

**Annex 17****REPORT ON SUSTAINABLE DEVELOPMENT CO-BENEFITS AND NEGATIVE IMPACTS  
OF CDM PROJECT ACTIVITIES****(Version 01.0)****I. Background**

1. The clean development mechanism (CDM) Executive Board (hereinafter referred to as the Board) at its sixty-first meeting (EB61 report, paragraph 75) agreed to launch a call for public inputs starting on 3 June 2011 and ending on 3 July 2011 to seek comments on the following issues:

- (a) How to include co-benefits and negative impacts in the documentation of CDM project activities; and
- (b) The role of the different actors and stakeholders in this process.

2. In total, the UNFCCC secretariat received 10 inputs from stakeholders.

3. This document provides an overview of submissions, summarizes the key issues identified and makes recommendations for consideration by the Board on how co-benefits and negative impacts could be reflected in CDM documentation and its processes.

4. Results of the study by the secretariat of 2,550 registered projects entitled “Benefits of the clean development mechanism: 2011” has shown that most CDM projects claim many sustainable development co-benefits, the most prominent being employment creation. Negative impacts are never highlighted. The types of co-benefits claimed have not changed significantly since the first CDM project was registered, but the mix of benefits claimed is somewhat different by host country and project type. Claims made at the time the project design document (PDD) is drafted remain relatively similar after the project is registered. However, there is room for improvement in both the declaration and the criteria for sustainable development or negative impacts of CDM projects.

**II. Overview of submissions**

5. Ten submissions were received from the following stakeholders: 1) Project Developers Forum; 2) International Emissions Trading Association; 3) Institute for Global Environmental Strategies; 4) Gold Standard; 5) Wuppertal Institute; 6) CDM Watch; 7) Centre for International Environmental Law and Earth Justice; 8) Global Alliance for Incinerator Alternatives; 9) Beijing Wenhui Economic Consult Centre; and 10) Regional Sustainable Energy Centre of Excellence.

6. Most of the submissions (five out of ten) highlight the following aims: 1) Enhance the CDM’s sustainable development benefits; 2) Ensure that projects do not cause human or environmental harm; and 3) Improve stakeholder participation to ensure accountability, fairness and transparency. Means to achieve these aims proposed in these submissions include: the introduction of international criteria for sustainable development (SD); “do no harm” safeguards; monitoring of SD indicators and safeguards; validation and verification of compliance with safeguards and claimed benefits; and international requirements for how to conduct local and global stakeholder involvement processes. Furthermore, a grievance mechanism for affected stakeholders to raise complaints and find ways to resolve them, is proposed in four of the submissions.



7. One submission aims to raise the visibility of co-benefits through revisions of the PDD guidelines and making available new evaluation tools specific to project types and sectors to quantify the co-benefits. To avoid increased transaction costs, reporting on co-benefits should be voluntary.
8. Two of the submissions do not call for changes, as existing reporting requirements are seen to suffice. According to the Marrakech Accords it is the host country's right to define SD criteria. As new guidelines for reporting on co-benefits is not foreseen by the Marrakech Accords, it is argued that CMP guidance should be sought before proceeding further.
9. The remaining submissions (two out of ten) do not relate to these issues but present the stakeholders' own understanding of co-benefits and negative impacts with respect to a range of other problems.

### III. Key issues raised

#### A. Definition of sustainable development indicators and “do no harm” safeguards

10. There is no internationally accepted definition of sustainable development or an agreed basis for determining whether a specific CDM project activity contributes to SD (see the UNFCCC study: “Benefits of the CDM 2011”). Assessing the contribution by CDM to assist host countries in achieving SD is a challenge for the same reason, namely the lack of an agreed definition.

11. Assessment of SD can be done on a project-by-project basis in two ways:

- (a) *How* a CDM project contributes to SD – the nature of benefits;
- (b) *How much* a CDM project contributes to SD – the nature and quantity of benefits.

12. Both ways require a list of SD indicators to assess the claimed benefits or negative impacts against.

13. Most of the submissions (six out of ten) propose the introduction of SD indicators and “do no harm” safeguards defined at an international level. There are several ways to do this, including:

- (a) *A generic definition of SD indicators* — The Gold Standard (GS) uses a widely known, tested and accepted matrix approach consisting of 12 SD indicators in three categories: environment, social and technological/economic development. Project participants score each of the SD indicators as negative (-1), neutral (0) or positive (+1). All indicators are given the same weight. Scoring is supported by convincing argumentation for each indicator by referring to publicly available information sources or expert opinion.

Most of the submissions support the GS matrix approach, some with slight modifications such as adding a few indicators, adding project-specific SD requirements, or including safeguard principles in the list of SD indicators.

- (b) *Project-type-specific SD indicators* — Three submissions propose the development of SD indicators that are project-specific by including SD requirements as part of the methodologies or by tailoring the SD indicators to specific types of projects. To quantify the co-benefits and measurable impacts, one submission suggests the development of a number of Co-benefit Evaluation Tools specific to sectors or project types. However, reporting on co-benefits based on the evaluation tools should be voluntary to avoid increased transaction costs;



- (c) *List of unsustainable project types that are not eligible as CDM projects* — The idea proposed in two submissions is to develop a negative list of project types that are not sustainable and therefore not eligible under the CDM. This could be done by a procedure to enable the Meth Panel to recommend the rejection of methodologies and enable the Board to exclude project types on grounds that some project types pose a significant risk to climate and sustainability goals. The idea to exclude projects or withhold issuance of credits from projects that do not comply with SD requirements is shared by five out of the six submissions;
- (d) *“Do no harm” safeguards* — The Gold Standard and three other submissions propose a robust “do no harm” assessment of projects. The assessment is based on 11 safeguarding principles derived from the Millennium Development Goals 21 (MDG), eight of which 189 Member States of the United Nations have pledged to achieve by 2015. The principles are applicable to any project location. Projects that violate or risk violating any of the 11 principles shall not be eligible as a CDM project unless the project is adjusted to comply. In particular the Cancun Agreements (Decision 1/CP.16 paragraph 8) specifically state that “Parties should in all climate change related actions fully respect human rights”. It can therefore be argued that the Board has an obligation to ensure that human rights are respected. The “do no harm” safeguards are one approach to implement such an obligation and ensure that CDM projects do not cause negative impacts.

## B. Stakeholder involvement

14. Improved stakeholder involvement requirements at global and local levels are seen as an important means to enhance reporting on SD co-benefits, ensure fairness and transparency and fulfil the right of individuals to public participation as laid down in Principle 10 of the 1992 Rio Declaration on Environment and Development as well as the human rights regime.

- (a) *Improved local stakeholder consultation process* — In order to improve the project design and increase local ownership or involvement in the project, stakeholder comments should be invited during the design phase of the project, at a time when project proponents are open to make changes to the project.

In the Marrakech Accords (Decision 3/CMP.1) “Stakeholders” are defined as “the public, or any individuals, groups or communities affected or likely to be affected, by the proposed CDM project activities”. In practice, a list of stakeholders who should be consulted may include: local people impacted by the project or their official representatives; local policymakers and representatives of local authorities; an official representative of the designated national authority (DNA) of the host country; and local NGOs working on topics relevant to the project.

In five of the six submissions proposals are made for the Board to introduce international requirements in two steps to ensure meaningful stakeholder involvement at the local level, as follows:

- (i) *First stakeholder consultation meeting and access to documents* — The first consultation meeting should take place before the PDD is submitted for validation and should include the following agenda items: a presentation of the design and consequent impacts of the CDM project; the “do no harm” assessment and the SD matrix should be assessed by the stakeholders; a plan to monitor compliance with the safeguards and the achievement of benefits; and procedures to raise complaints during project implementation.



The first meeting should be “live” and conducted in the local language(s). Invitation letters should include a non-technical summary of the project activity in the local language(s), as well as information on the safeguards and SD indicators used to assess the project. The PDD and supporting documents such as the EIA should be translated into the local language(s) and be made available prior to the start of the commenting period in both soft and hard copies to communities in the project area by the most appropriate and accessible means, e.g. community centres, churches, libraries and schools.

To maximize the impartiality of the process, the designated operational entity (DOE) that has been selected to validate the project should be required to attend the first meeting.

As a follow-up to the meeting, the project proponents should publish a non-technical report of the meeting within one month. This report should include all comments made and indicate how they will be taken into account in the project design. If a project’s SD matrix reflects a negative assessment in comparison to the baseline situation after the stakeholder consultation, and where no change in design or mitigation measures are planned to be implemented, these indicators shall be subject to a dedicated discussion with local stakeholders. This may be done in consultation with a DOE;

- (ii) *The stakeholder feedback round* — During the second consultation event stakeholders can give feedback on how their comments have been taken into account. For the final PDD it should be required to document who was invited, by what means and on which date, as well as who actually participated, what comments were received and how they were taken into account. The stakeholder feedback round is preferably conducted in-person i.e. “live”.

The comment period of the stakeholder feedback round should be increased to 60 days, during which the project documentation is made publicly available for comments both at local and global levels. Local stakeholders should be allowed to submit comments in the language(s) spoken in the proposed project area and should have opportunities to participate meaningfully, for example to voice concerns to decision-makers at any point during the CDM project cycle, not only during the formal comment period;

- (b) *Global stakeholder consultation process* — The global stakeholder process focuses on access to documentation and the ability to provide comments on PDDs and other supporting documents. Three out of the six submissions propose the following improvements:
  - (i) The comment period for projects and for new methodologies should be increased to 60 days;
  - (ii) Notices and other communications regarding comment periods should be posted online in a clear and detailed fashion. This includes the establishment of an e-mail notification system and/or RSS feed, which provides specific information about requests for registration, renewal of crediting period, public comment period for projects and methodologies start/end dates and times, with applicable time zones;



- (iii) Ensure that all supporting documents to the PDD are uploaded prior to the start of the public commenting period;
- (iv) Improve the user-friendliness of the UNFCCC CDM website including translation of documents related to public participation into all official languages of the United Nations.

### **C. Means to address grievances**

15. Four out of ten submissions suggest a grievance mechanism should be put in place so that affected stakeholders can raise complaints about negative impacts of CDM projects and effect change in a three-step process:

- (a) Stakeholders should be able to alert the DOE responsible for verification of their grievances. If the DOE finds the grievance to be valid, the DOE should withhold verification until the grievance has been resolved;
- (b) If involving the DOE does not lead to a resolution, stakeholders should be able to alert the host country DNA. If the DNA finds the grievance to be valid, the DNA or other appropriate national authorities shall take actions applicable under national law to resolve the grievance;
- (c) If involving the DNA does not lead to a resolution, stakeholders should be able to alert the Board. If the Board finds the grievance to be valid, it shall suspend all further issuance of CERs to the project until the grievance has been resolved.

16. Information on the possibilities to file complaints should be a mandatory agenda item in the stakeholder involvement process.

### **D. Declaration, monitoring and verification**

17. One submission proposed a revision of the PDD guidelines to better reflect the co-benefits from CDM projects. The declaration of co-benefits should be voluntary, in order not to increase transaction costs. Revisions to the PDD (version 7) to better reflect the co-benefits from CDM projects shall be included in sections “A.2 Description of the project activity” and “A.4.3 Technology to be employed by the project activity”.

18. The submissions hold different views on whether declaration, monitoring and verification of SD co-benefits should be voluntary or mandatory. One of the ten submissions argued that CMP guidance is required to proceed even with any voluntary reporting guidelines set up by the Board.

19. Five other submissions proposed that compliance with international SD indicators and safeguards should be monitored and verified. The proposals typically adopt an integrated approach including stakeholder involvement and third party assessment:

- (a) *Monitoring plan and report* — Project proponents shall develop a sustainability monitoring plan as part of the PDD. The monitoring plan should cover compliance with the safeguard criteria and SD indicators and relevant project-specific SD requirements. The monitoring plan should include the following elements:
  - (i) Identify parameters that can be used to monitor all the non-neutral SD indicators over the crediting period;
  - (ii) Describe how the SD indicators will be monitored;



- (iii) Describe how mitigation measures are to address negative impacts, if relevant, and how these will be monitored.

Based on the monitoring plan, data is collected on the SD benefits attributed to the project, and a monitoring report is written.

- (b) *Validation and verification* — Compliance with claims made in the PDD on SD benefits, safeguards and stakeholder involvement should be validated and verified by the DOEs. Proposals on who should be responsible for taking action in cases of non-compliance include the following:
  - (i) The final determination on whether a project contributes to SD should be left to the DNAs, based on improved monitoring, validation and verification of SD indicators and safeguards;
  - (ii) If a project activity is found to violate fundamental “do no harm” safeguards, it shall be suspended. If the negative impacts are irreversible or not addressed, the project must be permanently excluded from the CDM and project participants must be held responsible for damages caused by the project activity;
  - (iii) In order for a CDM project to be registered, it shall comply with the relevant criteria as determined by the DOE. The DOE shall consider the project participant’s monitoring report and other information provided by stakeholders to assess whether the project complies with the relevant criteria;
  - (iv) There must be full consideration of the SD benefits and negative impacts of a CDM project as part of the crediting period renewal process;
  - (v) It is necessary to develop guidelines for the DOE to play an important role in the verification of claims made in the PDD. The Board shall ensure the suspension of projects that fail to meet these sustainability indicators and safeguards.

#### **IV. Recommendations for consideration by the Board**

- 20. The submissions highlight three areas of possible further work:
  - (a) The definition of sustainable development co-benefit indicators and/or “do no harm” safeguards for CDM projects;
  - (b) Improvement of stakeholder involvement at local and global levels including a means to enable stakeholders to make public and/or address grievances;
  - (c) Improvements to the declaration of SD co-benefits including monitoring and verification thereafter.
- 21. The Board may wish to request the secretariat to:



- (a) Prepare a revised list of SD criteria or indicators<sup>1</sup> and safeguards. In doing so, develop a simple “SD tool” or checklist to assist project developers in describing their project co-benefits in the PDD; invite public and DNA input on the “SD tool”;
- (b) Recommend enhancements to CDM procedures for stakeholder involvement at both local and global levels and outline a means to raise grievances during the lifecycle of a CDM project;
- (c) Prepare or revise applicable reporting and verification standards to monitor and verify claims made in the PDD or indicators chosen in using the “SD tool”, to ensure actual realization of the stated sustainability benefits of CDM projects.

22. In conducting any of the above, the Board may also wish to request the secretariat to: consider any relevant on-going work<sup>2</sup>, existing CDM rules, modalities and procedures<sup>3</sup> and whether any would require amendment; consider options as either voluntary or mandatory under the CDM and consider any barriers or costs this may incur for any stakeholder; and furthermore explore how or if DNA-specified SD requirements, as far as these are publically available or assessments of projects by DNAs when granting a Letter of Approval, could be augmented and/or complemented by the Board.

## V. Acknowledgment

23. This work was conducted in collaboration with the UNEP Risø Centre, which is highly appreciated.

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<sup>1</sup> As developed from 2550 registered projects in the study by the secretariat titled ‘Benefits of the clean development mechanism: 2011’.

<sup>2</sup> The Board, at its sixty-second meeting considered an information note on application of the requirements for consideration of stakeholders' inputs during the validation process and agreed to launch a call for public inputs on this issue ([http://cdm.unfccc.int/public\\_inputs/2011/eb62\\_02/index.html](http://cdm.unfccc.int/public_inputs/2011/eb62_02/index.html) ). The call specifically seeks for inputs on the implementation of local stakeholders consultation and global stakeholder consultation during the validation process. The Board further requested the secretariat to provide an analysis on how the validation by DOEs on the adequacy of the stakeholder consultation process have been conducted and propose options for improvements, taking into account the inputs received, for the consideration by the Board at a future meeting.

<sup>3</sup> According to the Marrakech Accords (Decision 17/CP. 7) the responsibility for determining whether a CDM project activity contributes to SD is defined by the host country and resides with its designated national authority (DNA).