



No Double Counting and No Free Riding

Guidance note 1

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Circular Action Hub Advisory Group and Institutional Supporters

Technical Advisory Committee



Ad hoc Advisory Group and Institutional Supporters



Impact investment, commodity traders, and market advisors





1. INTRODUCTION

The Circular Credits Mechanism (CCM) is guided by a set of Principles & Criteria to ensure the environmental and social integrity of the credits issued and the waste management systems of its users.

One of the guiding principles of the CCM is ‘learning by doing’ (Principle 7). Recognizing that there is a huge diversity of circumstances, technologies, and approaches that can be used by projects in different parts of the world, the CCM does not assume that a ‘one size fits all’ approach can be defined at the outset. Instead, it adopts a ‘learning-by-doing’ approach and strives for continuous improvement of its requirements based on the experience learned with participating projects.

The CCM’s Technical Advisory Committee and wider Advisory Group (Annex 4) were created to guide this learning process. Through a process of continuous conversation, discussion, and consultation, the CCM aims at gradually evolving to embrace the needs of all stakeholders, as well as guiding a process of continuous improvement of market practices in the circular economy.

The first topic selected for discussion by the Technical Advisory Committee is Principle 2 of the CCM - “No Double Counting”. This note aims at explaining the concept and objective of this principle, as originally conceived by the CCM, and trigger a discussion related to its appropriateness and interpretation to real life situations.

2. NO DOUBLE COUNTING (PRINCIPLE 2)

2.1 DEFINITION OF NO DOUBLE COUNTING

Principle 2 of the Circular Credits Mechanism (No Double Counting) states that the environmental impact related to the recovery and destination of post-consumer waste should not be attributed to more than one entity. In practice, this means that credits cannot be issued for activities where this service has already been contracted and paid for (e.g., municipal waste collection services). Similarly, the credits can only be used once, to compensate for the footprint of a certain entity.

The concept of 'no double counting' is important to ensure that the environmental impact derived from a circularity activity (e.g., removal and appropriate destination of waste), is not claimed more than once, thereby ensuring the environmental integrity of the system.

If the same amount of waste collected is claimed more than once, this would give the false impression that a larger amount of waste was recovered than what happens in reality (i.e., it would result in a claim that is not additional and additive to past trends). In other words, **'no double counting' ensures that** the contributions to circularity embodied in **Circular Credits are additional to existing claims** (see box 1 for a definition of possible claims).

In essence, a **project cannot attribute the environmental services of recovery of the same amount of waste to more than one buyer**¹. For example, if a waste picker group collects 1 tonne of post-consumer PET waste, it cannot transfer the 'credit' derived from the collection of this material to more than one company. If a company acquires the credit related to the recovery of this 1 tonne, they can claim that it contributed to the reduction of its PET footprint by 1 tonne. Consequently, this environmental service, represented by the credit, can only be claimed once.

Similar questions arise with relation to **local governments and/or waste management companies paid by the government**, their rights to finance their activities through circular credits, and the potential for double counting - see Annex 1.

¹ In order to facilitate the control of double counting and prevent multiple sales of the same material, it is important that projects selling credits are listed in transparent and publicly available registries. The Circular Action Hub will act as a registry for all projects transacting credits through its marketplace.

Box 1: Waste recovery, Circular Credits and associated claims

A Circular Credit represents the service of recovery (removal, collection, sorting) and appropriate destination of 1 metric tonne of post-consumer material that is inappropriately discarded, causing pollution of the natural environment or foregoing the opportunity of a better destination.

The choice of appropriate destination of the materials recovered varies according to local context. Nevertheless, projects should pursue the best economically feasible destination within the hierarchy of choices available for the waste recovered.

While some of the materials collected may be recycled, the Circular Credits Mechanism currently focuses on the recovery of post-consumer materials to avoid waste leakage and environmental pollution.

Consequently, any claim associated with waste recovery must refer to the avoidance of waste leakage, such as 'zero waste', 'waste neutral, or 'net waste leakage'.

2.2 DIFFERENCE BETWEEN 'PAYMENT FOR ENVIRONMENTAL SERVICES' AND 'PURCHASE OF RECYCLABLE MATERIALS'

What happens when different actors make separate claims derived from the payment for the activity of waste recovery and from the purchase of the post-consumer recyclable material collected? For instance, Company A buys credits from waste pickers that collect and recover waste materials from the environment. This recyclable material is then sold to Company B as feedstock for further recycling.



Provided that the claims refer to different environmental impacts and purposes, i.e., the 'purchase of recyclable material' and the 'payment for the activity of waste recovery', we believe that this does not constitute double counting.

Company A can claim to have contributed to the recovery of waste material from the environment, reducing pollution. Company B can claim to have increased the recycled content of their products, but not to have reduced waste pollution². Both companies are, in distinct ways, contributing to circularity, and can make different but complementary claims.

3. NO FREE RIDING (PRINCIPLE 4)

This separation of concepts ('purchase of physical recyclable material' and 'payment for the activity of waste recovery') is also important to avoid situations of 'free riding'.

For instance, Company B buy recyclable materials collected from waste pickers as feedstock to meet their targets of increased recycled content. At the same time, Company B also claim that the environmental service of waste recovery (i.e., credits) belongs to them, given that they acquired the material collected.

We believe that the acquisition of physical material does not allow Company B to claim to have contributed to the unremunerated activities of waste collection and recovery. **If the collection and recovery of waste is not separately paid for**, it would be an appropriation of the environmental service provided. In countries with EPR obligations, **this practice is referred to as "free riding"**³.

3.1 DEFINITION OF NO FREE RIDING

As per its Principle 4 (No Free Riding), the Circular Credits Mechanism only recognises the environmental service embedded in Circular Credits if the activities are fairly paid for, in addition to any payment for the acquisition of physical recyclable materials.

For instance, in the case where waste pickers are only paid for the sale of physical recyclable materials delivered to a buyer, the entity buying these materials is not entitled to claim the environmental service provided. It is understood that this is a transaction involving solely the purchase of waste materials as a feedstock for recycling plants and not a contract for the provision of an environmental service.

² As per Box 1, it is important to note that the Circular Credits Mechanism does not represent recycling activities, but waste collection, sorting and best appropriate destination.

³ See, for instance, OECD 2019: Extended Producer Responsibility (EPR) and the impact of online sales. [Environmental Working Paper 142](#); or Watkins et al. 2017: EPR in the EU Plastics Strategy and the Circular Economy: A focus on plastic packaging. Institute for European Environmental Policy.

The aim of the “No Free Riding” principle is to ensure that the environmental service of waste recovery is paid in addition to the purchase of recyclable materials, as these payments are made for different purposes.

The easiest way to visualise the difference between these concepts is to understand the costs related to make a comparison of the costs of waste management and circularity to companies operating in countries with and without EPR (Extended Producer Responsibility) obligations⁴.

In countries with EPR obligations, companies need to pay EPR levies⁵ to ensure that the materials that they put in the market are recovered and sent to an appropriate destination after consumption⁶. These levies can be paid to government agencies or EPR agents⁷ that conduct the collection and recovery of such materials. In addition, if these companies decide to increase the recycling content of their products (or packaging)⁸, they would need to incur on the additional cost of acquiring recyclable material, usually sold from a different party.

	Payment for waste recovery and collection	Purchase of recycled materials
Objective	Extended Producer Responsibility	Increase recycling content; Ellen MacArthur targets, etc.
Countries with EPR obligations	 	
Countries without EPR obligations	 	

⁴ Most EU countries have EPR obligations (see [Europen](#) reports) and these are been replicated in some developing countries (e.g., [India](#))

⁵ EPR levies in the Eu range from less than €100/tonne to ca € 500/tonne, depending on material and country. See, for instance Watkins et al. 2017

⁶ The appropriate destination for the materials collected varies according to local context. Projects should pursue the best economically-feasible destination for waste recovered available.

⁷ In the UK, for instance, there are over 30 Producer Responsibility Organisations (PROs) – agents that assist companies in meeting their EPR obligations.

⁸ For instance, to meet voluntary or compliance targets.

In countries without EPR obligations, the service of collection of recyclable waste materials is often incipient and vast amounts of material end up in the environment. Companies that sell or distribute products to these countries have a risk that their post-consumption products leak into nature, causing pollution and affecting their brands.

3.2 CIRCULAR ACTION MECHANISM AS A PROXY EPR SCHEME

The **Circular Credits Mechanism provides the opportunity to ‘extend the responsibility of producers’ to countries without EPR obligations.** Through the use of credits, companies can engage local actors in the collection and sorting of these materials in a similar way that would be conducted by EPR agents in regulated countries.

Companies may also want to buy physical recyclable materials, with the objective to increase the recycled content of their products. In countries with more advanced waste management systems (which often also have EPR obligations), these materials are purchase from actors different from the ones that conduct waste collection in the first place. In less specialised economies, it is often the case that the same actors conduct the collection and sorting of waste materials and also sell the recyclable fractions. The fact that the same party performs both functions should not result in them not being paid for both.

We believe, that the payment for the acquisition of recyclable materials should be additional to the payment for the environmental services of waste collection and sorting, even when the two activities (waste recovery and the sale of recyclable material) are conducted by the same actors. Failure to recognise and contribute to the service of waste recovery, configures “free riding” - a practice rejected by the Hub as per its Principle 4.

4. CONCLUSION

The combination of the principles of No Double Counting and No Free Riding aim to ensure that Circular Credits represent an additional service that has not been previously recognised (claimed) and that it has been paid for.

We believe that the adoption of these principles should safeguard both the environmental and the social integrity of the Circular Credits Mechanism and of the waste management systems of its users.

ANNEX 1. CIRCULAR CREDITS AND LOCAL GOVERNMENTS

Should local government agencies or waste collection companies subcontracted by allowed to sell credits to third parties based on municipal waste collection services?

Local governments usually operate with revenue collected from taxpayers and are often mandated to perform municipal waste collection services. As societal expectations demand the adoption of circular economy models, there will be increasing need for more sophisticated waste management practices to increase recycling rates (which requires segregated waste collection or sorting stations, recycling facilities, etc.) and minimise leakage to the environment.

Collection of waste is chronically underfunded, despite often being the single highest item in budgets of municipalities.¹ To cover the additional costs associated with these practices, governments may need to resort to increasing taxation, transferring this responsibility to domestic producer companies (i.e., through EPR obligations), or, potentially, issuing and selling circular credits.

Given that government agencies will report the amount of waste recovered in their official statistics, what happens when the company buying the credits also make a claim in respect to these activities? Would the claim made by the buying company result in double counting of the same amount of waste collected and already reported by the municipality? Or do these claims have a different nature and could co-exist (the government agency reporting its operational activities to the society; the buyer company claiming to have mitigated part of their waste footprint)?

In many cases, the municipal waste collection services are actually performed by a separate entity (a public-owned company or a private-sector company), acting by delegation, as a concessionaire, or sub-contracted company to provide this public service. Would any of the questions above have a different answer when the waste collection services are provided by a concessionaire or sub-contractor? Can these waste management companies sell credits in respect to the activities performed, if they are also paid for the provision of these services?

Credit ownership and transfer of claims

Associated to the discussion above is the question about what party creates the credit in the first place, and how the rights to the credit (and associated environmental claims) are transferred.

The starting point for the Hub is that the “original owner” of the credits is the party / organisation that actually performs the waste recovery services in the first place. Their subsequent transfers depend on agreements, unless the contracting entity expressly retains the rights to issue the credits through contractual arrangements.

In the case of municipal waste collection companies, the activities they perform result in the reduction of waste from the environment, generating a positive environmental impact. Both the government agency and the municipal waste collection company (or a private concessionary company, as the case may be) are entitled to report the amount of waste removed. This “double-reporting” doesn’t necessarily lead to a double-counting if the reporting of this same amount of waste collected is for a different use and perspective (the agency reports the amounts collected indirectly through the concessionaire; and the concessionaire reports the amounts collected directly). Any jurisdictional assessment of the amounts collected should take this “double-reporting” in consideration and make the necessary adjustments when consolidating the numbers.

A different question is related to whether or not the agency and/or the concessionary company should be entitled to issue (and monetise) Circular Credits based on the public service provided by them. Assuming that the Circular Credits Mechanism (CCM) allows these entities to issue credits, the next factor to be addressed is if the credits should belong, by default, to the entity paying for the services (the government) or to the entity actually performing the services (the concessionary company).

The answer to this question is not only technical but also a conceptual matter: which solution would be more aligned with the objectives of the CCM? The option to issue the credits for the entity that paid for the services would lead to a concentration of credits in one single player (the local government’s agency or, ultimately the government itself), reducing the impact of the CCM on the promotion of a plurality of new initiatives in this space. On the other hand, if the credits are given to the entity that actually performed the services (i.e., the informal sector, or waste collection companies), each time one entity delegates the services downstream the right to the credits is considered to be transferred as well (from the government agency to the concessionaire; and, in turn, from the concessionaire to one or more waste collection SMEs or co-operatives).

In all cases, when the entity receiving the credits (being it the government agency, the concessionary company or the sub-contracted SMEs or co-operatives) sells the credits to a third party, the right to claim this positive environmental impact is transferred to the buying party, who can use it to mitigate their own waste footprint.

Finally, in the case of informal groups collecting recyclable materials to be sold for its physical value, the activities they perform also result in the reduction of waste from the environment. This positive environmental impact provided is not claimed by these groups and, consequently are unnoticed, not valued and not remunerated.² If credits were issued for these services, this would result in better measurement of the amounts of waste recovered, their sale would provide remuneration to these groups, and the environmental impact could be claimed by the buying party.

1. Kaza et al., What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050. International Bank for Reconstruction and Development, The World Bank, 2018.
2. R. Linzner and U. Lange, "Role and Size of Informal Sector in Waste Management—a Review," Resources, Conservation and Recycling 166, no. 2 (2013): 69-83.



ANNEX 2- CIRCULAR CREDITS MECHANISM AND ACTION HUB

CIRCULAR ACTION HUB

Circular Action Hub⁹ is a platform that connects local waste management projects and activities with companies and investors willing to support, accelerate and strengthen a more effective and socially-responsible circular economy. Financial support for the projects could come in the form of sponsorship, investment, or purchase of the Circular Credits - a new market mechanism created to reward activities that increase waste recovery and recycling rates, thereby enabling corporates to address the part of their waste footprint they cannot reduce through internal actions alone.

THE CIRCULAR CREDITS MECHANISM

The Circular Credits Mechanism (CCM) is a system of performance-based payments for environmental services of circularity, striving for inclusiveness and wide social participation. It is a market tool for buyers and sellers of the environmental services related to the collection (recovery), sorting and appropriate destination of recyclable waste materials that today pollute our environment.

Through the use of credits, interested parties (the buyers - e.g., companies, individuals, projects) can compensate for their waste footprint, by effectively subcontracting the services provided by sellers (e.g., projects, waste pickers associations, etc.) providing the environmental service of waste recovery and appropriate destination.

The use of credits enables interested parties to engage service providers in different parts of the world, where such waste pollution is more prescient (e.g., coastal or riverine areas, islands).

In the absence of polluter-pay regulations in some countries (e.g. Extended Producer Responsibility - "EPR" schemes), the tool can positively contribute to social and environmental impacts (e.g., low income groups in developing countries). For countries with existing EPR schemes, the Credits may be recognised as one of the ways of complying with these regulations.

The Circular Credits Mechanism has the potential to provide a socially, economically and environmentally positive approach to recyclable waste collection and recycling worldwide.

⁹ www.circularactionhub.org

ANNEX 3- PRINCIPLES & CRITERIA CIRCULAR OF THE CCM

1. One-in One-out Accounting

The Circular Action Hub promotes the concept of equivalence between the amount of waste created by a given entity, and the amount of waste recovered by the activities it supports.
No discounts, no surcharges

2. No Double-Counting

An essential principle of the Circular Actin Hub is that the environmental impact related to the recovery and destination of waste should not be attributed to more than one entity

3. Demonstrability

The impact of a project must be substantiated by evidence that demonstrates that the activity was conducted and that a certain amount of waste materials was indeed recovered and sent to an appropriate destination (i.e., MRV)

4. No Free-Riding

The Circular Action Hub only recognises the environmental service of activities that are fairly paid for, in addition to any payment for the acquisition of physical recyclable materials

5. Fair Remuneration

The provision of this environmental service must receive fair remuneration, commensurate with the workload and the time required

6. Do no harm

Projects are required to adopt minimum social and environmental safeguards to ensure that the activities involved do not cause harm to the parties involved

7. Learning by doing

The Circular Action Hub does not assume a 'one size fits all', but instead strives for continuous improvement based on the the experience learned with project participants

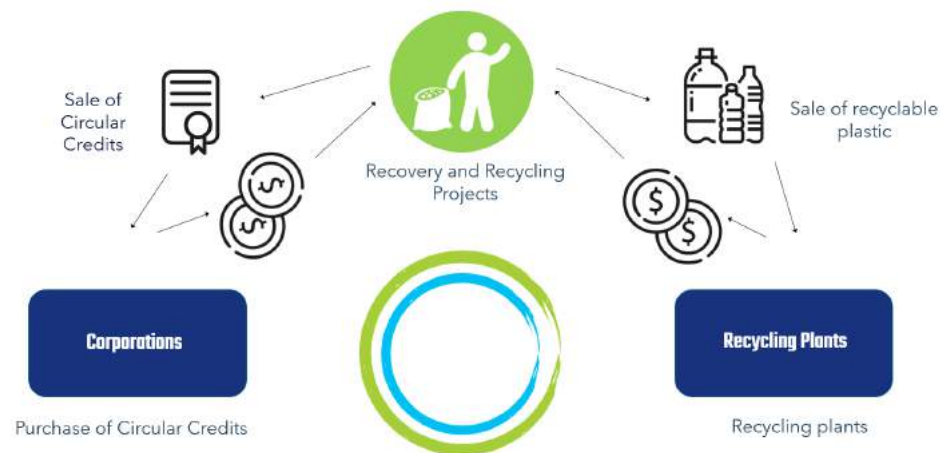
Principle 1. One-in One-out accounting - the Circular Credits Mechanism is based on an equivalence between the amount of waste created by a certain entity (a company, an event, an individual), and the amount of waste recovered by the parties selling the credits. No discounts, no surcharges.

Principle 2. No double counting – an essential requirement of the Circular Credits Mechanism is that the environmental impact related to the recovery and destination of waste should not be attributed to more than one entity. In practice, this means that credits cannot be issued for activities where this service has already been contracted and paid for (e.g., municipal waste collection services). Similarly, the credits can only be used once, to compensate for the footprint of a certain entity.

Principle 3. Demonstrability - Monitoring and Verification - the amount of credits to be issued must be substantiated by evidence that demonstrates that the activity was conducted and that a certain amount of waste materials was indeed recovered and sent to an appropriate destination. This can be done using different types of documents, such as invoices/receipts associated with the sale of materials to recycling plants, bills of laden, transportation authorization, or balance records. This documentation must be kept and made available for third party verification, to substantiate the issuance of credits.

Principle 4. No free riding – related to Principle 2, the CCM only recognises the environmental service if the activities are fairly paid for, in addition to any payment for the acquisition of physical recyclable materials. For instance, in the case where waste pickers are only paid for the sale of physical recyclable materials delivered by them to a buyer, the entity buying these materials are not entitled to claim the environmental service provided. It is understood that this is a transaction involving solely the purchase of waste materials as a feedstock for recycling plants, and not a contract for the provision of an environmental service. Payment for the environmental service must be over and above the payment for the recyclable materials purchased, creates a second revenue stream for its providers.

The Circular Credits Pathway



Principle 5. Fair remuneration – linked to the ‘no free riding’ criterium, the provision of this environmental service must receive fair remuneration, commensurate with the workload and the time required to the provision of the service. The Circular Credits Mechanisms does not intend to establish minimum prices (prices will be determined through supply and demand market basis) but will provide an oversight to ensure that participants in the scheme do not adopt exploitative market practices.

Principle 6. Do no harm - All projects are required to meet minimum social and environmental safeguards to ensure that the activities involved in the creation of credits do not cause harm to the parties involved.

Principle 7. Learning by doing - Recognising that there is a huge diversity of variation in terms of circumstances, technologies available and approaches that can be used of projects in different parts of the world, with different circumstances, the CCM does not assume that a ‘one size fits all’ monitoring approach can be defined at the outset. Instead, the CCM adopts a ‘learning-by-doing’ approach to its monitoring and verification requirements, and will strive for continuous improvement of its requirements based on the experience learned with participating projects.



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