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PUBLIC CONSULTATION

Consultation Digest – Executive Summary



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Introduction

ERS is pleased to share this summary of feedback received during the Public Consultation on the Ecosystem Restoration Standard (ERS), held from February 7 to March 8, 2025. The consultation sought input on the potential removal of Project Restoration Units (PRUs) from the Standard, in response to market feedback on the complexity of the unit and conversion mechanism and possible non-delivery risks associated with ex-ante credits.

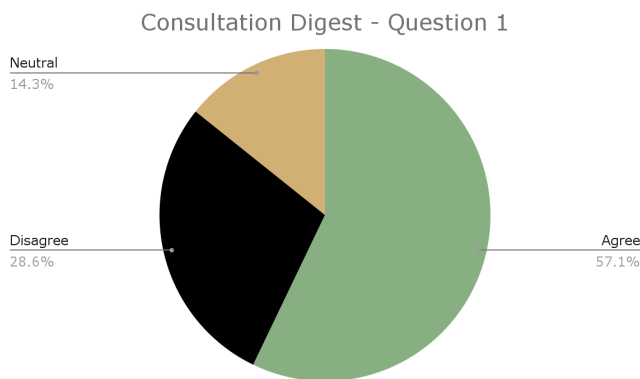
We would like to thank all participants who contributed their time and insights. Your feedback is essential in helping us ensure that the Standard remains practical, transparent, and aligned with market needs.

This digest aims to provide a clear and concise overview of the feedback received and to inform stakeholders of the main themes and considerations that emerged.



Do you believe PRUs (or equivalent instruments) are necessary to support pre-financing for ARR (Afforestation, Reforestation, and Revegetation) projects?

Question 1



In general, stakeholders hold diverse perspectives on the role of PRUs for pre-financing ARR projects.

Stakeholders supportive of PRUs highlighted the critical role of such instruments in providing essential upfront funding, crucial for early project stages when alternative funding is scarce.

However, some stakeholders raised concerns about the complexity and risks associated with PRUs. Stakeholders noted that the speculative nature of PRUs, where ex ante credits are issued based on projected sequestration, adds financial risk if projects fail to deliver on those projections. Complexity can deter investment, particularly from parties unfamiliar with the speculative aspects of carbon credits. Alternatives to PRUs suggested by stakeholders included more straightforward tools, such as take-off or pre-financing agreements.

ERS response

We appreciate stakeholders' views on the role of PRUs in enabling pre-financing for ARR projects. We recognise that, for some, PRUs have provided a valuable mechanism to secure early-stage funding when other options are limited. However, we also heard the concerns about their complexity, speculative nature, and associated risks.

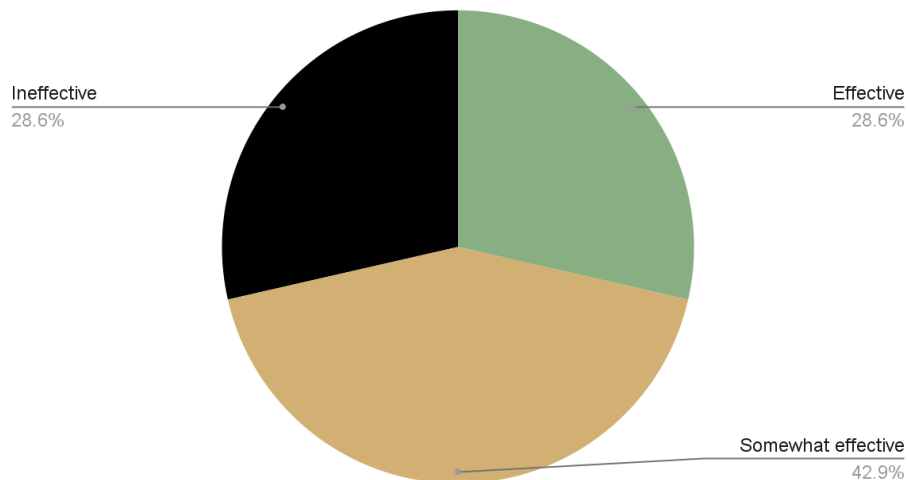


How effective are PRUs in addressing risks associated with carbon credit contracting and delivery? Please explain your answer.

Question 2

Some participants shared that mechanisms such as PRUs enable the alignment of project risks between Developers and Buyers through upfront financing. However, some stakeholders voiced concerns about the fact that some Projects may fail to meet projected targets and deliver carbon credits committed or promised via the PRUs mechanism. This non-delivery risk was noted as a critical issue.

Consultation Digest - Question 2



ERS response

We acknowledge the mixed feedback on the role of PRUs in managing project risks. While some value PRUs as a tool to align interests between Developers and Buyers, we also recognise the widespread concern that PRUs do not guarantee delivery, and that failed projections undermine trust and market stability. If ERS removes the PRUs from the Programme, we would aim to avoid these risks entirely and instead focus on real, verified outcomes through the issuance of Verified Restoration Units (VRUs) only.



In your opinion, what additional mechanisms, if any, could achieve the same objectives as PRUs?

Question 3

Participants suggested various alternative mechanisms that could serve the same role and objectives as PRUs. Examples included milestone-based payments and enhanced use of insurance products to mitigate project risks.

ERS response

Thank you for the constructive suggestions regarding alternative mechanisms to PRUs. We heard strong support for approaches like off-take agreements with pre-financing and results-based financing.

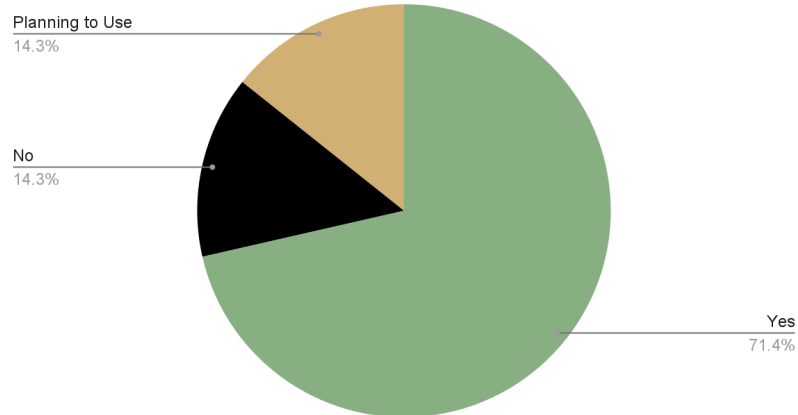
Going forward, ERS will work to facilitate these mechanisms within the Standard, and/or provide clear guidance and support to Projects on these options.



Have you or your organisation actively used or engaged with PRUs or similar instruments?

Question 4

Consultation Digest - Question 4



If you have used or are planning to use PRUs or similar mechanisms, what was your primary purpose (e.g., pre-financing, risk mitigation, collateral)?

Question 5

The stakeholders who have engaged with PRUs (or similar instruments) detailed their experiences and their motivations for using these instruments. The responses highlighted the use of PRUs primarily for pre-financing, which allows Developers to initiate and sustain their projects during critical early phases when other funding sources may not be available or willing to invest due to perceived risks. Additionally, PRUs were cited as useful for financial planning: by estimating the number of units they expect to receive, Developers can better anticipate future revenues and align



their project design, investment decisions, and cost of supply accordingly. PRUs also served as a form of risk management.

ERS response

ERS appreciates the feedback from stakeholders. Our goal is to ensure that these needs are met through mechanisms that are simple and clear.

What are the key barriers, if any, preventing your organisation from adopting PRUs or equivalent instruments?

Question 6

Stakeholders reported several barriers to adopting PRUs. A primary concern is the risk of non-delivery, where Projects fail to deliver promised carbon sequestration, thereby diminishing the value of PRUs. Additionally, there are significant challenges in communicating the benefits of PRUs to potential buyers, given that they represent carbon removals that have not yet occurred and therefore cannot be retired from the Registry. Some organisations also mentioned that they can secure pre-financing based on the inherent quality of their Projects, making PRUs less necessary.

ERS response

Thank you for openly sharing the challenges around PRU adoption. We heard concerns about the risks of non-delivery, the difficulty of communicating PRUs' speculative nature to buyers, and the fact that high-quality projects can often secure financing without them.

We want to foster a system where project quality, rather than speculation alone, attracts investment.



If PRUs were no longer issued as part of the ERS system, how would this affect your organisation’s operations or participation in the market?

Question 7

The possibility of discontinuing PRUs generated concern among some stakeholders about potential gaps in early-stage funding.

Particularly, smaller and newer projects might find it challenging to secure initial capital, as PRUs often serve as a critical financial bridge before more substantial funding can be secured. However, other respondents viewed the potential removal of PRUs as an opportunity to streamline funding processes and reduce reliance on speculative financial instruments.

ERS response

We understand that for some stakeholders, particularly new and smaller projects, the removal of PRUs may raise concerns about accessing early-stage funding, specifically regarding their ability to estimate carbon sequestration in the early stages of projects. In the event that the PRU mechanism is removed from the Programme, the precise estimation of net GHG removals of the Projects will still be provided, based on the most up-to-date Methodology.

The shift away from issuing PRUs may reduce speculative financial risks and focus on verifiable outcomes. ERS will continue to work closely with Projects to facilitate accurate assessments of carbon sequestration potential. Our goal is to ensure that all project types, regardless of size or experience, are supported under the updated Standard, while providing greater certainty and confidence in the units we issue that ultimately enter the market.



What additional benefits or challenges do you foresee in the broader adoption of PRUs across ARR projects? Is there any other feedback or concerns regarding PRUs that you would like to share?

Questions 8 & 9

Stakeholders provided additional insights into the potential benefits and challenges associated with the broader adoption of PRUs in ARR Projects.

A noted challenge is the risk of erroneous claims by corporations, such as prematurely claiming offsets before the actual growth of trees, which can mislead stakeholders and affect credibility. Additionally, there is a call for focusing on verified units to help consolidate the market around a shared understanding of its structure. Finally, stakeholders reiterated their concern about the risk of non-delivery, which could lead to reduced capital flow into their Projects.

On the benefits side, PRUs provide an estimate of sequestration potential, which can be useful for planning and initial financing. Stakeholders also highlighted that PRUs set the ERS Programme apart in the marketplace, as one of the only standard programmes offering such a mechanism.

ERS response

We are grateful for the thoughtful reflections on both the benefits and challenges of PRUs. While PRUs have provided early estimations of carbon sequestration potential and a sense of innovation to the ERS Standard, the risk of non-delivery and potential for misuse (e.g., premature claims of emissions reductions) are serious issues that we must address.

By shifting focus toward an only-VRUs approach, we could enhance credibility, reduce speculative risks, and align with best practices in the market. However, at the same time, we are committed to preserving the innovative spirit of ERS, supporting new approaches to project finance and risk management.



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