Request for Proposals

PROMOTING ESG INTEGRITY IN GHG TRADING THROUGH DESIGN OF AN INDEPENDENT CARBON CREDIT RATING ENTITY

October 2019

ClimateWorks FOUNDATION

Section A. Introduction

Objective: To drive carbon market demand towards transacting high-quality GHG units through development of an independent, credible, evidence-based, transparent entity that assesses GHG units including carbon credits, offsets (and potentially allowances), generated in different contexts, with respect to environmental (including climate), social and governance (ESG) characteristics.

The primary target audience is corporate purchasers of carbon credits, such as companies under regulatory systems (domestic systems, CORSIA, etc.) or purchasing GHG units voluntarily (e.g. manufacturers bundling offsets with their products).

It may also be useful for governments that may purchase GHG units once Article 6 of the Paris Agreement is operationalized; individuals wishing to compensate their carbon footprint through the purchase of offsets; standard-setting entities who may be encouraged to 'raise the bar' or to reform methods/protocols that compare unfavorably with others; project developers seeking higher ratings; and civil society watchdogs that focus on industry accountability.

Background and problem statement: The relevance of GHG unit transactions is increasing with emerging GHG markets and new demand from the corporate sector. Some sources of this new demand are interested in ensuring that they purchase only high-quality units but are unable to easily distinguish high- from low-quality GHG units. In addition, existing and emerging markets may not set the same level of stringency for offsets, and therefore an independent ratings agency may help drive demand within, or the regulation of, such markets towards higher quality.

While there appears to be an opportunity and growing interest for an independent body to support and incentivize robust emissions trading of high-quality units through development of a ratings system, there is very little agreement on how this might be done. Questions immediately arise such as:

- Who or what should be assessed/rated?
- What ESG criteria should be used for rating?
- What entity would be best fit to institutionalize/operate the rating system?
- How should the rating system function? How should it be staffed and governed?
- How can the rating system achieve financial sustainability?

The project: Scoping and design of a cross-sector GHG unit ratings entity that can achieve the Objective above. Elements of the expected design are contained in Section B. The project is not to implement the ratings or to establish a new entity, but is limited to scoping and design.

Timing: Proposals will be accepted until November 1 and a contract awarded by December 2019. The winning organization, or group of organizations, will be given 6 months to deliver on an agreed scope of work, including all elements listed in Section B.

Proposals: Should include information as outlined in Section B and be no more than 10 pages in length with no more than 5 pages of appendix material. Consortia are encouraged to submit proposals, as the various components of the RFP require a range of expertise; a consortium may also reflect a balance of interests to avoid biases in implementing this project.

Section B. Description of the requirements

To accomplish the stated Objective, the Awardee will be expected to design an independent carbon credit ratings entity including the components below. Those tendering for this RfP shall demonstrate in the proposal how they intend to approach the design of each component.

In describing how each Component will be achieved, proposals may reflect on considerations such as:

- Lessons learned from similar efforts to rate ESG 'quality';
- Legal frameworks or systems existing or emerging that will regulate emissions unit quality and how this impacts the design of a ratings entity;
- How to manage different buyer preferences (i.e. some focus on the credibility of the underlying tons of emissions vs. others who may weight sustainable development criteria higher);
- Various contexts in which carbon credits may be

transacted (which may impact the approach to setting criteria and/or applying them);

- How the new ratings entity fits within the existing architecture of standards, independent certifiers, offset retailers, etc.

COMPONENT 1: DETERMINE THE ESG CRITERIA

How to determine the ESG criteria? Those tendering should describe the process through which they would develop and determine what the ESG criteria are that would be applied to rate the quality of GHG units. The criteria should include a range of ESG issues, such as (what follows is illustrative, not comprehensive): GHG accounting elements (including additionality, quantification of emission reductions, avoidance of double counting, etc.), other environmental, social, and sustainable development characteristics and safeguards, transparency, stakeholder engagement, other process and governance issues (e.g. validation and verification methods, etc.). Criteria may also include elements related to the Paris Agreement (e.g., NDC accounting, Article 6 alignment, etc.).

Responses could also include additional considerations, such as:

- How the ESG criteria should be re-evaluated and/or improved over time.
- Whether criteria be separated and rated in various 'buckets' (and if so, which make sense).
- Whether, and if so how, considerations related to the potential use of carbon credits could be integrated into the ratings system.

Bidders are also encouraged to raise any other additional issues related to determining ESG criteria in their proposals that they deem relevant to the Objective.

COMPONENT 2: DEVELOP AN APPROACH FOR APPLYING THE ESG CRITERIA TO GHG UNITS

This section should include initial ideas on the following elements, and a process to determine how to "rate" GHG units, including:

Who or what should be scored? Explain a proposed scope of the types of GHG units that would be scored. For example, units generated by 3rd party standards? Protocols or methodologies developed by regulatory agencies? Should allowances from emissions trading systems or Article 6 ITMOs also be included in such a ratings effort?

There are also different levels of assessment that could be applied, e.g. to the program elements/requirements of standards (or registries, e.g. VCS, ACR, CDM, CAR, etc.), to the project types or technologies implemented, to the methodologies or protocols (within such programs) that they adopt, to individual projects or programs (that apply methodologies within programs), to sectors or sub-sectors (e.g. land vs. energy sector; clean cookstove; project-based forestry, etc.).

This section should include a clear explanation of the rationale for choices made and description of assessment of tradeoffs undertaken to reach that determination, guided by focus on achieving the Objective.

How to do the scoring? What is the approach to rating? What source(s) of information will be used to inform the ratings? How granular should the assessment be (i.e. numerical score, traffic light, Moody's style, etc.)? How should the scoring methodology/approach weight the criteria developed in Component 1? Are there some criteria that are optional or applied only in certain geographic and/or regulatory contexts? How often should a standard/methodology/project be scored? The proposal should describe how the approach to scoring will achieve the objective of driving demand towards higher-quality GHG units.

The proposal should describe a method in which the approach would be 'road tested' to ensure feasibility.

COMPONENT 3: DESIGN THE INSTITUTIONAL STRUCTURE OR ENTITY TO IMPLEMENT THE 'RATINGS' SYSTEM

Having an institutional structure or entity that is transparent and deemed credible by civil society and likely buyers of carbon credits is critical. In this regard, the proposal should address an approach to determining the following:

What or who is the "host" institutional structure or entity? What is the best type of organization, and/or best organization(s) that could host and implement the ratings system? Is it a new, stand-alone entity or an existing organization or set of organizations? An NGO, university, private company, or other type of organization?

How will the institutional structure or entity ensure credibility? How does the design of the entity, its governance, staffing, etc. ensure it is free from bias and/or conflicts of interest? How does it generate credibility among multiple stakeholders across many regions? How does it promote balanced analysis and assessments, particularly given existing expertise often indicates past or current involvement in carbon markets, standard-setting, GHG unit generation, etc.? What processes should be in place to ensure transparency and the ability for public participation and inputs?

What is the structure of the institution or entity? How is the entity run, what is composition of the staffing, committees, or other structures needed to run the ratings system? What are the key organizational elements? What is the governance structure and how does it manage and oversee the activities of the ratings entity?

The proposal should include any additional functions of the ratings entity that the bidder(s) believe will be necessary to achieve the stated Objective.

COMPONENT 4: SUSTAINABILITY OF THE SYSTEM

While the initial set up of the entity may be funded, it will be critical for there to be a sustainable financial model for the entity. The proposal should describe early ideas on how to develop a viable business model for such an entity and its activities to ensure sustainability.

COMPONENT 5: EXPLAIN HOW THE SYSTEM WOULD BE DESIGNED TO DRIVE EMISSION REDUCTIONS

If carbon market regulations are insufficiently stringent, how can the designed ratings entity promote and drive increased GHG mitigation, including through demand towards use of higher quality units? This section should include a narrative around how to achieve the following:

- **Value added**: How would the ratings entity provide value added, i.e. increase market supply, demand, and accessibility of GHG units that achieve the higher rating? What are the expected benefits from receiving a high rating?
- **Branding**: How to develop a brand that will be used by emitters, consumers, and others that will best drive demand to higher-quality GHG units. Why should companies, governments, retail purchasers of carbon credits use and trust the ratings system? How will credibility be promoted with civil society and other stakeholders?
- **Usage**: What is the value proposition of the ratings system to users? In particular, how will the design of the entity and the ratings coming from it have buy-in from carbon credit buyers?
- **Communications**: What should be a reasonable communications strategy to ensure uptake of the ratings system? What will be required (resources, partnerships, etc.) to successfully deliver a communications plan to ensure uptake ratings system?

COMPONENT 6: MANAGING RISKS

Finally, the proposal should elaborate on expected risks of standing up such an agency and potential ways to mitigate risks and/or elements the bidder(s) would include in the design of the ratings entity to manage such risks.

The contract will be awarded based on the process and terms described herein. However, should circumstances warrant, we reserve the right to not make an award.