CLIMATE CONTRIBUTIONS

integrity not offsets

Interpreting draft ISO 14060 clause 11.3.3:

Lessons from the SBTi Contribution Budget Approach

As has been included in the Science Based Target initiative's (SBTi) newly released Corporate Net-Zero Standard (CNZS v2.0), the draft International Standard ISO 14060 also includes the concept of a "contribution budget" linked to an organisation's "ongoing emissions".

This has the potential to cement the approach into corporate net-zero practice as the new high-integrity bar for determining which companies are the leaders in taking climate action.

This concept appears in Clause 11.3.3, "Portfolio of climate finance", which sits within the broader Clause 11.3, "Taking action for global net zero".

Clause 11.3 is broader than the SBTi's Ongoing Emissions Responsibility (OER) framework. It includes climate solutions products and services, policy engagement, sustainable development goals, and support for workers and communities affected by the transition. In this respect it reflects the growing influence of "spheres of influence" approach associated with organisations such as Oxford Net Zero, as well as the Climate Contribution Framework developed by organisations including Sweep, Mirova Research Center, I Care by BearingPoint and Winrock International.

However, one part of Clause 11.3 warrants particular attention.

Clause 11.3.3 appears to establish an emissions-linked climate finance mechanism. In doing so, it enters territory that will be familiar to those who have followed the development of SBTi's Contribution Budget Approach under the OER framework (see our previous Explainer).

This comparison is useful not because ISO should necessarily replicate the SBTi framework, but because the SBTi Contribution Budget Approach provides a practical example of how an emissions-linked climate finance mechanism can be structured and operationalised. Comparing the two helps identify where the ISO draft is already clear, where it appears broadly aligned with emerging practice, and where further clarification may be beneficial during consultation.

Remaining Emissions, Internal Carbon Fees and Climate Finance

The most significant feature of Clause 11.3.3 is that it explicitly links climate finance to remaining emissions.

The draft requires organisations to disclose the value of their climate finance portfolio relative to their remaining annual greenhouse gas emissions and explain the rationale for that allocation. It then states that the climate finance portfolio can be determined by applying an internal carbon fee to a proportion of remaining emissions, with an aspiration to cover 100% of those remaining emissions.

This is an important development.

The logic is closely related to the Contribution Budget Approach contained within SBTi's OER framework. In both cases, the starting point is not the climate finance itself. The starting point is the organisation's continuing emissions.

An internal carbon fee is then applied to a proportion of those emissions to generate a financial allocation for climate action.

The terminology differs. SBTi refers to “ongoing emissions”, “internal carbon price” and "contribution budget". ISO refers to “remaining GHG emissions”, “internal carbon fee” and a "portfolio of climate finance" and elsewhere in the text to a "climate finance portfolio".

The practical logic, however, is the same:

ongoing emissions are translated into a financial contribution budget through the application of an internal carbon price.

The ISO draft does not specify carbon price levels. Nor does it specify the proportion of remaining emissions that should be covered, beyond indicating an aspiration towards 100% coverage. SBTi OER takes a more prescriptive approach, defining recognition levels based on progressively increasing coverage of ongoing emissions and specifying indicative carbon prices for different recognition tiers.

Whether ISO should adopt similar parameters is a matter for consultation. The more immediate observation is that Clause 11.3.3 has already adopted the underlying logic of an emissions-linked climate finance mechanism.

That point deserves greater recognition than it has received to date.

A Mitigation-Focused Climate Finance Portfolio

Once the climate finance portfolio has been established, the draft turns to how it should be used.

Clause 11.3.3 states that organisations should use their climate finance portfolio to support activities that deliver high-integrity climate mitigation. Those activities should be additional, should take account of the mitigation hierarchy, and should generate measurable greenhouse gas mitigation outcomes estimated in CO_2e. The draft also refers to sustainable development benefits and safeguards.

Much of this is consistent with emerging practice and broadly compatible with the principles underpinning SBTi's OER framework.

The drafting suggests that the climate finance portfolio is intended primarily as a mitigation tool. Whereas the SBTi Contribution Budget Approach allows organisations to support a wider range of climate-related activities, ISO appears to focus this portfolio on actions that deliver mitigation outcomes.

There is nothing inherently problematic about that. If the purpose of the mechanism is to link ongoing emissions with support for additional climate mitigation, then a mitigation-focused design is understandable. It is the language requiring mitigation outcomes to be measured in CO_2e that may be limiting. This could narrow the types of investments that can be included within the climate finance portfolio.

Many of the investments required to deliver future mitigation outcomes do not themselves generate immediately measurable reductions or removals. Programme design, jurisdictional readiness, safeguards systems, benefit-sharing arrangements, monitoring systems, governance reforms, policy implementation and technical assistance often sit upstream of measurable mitigation outcomes.

These activities are undertaken precisely because they are expected to contribute to future mitigation. Yet the mitigation outcome may be indirect, delayed or uncertain at the point the investment is made.

The current wording does not make clear whether such investments fall within the intended scope of the climate finance portfolio.

A cautious interpretation could lead organisations and assurance providers to favour investments where quantified mitigation outcomes already exist or can be demonstrated with a high degree of confidence.

That would create a bias towards later-stage mitigation opportunities and away from the enabling investments that are often required to create those opportunities in the first place.

This is particularly relevant for jurisdictional programmes, landscape-scale initiatives and other interventions where significant upfront investment may be needed before measurable mitigation outcomes are generated.

The consultation process provides an opportunity to clarify whether the climate finance portfolio is intended to support only activities with directly measurable mitigation outcomes, or whether it may also support enabling investments where there is a credible pathway to future mitigation.

Activities In or Outside the Value Chain

Clause 11.3.3 states that activities financed through the climate finance portfolio may occur “in or outside” the organisation’s value chain.

This language should be read carefully.

It does not simply replicate the SBTi treatment of market instruments or system-level actions. SBTi CNZS v2.0 allows companies to use certain projects, market instruments, activity-pool actions and sector-level actions to support target implementation, including in relation to Scope 3. But it does so through a defined implementation hierarchy and a set of integrity criteria. Actions must correspond to the relevant underlying activity, occur within a relevant system, be quantified and verifiable, maintain temporal alignment, have clear attribution, and avoid double counting. SBTi also requires actions not reflected in the physical GHG inventory to be reported separately, and expressly excludes reductions or removals used for OER from being used for target implementation.

ISO 14060 Clause 11.3.3 is less explicit.

The clause allows financed activities to occur in or outside the value chain, but does not clearly explain how in-value-chain activities should be treated when they also contribute to the organisation’s own emissions-reduction pathway.

That distinction matters.

Some in-value-chain activities may be straightforward target implementation: supplier decarbonisation, energy efficiency, low-carbon inputs, regenerative agriculture, logistics changes, or other interventions that reduce Scope 1, Scope 2 or Scope 3 emissions. Other activities may be better understood as broader climate finance or system-contribution actions. Some may plausibly sit in both categories unless the standard clarifies the accounting treatment.

Clause 14.7 improves transparency by requiring organisations to report on their portfolio of climate finance, including its value, rationale, use to deliver measurable mitigation outcomes, and details of decarbonisation initiatives in or outside the value chain. But disclosure does not by itself resolve the accounting question.

The issue is not whether in-value-chain activities should be excluded from the climate finance portfolio. ISO may have good reasons for allowing them. A broad organisational standard may wish to recognise finance that supports decarbonisation across suppliers, customers, local communities and related systems.

The issue is that the draft does not yet provide the same safeguards that SBTi applies when actions or market instruments are used to support target implementation. In particular, ISO should clarify whether an in-value-chain activity financed through the climate finance portfolio may also count toward the organisation’s own emissions-reduction target, and if so under what conditions.

Without that clarification, similar activities could be treated differently by different organisations. One company might report supplier decarbonisation as target implementation. Another might report a similar intervention as climate finance under Clause 11.3.3. A third might present it as both. The standard should make clear when that is acceptable, how impacts should be attributed, and how double counting or double claiming is avoided.

The consultation should therefore focus not on whether ISO should prohibit in-value-chain finance, but on whether the final text provides a sufficiently clear accounting logic for activities that sit at the boundary between target implementation and climate finance contribution.

Direct Project Investment, Carbon Credits and Offtake Agreements

Clause 11.3.3 also provides insight into the types of financing mechanisms that ISO appears to envisage.

The draft refers to capital and other market mechanisms, including direct project investment, purchase and retirement of carbon credits, and offtake agreements.

Two of these categories are clearly associated with carbon credits.

The third—direct project investment—is therefore carrying much of the weight associated with non-credit-based climate finance.

That raises an important interpretive question.

How broadly should "direct project investment" be understood?

If the phrase is intended simply to distinguish investment in projects from purchasing issued credits, then the provision may encompass a wide range of mitigation finance, including upfront investment in programmes that later generate mitigation outcomes.

If interpreted more narrowly, however, it may exclude many forms of enabling finance that are critical to the development of future mitigation opportunities.

This issue is particularly important because the guidance documents referenced in Note 2 are not limited to direct investment in mitigation projects. They include approaches associated with beyond value chain mitigation, climate contributions and broader climate finance strategies.

The supporting references therefore point toward a wider universe of possible interventions than the operative text may imply.

The consultation process provides an opportunity to determine whether that apparent tension is intentional or accidental.

If ISO intends climate finance portfolios to support enabling investments and programme-development activities, the wording should be expanded to make this explicit.

If it intends a narrower focus on direct mitigation investments and credit-related mechanisms, that should also be stated clearly.

Either approach is defensible. Ambiguity is less so.

The Carbon Neutrality Problem

The most problematic aspect of Clause 11.3.3 is Note 3.

After referencing guidance documents that are largely associated with contribution approaches, beyond value chain mitigation and climate finance, the draft notes that organisations may choose to become carbon neutral under ISO 14068-1 on their way to organisational net zero.

This creates a significant tension within the clause.

The main text of Clause 11.3.3 establishes an emissions-linked climate finance mechanism. Organisations identify remaining emissions, apply an internal carbon fee, create a climate finance portfolio and use that portfolio to support additional climate mitigation activities.

The logic is fundamentally contribution-oriented.

Note 3 then introduces carbon neutrality as an apparently equivalent pathway.

The problem is that contribution approaches and compensation-based carbon neutrality claims rest on different foundations.

Under a contribution approach, organisations continue to recognise that their emissions occur. They reduce those emissions through their transition plan while simultaneously financing additional climate action elsewhere.

Under a compensation model, organisations may claim that emissions have been balanced or neutralised through the purchase and retirement of credits.

These are not equivalent concepts.

The distinction has become increasingly important as climate litigation, regulatory scrutiny and claims guidance have evolved. Several of the documents referenced elsewhere in Clause 11.3.3 emerged precisely from efforts to distinguish contribution claims from compensation claims.

Against that backdrop, Note 3 appears inconsistent with the overall direction of the clause.

At minimum, the relationship between ISO 14060 and ISO 14068 requires much clearer explanation.

A stronger approach would be to address that relationship separately rather than introducing carbon neutrality as an apparently parallel response to the challenge of ongoing emissions.

Issues for Consultation

Clause 11.3.3 is one of the most consequential provisions in the draft ISO 14060 standard.

It introduces an emissions-linked climate finance mechanism into an international net-zero framework and does so using concepts that are increasingly familiar within corporate climate governance.

The consultation process presents an opportunity to strengthen the provision in several areas.

The first is terminology. The relationship between "portfolio of climate finance" and "climate finance portfolio" should be clarified and key terms defined.

The second is transparency. Organisations should be expected to disclose the proportion of emissions covered, the internal carbon fee applied, the resulting climate finance allocation and the rationale supporting those decisions.

The third is scope. The standard should provide greater clarity regarding whether enabling investments intended to facilitate future mitigation outcomes fall within the intended scope of the climate finance portfolio.

The fourth is boundary management. The relationship between climate finance activities occurring within the value chain and the organisation's own decarbonisation pathway should be clarified to avoid confusion and inconsistent treatment.

The fifth is the treatment of direct project investment. The standard should make clear whether programme-level finance, jurisdictional finance and readiness investments are intended to fall within this category.

Finally, the relationship between Clause 11.3.3 and carbon neutrality claims under ISO 14068 deserves careful reconsideration.

Conclusion

Clause 11.3.3 contains the foundations of an emissions-linked climate finance mechanism.

Its logic is straightforward: remaining emissions can be used as the basis for determining a climate finance allocation through the application of an internal carbon fee. That finance can then be directed toward additional climate mitigation activities.

In this respect, the clause is much closer to the logic of SBTi's Contribution Budget Approach than many readers may initially appreciate.

However, the question remains whether the provision gives organisations, assurance providers and stakeholders sufficient clarity regarding how a climate finance portfolio should be determined, what activities it may support, how it relates to value-chain decarbonisation, and what claims may be associated with it.

The draft provides part of that answer.

What remains is to ensure that the final standard removes avoidable ambiguities, clarifies the intended scope of climate finance, and resolves the tension created by the introduction of carbon neutrality within an otherwise contribution-oriented framework.

If that is achieved, Clause 11.3.3 could become one of the most influential provisions in the final standard and help establish a clearer international understanding of how organisations can translate ongoing emissions into meaningful climate finance action.