

**DRAFT****Annex 21****COVER NOTE****DRAFT TOOL FOR HIGHLIGHTING SUSTAINABLE DEVELOPMENT CO-BENEFITS  
OF CDM PROJECT ACTIVITIES AND PROGRAMMES OF ACTIVITIES****I. Background**

1. At its sixty-seventh meeting, the CDM Executive Board (hereinafter referred to as the Board) considered a concept note<sup>1</sup> on possible options for how project participants could highlight sustainable development co-benefits and negative impacts of clean development mechanism (CDM) project activities and programmes of activities (PoA) within the existing CDM processes and workflows. The options presented were designed to meet the request by the Conference of the Parties serving as the meetings of the Parties to the Kyoto Protocol (CMP), at its seventh session, for the Board to “*continue its work and develop appropriate voluntary measures to highlight the co-benefits brought about by CDM project activities and PoAs, while maintaining the prerogative of the Parties to define their sustainable development criteria*”.<sup>2</sup>

2. Following its consideration of the concept note at its sixty-seventh meeting, the Board requested the secretariat to develop a voluntary tool for consideration by the Board at its next meeting, with, among other things, the following features:

- (a) A checklist approach based on best practices and drawing on a wide selection of possible sources;
- (b) Flexibility to include the voluntary tool in existing CDM documents and workflows;
- (c) A project participant or coordinating/managing entity (CME) may make an initial declaration using the voluntary tool;
- (d) A project participant or CME may choose to update, change or withdraw the initial declaration if circumstances change at any time prior to or after registration of the CDM project activity or PoA.

3. At its sixty-eighth meeting, the Board considered and provided input on a first draft of the voluntary CDM sustainable development declaration tool (SD tool), an example of an output of the tool (SD tool report), and draft user manual for completing the tool (user manual). Also at that meeting, the Board requested the secretariat to launch a call for inputs on the substance and form of the SD tool and to continue to develop the SD tool taking into account inputs received from the Board and stakeholders, and provide a final draft at its sixty-ninth meeting.

4. The secretariat subsequently organized a call for inputs, which was open from 23 July to 10 August 2012, and continued developing the SD tool, in collaboration with UNEP Risoe, in accordance with the Board’s request. The revised draft SD tool incorporating the relevant inputs can be found at <[https://www.research.net/s/SD\\_tool\\_vers6](https://www.research.net/s/SD_tool_vers6)>. A summary of the inputs received from stakeholders during the call for inputs is included as appendix 1 to this annex.

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<sup>1</sup> Annex 13 of the annotated agenda for the sixty-seventh meeting of the Board.

<sup>2</sup> Paragraph 5 of decision 8/CMP.7.

**DRAFT****II. Purpose**

5. The purpose of the SD tool is to provide a means by which project participants and CMEs can readily highlight sustainable development co-benefits of CDM project activities and PoAs in a way that:

- (a) Improves the Board's ability to demonstrate that, as per Article 12 of the Kyoto Protocol, the CDM assists non-Annex I Parties in achieving sustainable development;
- (b) Harmonizes and makes publicly available the information relating to sustainable development co-benefits in the context of the CDM;
- (c) Maintains the Parties' prerogative to determine whether a CDM project activity or PoA assists in achieving sustainable development (or to define their criteria for sustainable development).

**III. Key issues and proposed solutions**

6. Ease of use is a critical factor in encouraging the voluntary use of the SD tool. The tool is being developed primarily as an online tool, however a paper format will also be made available based on the online tool.

7. The SDM-IS<sup>3</sup> has been identified as the most appropriate system to deliver the online version of the SD tool, based on an assessment of:

- (a) User needs, including simplicity and ease of navigation;
- (b) Data collection and analysis requirements, and value-add opportunities from the output of the SD tool; and
- (c) The need to integrate or link the SD tool with existing CDM documents and workflows, including integration with the CDM modalities of communication system.

**IV. Proposed work**

8. The SD tool has been prioritised for development and delivery within the SDM-IS. A paper-based version of the SD tool will be delivered in conjunction with the online version.

9. In order to integrate the SD tool with existing CDM documents and workflows, amendments are required to the various CDM project activity and PoA design document forms and the associated guidelines for completing the forms (guidelines)<sup>4</sup>. However, amendments to these documents are dependent on the delivery of the SD tool within the SDM-IS. Therefore, amendments to the guidelines will be coordinated with the delivery of the SD tool within the SDM-IS.

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<sup>3</sup> The SDM-IS is a new computer system to support the CDM and joint implementation mechanisms based on a common secretariat platform. The SDM-IS is in the process of being implemented.

<sup>4</sup> To include a link/reference to the SD tool in the current "free-form" sustainable development description sections i.e. section A1 of the CDM project design document and section A2 in the PoA design document.

**DRAFT****V. Impacts**

10. When used, the SD tool will:
- (a) Improve the current approach to the sustainable development declaration in the project and PoA design documents in order to effectively demonstrate that CDM project activities and PoAs provide sustainable development co-benefits, based on sound qualitative and quantitative criteria for such declaration;
  - (b) Deliver comparable and structured information about any sustainable development co-benefits attributable to CDM project activities and PoAs, in a manner that is consistent across all types of CDM project activities and PoAs for use by all stakeholders in the CDM;
  - (c) Provide a means to report on the aggregated performance of sustainable development co-benefits for various types of CDM project activities and PoAs in various host countries over time for use by the Board and other stakeholders.
11. The SD tool does not impact on the Parties' prerogative to determine whether a CDM project activity or PoA assists in achieving sustainable development (or to define their criteria for sustainable development).
12. Project participant's transaction costs are not expected to increase as a result of using the SD tool.

**VI. Recommendations to the Board**

13. The secretariat recommends that the Board:
- (a) Approve the draft SD tool; and
  - (b) Take note of the proposed work for implementing the SD tool.

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**DRAFT****Appendix 1****SUMMARY OF STAKEHOLDER INPUTS RELATING TO AMENDMENTS  
TO THE SD TOOL AND RESPONSES IN RELATION TO THOSE INPUTS**

Stakeholder input	Response
We believe that a more comprehensive assessment of project impact to sustainable development could be reached using standards geared towards socioeconomic and environmental development, such as Community, Climate and Biodiversity Alliance (CCBA), Gold Standard, FSC, and SOCIALCARBON Standard, for all these have been subject to extensive experience, consultation and are acknowledged by the voluntary market, which has always been highly concerned with the co-benefits from carbon projects.	The relevant parts of all these standards have been incorporated in the SD tool.
We find that promoting an interface between CDM and such standards will be a highly desirable solution, since all these standards are able to monitor project's life cycle, they define qualitative and quantitative sustainability indicators, and they can be verified, giving the CER a certification which aggregates value to the offsets and promotes transparency and credibility for buyers. All these aspects combined can ensure long term contribution for project's sustainability.	It is not feasible to make an IT interface but anyone can compare projects using the various standards.
<b>International best practices and standards:</b> The no-harm safeguard should include an international standards category for projects to show that they have met international best practices and standards for environmental protection, public participation and indigenous rights. For hydropower projects in particular, this should include a requirement that all projects comply with the World Commission on Dams guidelines, and that a compliance report is made available to the public for verification.	The use of international standards in the no-harm safeguard section can be declared in the 'other' category.
<b>Wide-ranging public consultation on CDM tool:</b> Many experts in other related fields, e.g. the establishment of safeguards, participation requirements and MRV, have already been involved in creating similar tools and guidelines.	The references of the SD tool reflect that the literature and best practices in similar fields has been assessed to inform the SD tool.  An open line is offered (via an email address) for

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It is essential to consult those experts for help for the design of this tool. In addition, other stakeholders, including communities affected by the project, should be able to raise their concerns through the questionnaire or challenge the information sent to the UNFCCC. The questionnaire should be made available in all host country languages.	stakeholders to comment on the SD tool at any stage (see the About section of the online SD tool: Any feedback or questions can be sent to: Subject: "SD tool", UNFCCC Secretariat, Email: cdm-info@unfccc.int).  The SD tool will be available in all UN languages.
In questions 5 to 16, one of the answering options is "not relevant"; it should be further explained what this answer means. It is unclear in what way this answer is different from answering "no. Possibly, project participants should explain further why they believe that the respective parameter is not relevant in the context of the proposed project activity.	There is a distinction between "No" and "Not applicable" (instead of "not relevant"): "No" means that the activity has no contribution to SD for the given criteria. "N/A" means that the project activity should not be assessed against this criteria.
Step 1 [of the tool] could allow for the selection of the appropriate methodology. This would allow comparison of co-benefits across project types and might eventually facilitate a benchmarking approach to 'high quality projects'.	The CDM-IS system records the exact methodology used by all projects. So long as the project can be identified (via the reference number or a number assigned to each validation entry) all project characteristics are available and can be uploaded into the tool mask in real-time or provided for analysis and reporting later.
There is no question on the equitable share of revenue and how CERs/funds may reach the users of the technology and/or service.	How CERs are distributed can be declared under 'other' for the criteria 'welfare'.
In order to successfully disseminate technologies and displace baseline technologies, project developments must account of (1) users motivation (2) affordability and (3) engagement. In order to capture the sustainability of a project activity, the following issues should be addressed: <ul style="list-style-type: none"> <li>• Users perceived value of the technology/measure;</li> <li>• The consideration of affordability. Generally speaking poor populations cannot afford cleaner technologies with their available income At the same time, heavily subsidized technologies will last only as long as the subsidies are available and cannot be considered sustainable;</li> <li>• Questions should also address the level of behavior change required by the users. In order to be adopted technologies must be adapted and appropriate to user's needs.</li> </ul>	These issues relating to the sustainability of technology development are assessed by the project developer. If the technology is too expensive, it will not be developed.

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Q6 – How and to what extent does the activity improve air quality in the area? This might be clarified to include indoor air pollution (IAP).	Indoor air pollution is accounted for under the ‘Health and Safety’ criteria.
Q 14 – How and to what extent does the activity create new employment? References to employment creation should be time bound e.g. over the project life time or annually.	The SD tool distinguishes between long-term jobs and short term jobs. In the revised draft tool an attempt has been made to define this more clearly.
Q17 How and to what extent does the activity result in health and safety improvements? Could be extended to include food and/or water preservation.	‘Preservation of food’ is an indicator for ‘health and safety’. Water preservation is dealt with in the ‘water’ criteria.
Q21 How and to what extent does the activity improve the welfare of people? Poverty alleviation is highly subjective, the poverty level should be defined.	‘Poverty’ is a relative concept. Project participants/CMEs are asked to specify the poverty alleviation.
[In relation to reporting of output from the SD tool] An aggregated summary across project types/methodologies would be useful. This would allow a comparison of co-benefits across project types and might eventually facilitate a benchmarking approach to ‘high quality projects’.	It is not possible to make analysis of aggregated results across several project types and methodologies in a single SD Declaration for one project activity. However, it is anticipated that the secretariat will use the data provided in the SD tool reports to report on an aggregated basis.
<p>The list of indicators proposed in figure 2 of the draft SD Tool covers a broad set of areas where CDM projects and PoAs generate sustainable development co-benefits. However, the following improvements could be made to enhance the potential of the SD Tool to serve as a guiding principle for capturing commercial value of such co-benefits:</p> <ul style="list-style-type: none"> <li>• Clear, monitorable indicators would be to be suggested in the SD Tool while also bearing in mind the transaction costs that may be associated with their assessment;</li> <li>• Covered types of impacts could include “direct” and/or “indirect”(induced leverage) co-benefits: (i) direct SD co-benefits are those co-benefits that are generated directly from the CDM project itself; and (ii) indirect SD co-benefits are generated from the CDM project through distinct community benefit activities, financed by the price premium associated with the ER revenue stream.</li> </ul>	<ul style="list-style-type: none"> <li>• The indicators in the SD tool are simple and easy to use, thereby reducing transaction costs;</li> <li>• Indirect benefits: For instance the impacts of the use of the Chinese CER tax for sustainable development is impossible for the project participant to assess;</li> </ul>

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<p>Q 15 – No harm matrix</p> <ul style="list-style-type: none"> <li>• The activity is complicit in involuntary resettlement. In all countries, developed and undeveloped, infrastructure projects can involve involuntary resettlement. We suggest changing this criterion to ‘the activity is complicit in illegal resettlement’.</li> <li>• The activity employs a precautionary approach to avoid negative impacts on ecosystems, communities and vulnerable groups – this sentence is extremely vague and we suggest removal of this sentence as this cannot be validated clearly without ambiguity.</li> </ul>	<ul style="list-style-type: none"> <li>• A sovereign state has both the right and responsibility to relocate its citizens for reasons it feels safe. Yet, involuntary resettlement is a broader term than illegal resettlement and therefore protects ordinary people better in cases where land rights are disputed and/or difficult to establish;</li> <li>• The precautionary approach is a principle and not a rule to which compliance is validated. The precautionary approach is a commonly used concept in environmental protection. The UN Global Compact Principle 7 makes use of the concept. The principle has been explained further in the SD tool to guide the risk assessment of potential negative impacts.</li> </ul>
<p>Q 18 – Stakeholder consultation</p> <p>‘Local DNA representatives’ already issue the letter of approval. We suggest removal of this column.</p>	<p>Table 3 invites PPs and CMEs to give additional information about DNA involvement in the stakeholder process than what is offered in the LoA.</p>
<p>Q 19 – Conformity to legal requirements</p> <p>We do not believe this criteria is necessary. To receive a host country letter of approval, activities must already conform with local laws and regulations. So the option does not add value to assessing sustainable development.</p>	<p>The question has been rephrased to highlight that answering the question is voluntary. The box "Additional comments" has been changed to an “if yes” condition that asks to list the relevant laws or requirements.</p>
<p>Q 20 – Third party assessment</p> <p>Third party assessment is almost impossible for many of these criteria as they are highly subjective and difficult to monitor. For example, verifying that a project has reduced crime or decreased the risk of political conflicts is hard for an auditor to assess conclusively. Moreover, a third part verifier would require a set of guidance and rules by which to judge each criteria (similar</p>	<p>If the project participant/CME chooses to request a third party assessment, that assessment is likely to increase the credibility of the SD declaration. Of course, such an assessment always contains elements of subjective judgement.</p>

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to the current VVS) which would take a significant amount of time and resources from the UNFCCC to establish.	
Access to tool: The SD Tool should not be limited to use by project participants and CMEs; all stakeholders must be able to provide input...For the SD tool to be effective it must allow stakeholders to engage directly in the reporting process or provide some other means of reporting for stakeholders. In addition, the tool should include a process that allows stakeholders to provide comments on the input provided by PPs/CMEs.	An open line is offered (via an email address) for stakeholders to comment on the SD tool at any stage (see the About section of the online SD tool: Any feedback or questions can be sent to: Subject: "SD tool", UNFCCC Secretariat, Email: cdm-info@unfccc.int).
No Harm safeguards: The declaration should state obligations in positive terms and reflect the full scope of human rights obligation.	Accepted. The mentioned sentence in question 36 will be included also in question 35.
Stakeholder involvement: The stakeholder involvement declaration lacks detail and does not encourage effective evaluation of the consultation. The SD tool's "Stakeholder Engagement" section (step 4) contains six questions on this topic, all of which appear on one page. Below those descriptions are a set of questions that do not disclose whether those elements have been met. The questions should address each element of effective participation, incorporating the description of the relevant terms within the questions themselves.	Accepted. In each of the 4 steps in question 42 of the revised SD tool, a reference is inserted to the consultation activities stated in the page above. The SD declaration report has been revised to fully reflect the answers.
Conformity with applicable laws and regulations: This information is not helpful without an assurance that the project participant or CME is aware of what the applicable laws and regulations are. This section does not ask the PP or CME to provide any detail indicating they know what the applicable laws and requirements are. One way to address this would be to ask the PP or CME to list laws or requirements that are applicable to a particular CDM project and then assess whether there is compliance with those laws.	The question has been rephrased to highlight that answering the question is voluntary. The box "Additional comments" has been changed to an "if yes" condition that asks to list the relevant laws or requirements.