TYPES OF CARBON CREDITING

Credited mitigation activities can be individual investment projects (project-based crediting), programs of projects (programmatic crediting), or policies (policy crediting). Crediting also can be used to reward a country for going beyond the initially set sectoral or jurisdictional targets (sectoral or jurisdictional crediting).

Which crediting approach to choose depends on the objective and the context of the mitigation activities. Each approach comes with different methodological requirements and different strengths and weaknesses.

CREDITING APPROACH	OBJECTIVE	METHODOLOGY	STRENGTHS/ WEAKNESSES
Project-based	Support individual investment projects	Baselines and Monitoring, Reporting, Verification (MRV) based on technology	**Relative simplicity** **Allows for pure private sector transactions** **Limited opportunities to scale up; risk of leakage* and perverse incentives**
Programmatic	Support a larger number of similar projects often small and micro scale (including household level) within a program	Baselines and MRV based on technology Often accompanied by an incentive program that transforms carbon revenues into other incentive payments	**Relative simplicity** **Allows to scale up through replication of similar projects** **Allows to reach small- and micro-scale activities** **Risk of leakage and perverse incentives**
Policy	Support a policy intervention such as an energy efficiency standard or energy/carbon pricing policies	Baselines and MRV based on economic modelling	**Large scale** **High transformative impact** **High complexity** **High project preparation costs** **Limited role of private sector in transaction** (private sector still plays a key role in implementing incentivized mitigation activities).
Sectoral/ Jurisdictional	Support overachievement of sectoral/jurisdictional mitigation benchmarks/ targets	Sectoral/jurisdictional baseline and MRV Crediting only possible on an aggregate level	**Large scale** **Low risk of leakage and perverse incentives** **High dependency on external factors (high delivery risk).**

**Note:* carbon leakage occurs when an emissions-reduction policy, such as a carbon price, inadvertently causes an increase in emissions in other jurisdictions that do not have equivalent emissions-reduction policies.