The Principles for Responsible Carbon Finance in Clean Cooking

Principles and Definitions of Terms

CLEAN COOKING ALLIANCE
Principles for Responsible Carbon Finance in Clean Cooking and Definition of Terms

Background

The Principles for Responsible Carbon Finance in Clean Cooking (RCF) were developed through an extensive creation process initiated by the Clean Cooking Alliance (CCA) in 2023. Beginning with a public consultation involving 359 stakeholders from 267 institutions, eight co-chairs approved a set of Interim Principles. This was followed by a public consultation, with all submitted feedback being reviewed prior to a draft set of final Principles being taken forward for endorsement by the RCF Advisory Council, a panel of 15 senior stakeholders convened by CCA and representative of the many players in the clean cooking and carbon finance sectors. The Council endorsed the final Principles following their first meeting on April 26, 2024.

The Principles for Responsible Carbon Finance in Clean Cooking

Theme 1: Integrity - Project claims should be evidence-based, case specific, and substantiated.

- I1: Baselines are realistic, up-to-date, and geography-specific. Any assumptions made are transparent and substantiated.
- I2: Fuel consumption or stove usage are accurately monitored. Any assumptions made are transparent and substantiated.
- I3: Only sustainable development benefits that are substantiated and can be evidenced are claimed.

Theme 2: Transparency - Non-commercially sensitive information on clean and improved cooking carbon markets should be accessible.

- T1: The monetary and/or non-monetary benefits reaching the project and technology/fuel users are transparent within a given transaction.

Theme 3: Fairness - Carbon projects solicit informed consent from users and share revenue fairly along clean and improved cooking value chains.

- F1: Informed consent precedes each user’s participation in a carbon project.
- F2: Carbon revenues are shared by all stakeholders in a way that is proportionate to the risk they assume and the value they create.
Theme 4: Sustainability - Carbon markets complement other forms of funding and do no long-term harm to local clean and improved cooking markets.

- S1: Carbon finance, official development assistance, and philanthropic capital are complementary.
- S2: Excessive market distortions in clean and improved cooking markets are avoided.
- S3: National policies facilitate the development of clean and improved cooking carbon markets.

Definitions of Terms

Theme 1: Integrity - Project claims should be evidence-based, case specific, and substantiated.

I1: Baselines are realistic, up-to-date, and geography-specific. Any assumptions made are transparent and substantiated.

This principle addresses the risk of over-crediting due to the overestimation of baseline emissions for clean and improved cooking carbon projects. The terms included in the principle are defined as follows:

- **Realistic.** Baselines are accurate and true to life. The parameters applied to calculate emission reductions are aligned with scientific evidence (i.e., peer-reviewed journals) whenever it is available. Where unavailable, baseline data is collected in a manner that is scientifically sound (e.g., random sample selection, statistically sound sampling size, non-biased data collection approach, non-leading survey questions).
- **Up-to-date.** Baselines are calculated following carbon accounting methodology versions that are not more than 5 years old.
- **Geography-specific.** Projects strive to develop baselines that are specific to their target population and location of implementation.
- **Assumptions are transparent and substantiated.** For parameters that require assumptions, the applied parameter must be based on the best available data, err on the side of caution to ensure that emission reductions are not overestimated, and be clearly and transparently articulated.

I2: Fuel consumption or stove usage are accurately monitored. Any assumptions made are transparent and substantiated.

This principle addresses the risk of over-crediting due to the overestimation of project performance. The terms included in the principle are defined as follows:

- **Fuel consumption or stove usage.** Refers to the use of the project and baseline stove/fuel(s) during the project. Depending on the methodology applied, these parameters include the adoption rate of the project stove (i.e., number of households receiving a program stove), the dropout rate (i.e., households not using the project stove), stove stacking (i.e., the use of the
baseline stove along with the project stove), the portion of time the project stove is used, and the quantity of fuel used in the project scenario. Any monitoring should ensure that the rebound effect – in which a user cooks more due to the new stove – is accounted for.

- **Accurately monitored.** Using monitoring techniques or technologies that measure the parameters of interest with low uncertainty. This includes data loggers and metering for stove use and purchase receipts for fuels. When sampling is used, a robust approach is applied, such as the one outlined by the Clean Development Mechanism’s *Guideline: Sampling and surveys for CDM project activities and programmes of activities.*

- **Assumptions made are transparent and substantiated.** When monitoring techniques that accurately quantify the parameters of interest are too expensive or not available for a particular project technology, monitoring assumptions must be based on the best available data, err on the side of caution to ensure that emission reductions are not overestimated, and be clearly and transparently articulated.

**I3: Only sustainable development benefits that are substantiated and can be evidenced are claimed.**

This principle addresses the risk of sustainable development benefits claimed by projects not materializing. The delivery of sustainable development benefits is important in differentiating carbon credits from clean and improved cooking projects from other types of carbon projects, so it is important that claims made are delivered. It also aims to create a level playing field for sustainable development claims to ensure that they can only be made if they are substantiated and verifiable.

The terms included in the principle are defined as follows:

- **Sustainable development benefits.** Impacts yielded by a clean and improved cooking program in addition to climate impact. This could mean generating employment, extra income/monetary benefit sharing from carbon generation (SDG 1), improving health, and increasing safety and well-being, among other things.

- **Substantiated.** Publicly available project documentation outlines the rationale and evidence to support the claim in a robust manner. Peer-reviewed tools shall be used to evidence sustainable development claims (e.g., the Gold Standard’s ADALYs methodology, the Gold Standard’s SDG Impact Tool, Verra’s SD VISta, W+ Standard).

- **Evidence.** All evidence used to support the claim must be available upon request by a buyer or other third party (e.g., a verifier).

**Theme 2: Transparency**

**T1: The monetary and/or non-monetary benefits reaching the project and technology/fuel users are transparent within a given transaction.**

Transparency is a prerequisite for determining the fairness of carbon markets for clean and improved cooking. This principle addresses the opacity regarding the monetary and non-monetary benefits that reach projects and technology/fuel users on the ground. It may be reasonable to withhold some sensitive commercial information, but that should not be used as a pretext for avoiding transparency.
The terms included in the principle are defined as follows:

- **Transparent.** Transparency requires that information about the monetary and/or non-monetary benefits reaching the project and technology/fuel users in the carbon value chain of a given transaction is available to actors within that transaction or, ideally, made public.

- **Monetary benefits.** Benefits that are provided in monetary form (e.g., cash payments to technology users, payments into community funds, loans provided for purchases, or prices paid for carbon credits).

- **Non-monetary benefits.** Benefits that are not provided in monetary form (e.g., subsidized technologies/fuels, maintenance and repair services offered, up-skilling/training provided to the workforce, employment opportunities for women, or income security and reduced investment risk provided for project developers by offering long-term fixed offtake agreements).

- **The project.** Refers to the carbon project underlying the carbon credit that is being transacted.

- **Technology/fuel users.** Refers to the technology/fuel users that are targeted by the project defined above.

- **Within a given transaction.** Refers to the value chain of a single carbon credit transaction, i.e. the transfer of carbon credits in exchange for payment in a single transaction. This does not seek public disclosure of monetary and/or non-monetary benefits, nor sharing of information to entities not involved in the single transaction under consideration.

### Theme 3: Fairness

**F1: Informed consent precedes each user’s participation in a carbon project.**

The rights to carbon credits remain with the entity generating an emission reduction unless the users of the technology sign an agreement to transfer rights to the carbon credits to another entity. This principle addresses the risk that cookstove/fuel users do not fully understand the contracts they sign and that as a result they do not make sufficiently informed decisions to participate. The terms included in the principle are defined as follows:

- **Informed consent.** Cookstove and fuel users must have a complete understanding of the consequences of their participation in a carbon project. This includes:
  - They are informed of the purpose of their participation, understand what they are agreeing to, and that they can withdraw their consent.
  - They are aware of the available alternatives, such as buying a stove without a subsidy, if they choose not to transfer their rights to carbon credits.
  - Consent is freely given without deception, intimidation, or coercion, if the user does not consent.
  - They thoroughly read and understand any legal agreement transferring the rights to carbon credits before signing it. Such agreements consist of clear and simple language that can be expected to be understood by the cookstove/fuel user. Agreements can also be accompanied by visual aids to help explain key concepts and implications for cookstove/fuel users.
- **Participation.** Refers to formal participation in the carbon project, usually through signing an end-user agreement transferring the rights to carbon credits, and also through being employed by the project or taking on some other role. This goes beyond being “engaged,” for instance, through consultations.

**F2: Carbon revenues are shared by all stakeholders in a way that is proportionate to the risk they assume and the value they create.**

This principle addresses the fact that cookstove and fuel users have a key role in generating carbon credits and should therefore directly benefit from them. It also ensures that intermediaries and investors capture shares of carbon revenues that are proportional to the risks they take on and the value they create. The terms included in the principle are defined as follows:

- **Carbon revenue.** The revenue generated through the sale of carbon credits, as a function of the number of credits issued and the price(s) paid for them.
  - When shared with users, revenues can be shared directly through monetary payments or indirectly through free maintenance or services that do not involve financial transfers. Alternatively, the cost of the cooking technology or fuel can be lowered by subsidizing the technology. Any revenue sharing is proportional to the degree of risk taken by users and the device subsidy received (e.g., a free stove requires no risk from the user; once a price is paid for a stove, the user has taken on a risk). Households that invest more of their own capital in the stove or use it more frequently proportional to the baseline stove (where monitoring approaches allow for determining this) could reasonably claim a larger share than others.
  - When shared with intermediaries (e.g., aggregators/retailers, brokers, trading companies and trading desks, exchanges) or investors, the fees charged by intermediaries or the margins they retain when buying and selling credits is proportionate to the risk they assume and the value they create.

- **All stakeholders.** Includes all actors involved a single carbon credit transaction that are involved in either transferring carbon credits or payment(s) for them. This includes the technology user (e.g. household), project developer, any intermediaries (e.g. brokers/traders), investors and the final carbon credit buyer. For example, an intermediary may provide information regarding the share of revenues that reach the project developer, who may in turn provide information on the portion of revenue that reaches cookstove users. Information on how revenue is shared may be provided directly to the buyer(s) as part of the broader project information or with other actors within the value chain of a given transaction. It could also be made public, for instance, in marketing materials for the project or in project design documents/monitoring reports. It may be reasonable to withhold some sensitive commercial information, but that should not be used as a pretext for avoiding transparency.

- **Proportionate.** Any fees charged or margins withheld are reasonable in light of the services provided and the risks actors assume. This amount will vary depending on the role stakeholders play, as well as market conditions. For instance, it is reasonable to expect investors that provide upfront finance for project costs or that enter into forward contracts to seek higher margins than brokers that simply facilitate spot transactions, since the former assumes more risks than the latter.
Theme 4: Sustainability

S1: Carbon finance, official development assistance, and philanthropic capital are complementary.

When a project benefits from multiple sources of financing, there is a risk that any one of these financing streams becomes redundant to the project’s viability, raising questions about the optimal use of public donor funds. This principle aims to address this issue by ensuring that any funding awarded to a given project is complementary, rather than duplicative. The terms included in the principle are defined as follows:

- **Official development assistance.** Government aid that promotes and specifically targets the economic development and welfare of developing countries, including in the clean and improved cooking sector. Aid may come in the form of grants, direct investment, or concessionary finance.

- **Philanthropic capital.** Private funding that is intended to create social impact delivered either as an outright gift with no expectation of financial return or as an asset whose return on investment is less than the market rate.

- **Complementary.** Finance that is delivered to enhance impact and avoid duplication and overlap. Financing is coordinated to ensure that any amount provided does not exceed the amount necessary to overcome market barriers.

S2: The positive effects of carbon finance on clean and improved cooking markets are promoted, while excessive market distortions are avoided.

Carbon finance plays a pivotal role in accelerating the transition to clean and improved cooking solutions by channeling investments into innovative technologies and business models. By incentivizing good practices, such as better customer care that leads to higher usage rates, carbon finance brings positive distortions to many poorly functioning markets.

However, it is crucial to strike a balance between market stimulation and maintaining a level playing field. Excessive market distortions, such as over-reliance on subsidies or unbalanced incentives, can hinder competition, stifle innovation, and lead to unintended consequences that undermine sustainability. Therefore, this principle emphasizes the need for responsible carbon financing practices that foster transparency, accountability, and fair competition, ensuring that clean and improved cooking markets can thrive without excessive market distortions.

This principle is not relevant in areas where there is little to no market potential (e.g., areas of extreme poverty), but can occur in emerging markets that are home to a customer base that could afford to pay an amount for the cooking technology offered.

The terms included in the principle are defined as follows:

- **Market distortions.** Market distortions occur when carbon finance impacts the normal operation of a market, creating advantages for participants who have access to carbon finance.
This positive market distortion is welcomed as a means of enabling the transition to cleaner cooking solutions.

- **Excessive (market distortions).** Market distortions become excessive when the degree or magnitude of distortion goes beyond what might be considered reasonable or necessary for achieving access to clean or improved cooking technologies. According to the Donor Committee for Enterprise Development (2018), market distortions from private sector engagement can include: (i) the market power of the individual company [benefiting from carbon finance] is reinforced at the expense of other firms; (ii) barriers to market entry increase [for firms not benefiting from carbon finance]; and (iii) information asymmetries are reinforced. For example, if the level of subsidy provided by carbon finance distorts competition to the extent that it stifles innovation, creates market inefficiencies, or affects consumer choice without proportionate benefits, it would be considered excessive.

**S3: National policies facilitate the development of clean and improved cooking carbon markets**

This principle recognizes the need for policymakers to deliver an enabling environment for domestic clean and improved cooking activities by clearly defining the rules of the game for market participants. This involves facilitating a regulatory environment that attracts, or at least does not disincentivize the provision of, international/national financing for carbon markets. This includes providing advanced regulatory certainty that allows financiers to make informed investment decisions. It is important that decisions are the result of a consultatory process and deliver long-term clarity for project developers and investors.