



OPINION - CARBON MARKETS - CLIMATE FINANCE - DEVELOPMENT

Carbon Ratings Are Useful. Let's Not Make Them the Main Character.

On ratings, bond-market analogies, and the risk of building Bloomberg terminals before the factories.

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A few weeks ago, one of the projects we develop at Fronterra, Sumaq Allpa, received an “A” pre-issuance rating from Sylvera, a carbon ratings company.

Of course, I am pleased with it.

We have spent years doing the less glamorous work behind that rating. Forestry design, nurseries, planting, soil and environmental studies, archaeological studies, stakeholder engagement, FPIC, carbon modelling, field infrastructure, baseline work, permitting, social safeguards and, increasingly, simply learning what it takes to execute a large restoration project in the high Andes in partnership with rural Quechua communities.

So having an external team come in, interrogate the project and conclude that it is a high-quality one is useful. For us, for investors and, hopefully, for future buyers.

But receiving a good rating has also made me think more about what exactly a carbon rating is and what role we, as carbon-removal suppliers, want rating providers to play in this market.

Because there is a bigger story being crafted. And, like most good business stories, it is becoming powerful.

A very useful new craft

Companies such as Sylvera and BeZero emerged at a very particular moment in the carbon market.

Following the Guardian and New Yorker moment, buyers and investors suddenly needed to understand the quality of hundreds or thousands of projects they were sourcing carbon credits from, or considering sourcing from.

Traditional project due diligence was expensive, but particularly slow. Information was fragmented. Consultants' reports were never designed to answer an investment committee's questions. And validation and verification bodies - the well-known but less glamorous VVBs - were primarily assessing conformity with standards and methodologies, not helping investors underwrite the full risk of a project.

Into that gap came a new craft. Created in the UK.

Take specialist analysts. Add satellite imagery, geospatial datasets, automated processing, structured project data and increasingly sophisticated AI tools. Build repeatable analytical frameworks. Perform much of the work remotely. Produce an opinion that can be compared across projects.

That is a real innovation. London Inc.

I sometimes think the least glamorous but most accurate description for the self-described rating “agencies” would be technology-enabled carbon due diligence start-ups. And I mean that as a compliment. They have transformed - perhaps even revolutionised - parts of carbon project due diligence and, increasingly, parts of the project-development workflow itself.

Due diligence needed disruption, and this new generation of carbon intelligence firms gave it one.

Anyone who has developed a serious nature-based project knows how quickly transaction costs accumulate. Lawyers. Forestry experts. Carbon engineers. ESG specialists. Financial advisers. VVBs. Technical advisers. Data providers. Registries. Standards. Auditors.

If technology can make part of that diligence faster, leaner, cheaper and more robust, we should welcome it.

What I am less convinced about is the next step in the narrative being crafted: because this new form of due diligence can be expressed as AAA, AA, A, BBB and so on, carbon-market liquidity and capital allocation should therefore be (re)organised around the institutional architecture of the bond market, with a regulated, independent ratings layer sitting between projects and capital - and rating “agencies” at the centre of the system. The liquidity kingmakers.

A useful product that carries a theory of market architecture

The need for better carbon due diligence is real. But one particular way of satisfying that need should not automatically be confused with the need itself.

Sylvera and BeZero have shown that satellite imagery, structured data, specialist analysis and increasingly AI can make carbon due diligence faster, more comparable and potentially much cheaper. That is an extraordinary innovation.

Turning the output of that diligence into standardised ratings, distributing those opinions across the market, embedding them into investment decisions and making rating providers part of regulated market infrastructure is something different.

It is a theory of market architecture.

Let's admit it. It is coherent. It may even prove to be the right one from different angles. And it is, understandably, a very strong commercial thesis for the rating companies building carbon-rating businesses.

But a well-argued commercial thesis is not the same thing as an objective description of what the market necessarily needs, or what the product sold really is.

The question for climate finance is not whether we can recreate the institutional infrastructure of bond markets. The question is which architecture moves the greatest amount of capital toward climate action while preserving engineering and social integrity, reducing information asymmetries and keeping transaction costs as low as possible.

“A well-argued commercial thesis is not the same thing as an objective description of what the market necessarily needs.”

Is a carbon credit really a bond?

Between Sylvera and BeZero, the latter has been particularly explicit about this thesis, with a lot of eloquence and serious thinking. That should be welcomed.

Its CEO, Tommy Ricketts, has argued that carbon markets should incorporate the risk-based approach used in bond markets rather than relying primarily on a commodity-market model. The company has written that its ambition is to build for ecosystem assets what S&P and Moody's built for financial markets, and that carbon ratings assess the probability that a credit delivers on its underlying tonne claim.

There is something very compelling in this argument.

Not every carbon credit carries the same level of uncertainty.

Two credits might both say “one tonne of CO₂e”, while the evidence supporting those claims can be radically different. Baselines differ. Additionality differs. Leakage differs. Permanence differs. Measurement uncertainty differs. The teams implementing the projects differ.

Pretending all of this heterogeneity disappears at issuance is clearly unsatisfactory. And the rating providers are right that markets need ways to understand and price risk.

Where I become less convinced is when a useful analogy (which is a core basis of the carbon rating theory) starts becoming a theory of what the asset is, and then a theory of how the market around that asset should be organised.

For the little I know about bond markets (I'm a sociologist and entrepreneur, not a banker), a bond has an issuer with a contractual financial obligation. There is principal, interest, maturity, default risk and, potentially, recovery value.

A carbon credit is not that.

It is an environmental attribute generated through an underlying climate intervention. It contains a claim concerning an emission reduction or removal. Its risks relate to additionality, quantification, baseline assumptions, leakage, permanence, methodology, execution and many other factors.

A pre-issuance ERPA with prepayments financing a project can certainly contain elements of credit risk, delivery risk and project-finance risk. But that does not make the underlying carbon credit a bond.

Carbon is probably something more complicated; a differentiated environmental commodity or attribute, generated by a project, carrying environmental-claim risk and, depending on how it is financed or contracted, additional project-finance and counterparty risks.

Not as catchy. But reality frequently refuses to fit into a business pitch.

And what are we actually rating before the credit exists?

The bond analogy becomes even harder for afforestation, reforestation and revegetation projects.

ARR projects are often assessed years before the carbon credits exist. The trees may only just have been planted, or may not yet have been planted at scale. The carbon has not yet been removed. Verification and issuance may still be years away.

At that stage, what is being assessed is not simply the integrity of an environmental asset. It is also the credibility of a development, implementation and long-term operation plan: execution capacity, financing, forestry assumptions, community relationships, regulation, future carbon accounting and eventual delivery.

The financing around the project may have project-finance, forward-contract or credit characteristics. But the environmental asset being produced is still something else.

If the analytical object is fundamentally project-development risk before issuance, it is at least worth asking why the institutional architecture should necessarily be the credit-rating-agency model rather than project-finance due diligence made radically cheaper and more scalable through technology.

That looks a lot like technology-enabled project due diligence.

Ratings are an opinion about the asset. They should not replace due diligence.

This distinction matters because carbon markets have an enormous temptation toward abstraction. It is considerably easier to communicate “A” than to communicate “three years of stakeholder engagement, land analysis, baseline modelling, nursery operations, survival rates, silvicultural design, grievance mechanisms, soil studies, biodiversity work, financial modelling, implementation capacity and community governance”.

Capital markets love shorthand. They need shorthand. But shorthand can gradually become the story itself. And that is where I become uncomfortable.

A rating should compress information. It should not replace information nor due diligence from investors and buyers nor become a gatekeeper. The “A” rating received by Fronterra’s project is valuable to me because an independent analytical organisation looked at the project and formed an opinion about it.

But the rating did not plant a tree. It did not conduct FPIC. It did not operate the nursery. It did not perform the archaeological studies. It did not employ local workers. It did not build firebreaks. It will not keep those trees alive over the coming decades. And it shouldn’t replace complete due diligence by investors and buyers, or close monitoring over the years.

The project should never be designed merely to follow the rating - and ratings should certainly not replace due diligence

For an investor considering a meaningful equity or project-finance investment in nature, I would personally never recommend relying on a rating alone, including a very good rating.

Use it. But combine it with proper due diligence and field trips. Talk to people. Feel the field.

I have spent roughly two-thirds of my career as an investor, working for institutional investors and for a very large O&G company investing heavily in NBS. I would want specialist carbon and forestry DD. Legal DD. Financial-model review. ESG and community diligence. Site visits. Verification work. The views of people who own the project,

communities who build it, and local authorities who understand the jurisdiction, the ecosystem, the local politics and social issues.

There are excellent traditional specialists such as Perspectives, UNIQUE, Climate Focus, ONFI, Winrock and many others who can interrogate projects deeply and independently.

A standardised rating product and bespoke investor diligence answer different questions.

If ratings allow an investment team to screen 200 opportunities and decide which ten deserve deeper work, fantastic. If they help identify weaknesses before investment, even better.

If they eventually become “It is rated A, therefore DD is done”, or “It is rated C, therefore we don’t invest”, we will have achieved precisely the opposite of what sophisticated capital markets for climate finance should be doing.

Useful analytical layer, but please don’t become a mandatory gate

There is a fundamental difference between an investor choosing to use a rating because it improves an investment decision, and a project effectively being unable to access institutional capital unless it has achieved a minimum external rating.

The first is a useful analytical service. The second creates a gatekeeper.

Once investment committees, buyers, banks or funds begin to say “BBB or above”, the rating stops being only an opinion. It begins to determine whether a project is even allowed into the room.

And if that gate then becomes surrounded by regulation, authorised providers, mandatory procedures and very high fixed costs, we need to ask a very simple question: does this layer reduce the total cost of trust, or does it simply add another cost of trust?

I am not arguing against independent analysis, nor against sensible rules on transparency and independence. But climate finance practitioners should be very cautious about turning an innovative DD product into a de facto compulsory passage to capital.

The burden will not be evenly distributed. Well-capitalised international developers can absorb another layer of technical and analytical cost. Smaller local developers, NGOs and community-led projects often cannot.

The paradox would be painful: the entities with the least capital would be required to finance an increasingly sophisticated architecture of investor comfort before receiving the capital required to produce the climate outcome.

Don’t build Bloomberg terminals before building the factories

Ratings, data and analytics are real market infrastructure. But they are analytical infrastructure. The productive infrastructure of the carbon market is still the thing that actually creates the climate outcome: the forest restored, the methane captured, the industrial process changed, the carbon removed.

In mature financial markets, analytical and trading infrastructure sits on top of an enormous productive economy and an enormous stock of issued assets.

In the carbon abatement industry (particularly in removals) the productive base itself is still underbuilt and underfinanced. With ratings, I have the impression we are building the Bloomberg terminals before building the factories.

Of course markets need Bloomberg terminals. They need data, analysis, transparency and price discovery. But those systems sit on top of productive assets. In carbon, we should be

careful not to overinvest in the infrastructure that analyses climate assets before adequately financing the productive infrastructure that creates them.

"We are building the Bloomberg terminals before building the factories."

There is a capital-allocation question here too. In a young and cash-poor nature-based solutions carbon market, the marginal dollar may sometimes create more climate value financing a project developer through feasibility, FPIC, nurseries, planting and first issuance than financing another layer of intermediation around projects that still struggle to get built.

But that multiplier from ratings should be demonstrated, not assumed, across the broader market - not inferred from the impact on only a few projects.

We need more diligence, but dramatically cheaper diligence

There is a much bigger climate-finance question behind all of this. We need trillions of dollars of investment into climate solutions. Nature-based projects already face extraordinary friction in accessing capital. So every new layer of market infrastructure needs to justify itself against a very basic metric: How much additional confidence are we creating per dollar added to the transaction?

That is the KPI I would like to see. The great promise of Sylvera, BeZero, and the next generation of carbon intelligence firms should not necessarily be that we can recreate Moody's for carbon. It could be much more transformative than that.

Satellite imagery, remote sensing, machine learning, structured datasets and - yes - increasingly capable AI-assisted analysis can make diligence that once took months dramatically faster and cheaper.

That is huge. Imagine investor-grade environmental due diligence becoming ten times faster and five times cheaper.

Imagine a community restoration project in Peru, Bolivia, Kenya or Indonesia being able to produce institutional-quality evidence without spending hundreds of thousands of dollars merely proving to the financial system that it exists. That is climate infrastructure worth building.

What I would really hate to see is that innovation gradually being transformed into another expensive layer of gatekeepers, subscriptions, regulatory licences and proprietary scores that every project must pass through before capital is allowed to look at it.

We would have recreated the transaction-cost problem that technology was supposed to solve.

And there is a question of regulatory priority too. When I hear more urgency about regulating the companies that rate carbon projects than about making greenhouse-gas emissions economically costly for emitters, I become skeptical. The climate problem is not that carbon projects are insufficiently rated. Or that carbon rating companies are insufficiently regulated. The climate problem is that emitting carbon is still too cheap across too much of the economy.

Keep the main character the main character

I am cautious about ratings
when they become badges,
when badges become gates.

But I like what companies such as Sylvera and BeZero
have brought to the market.
Still, let us keep the main character
the main character.

The purpose of this market
is not to build
the world's most sophisticated carbon-rating industry.
It is not the grade.
It is what we build, package and sell.
Not the score.
What we restore.

The purpose is (climate) action.
More forests restored.
More ecosystems protected.
More emissions avoided.
More carbon removed.
At speed and scale.

And above all:
more communities participating,
more communities deciding,
more communities owning,
more communities benefiting.
More capital reaching the ground,
rather than circulating around.
And better evidence
that all of this is actually happening.

Ratings can help.
So can VVBs.
So can satellites.
So can AI.
So can specialist consultants.
So can better registries.
So can insurance.
So can financial engineering.
So can national carbon systems.
We need all of them.
They each have a role to play.
But they are supporting actors.
And the tonne is not produced by the score.
The score can inform.
The project must perform.

So let us keep the hierarchy straight.
First, the (climate) action.
Then the evidence of the action.
Then the diligence around that evidence.
Then the informed judgment
of investors and buyers.
And then, perhaps, the rating.

The tools should strengthen the projects

that actually serve the market
with the products and services we need.
The market should not be designed around the tools.

No more.
And certainly no less.

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