial infrastructure of the fund, guided by the principle of maximum financial resources made available flowing into the projects, is reviewed by independent third parties.	Structure of the climate fund	Project level
19	Grievance mechanism	The climate change mitigation fund has a central grievance mechanism to which people affected by projects listed in the fund can turn.	Structure of the climate fund	No

Table 8: Requirements categorised according to the structure of the climate fund

Numerous requirements are operationalised at the level of the projects supported by the fund. This operationalisation is shown in Table 9.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through
5	Focus on the underlying problem	The projects supported by the climate fund demonstrate the extent to which they contribute to solving the underlying problem.	Project level
6	Reproducibility through transparency	In addition, all information on the projects included is disclosed.	Project level
7	Theory of Change	Through a Theory of Change, the funded projects describe how they contribute to the implementation of the Paris Agreement and the 2030 Agenda.	Project level
9	Legal framework	The projects within the fund declare contractually (between the project and the fund) that the activities are not in conflict with applicable law or will not be in conflict with applicable law in the future.	Project level
10	Recognition by governments	The climate fund ensures that all projects listed in it are recognised by the governments of the countries in which the projects take place.	Project level
11	Involvement of project development partners and experts	The climate fund ensures that all of the fund's projects guarantee the involvement of (local) project development partners and experts.	Project level
12	Additionality	The climate fund stipulates that all projects are additional and would therefore not have been financed through other channels.	Project level
13	Robust baseline	For the types of activities supported by the fund, a robust baseline is particularly relevant for projects that come under the "climate change mitigation through scaling" activity types. Here, the climate change mitigation fund ensures that the projects apply standardised methods when preparing the baseline and that this is verified by independent third parties.	Project level
14	Validation and MRV	For its projects, the climate fund specifies the methods and specifications according to which the MRV is carried out. The differences between the types of activities are taken into account. Fundamentally, each project must demonstrate the highest possible degree of quantifiability of the respective climate change mitigation impact and sustainability contributions, which forms the basis for the social and ecological return on investment of the individual projects. The climate fund sets out requirements for SDG monitoring by the projects. In doing so, the fund takes into account the different types of activities. The monitoring is reviewed by independent third parties.	Project level
15	Reference to NDC and LT-LEDS	Projects that are included in the climate fund must take their impact on the unconditional NDC into account in the additionality test and baseline determination. A check is carried out to determine whether the activity is listed in the conditional part of the NDC. Where necessary, the project describes the relationship to the NCD/LT-LEDS of the country in which the project takes place.	Project level
16	Long-term nature and subsequent utilisation	The climate fund ensures that the positive effects of the projects listed in the fund, in accordance with the corresponding type of activity, continue beyond the project period. The project describes how its positive effects are also effective beyond the end of the funding period.	Project level
17	Contribution to global net zero emissions	The projects supported by the fund avoid lock-in effects and temporal and spatial leakage effects are avoided as far as possible or addressed through counteractivities.	Project level
18	Mapping and involvement of stakeholders	The climate fund requires mapping and the involvement of relevant stakeholders.	Project level

Table 9: Requirements that are operationalised at project level

As is clear, it is not always possible to separate the two levels precisely, as the requirements to be fulfilled at project level usually necessitate corresponding specification at fund level. The requirements of both levels must therefore be taken into account when developing a climate fund. Further relevant aspects can be found in Box 11. To illustrate the application of the requirements, these were applied to the Climate Transformation Fund as an example (see Annex 4).

Additional option: green bonds as a transitional solution

In addition to financing climate funds, it is also possible to utilise **sustainable bonds with promised returns (green bonds or sustainability bonds)**. This option is intended to take account of the fact that, on the one hand, the supply of operational climate funds has been very limited to date and, on the other, green bonds have only been used to a limited extent to date as they provide lower returns than conventional bonds. Transitional financing will strengthen green bonds and at the same time bridge the gap in terms of the time needed to establish robust climate funds.

Utilisation can be divided into two phases. In phase 1, organisations provide capital to invest in green bonds. They refrain from distributing the returns and can therefore declare these funds as a contribution to climate change mitigation outside their own value chain. The return is continuously reinvested in the fund. At the end of the green bond investment phase, the capital including the return is paid out to the organisation. In phase 2, a climate fund is supported by utilising the total return generated to finance the fund. Figure 2 illustrates the procedure as an example.

The contribution claim model does not apply any specific criteria to green bonds. However, only bonds that comply with the European Green Bond Standard (EuGBS) can be used. The EuGBS, which will come into force in December 2024, has the avoidance of greenwashing at its core, is in line with other EU activities, and is compatible with other EU standards and the CSRD Directive. Under the EuGBS, a bond that complies with this standard must fulfil special conditions linked to environmental sustainability criteria. These criteria are linked to the EU taxonomy. The EuGBS also specifies how external auditors, the national financial supervisory authorities and the European Securities and Markets Authority ensure that the providers of the investments comply with these requirements (BaFin, 2023).

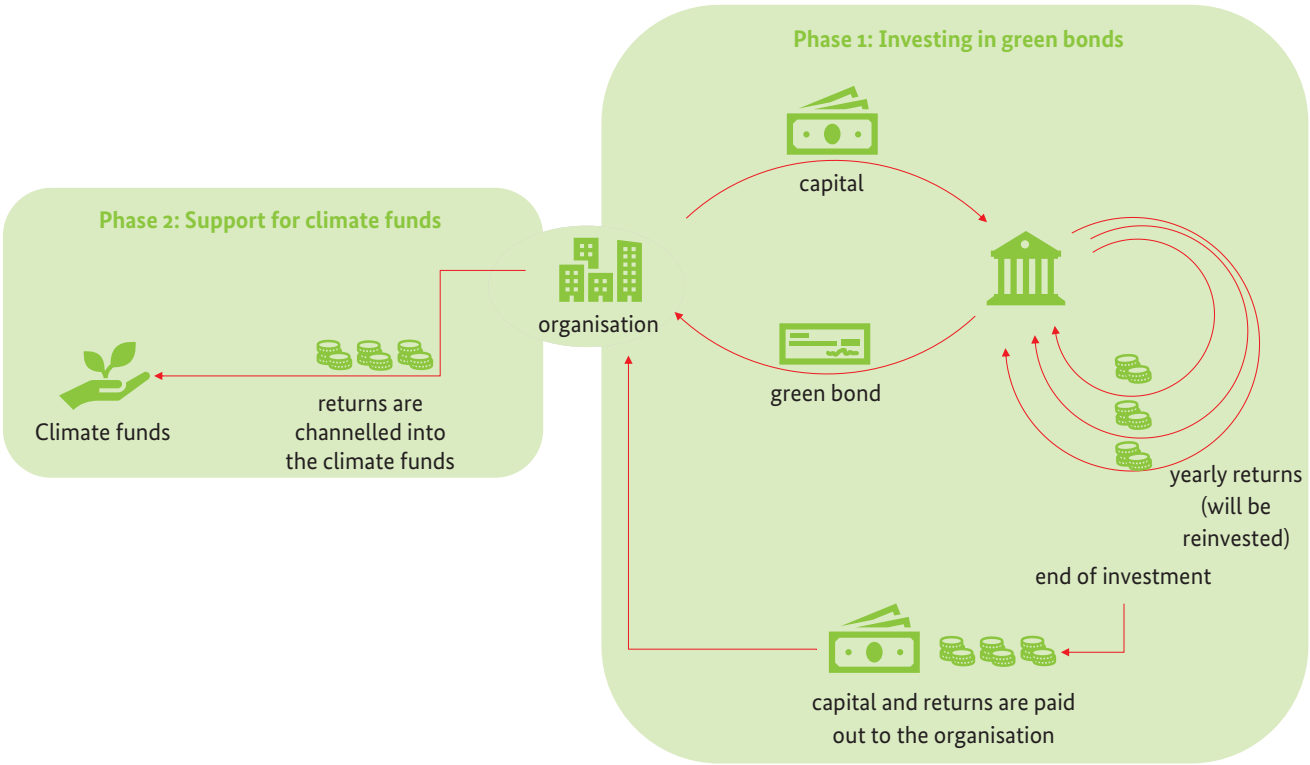

Figure 2: The use of green bonds as part of the contribution claim model. Source: Own illustration.

Box 11: Relevant aspects for the development of climate funds

The operationalised requirements from both tables are used for the development of a climate fund under the contribution claim model. The following should also be noted:

It is essential to clarify who will manage the fund. Care must be taken to ensure that as much of the money provided as possible is channelled into the funds' projects. Against this background, administration of the climate fund by a state institution or non-profit NGO would seem particularly promising.

A fund should only support a certain number of high-risk projects. This should ensure a balance between the fund's solid performance and the financing of high-risk projects with above-average transformation potential.

If there is a demand for climate funds focussing on certain types of projects (e.g. nature-based carbon sink projects), it can be assumed that this will result in a corresponding supply of funds (market dynamics: supply and demand). This could lead to the development of a differentiated fund landscape. The advantage of such a landscape would be that organisations could make specific selections from the existing funds with a portfolio of activity types that best suits their own requirements.

5.3 Option 3: Direct financing of the organisation's own projects

A third option for organisations to get involved in more climate change mitigation outside of their value chain is to directly finance own activities and projects (in the following, "project" is used to refer to projects and activities). This option is characterised in particular by the fact that the climate change mitigation projects can be tailored precisely to the organisation. At the same time, it requires greater financial and organisational effort than the two previous options.

5.3.1 Operationalisation of the requirements

For the operationalisation of the requirements outlined below in relation to direct financing of own projects, a distinction is made between four cases:

Case 1: Declaration by the organisation
In order to meet the requirements for direct financing of one's own projects, a declaration by the organisation is necessary in some cases. This declaration must explain how the requirement was met and the reasons for the approach taken to meet the requirements. For some requirements, this necessitates a prior internal process.

Case 2: Internal project review
Some requirements necessitate an assessment that is carried out internally within the project development organisation (e.g., "climate impact" requirement). It may be useful to obtain support from project development partners. The procedure and results of the internal project review must be disclosed.

Case 3: Verification by third parties
In addition to the internal project review, in some cases it is necessary to arrange for third-party verification to ensure that basic requirements are met and the model is transparent and credible (e.g., "Validation and MRV" requirement). Verification is carried out by an independent, recognised inspection body.

Case 4: Stakeholder involvement
In order to meet certain requirements, the involvement of stakeholders is necessary. This also includes project development partners and experts who play an important role due to their experience. Their fundamental involvement must therefore be taken into account throughout the entire process of project development and implementation, utilising existing structures and international development cooperation instruments.

Table 10 provides an overview of the requirements and their respective operationalisation (highlighted in green). The majority of the requirements are generally operationalised using one of the cases shown; occasionally, more than one operationalisation is necessary. The declaration by the organisation and the internal project review are most frequently used to operationalise the requirements.

		Requirement	Declaration by the organisation	Internal project review	Verification by third parties	Stakeholder involvement
Meta-Requirements	1	Assignment to project type	■			
	2	Regional orientation	■			
	3	Climate impact		■		
	4	Social and ecological sustainability		■		
	5	Focus on the underlying problem	■			
	6	Reproducibility through transparency	■	■		
	7	Theory of Change	■		■	
Governance	8	Relationship between activity and organisation	■			
	9	Legal framework		■		
	10	Recognition by governments	■	■		
	11	Involvement of project development partners and experts				■
Implementation	12	Additionality		■		
	13	Robust baseline	■			
	14	Validation and MRV	■		■	
	15	Reference to NDC and LT-LEDS		■		
	16	Long-term nature and subsequent utilisation		■		
	17	Contribution to global net zero emissions		■		
	18	Mapping and involvement of stakeholders				■
	19	Grievance mechanism	■			

Table 10: Overview of the operationalisation of the requirements

Development of a project in four steps

In the following, four steps for developing and implementing a project are presented with the corresponding allocation of requirements. The corresponding tables discuss the significance of the requirements for this financing option and present their operationalisation based on the four cases presented. Some requirements play a role in more than one step. Overall, the requirements are fully covered within the four steps. Figure 3 provides a rough overview of the project development process.

It should be noted that the projects can take very different directions in terms of their focus and desired impact. Because of the diversity of the projects, individual requirements are naturally of particular relevance depending on the project, while others can be neglected. In order to take this into account and keep the model flexible, the basic principle is that plausible and clear reasons must be given if one of the requirements is not met if it is classified as irrelevant during the development of a particular project.

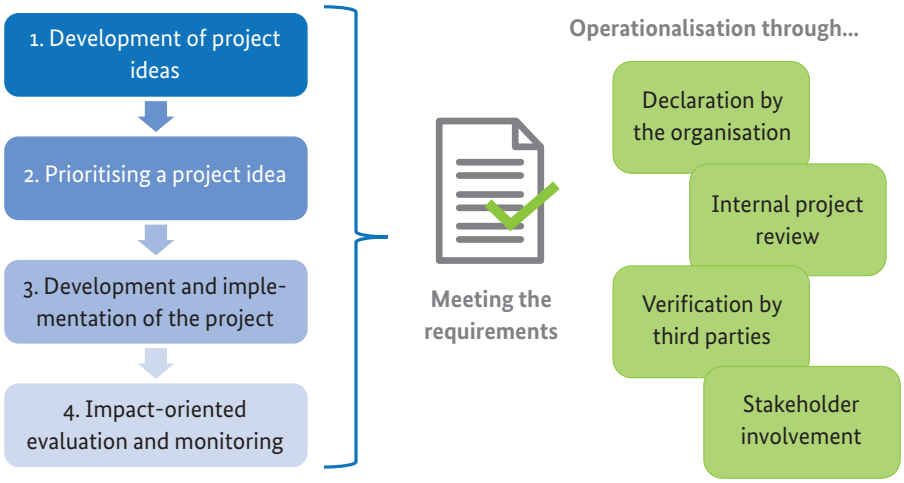

Figure 3: Overview of the project development process. Source: Own illustration.

Step 1: Development of project ideas

As the first step, project ideas are developed with the help of a brainstorming session, focussing on needs with regard to financing gaps (demand-oriented). Some basic requirements must already be taken into account at this stage. These provide a framework within the project ideas can be developed. Table 11 shows the operationalisation of the requirements in this step.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through
2	Regional orientation	In principle, activities from any country or region can be supported. Some regions, particularly in the Global South, are to be favoured in order to close necessary funding gaps. In principle, an explanation by the organisation is required as to why a particular region has been selected.	Declaration by the organisation
3	Climate impact	An internal project review must ensure that the project makes a (direct or indirect) contribution to overcoming the climate crisis, i.e. a contribution to climate change mitigation. This contribution must be assessed in line with the pillars of the Paris Agreement. In addition, an allocation can be made to adaptation to climate change and dealing with damage and losses caused by climate change if corresponding effects are achieved.	Internal project review
5	Focus on the underlying problem (screening)	The organisation provides a plausible explanation of the cause of the problem addressed by the project. An attempt is made to tackle the problem as close to its cause as possible. The aim should be for the project to provide a real solution to a previously unsolved problem.	Declaration by the organisation
8	Relationship between activity and organisation	The project is carried out by clearly differentiating between the organisation and the project by implementing it in a different sector and/or region than the one in which the organisation operates. It is not an investment in the conventional sense. This is ensured by a declaration that the project does not pursue any direct profit targets or strategic objectives.	Declaration by the organisation
18	Mapping and involvement of stakeholders	Stakeholder mapping is carried out to identify the relevant stakeholders from the region and involve key stakeholder groups from the outset, in particular international development cooperation institutions. If possible, implementation gaps that are to be closed with the help of projects are identified with the stakeholders in the host countries.	Stakeholder involvement

Table 11: Operationalisation of the requirements in step 1

Step 2: Prioritising a project idea

The next step is to analyse the project ideas. The focus here is on further requirements that need to be taken into account when prioritising the project ideas. Ultimately, a project is selected that must meet all requirements in order to be implemented. The operationalisation is shown in Table 12.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through
4	Social and ecological sustainability	The project contributes to sustainable development according to the SDGs, which must be ensured through an internal project review.	Internal project review
12	Additionality	It must be ensured that the project is additional, meaning that it would not have been realised without the funding provided. In addition, it does not displace any existing or planned (short-term) funding. In the case of financing indirect activities to reduce atmospheric GHG concentrations, the activities do not have to be additional per se. However, it must be clearly recognisable that the indirect activity will be extended, intensified or its scope increased by the new financial flow. This is ensured by an internal project review.	Internal project review
15	Reference to NDC and LT-LEDS	An internal project review must ensure that the project supports the implementation of the NDC and the host country's long-term goal by complementing existing and planned activities, not replacing them. In addition, a review must be carried out to ensure that no incentives are set that could lead to climate change mitigation policies being withdrawn or commitments in the host country being weakened.	Internal project review
17	Contribution to global net zero emissions	The project contributes to global net zero emissions. It must be ensured that lock-in effects that delay the phase-out of greenhouse gas-intensive technologies and practices are avoided. Temporal and spatial leakage effects that could be triggered by the project must be avoided as far as possible or addressed through counteractivities. This requirement is operationalised through an internal project review.	Internal project review

Table 12: Operationalisation of the requirements in step 2

Step 3: Development and implementation of the project

The third step involves the concrete development and implementation of the project. The relevant requirements must be taken into account and met, as shown in Table 13.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through
1	Assignment to project type	The project must be assigned to one of the four project types in a declaration by the organisation. The focus is either on reducing the costs of scalable climate change mitigation activities and/or new climate change mitigation solutions (see Annex 3): 1. Technology promotion through feasibility demonstrations 2. Support for research and development 3. Climate change mitigation through scaling 4. Capacity building and climate advocacy In the case of technology funding, why the implementation of the activity can be regarded as a first-of-its-kind must be explained, taking into account other countries (in the region but also worldwide) with comparable framework conditions.	Declaration by the organisation

5	Focus on the underlying problem (deepening)	The aim is for the project to provide a real solution to a previously unsolved (!) problem. If the project cannot address the cause of the problem directly, the organisation presents a plan for how this should be done in the future. If this does not appear to be possible, the organisation must provide an explanation as to why an aspect closer to the root problem could not be addressed.	Declaration by the organisation
6	Reproducibility through transparency (project design)	The project must be set up and organised transparently so that it can be scaled. This must be ensured through an internal project review.	Internal project review
7	Theory of Change	An impact chain is developed that distinguishes between the following elements, among others: Input, activity, output, outcome and impact. The assumptions and approaches used must be made publicly available on the basis of an explanation by the organisation and should be reviewed by external, independent experts.	Declaration by the organisation/verification by third parties
9	Legal framework	An internal project review must ensure that the project complies with the applicable laws of the countries and regions in which it takes place.	Internal project review
10	Recognition by the government	The implementation of the project has been approved by the government of the host country and there are no concerns on the part of the public authorities. This must be ensured through an internal project review and disclosed in a declaration by the organisation.	Internal project review/ declaration by the organisation
11	Involvement of project development partners and experts	The project is implemented by the organisation itself and supported by project development partners and experts. Stakeholder involvement ensures that the project builds on extensive experience gained in the development of climate action projects. In addition, existing governance structures should be taken into account, such as development cooperation (DC), in order to ensure donor harmonisation. German development cooperation actors (e.g. BMZ, GIZ), but also the SAEK can provide support for this process.	Stakeholder involvement
13	Robust baseline	The project is based on a conservative baseline, which is used as a reference for monitoring the project's impacts. The baseline is used as a reference for the climate change mitigation impact of the activity and also includes the social and environmental impacts of the project. The determination of the baseline must be disclosed and explained in a declaration by the organisation.	Declaration by the organisation
16	Long-term and connection utilisation (project design)	The project must be set up in such a way that it can survive in the long term. This must be ensured through an internal project review.	Internal project review
18	Mapping and involvement of stakeholders	The project design is developed with local stakeholders. If indigenous groups or the local community are affected by the planned projects, these groups are involved in accordance with free, prior and informed consent (FPIC).	Stakeholder involvement
19	Grievance mechanism	The project has a grievance mechanism that can be used by those affected at a low threshold to identify and address unforeseen negative consequences at an early stage. This mechanism must be disclosed by means of a declaration by the organisation.	Declaration by the organisation

Table 13: Operationalisation of the requirements in step 3

Step 4: Impact-oriented evaluation and monitoring

The final step involves evaluating the results. Requirements that play an important role in impact-oriented evaluation and monitoring must be taken into account. The details can be found in Table 14.

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

	Requirement	Significance for the financing option and operationalisation	Operationalisation through
6	Reproducibility through transparency (evaluation)	In order to enable the project to be scaled up, the most comprehensive information possible on the support provided and the activities made possible as a result must be disclosed. This is done by means of a declaration by the organisation in the form of a report on the implementation using previously identified indicators. Which (unforeseen) challenges were identified in the course of project implementation and how these were dealt with must be disclosed. Each component of the reporting is publicly accessible and traceable. If information is not disclosed, this must be justified accordingly.	Declaration by the organisation
14	Validation and MRV	The project is comprehensively monitored in accordance with recognised methods. The operationalisation of this requirement is based on a declaration by the organisation in the form of transparent reporting. Where possible, this is based on the SDGs. The organisation selects a certain number of SDGs (and corresponding targets), which are monitored during the course of implementation using suitable indicators (menu approach). The interdependencies between the SDGs and the climate change mitigation activities implemented are presented in a plausible manner. In addition to the climate change mitigation impact, the monitoring and reporting also includes the sustainability contributions of the activity. The impact is verified by independent third parties.	Declaration by the organisation/verification by third parties
16	Long-term nature and subsequent utilisation	The project must be set up in such a way that it can continue to exist and be continued after completion. This must be ensured by means of an audit.	Internal project review

Table 14: Operationalisation of the requirements in step 4

6. Reporting and communication

The great importance of corporate communication to climate change mitigation is also made clear by the comprehensive expansion of mandatory sustainability reporting through the CSRD Directive, which will increase the number of companies within the EU required to report from an estimated 11,600 to 49,000 (BMAS, 2024).

The disclosure of sustainability information is crucial in order to be able to understand a company's activities and progress in the area of climate change mitigation. It is therefore also important for the contribution claim model, which is based on the fundamental principles of transparency and credibility. Communication also enables organisations to highlight their commitment beyond the existing mandatory requirements. Through communication, this commitment can be recognised (especially in consumption and investment decisions).

In addition to the publication of key information, (standardised) claims are often used. The aim of the claims is to describe a corresponding commitment concisely but precisely. The convincing communication provided by the contribution claim model is increasingly being seen as a key element in the increasing application of the model. In order to derive a communicative benefit and, sometimes, a competitive advantage as well from using the contribution claim model, a standardised claim should therefore be pinpointed and widely used. Contributions to the Sustainable Development Goals achieved through climate change mitigation activities should also be easy to communicate. At the same time, a claim is always a simplification that can lead to misunderstandings under certain circumstances. Misleading information must be ruled out. Against this background, the organisations must meet the corresponding requirements.

6.1 Transparent communication of key parameters

The organisation compiles key parameters (see list) that are presented clearly and publicly. This comprehensive report must be published every three years, publishing only changes in the interim years.

GHG balance

- Listing of the GHG balance along the three scopes of the past year

Reduction targets and internal climate change mitigation activities

- Description of the long-term and short-term climate targets
- Explanation of how the objectives are in line with the objectives of the Paris Agreement
- Indication of the reference year and emissions in the reference year as well as methods for their calculation
- Report on progress in realising climate change mitigation targets and implementation plans

Climate change mitigation outside one's own value chain

- The underlying carbon price (incl. justification of its determination) and the resulting budget
- Investments made, including a description of the activities supported and their impact on climate change mitigation and other dimensions of sustainability

Identification of key success factors and obstacles

- Description of the experience gained during implementation, including obstacles and possible solutions

Box 12: Transparency: Provision of data in a publicly accessible database

Companies that come under the CSRD Directive must publish the relevant information in a standardised electronic reporting format. This will allow sustainability information to be included in the so-called ESAP (European Single Access Point) in the future (European Parliament, 2022). This is a planned central European access portal for public financial and sustainability-related information. This will be information that has already been published and is then bundled in a user-friendly format. The platform should be available by 2027 (Council of the EU, 2023). This could provide a basis for automatically extracting information relevant to the contribution claim, such as greenhouse gas accounting, targets, and the scope of climate change mitigation projects outside the value chain, which is published as part of the CSRD Directive, for example.

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

6.2 The contribution claim

The statements made by the organisation in advertising and self-promotion are not misleading and are in accordance with applicable law. The claims are based on (interim) targets achieved and not exclusively on targets set.

The following aspects have also been identified as requirements for the claim:

- The claim should express a climate reference that is directly recognisable.
- The claim should (also) be in German.
- The claim should have a high recognition value.
- The claim should avoid words with broad meanings such as "commitment".

Implementation support needs and potential solutions identified by stakeholders at the final project event (Living Lab III) can be found in Annex 5.

Box 13: The field of tension of a new claim

A fundamental factor in piloting the contribution claim model is the communication and external presentation of the company's commitment. Successful communication is characterised, among other things, by recognition value across companies and products. The challenge is to find a wording/claim that specifically describes the commitment to climate change mitigation but – in consideration of the current EU legislation on environmental claims – also stands up to legal scrutiny.
Many stakeholders in the voluntary carbon market find themselves in the field of tension between specification and legal resilience described above. Various claims or labels of alternative approaches by different actors are listed below.

- South Pole - Funding Climate Action label: "This Product Funds Climate Action"
- Myclimate - Impact label: "Engaged for Impact"
- ClimatePartner: "ClimatePartner-certified"

Box 14: Inspiration for a new claim

With the help of stakeholder participation, various concepts were identified which (partially) meet the requirements listed above and could be used as a basis when considering a new claim, e.g.,:

The green handprint
The green handprint concept developed by the Centre for Environment Education (Centre for Environment Education, 2024) represents a counterpart to the carbon footprint concept. The latter describes the emissions generated by an individual or organisation, for example from food, production or mobility.
The handprint, on the other hand, focuses on positive actions and solutions to the climate crisis, thus bring more optimism to the climate change mitigation debate. The handprint shows what direct or indirect activities have been implemented to reduce the concentration of GHGs in the atmosphere. This not only fucuses on the ecological, but also on the social dimension and the added value for society.

Glossary

2030 Agenda: The 2030 Agenda is a strategy developed by the United Nations with the aim of enabling all people worldwide to live in dignity while preserving the natural foundations of life in the long term. To this end, it combines the principle of sustainability with the fight against poverty and economic, ecological and social development.

Claim: A statement that the organisation involved in the contribution claim approach can make on the basis of the support provided as part of the contribution claim approach.

Climate impact costs/climate damage costs: Climate impact costs or climate damage costs are the external costs caused by the emission of greenhouse gases.

Climate action: A project, programme or intervention that is supported by the contribution claim model and contributes to climate change mitigation. This also includes large-scale interventions with longer implementation periods that aim to achieve fundamental transformative change.

Corporate Sustainability Reporting Directive: The Corporate Sustainability Reporting Directive (CSRD) is European Union legislation that obliges all large companies and capital market-oriented SMEs to publish regular reports containing information on sustainability within their respective business areas and to have them audited externally.

Corresponding adjustments: Reduction results authorised under Article 6.2 of the Paris Agreement must be provided with corresponding adjustments. Corresponding adjustments express an upward equalisation of the emissions balance of the country in which the emissions were saved. This avoids double counting of the reduction.

CO_2 certificate: A tradable financial instrument issued by a certification system. A CO_2 certificate represents the reduction of greenhouse gas emissions into or removal of greenhouse gas emissions from the atmosphere equivalent to one tonne of carbon dioxide (CO_2 e), calculated as the difference between the emissions from a reference scenario and a project scenario. Carbon credits are clearly serialised, issued, tracked and cancelled via an electronic register.

Double counting: In the case of emission reductions through carbon credits, double counting occurs when a certificate is counted more than once towards the targets of (different) organisations and/or countries for the purpose of climate change mitigation.

European Green Bond Standard: The EuGBS identifies financial products that meet special environmental sustainability criteria. The EuGBS allows customers to easily compare the principle according to which the invested funds are used and the reporting obligations to which the side offering the respective financial product is subject.

European Sustainability Reporting Standards: The European Sustainability Reporting Standards regulate the details of sustainability reporting in accordance with the CSRD of companies in the European Union. The European Financial Reporting Advisory Group was commissioned by the European Commission to draw up the ESRS.

Lock-in effect: In the context of climate change mitigation, the lock-in effect refers to situations in which a certain decision makes it more difficult in retrospect to achieve a desired goal. Investments in fossil infrastructures, for example, can result in path dependencies that make it more difficult to build sustainable infrastructures or cause high costs.

Nationally Determined Contributions (NDCs): Nationally Determined Contributions are the national climate change mitigation contributions that each country develops in accordance with the Paris Agreement. Each country must disclose and regularly update its NDC.

Net zero: The state of equilibrium between greenhouse gas emissions caused by human activities and the removal of these gases over a certain period of time.

Polluter pays principle: According to the polluter pays principle, costs arising from environmental pollution must be borne by the polluter.

Removals: (Greenhouse gas) removals, or CO_2 removal activities, describe activities that remove CO_2 from the atmosphere. In general, a distinction is made between technical (e.g., mechanical filtering of CO_2 from the air) and nature-based activities (e.g. planting mangroves).

Scope 1, 2 and 3: An organisation's emissions are divided into the following scopes. Scope 1: Emissions from sources directly owned by the organisation (e.g. operation of one's own boiler or vehicle fleet). Scope 2: Emissions from the use of purchased energy (e.g., an organisation's own electricity consumption, heating, cooling, etc.). Scope 3: Emissions resulting from activities that do not belong directly to the company (e.g., business trips or waste management).

Stakeholder: Stakeholders are any person/group of people or organisation that is affected by the (planned) activities or has a legitimate interest in them.

Sustainable Development Goals: As part of the 2030 Agenda, 17 Sustainable Development Goals are defined as global sustainability goals. The goals relate to ecological, social and economic parameters.

Theory of Change: A Theory of Change is an explicit representation of why and via which levers a programme leads to results and anticipated impacts.

List of abbreviations

BaFin	Federal Financial Supervisory Authority
BMAS	Federal Ministry of Labour and Social Affairs
BMZ	Federal Ministry for Economic Cooperation and Development
CAs	Corresponding Adjustments
CCP	Core Carbon Principles
CCQI	Carbon Credit Quality Initiative
CSRD	Corporate Sustainability Reporting Directive
CTF	Climate Transformation Fund
COP	Conference of the Parties
CO_2	Carbon dioxide
CO e2	Carbon dioxide equivalent
DIN	German Institute for Standardisation
ESAP	European Single Access Point
ESRS	European Sustainability Reporting Standard
EU	European Union
EuGBS	European Green Bond Standard
DZ	Development Cooperation
FPIC	Free, Prior and Informed Consent
GHG	Greenhouse gases
GHG Protocol	Greenhouse Gas Protocol
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
HLEG	United Nations High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities
ICVCM	Integrity Council for the Voluntary Carbon Market
LT-LEDS	Long-Term Low Emissions Development Strategy
MRV	Monitoring, Reporting and Verification
NABU	German Nature and Biodiversity Conservation Union
NDCs	Nationally Determined Contributions
NFRD	Non-Financial Reporting Directive
SAEK	Foundation Alliance for Development and Climate
SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SMEs	Small and medium-sized enterprises
UNFCCC	United Nations Framework Convention on Climate Change
VCM	Voluntary Carbon Market
VCMI	Voluntary Carbon Markets Integrity Initiative
WBCSD	World Business Council for Sustainable Development
WI	Wuppertal Institute
WRI	World Resources Institute
WWF	World Wide Fund for Nature
XDC	X-Degree Compatibility

Literaturverzeichnis

- 1% for the Planet. (2024). 1% for the Planet | Accelerating Environmental Giving. https://www.onepercentfortheplanet.org/
- Allied Offsets (2023). Analysis of Voluntary Carbon market Stakeholders and Intermediaries.: https://carbonmarketwatch.org/wp-content/uploads/2023/02/Stakeholder-Analysis-for-the-Voluntary-Carbon-Market.pdf
- BaFin (2023). EU Green Bond Standard: Hohe Anforderungen für mehr Klarheit. Bundesanstalt für Finanzdienstleistungsaufsicht. https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Fachartikel/2023/fa_bj_2312_Green_Bonds.html
- Blake, H. (2023). The great Cash for Carbon Hustle. https://www.newyorker.com/magazine/2023/10/23/the-great-cash-for-carbon-hustle
- BMAS (2024). Corporate Sustainability Reporting Directive (CSRD). https://www.csr-in-deutschland.de/DE/CSR-Allgemein/CSR-Politik/CSR-in-der-EU/Corporate-Sustainability-Reporting-Directive/corporate-sustainability-reporting-directive-art.html
- C3S (2024). The 2023 Annual Climate Summary—Global Climate Highlights 2023. Copernicus Climate Change Service. https://climate.copernicus.eu/global-climate-highlights-2023
- CCQI (2024). Transparent Scores for Carbon Credit Quality. The Carbon Credit Quality Initiative. https://carboncreditquality.org/
- Centre for Environment Education (2024). International Handprint Network. https://www.handprint.in/
- Council of the EU (2024). Proposal for a Directive of the European Parliament and of the Council on substantiation and communication of explicit environmental claims (Green Claims Directive) – General approach. https://data.consilium.europa.eu/doc/document/ST-11312-2024-INIT/en/pdf
- CPI (2023). Global Landscape of Climate Finance 2023. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf
- DIN (2019). ISO 14064. https://www.dinmedia.de/de/norm/din-en-iso-14064-1/291289049
- EU (2024). Directive (EU) 2024/825 of the European Parliament and of the Council of 28 February 2024 amending Directives 2005/29/EC and 2011/83/EU as regards empowering consumers for the green transition through better protection against unfair practices and through better information. Official Journal of the European Union, 2024(825). https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202400825
- Europäische Kommission (2023). Delegierte Verordnung (EU) 2023/2772 der Kommission. https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=OJ:L_202302772
- Europäisches Parlament (2022). Richtlinie (EU) 2022/2464. https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:32022L2464
- Fischer, T., & Knuth, H. (2023). CO_2-Zertifikate: Der große Klimabetrug. Die Zeit. https://www.zeit.de/2023/04/co2-zertifikate-betrug-emissionshandel-klimaschutz
- Forest Trends' Ecosystem Marketplace (2024). State of the Voluntary Carbon Market 2024. Forest Trends Association. https://www.ecosystemmarketplace.com/publications/2024-state-of-the-voluntary-carbon-markets-sovcm/
- Gold Standard (2024). Funding Beyond Value Chain Mitigation—Step by step guidance for organisations taking responsibility for their emissions. https://www.goldstandard.org/publications/funding-beyond-value-chain-mitigation
- High-Level Commission on Carbon Prices (2017). Report of the High-Level Commission on Carbon Prices. World Bank. https://static1.squarespace.com/static/54ff9c5ce4b0a53decccfb4c/t/59b7f26b3c91f1bb0de2e41a/1505227373770/CarbonPricing_EnglishSummary.pdf
- HLEG (2022). Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions—United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities. High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities. https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf
- Höglund, R., & Mitchell-Larson, E. (2022). Bridging the Ambition Gap: A framework for scaling corporate funds for carbon removal and wider climate action. Carbon Gap. https://drive.google.com/file/d/1OnTFbhKuju8GGAggctzRVO-17slpChZI/view
- ICVCM (2024). Core Carbon Principles, Assessment Framework and Assessment Procedure—January 2024, Version 2. https://icvcm.org/wp-content/uploads/2024/02/CCP-Book-V2-FINAL-6Feb24.pdf
- Mersmann, F., Wehnert, Timon, Göpel, M., Arens, S., & Ujj, O. (2014). Shifting Paradigms: Unpacking Transformation for Climate Action. 52
- MSCI (2024). 2023 VCM in Review: Carbon Markets at an Inflection Point. https://trove-research.com/report/2023-vcm-in-review-carbon-markets-at-an-inflection-point
- Milkywire (2024). Climate Transformation Fund. https://www.milkywire.com/climate-transformation-fund-readmore
- Milkywire (2023). The Climate Transformation Fund—Progress Report 2023. https://www.milkywire.com/articles/climate-transformation-funds-2023-progress-report

- Rat der EU (2023). Leichter Zugang zu Unternehmensinformationen für Anleger: Vorläufige Einigung über das zentrale europäische Zugangsportal (ESAP). https://www.consilium.europa.eu/de/press/press-releases/2023/05/23/easy-access-to-corporate-information-for-investors-provisional-agreement-reached-on-the-european-single-access-point-esap/.
- right (2024). Produkte. https://right-basedonscience.de/produkte/
- SAEK (2022). InfoSheet: Qualitätsstandards von Ausgleichsprojekten. Stiftung Allianz für Entwicklung und Klima. https://allianz-entwicklung-klima.de/wp-content/uploads/2022/08/2208_Qualitaetsstandards-1.pdf
- Science Based Targets (2024). How it works. https://sciencebasedtargets.org/how-it-works
- Umweltbundesamt (2024). Gesellschaftliche Kosten von Umweltbelastungen. Umweltbundesamt. https://www.umweltbundesamt.de/daten/umwelt-wirtschaft/gesellschaftliche-kosten-von-umweltbelastungen
- UNFCCC (2016). Report of the Conference of the Parties on its twenty-first session, held in Paris from 30 November to 13 December 2015, Addendum, Part two: Action taken by the Conference of the Parties at its twenty-first session, FCCC/CP/2015/10/Add.1, 29 January 2016 (FCCC/CP/2015/10/Add.1). UNFCCC
- VCMI (2023). Claims Code of Practice Building integrity in voluntary carbon markets November, 2023. V.2. Voluntary Carbon Markets Integrity Initiative. https://vcmintegrity.org/wp-content/uploads/2023/11/VCMI-Claims-Code-of-Practice-November-2023.pdf
- WRI and WBCSD (2004). The Greenhouse Gas Protocol. https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf
- WRI and WBCSD (2011). Corporate Value Chain (Scope 3) Accounting and Reporting Standard. https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf

Annex

Annex 1: The development of the guide during the course of the project with the involvement of stakeholders

This guide was developed through the following process. Firstly, the project team developed the central elements of the guide based on the results of the first project phase. In doing so, the basic principles set out in the concept paper were concretised as far as possible and prepared in an action-oriented manner. This was followed by the targeted involvement of key stakeholders in focus groups. By dividing the stakeholders into focus groups, a confidential space was created, allowing the expertise of the individual actors to be bundled and brought together. A written consultation process was not pursued.

Living Lab 1 brought together stakeholders from the demand side, i.e., companies and other organisations interested in using the approach, and discussed the requirements for organisations developed by the project team as well as the value proposition of the contribution claim model. The second Living Lab was attended by actors on the supply side, in particular providers of carbon credits (so-called offsetting providers) and project development actors. The Living Labs focussed on the three financing options for climate change mitigation outside the company's own value chain. The discussions in the labs were based on key questions which were provided to the participants in advance. Established forms of the co-creation approach were used in the virtual labs: A virtual whiteboard was used to alternate between individual brainwriting, discussions in small groups, and presentation and discussion of the results in plenary. After the first two Living Labs, a reflection meeting was held with representatives from civil society, science and politics. Parts of the guide developed up to that point based on the previously Living Labs were discussed there. Finally, the third Living Lab took place in Berlin with all stakeholder groups. In this lab, the guide was presented and feedback was collected on the applicability of the contribution claim model. As part of the interactive collaboration, support requirements and possible implementation solutions were also identified. The implementation of these solutions goes beyond the scope of the project, but the participants' comments were incorporated into the guide.

The guide is the result of this interactive process, although it has not been officially adopted by the people involved in the process or the organisations they represent. The guide is intended to contribute to the growing discussion on further development of the voluntary carbon market and the contribution claim model as an alternative to carbon offsetting. Comprehensive piloting of the contribution claim model using the developed guide has not yet take place in the second phase of the project but will take place downstream. This guide is intended to provide the basis for this. With the help of scientifically supported piloting of the approach, the guide can be refined, and existing implementation issues can be addressed. However, the guide does form the basis for the development of such a framework, which also includes the development of corresponding governance requirements.

Annex 2: Different approaches to determining the level of mitigation beyond one’s own value chain

Three different approaches are currently being discussed to determine the extent to which companies and other organisations are committed to climate change mitigation outside their own value chain.

The **"tonne per tonne approach"** is based on the organisation's residual emissions and directly derives the required level of emission reductions that must be achieved by supporting climate change mitigation outside the value chain. A company that causes emissions of 100,000 tCO_2e in the reference year must therefore purchase 100,000 carbon credits, with each certificate representing one tonne of CO_2e reduced or removed from the atmosphere. This model forms the basis for the carbon offsetting approach.

One advantage of the "tonne per tonne approach" is that a direct link is established between the company's CO_2 footprint and its commitment to climate change mitigation outside the value chain. The model enables full utilisation of the voluntary carbon market infrastructure and there is a high level of acceptance due to its use in the context of carbon offsetting. One of the main disadvantages of the "tonne per tonne approach" is proximity to the carbon offsetting model and the carbon neutrality claims, as this can make it difficult to draw a clear distinction between it and the previous prevailing model. By using tonnes of CO_2 as the relevant metric, buyers may also be incentivised to purchase as many certificates as possible at the lowest possible price. With regard to the activities to be supported, the "tonne per tonne approach" is naturally limited to projects whose results are expressed in the form of CO_2 reductions. The inherent incentive to overestimate the climate change mitigation effect of projects may therefore continue to exist. Activities that do not contribute directly to climate change mitigation and whose impact is only felt in the long term cannot be supported in this way, nor can climate adaptation activities.

With the **"money-per-money approach"**, the amount of funding provided is determined on the basis of a company's key figures such as profit or turnover by allocating a certain percentage, for example one per cent of profits, to climate change mitigation activities outside the value chain. One advantage of the approach is that it is easy to communicate. Companies can also better determine and take into account the costs arising from applying the approach, as these are directly linked to financial factors. A key disadvantage of the approach is that it does not follow the polluter pays principle. As a company's commitment is not linked to the emissions caused, companies with higher emissions do not necessarily have to commit to a greater extent than companies with a lower carbon footprint. There is therefore no inherent incentive for companies to reduce their emissions.

The **"money per tonne approach"** provides for organisations to put a price on their emissions. The budget available to support climate change mitigation outside the value chain is calculated by multiplying the amount of unavoided emissions by the carbon price. This is illustrated by the following example: A company causes emissions of 10,000 tCO_2e in 2023. These emissions are then multiplied by a carbon price the organisation sets for itself and justifies. One of the advantages of the "money per tonne approach" is that the link to the organisation's emissions remains in place, while at the same time a wide range of possible activities can be supported. This also includes projects that do not directly lead to measurable CO_2 reductions or removals. This also makes it possible to support broad-based transformative activities. For example, research into and development of technologies that are not yet ready for application can be financed. A gradual increase in the carbon price gives organisations the opportunity to further expand their support for climate change mitigation activities, even if their own emissions fall. The disadvantages of the "money per tonne approach" include the fact that the model is still not very well known and is therefore not widely publicised. Companies with high emissions in particular could also be put off by the high costs incurred when setting an ambitious CO_2 price.

Annex 3: Excursus: Selection of financing options and composition of the portfolio

The following are some of the factors that organisations can take into account when compiling a portfolio.

Organisation-specific factors

The budget amount

The amount of funding available is a significant factor in the choice of funding option. Organisations with a large budget at their disposal are more likely to be able to get involved by financing their own activities and projects directly. For organisations with a smaller budget, the purchase and retirement of carbon credits and the support of a climate fund tend to be more suitable financing options.

Personnel capacities

The personnel capacities within the organisations also influence the choice of financing option. In particular, financing option 3, direct financing of one's own activities and projects, is considerably more demanding than the other two options and requires corresponding capacities due to greater staff involvement.

Experience in the development of climate change mitigation projects

Organisations are familiar to varying degrees with the development and implementation of climate action activities outside of their own value chain. Some organisations have already successfully developed their own climate action activities in the past and established collaborations with project development partners, while others have no such experience.

Familiarity with the voluntary carbon market

Organisations that participate in the contribution claim model are familiar to varying degrees with the voluntary carbon market. While some organisations have already used carbon credits on the carbon market in the past and have gained valuable experience in identifying high-quality projects, others have deliberately not engaged in this market. Greater familiarity with the voluntary carbon market and the instruments used here enables better utilisation of financing option 1, the purchase and retirement of carbon credits.

Activity-specific factors

The choice of financing option also depends on what impact is to be achieved by what activity and the organisation's preferences in this regard. In principle, the contribution claim model enables the financing of a wide variety of activities.

Activity (direct vs. indirect) and time of impact (immediate vs. future)

On the one hand, these activities can be differentiated according to how direct their intervention is. In the case of climate change mitigation activities that reduce or avoid emissions (mitigation activities), direct interventions are closer to where the emissions occur. An example of a direct mitigation activity is the construction

of a grid-connected renewable energy plant. An indirect reduction activity in the electricity sector would be a project that investigates the causes of excessively high electricity consumption and contributes to more conscious use of energy through training. An even more indirect activity would be supporting research into and development of renewable energies in the electricity sector.

The activities can also be differentiated in terms of the timing of their impact. This can occur in the near future or in further down the line. In the case of the mitigation activities outlined above, the renewable energy plant would have a near-term effect, while the effect of the training project would only materialise in the medium term, followed by support for research and development in the sector. Figure 4 below shows the range of possible activities.

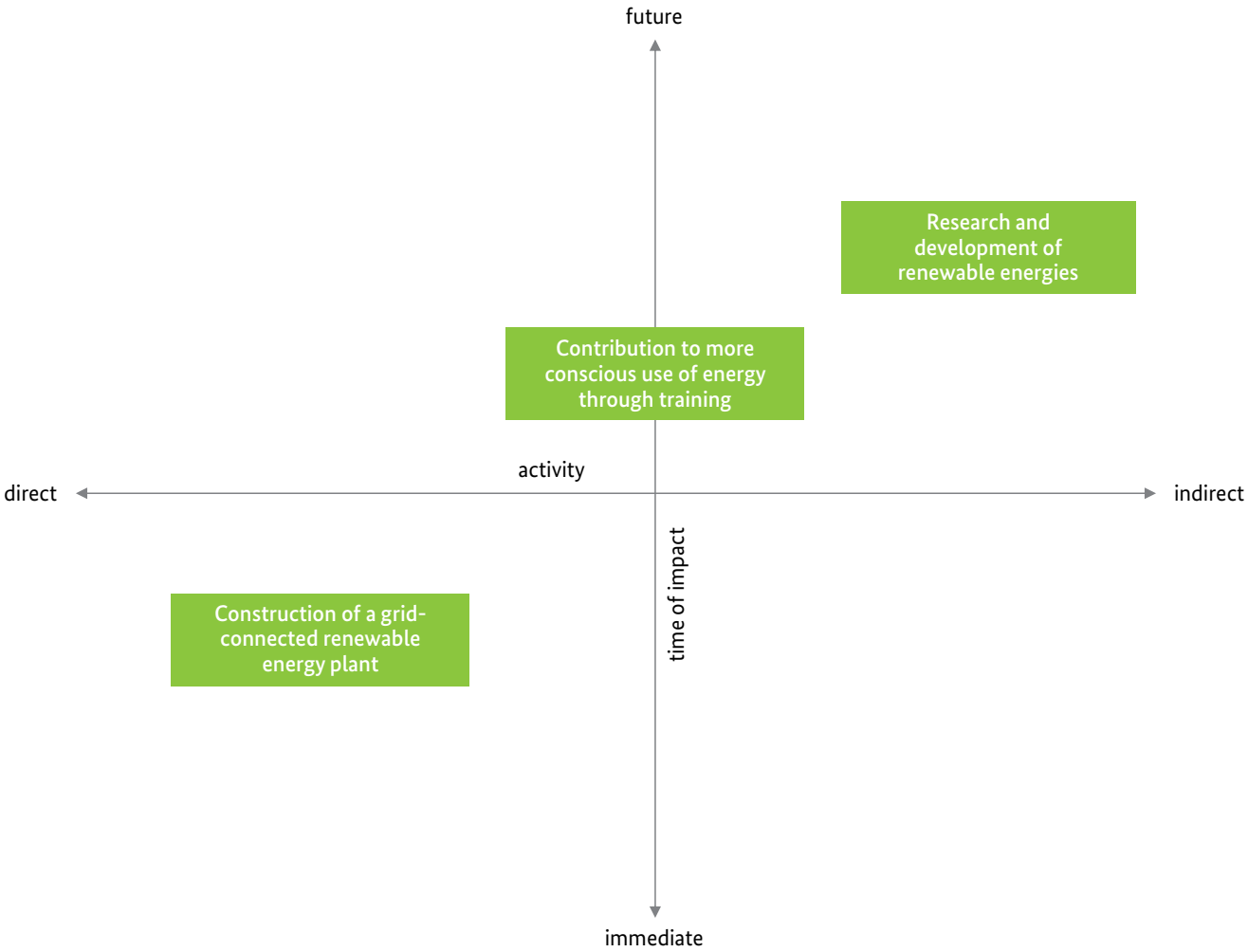

Figure 4: Intervention (direct/indirect) and impact (near-term/future): The spectrum of possible activities using the example of mitigation projects in the electricity sector. Source: Own illustration based on Gold Standard (2024).

Contribution of the supported activity to sustainability transformation

Another factor that can be utilised when compiling the portfolio is embedding the activities to be supported in the transformation cycle towards sustainability. The transformation cycle describes how a particular technology is developed and moves from niche to wider application. It goes through four different stages (preparation, take-off, acceleration, stabilisation) (see: Mersmann et al., 2014). The activities eligible for funding under the contribution claim model can be categorised according to these phases by differentiating between four types of activities. The four types of activities are as follows:

1. Research and development
By supporting research and development, new technologies can be promoted or the application of known technologies in new areas can be advanced. These activities are categorised under the preparatory phase.

2. Feasibility demonstration
The project focuses on less common niche technologies that are too risky for commercial investors (in the region). These types of projects are particularly important in the take-off phase.

3. Climate change mitigation through scaling
The project helps existing approaches to become widely applied, whereby the additionality of the respective activity is ensured. This type of activity is of key importance in the acceleration phase. Most voluntary carbon market projects can be categorised as such.

4. Capacity building/climate advocacy
The activity supports (political) stakeholder groups or initiatives that are committed to promoting climate change mitigation. Capacity building in the target region is also included in this category. The impact of capacity building and support for climate change mitigation through advocacy groups is important throughout the transition process.

Figure 5 shows how the different activities can be categorised along the transformation curve. On the one hand, this emphasises the complementary nature of the activities, but also the potentially transformative contribution of the contribution claim model. As shown by the graph, financing option 1 (purchase and retirement of carbon credits) can achieve a direct intervention with a short-term effect, although the activities can also have a long-term positive impact. If the organisation also intends to promote indirect interventions that will only have an impact in the future, financing option 2 (support for a climate fund) and financing option 3 (direct financing of one's own activities and projects) should be considered.

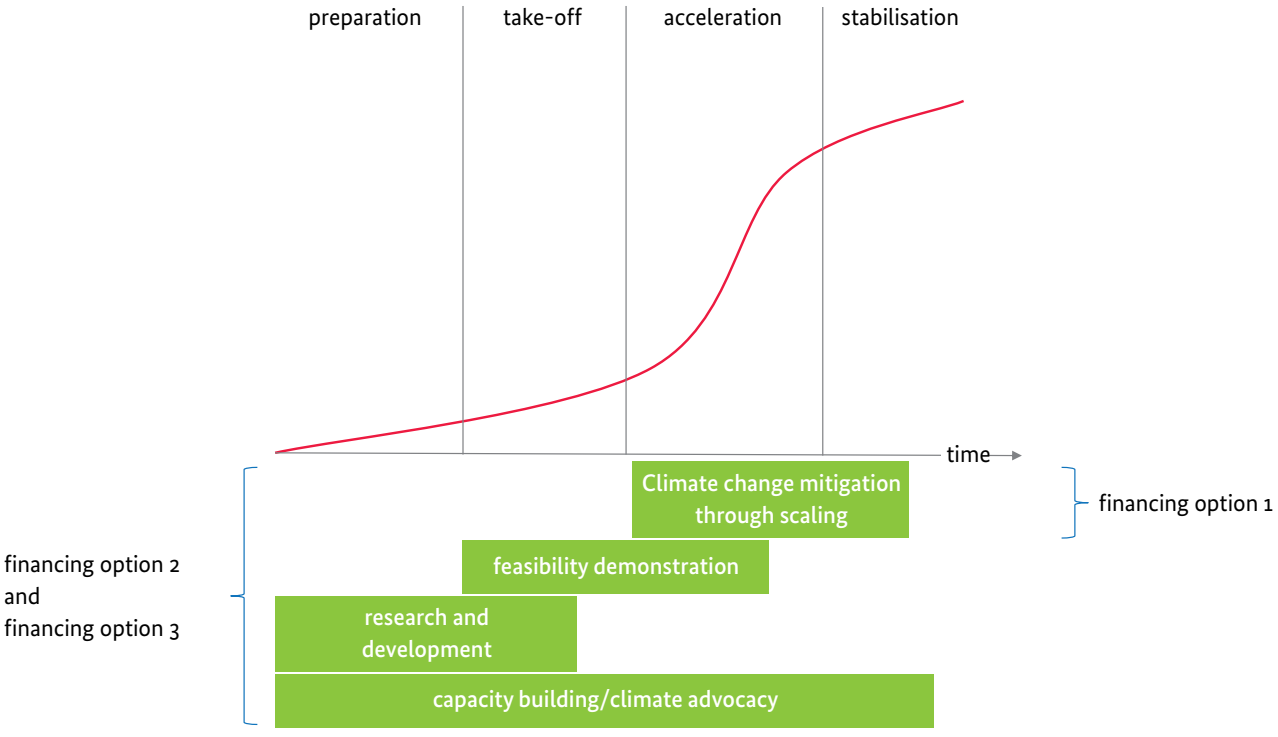

Figure 5: Embedding the types of activities and financing options in the transition curve. Source: Own illustration based on: Mersmann et al. (2014).

Communication

Ideally, organisations will achieve both long-term and short-term impacts through the projects they support. In practice, however, the decision will be influenced by other considerations. For example, the question arises as to which type of intervention best fits the organisation's profile and whether this commitment can be successfully communicated. In this context, it is also important to ask whether the organisation has the necessary capacities to communicate complex issues and impact logics, and whether this commitment is rewarded by the organisation's target group (end customers, investors, external partners, employees, etc.).

In terms of communicating commitment, the three financing options each have both advantages and challenges that can influence the choice of financing option. These are summarised in Table 15. The advantages and disadvantages of the individual options can also influence the choice of financing option and should be taken into consideration accordingly.

Different factors can therefore be used to select the financing option and compile the portfolio. Ideally, organisations achieve both long-term and short-term effects through the projects they support. To this end, they can also combine the various financing options (see Box 15). Figure 6 shows the relevance of the factors for the different financing options, with the darker areas indicating that the factor is of greater importance for the respective option.

Box 15: Good practice example: Combination of the three options

In the past, a company purchased carbon credits to offset its own emissions and had them retired in order to describe itself as climate-neutral on this basis. The company now switches to the contribution claim model and determines the amount of the budget, which is the product of multiplying the emissions by the rising carbon price. The company draws up a plan for how it intends to utilise the budget over the years.

Based on existing experience in the selection of carbon credits and existing contacts with suppliers, the company initially utilises the majority of the budget to purchase carbon credits (option 1). The total carbon credits to be purchased does not necessarily have to correspond to the company's emissions. Instead, the company can also decide to purchase a smaller number of particularly high-quality certificates. The number of certificates, together with the available budget, thus becomes the determining factor in the selection of CO_2 certificates.

The company uses a smaller proportion of the budget to support a climate fund (option 2). The fund finances a broad portfolio of nature-based solutions in the Global South that are designed for the long term and contribute to adaptation as well as climate change mitigation.

In the future, the company plans to directly finance climate change mitigation projects (option 3), as it would like to utilise the communicative advantages (storytelling) in particular. The company therefore contacts project developers in order to be able to start financing its own activities in the medium term.

This combination allows the company to meet different priorities: The purchase of carbon credits achieves a direct climate change mitigation effect, while the long-term climate change mitigation effect is achieved by supporting nature-based solutions via the fund. The company can utilise the experience gained here for direct financing, which will take up the majority of support for climate change mitigation beyond the value chain in the future. The link to the company's own emissions is ensured by the budget.

	Advantages	Disadvantages
Option 1 – Purchase and retirement of carbon credits	• Communication can be aligned to individual projects • Immediate impact of projects easy to communicate and support easier to report • Project funding and contribution to the Sustainable Development Goals may be more cost-effective to implement	• Delimitation of CO_2 compensation is more difficult for laypersons to understand • Organisation is more directly exposed to criticism of the voluntary carbon market • Some providers of climate change mitigation projects have to develop their own communication materials
Option 2 – Support for a climate fund	• Collaborative idea can be emphasised • The overall impact of the fund can be prioritised • Use of the fund's communication materials possible	• Communicative use of support for the entire fund, not selectively for individual projects • Actual sustainability impact of the fund difficult to activate and therefore difficult to communicate
Option 3 – Direct financing of one's own projects	• Option of tailoring the choice of project to your own communication requirements	• Communication materials must be specially developed

Table 15: Overview of the communicative advantages and disadvantages of the financing options

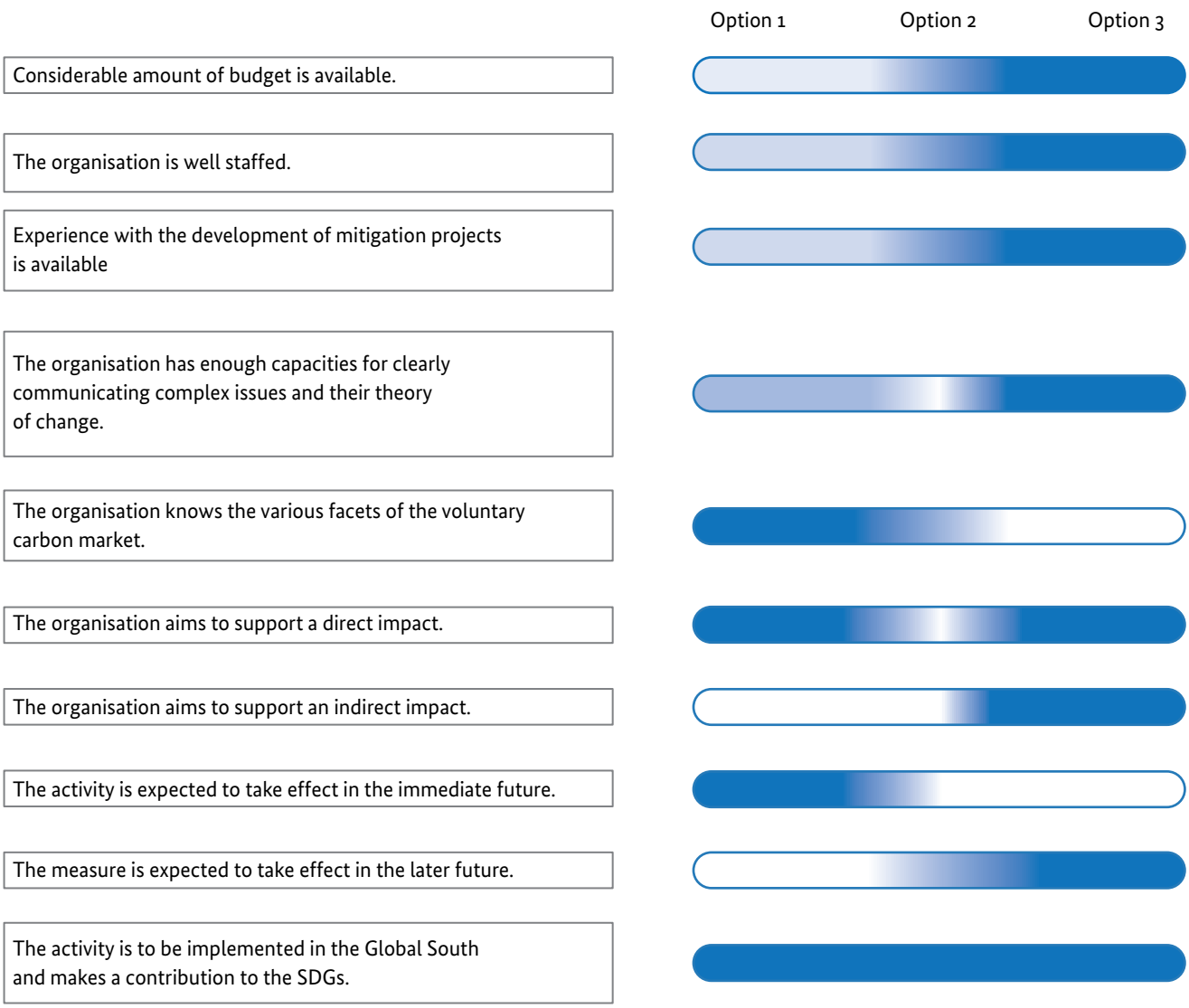

Figure 6: Relevant factors for the choice of financing option (Source: Own illustration)

Annex 4: Exemplary application of the requirements to the CTF

To illustrate the operationalisation of the requirements, they were applied to Milkywire's Climate Transformation Fund (CTF). This application example was based on the information publicly available on the website and in the annual report (Milkywire, 2023; Milkywire, 2024). The aim was to show the extent to which it is possible to apply the requirements on the basis of information available to the public. For this reason, no in-depth analyses or interviews were conducted. As the first step, the requirements that must be met at fund level were examined. This was followed by an examination of the requirements at project level. A clear separation of the two levels is sometimes challenging, as some requirements are set at fund level and must be implemented at project level. In these cases, their application was considered at both levels.

Step 1: Requirements that must be met at the climate fund level

	Requirement	Does the CTF meet the requirement?
1	Assignment to project type	Yes, the CTF supports projects in the categories of nature conservation and reconstruction, CO_2 removal and decarbonisation. The individual projects can be categorised as four types of activities.
2	Regional orientation	Unclear. The CTF has no regional focus and also finances projects in the Global North. An overview of the regional distribution of the projects is not provided. A quota for how many projects must be in the Global South is not provided either.
3	Climate impact	Yes, the CTF promotes climate change mitigation projects in three areas, namely CO_2 removal, decarbonisation and the protection and restoration of nature, which have a climate change mitigation effect.
4	Social and ecological sustainability	Partially. In the area of permanent CO_2 removal and decarbonisation, the CTF also finances projects that do not have to contribute to sustainable development. However, negative social and environmental impacts must be avoided and projects with positive sustainability contributions are prioritised.
6	Reproducibility through transparency	Partially. The criteria for project selection are publicly accessible and details of the funded projects are available on the website. Details of the selection process, which involves a commission of experts, are not publicly accessible. Access to information on the individual projects is limited.
8	Relationship between activity and organisation	No, the fund does not pay a return to the participating organisations.
9	Legal framework	Unclear. Details of the legal status of the fund were not analysed.
16	Long-term nature and subsequent utilisation	Unclear. No information available.
19	Grievance mechanism	Unclear. No information available.

Step 2: Requirements that must be met at project level

	Requirement	Does the CTF meet the requirement?
5	Focus on the underlying problem	Unclear. Not part of the CTF requirements.
6	Reproducibility through transparency	Partially. Access to information on the individual projects is limited.
7	Theory of Change	Unclear. The impact chains of the individual projects are not specified in detail.
9	Legal framework	Unclear. Compliance with the legal framework is not listed as a requirement. Further details not available.
10	Recognition by governments	Unclear. Recognition is not one of the CTF's selection criteria.
11	Involvement of project development partners and experts	Unclear. The involvement of project development partners and experts is not listed as a selection criterion for the CTF.
12	Additionality	Partially. High additionality is one of the CTF's requirements for projects in the areas of CO_2 removal and decarbonisation. Additionality is not listed as a requirement for projects in the area of nature conservation.
13	Robust baseline	Unclear. The use of a baseline is not listed in the general selection criteria of the CTF. The annual report does not provide any details on this either.
14	Validation and MRV	Partially. Verification is one of the evaluation criteria of the CTF. Details of the implementation are not available.
15	Reference to NDC and LT-LEDS	Unclear. Not part of the CTF selection criteria.
16	Long-term nature and subsequent utilisation	Unclear. No information available.
17	Contribution to global net zero emissions	Unclear. No information available.
18	Mapping and involvement of stakeholders	Unclear. No information available on stakeholder involvement.

Step 3: Categorising the results of the Climate Transformation Fund analysis

As can be seen from the first two steps, it is unclear whether the CTF meets numerous requirements, as either no information can be found on the respective requirements or contribution claim model requirements are not applied to the CTF projects. While some requirements are clearly met (e.g., activity type categorisation, climate impact), others are only partially met. This concerns, for example, the regional focus and sustainability contributions of the projects. A more in-depth analysis of the selection process, implementation requirements and other procedures could provide a clearer result here. For organisations wishing to check the suitability of a fund, this involves a corresponding amount of effort.

Annex 5: Identified support needs and solutions for piloting the contribution claim model

The following table provides an overview of the support needs and solutions identified by the stakeholders involved in the final event (Living Lab III) for the piloting and further use of the contribution claim model. The majority of these needs have not yet been fully addressed (e.g., through existing support tools). The table shows the formulated needs and offers starting points for further operationalisation of the contribution claim model.

Chapter	Support needs
Chapter 1.2 – Representation of interests, lobbying	**Clear positioning of the organisation within the interest group:** In practice, the problem of organisations being involved in interest groups that engage in lobbying may arise. In order to ensure that the organisation participating in the contribution claim model does not support lobbying (through the respective association) that is not in line with the requirements, it has the option of publicly distancing itself from said statements and activities without this necessarily resulting in immediate withdrawal from the association.
Chapter 2.1 – Accounting for all emissions	**Support with preparing the GHG balance sheet:** Because of the challenges involved in the initial preparation of a greenhouse gas balance, the following support activities may be helpful: • Assistance with preparing the first balance sheet from external experts or the organisation of training courses • Use of existing, publicly accessible guidelines (e.g., information from the SAEK) or digital tools • Further publication of guidelines, templates and digital tools to assist with preparing the balance sheet • Publicly accessible databases with scientifically based GHG emission factors for Scope 3 accounting
Chapter 2.2 – Activities to improve the data situation	**Support in the selection of external verification bodies:** The following support activities may be helpful in successfully verifying the greenhouse gas balance: • Register/list of suitable verification bodies • Standards for external verification
Chapter 3.4 – Implementation of one's own activities	**Recommendations for defining suitable targets and activities:** Against the backdrop of the challenges of harmonising one's own business model with the 1.5 degree target and defining and implementing corresponding targets and activities, the following aspects may be helpful: • Calculation aids to check one's own business model for 1.5 degree conformity • Organisation of a workshop on the "Setting a climate target" • Presentation or calculation of the long-term attractiveness or benefits of one's own climate change mitigation activities • Definition of sector-specific activities that enable 1.5 degree conformity • Highlighting good practices within an industry, sector and/or association (peer-to-peer learning)
Chapter 4.1 – Budget determination through the pricing of emissions	**Orientation through case studies:** In view of the challenges involved in setting a suitable carbon price, further guidance would be helpful. Based on real economic data from companies determined in case studies, sector-specific challenges could be illustrated and solutions for determining a suitable carbon price could be identified.

Chapter 5.1 – Option 1 Purchase and retirement of carbon credits	**Support from NGOs and the German government:** In order to further support organisations in the selection process, NGOs could, in addition to publishing support materials for the due diligence process, take on as the role of an independent broker and bring organisations wishing to purchase high-quality certificates together with providers of such certificates. In regard to project recognition by the host country's government, the German government could take on a mediating role to facilitate this process.
Chapter 5.3 – Option 3 Direct financing of one's own projects	**Support in utilising the development cooperation structure and further orientation:** Due to the high complexity of developing one's own projects, cooperation with partners is essential for project development. In addition, existing governance structures should be taken into account, such as development cooperation (DC), in order to ensure donor harmonisation. Building on established projects and the support that follows would also be helpful: • Guideline or best practice for defining/tracking robust baselines and the development of projects • Verification of meta requirements by third parties
Chapter 6.1 – Transparent communication of key parameters	**Communication support** Sustainability reporting is an essential part of the contribution claim model and the principle of transparency based on it. At the same time, many organisations are breaking new ground here. Small and medium-sized organisations in particular have limited capacity to familiarise themselves with a new field. The following support activities would be helpful here: • Support with integration into the CSRD reporting structure • Use and dissemination of good practice examples between organisations that use the contribution claim model (peer-to-peer learning) • Preparation of a fact sheet on the advantages of the contribution claim model compared to carbon offsetting The organisations meet at regular intervals (e.g., once a year) and discuss their progress and experiences. This transparent communication between the participating organisations should contribute to a constructive error culture, enable joint learning and continuously improve the approach.
Chapter 6.2 – The contribution claim	**Communication guidelines and web portal** Successful external communication is crucial to the extent to which the contribution claim model is effective. Recognition of the claim across the participating organisations is a key factor. So far, however, there is no uniformly accepted claim/wording. The uniform use and recognition value of the claim could be promoted through various support options: • Communication guidelines for a claim and/or • Creation of a web portal showing the organisations that use the contribution claim model

Wuppertal Institut

STIFTUNG Allianz für Entwicklung und Klima

Im Auftrag des Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

Gegründet durch: KFW

Editor
Foundation Development and Climate Alliance
Chausseestraße 22
10115 Berlin
www.allianz-entwicklung-klima.de

Contact person
Sina Brod
Head of Research & Consulting
Sina.brod@allianz-entwicklung-klima.de
Phone +49 30 3465573-18

Design cover photo
Studio Kunst GmbH

Photo credit
Thomas Okfen/GIZ, myclimate, iStock.com/Violeta Stoimenova, Forliance GmbH, Thomas Trutschel/photothek

Layout
dot.blue communication design

September 2024