

**CDM-EB82-AA-A14**

## Concept note

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# Voluntary monitoring of sustainable development co-benefits

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Procedural background

1. Assisting non-Annex I Parties in achieving sustainable development is, together with assisting Annex I Parties in achieving compliance with their quantified emission limitation and reduction commitments under the Kyoto Protocol, one of the main objectives of the clean development mechanism (CDM).<sup>1</sup>
2. Under the current CDM rules and regulations, the contribution to sustainable development is to be “confirmed” ex-ante in the letter of approval by the designated national authority (DNA) of the host Party of a CDM project activity or programme of activities (PoA) prior to its registration.<sup>2</sup> Project design document (PDD) and programme design document (PoA-DD) forms also require a brief description of how the proposed project activity or PoA contributes to sustainable development. Currently there is no requirement for the monitoring of actual contributions to sustainable development brought about by a CDM project activity or PoA after its registration.
3. In the meantime, based on the request from the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its seventh session,<sup>3</sup> the Executive Board of the CDM (hereinafter referred to as the Board) developed the “Voluntary tool for describing sustainable development co-benefits of CDM project activities or programmes of activities” (SD tool) and made it available to project participants and coordinating/managing entities (CMEs) on 1 April 2014. Based on the CMP decision, it is the prerogative of Parties to define their sustainable development criteria and the use of the SD tool is entirely voluntary.
4. Also, based on the request from the CMP at its ninth session, the Board is in the process of developing guiding tools to assist DNAs in monitoring the sustainable development benefits of CDM project activities and PoAs in their territory. The development of a guiding tool, which is country specific, is upon the request of the host Party and on a voluntary basis, and its use is the prerogative of the Party and subject to the availability of funds from Annex I Parties.<sup>4</sup>
5. The Board, at its eightieth meeting, considered a proposal to introduce provisions on voluntary monitoring of the contribution to sustainable development and requested the secretariat to prepare a concept note in this regard for consideration by the Board at a future meeting. The Board, at its eighty-first meeting, while considering the draft revised “CDM project standard” (PS), “CDM validation and verification standard” (VVS) and “CDM project cycle procedure (PCP), reiterated this request, and requested the secretariat to present the concept note for consideration by the Board at its eighty-second meeting. The Board further agreed to reflect the outcome of this consideration in these regulatory documents, as appropriate, at the same meeting.

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<sup>1</sup> The Kyoto Protocol, Article 12, paragraph 2.

<sup>2</sup> Decision 3/CMP.1, annex (CDM modalities and procedures), paragraph 40(a); the “CDM project standard” (version 07.0), paragraph 79.

<sup>3</sup> Decision 8/CMP.7, paragraph 5.

<sup>4</sup> Decision 3/CMP.9, paragraph 8.

## 2. Purpose

6. The purpose of this concept note is to analyse possible options and implications of voluntary monitoring of sustainable development co-benefits brought about by a registered CDM project activity or PoA, to be implemented by the project participants or CME;

## 3. Key issues and proposed solutions

### 3.1. Key issues

#### 3.1.1. Objective of monitoring sustainable development co-benefits

7. In order to identify the appropriate parameters for monitoring sustainable development co-benefits of CDM project activities and PoAs it is firstly necessary to determine the objective of such monitoring, as this will determine how, what, and when monitoring should take place.
8. In this concept note, monitoring of sustainable development co-benefits is understood to meet two primary objectives:
  - (a) Increasing the transparency of sustainable development co-benefits of CDM project activities and PoAs throughout the lifetime of the project activities or programmes, thereby enabling the Board to more accurately report on this element of the CDM to the CMP;
  - (b) Improving the accuracy, robustness and integrity of the claims made by project participants and CMEs when describing the expected sustainable development co-benefits of their project activities or programme.

#### 3.1.2. Description of sustainable development co-benefits in the PDD

9. Since 2014, project participants and CMEs have had a choice about how to describe sustainable development co-benefits in the PDD or PoA-DD: either by using a “free text” field in the PDD (the vast majority of existing projects have used this option) or by using the SD tool developed by the Board, which produces a report with a pre-determined set of criterion and indicators, together with free text fields.
10. There are no rules prescribing what a project participant or CME needs to include when describing the sustainable development co-benefits of a project activity or PoA. Therefore, when describing them, the project participant or CME is likely to take into consideration criteria that are set by the host Party (if available) and may also take into account the SD tool criterion, or any other sustainable development criteria or indicators that are developed by relevant organisations (e.g. Gold Standard, World Commission on Dams). A host Party may focus on priority areas for sustainable development that apply in their national circumstances (and which the DNA would use to determine whether to grant a letter of approval for proposed CDM project activities and PoAs). However, the project participant or CME is free to describe all sustainable development co-benefits that it considers apply to the particular project activity or PoA.
11. In practice, in the absence of any rules on specific content, the free text format in the PDD or PoA-DD often results in qualitative and subjective information that could prove

difficult to monitor. The project participants or CME wishing to monitor sustainable development co-benefits of their project activity or PoA would need to consider the monitoring aspect when providing a description on sustainable development co-benefits in the PDD or PoA-DD, to allow appropriate and easy determination of parameters and modalities of monitoring later.

12. The SD tool developed by the Board lists a range of sustainable development co-benefits under the three widely accepted “pillars” of sustainable development: environmental (four criteria), social (four criteria) and economic (four criteria) accompanied by 70 specific indicators in total. The SD tool is not designed for any specific Party or region, and does not provide specific methods to monitor each criterion/indicator. However, the use of the SD tool is voluntary and flexible, and as such it may be used partially or in its entirety, whatever the methods of monitoring, and therefore can be easily adjusted to specific national circumstances and to the available means and resources. The report produced by the SD tool provides data in a format that could be more readily adapted to monitoring.
13. The monitoring of sustainable development co-benefits potentially places an extra burden on the project participants and CMEs, resulting in increased transaction costs. The extent of additional costs would depend on the number of parameters to monitor, and the methods and frequency of the monitoring. Should the monitoring process and the monitoring results be audited by an independent third party, transaction costs are highly likely to increase further.
14. The monitoring of sustainable development co-benefits is a voluntary action by project participants and CMEs. Nevertheless, if it is decided to take it on, it would be desirable to make the modalities (e.g. parameters, methods and frequency) and the results of monitoring publicly available for the reasons of transparency. The publication of the modalities and the results of monitoring could increase the reputation of the CDM project activity or PoA, which could attract additional funding for the development or implementation of the project activity or PoA, or increase the tradability of certified emission reductions (CERs) issued for the project activity or PoA. On the other hand, it may also pose a reputational risk for the CDM project activity or PoA in case the monitoring results show negative impact or no progress in terms of expected sustainable development benefits, possibly resulting in reduced tradability of its CERs, withdrawal of the letter of approval by the DNA, exposure of project developers and investors to criticism from global and local stakeholders, and so on. Such risk, together with possible increase in transaction cost, may discourage the uptake of the monitoring of sustainable development co-benefits after registration. Nevertheless, a monitored negative impact or no progress could be seen as an opportunity to make corrective actions to avoid detrimental reputational harm to the project activity or PoA in the long run, which may be revealed later even if the monitoring was not conducted.
15. The validation of the modalities for monitoring sustainable development co-benefits as part of the validation of the PDD or PoA-DD and component project activity design document (CPA-DD), and the verification of monitoring results, could pose a challenge to the designated operational entity (DOE) that validates or verifies them as DOEs have little experience in this area to date. It would also potentially increase the cost of validation/verification. On the other hand, it would increase the credibility of the claimed sustainable development co-benefits.

### 3.2. Proposed solutions

16. Based on the considerations discussed in section 3.1 above, various possible options can be envisaged for each aspect of modalities for voluntary monitoring of sustainable development co-benefits brought about by a registered CDM project activity or PoA. To help narrow down such options to establish a set of modalities, analysis on possible options and their implications is provided below on the following key aspects:

(a) Determination of monitoring parameters and modalities

- (i) Determining parameters and modalities for monitoring is ultimately the judgement of the project participants or CME, deriving from the sustainable development co-benefits claimed in the PDD or PoA-DD. It would require analysis of the country's sustainable development priorities through the reviews of available literature, and so on, and the consideration of feasibility and practicality of monitoring in the context of the specific project activity or PoA. The determined parameters and modalities for monitoring may not be widely accepted as the most relevant ones, and would risk some degree of subjectivity. Nevertheless, monitoring may still add value as it would improve the perception and accountability of the CDM project activity or PoA;
- (ii) The use of the SD tool developed by the Board referred to in paragraph 3 above may be used in its entirety or partially in the judgement of the project participants or CME. The use of the SD tool could ease the preparation and reporting of sustainable development co-benefits for a particular CDM project activity or PoA, as well as make the information comparable among different CDM project activities and PoAs.

(b) Frequency of reporting

- (i) Aligning the frequency and timing of monitoring and reporting of sustainable development co-benefits with those of emission reductions or removal enhancements could increase the efficiency for the preparation of relevant documentation. It would also make the process more predictable for stakeholders who are interested in the sustainable development co-benefits of a particular project activity or PoA. On the other hand, such an approach could reduce the flexibility of the timing of requesting issuance of CERs or the timing of publication of monitoring results of sustainable development co-benefits. Also, the most appropriate and meaningful intervals of monitoring sustainable development co-benefits may differ depending on the parameters. Under this option, the monitoring results of sustainable development co-benefits may be included in each monitoring report of emission reductions or removal enhancements, or may be published as a separate document;
- (ii) Decoupling the frequency and timing of monitoring sustainable development co-benefits from those of emission reductions or removal enhancements would give flexibility to the project participants or CME in choosing the most appropriate and meaningful timing for both streams of monitoring. On the other hand, such an approach would make the publication of the monitoring results of sustainable development co-benefits

less predictable for stakeholders. Under this option, the monitoring results of sustainable development co-benefits are most likely to be published as a separate document, but may also be included in the monitoring report of emission reductions or removal enhancements when the timing of obtaining the monitoring results of the former coincides with the latter (e.g. in every two monitoring reports);

(c) Validation and verification by DOE

- (i) Making validation and/or verification by a DOE of the monitoring plan and/or their monitoring results of sustainable development co-benefits mandatory for the project participants or CME that opted for the voluntary monitoring would enhance the credibility of the expected and/or monitored sustainable development co-benefits, thus improving the perception and attractiveness of the project activity or PoA. However, it would potentially increase transaction costs for the development and operation of the CDM project activity or PoA.
- (ii) Making validation and/or verification by a DOE of the monitoring plan and/or their monitoring results of sustainable development co-benefits optional would allow the project participants or CME to have more discretion on the expense for the project activity or PoA. On the other hand, the credibility of the indicated or monitored sustainable development co-benefits may be questioned;
- (iii) For both options listed above, it would be a challenge for DOEs to perform validation or verification of sustainable development co-benefits as they have little experience in this area to date. DOEs would need to make a professional judgement based on available information. In this case, consistency, efficiency and comparability of validation and verification activities among DOEs cannot be guaranteed. Developing some form of standards or guidelines for validation and verification of sustainable development co-benefits may help DOEs under this option, but in turn it would pose a challenge for the Board;

(d) Impact of validation and verification

- (i) Linking the outcome of validation or verification of monitoring of sustainable development co-benefits, if conducted, with the final validation or verification opinion by a DOE would further integrate the sustainable development contribution aspects into the CDM. However, it would be seen as unfair for the project participants or CME that opted for the voluntary action of monitoring in case the outcome negatively impacts the final validation or verification opinion, and hence would discourage uptake of this voluntary action;
- (ii) Making the outcome of validation or verification of monitoring of sustainable development co-benefits independent from the final validation or verification opinion by a DOE would give comfort to the project participants or CME, hence encourage them to take up voluntary monitoring and request a DOE to perform their validation and/or verification;

(e) Assessment and review by the Board and the secretariat

- (i) Requiring the Board and the secretariat to assess the sustainable development co-benefits, if included in a request for registration or issuance, would require clear and transparent criteria for the assessment and would be meaningful only if the outcome of the assessment has an impact on the decision on registration of the project activity or PoA, or issuance of CERs. It would be legally unsound for a voluntary action to link with the Board's decision on registration or issuance and would increase the operational cost for the regulator;
- (ii) No assessment by the Board and the secretariat on sustainable development co-benefits, if included in a request for registration or issuance, would be a reasonable option if the expected or monitored sustainable development co-benefits have no bearing on the Board's decision on registration or issuance;

(f) Process for publication of monitoring plan and monitoring results

- (i) Requiring, if voluntary monitoring of sustainable development co-benefits is opted for, the publication of the monitoring plan and monitoring results to follow the same administrative steps as the publication of the PDD, PoA-DD, CPA-DD and monitoring reports by including the description of the modalities for monitoring sustainable development co-benefits as a part of the monitoring plan in the PDD, PoA-DD or CPA-DD, and monitored results in monitoring reports would allow a comprehensive presentation of all aspects of a CDM project activity or PoA including sustainable development co-benefits in a single document. This would help stakeholders to have a full picture of the project activity or PoA. Also it would allow the project participants or CME to publish all the information in one go. On the other hand, this option would not give much flexibility to the project participants or CME in the timing of preparing the monitoring plan and carrying out the monitoring of sustainable development co-benefits, and would require post-registration changes if a monitoring plan on sustainable development co-benefits is to be newly introduced or revised after registration. This option is also related to the option referred to in subparagraph (b)(i) above;
- (ii) Allowing the publication of a monitoring plan and monitoring results of sustainable development co-benefits separately and independently from the administrative steps of the publication of the PDD, PoA-DD, CPA-DD and monitoring reports would provide flexibility to the project participants or CME in choosing the most appropriate timing of publication of such information and possibly increase cost-efficiency. In addition, if the publication is allowed at any time during the CDM project or programme lifetime, it would also remove the administrative burden to include a new or revised monitoring plan for sustainable development co-benefits for registered CDM project activities or PoAs, which could encourage project participants and CMEs to take on or improve this voluntary action on a wider scale. Furthermore, presenting a monitoring plan and monitoring reports for sustainable development co-benefits separately would make these documents more visible to stakeholders on the project view page of



the UNFCCC CDM website. This option is also related to the option referred to in subparagraph (b)(ii) above.

## **4. Impacts**

17. Clarifying the nature, possible consequences and modalities for voluntary monitoring of sustainable development co-benefits brought about by CDM project activities and PoAs would help project participants and CMEs decide on whether to take on and how to conduct such voluntary action.
18. Having a standardized approach could encourage the uptake of voluntary monitoring of sustainable development co-benefits of individual CDM project activities and PoAs, and generate comparable information on the sustainable development co-benefits by the CDM as a whole, which could then be used for further advocacy of the CDM and for further enhancement of the means to achieve the sustainable development objective of the CDM. If the information obtained through clearly defined modalities is published, the host Party of a CDM project activity or PoA as well as the local stakeholders would also benefit from understanding the actual sustainable development co-benefits of the CDM project activity or PoA in its territory or vicinity after its registration.
19. Monitoring sustainable development co-benefits could increase the reputation and attraction of funding for CDM project activities and PoAs. On the other hand, performing the monitoring of sustainable development co-benefits would potentially increase the transaction costs and reputational risk at least in the short term. The voluntary nature of the monitoring allows the project participants and CMEs to decide whether to take on the monitoring based on these considerations.

## **5. Subsequent work and timelines**

20. If the Board agrees on the concept of modalities for voluntary monitoring of sustainable development co-benefits taking into account the implications of each option on key issues, relevant existing regulatory documents could be revised, or a separate document could be developed, to materialize the concept.

## **6. Recommendations to the Board**

21. The secretariat recommends that the Board select an option for each key issue presented in section 3.2 above and request the secretariat to prepare provisions based on the selected options, to be incorporated into relevant regulatory documents or in a new document.

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**Document information**

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