

**CDM-EB-91-AA-A01**

## Concept note

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# Options for using the CDM as a tool for other uses

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

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## **1. Procedural background**

1. At its eleventh session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) encouraged (decision 6/CMP.11, paragraph 7) the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) to continue exploring options for using the CDM as a tool for other uses and report back to CMP 12 (November 2016).
2. The Board considered an initial note on this matter at its eighty-eighth meeting (EB 88) and a second concept note at EB 89. The Board then requested the secretariat to prepare a revised concept note based on the feedback provided by the Board for consideration at a future meeting.
3. This work relates to the activity “Partnerships and engagement activities” under objectives 2(a): “Facilitate the acceptance of certified emission reductions (CERs) for compliance purposes”; 2(b): “Enhance the use of the CDM for voluntary purposes”; and 2(c): “Further develop the CDM as a key tool for monitoring, reporting and verifying the outcomes of mitigation finance” with a resource allocation as referred to in table 5 on page 16 of the CDM two-year business plan 2016–2017 and management plan 2016 (EB 87, Annex 1).

## **2. Purpose**

4. In light of the mandate “to continue exploring options for using CDM as a tool for other uses”, the purpose of this concept note is to present options with potential scope of application of the CDM beyond its original purpose. The note is intended as to enable the Board to structure its reporting on this matter to the CMP.

## **3. Key issues**

### **3.1. Identifying the function and value addition of the CDM**

5. The CDM provides primarily robust and globally trusted certification of quantified mitigation outcomes of activities. Those activities contribute to the sustainable development of non-Annex I Parties.
6. The function of the CDM to certify quantified mitigation outcomes stems from the context of the Kyoto Protocol. The primary demand for this function arose from projects seeking certification of the outcome of their greenhouse gas (GHG) mitigation through the issuance of CERs.
7. These CERs are sold in the carbon market and ultimately are used by Annex I Parties to comply with obligations under the Protocol or by operators regulated under regimes that are politically connected to the achievement of targets under the Protocol.
8. However, CDM is not a market tool or offset instrument by design, and can provide the same function regardless of how the mitigation activities have been incentivized and how the mitigation outcome will be used. In general, the uses of the CDM could be categorized as:
  - (a) Providing a trusted basis for offsetting of emissions or emission limitation obligations; and

- (b) Providing trusted recognition of the outcomes of mitigation activities.
9. In its evolution to deliver its primary function, the CDM has developed an extensive infrastructure to maximize the effectiveness of its delivery. This infrastructure includes: (i) a third-party verification process including a central system to accredit the verifiers; (ii) connect registry systems to account for and track the use of units; (iii) databases related to the status of projects, programmes and credits; and (iv) standards for quantifying, monitoring, assessing, verifying and reporting mitigation outcomes. In addition, the infrastructure has been used to convene stakeholders engaged in mitigation activities and to enhance coordination and coherence among them.
  10. While much of this infrastructure can be and is used in different contexts (in particular recognition of the accreditation system and use of the standards), it is challenging to maintain and expand this infrastructure if the core service is not being used. For this reason, this paper proposes that the work related to the other uses of the CDM emphasize and focus on the use of the certification service that the mechanism provides, as this represents the most effective means of developing and maintaining an effective infrastructure.

### **3.2. Identifying and classifying the potential other uses and users of the CDM**

11. Paragraph 7 above identifies other options of services that can be provided through the function of the CDM. These services have been or could be further applied as a vehicle for:
  - (a) Providing flexible means to countries, sectors or entities to comply with emission reductions or limitation obligations;
  - (b) Certifying the outcomes of the enhanced deployment of climate finance; and/or
  - (c) Providing visibility, legitimacy and recognition of voluntary contributions to climate neutrality.
12. The table below provides an assessment of the potential other uses for the CDM, which includes potential users and potential application of the CDM in each of the categories referred to above.

**Table. Assessment of potential other uses and users for the CDM**

Options for other uses	Potential users	Potential application	Potential action by CMP
Providing flexible means to countries, sectors or entities to comply with emission reductions or limitation obligations	National governments	Demonstration of progress towards or achievement of Nationally Determined Contributions (NDCs) or recognition of activities implemented as part of an NDC	Invite the Conference of the Parties (COP) and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) to consider the use of CERs as a means of demonstrating achievement of NDCs, including as early action towards the achievement of NDCs (potentially by recognising it under Article 6 of the Paris Agreement)
	Public and private entities with compliance exposure under established or emerging systems	Compliance with regional, national or subnational emission trading schemes	Invite Parties to recognize the use of CERs as a compliance instrument in emerging national and subnational emission trading schemes
	Aviation operators with compliance obligations under International Civil Aviation Organization (ICAO) proposed market-based mechanism	Compliance with international commitments	Invite ICAO to recognize the CERs as eligible units in its Global Market-based Mechanism  Encourage aviation companies to commit to climate-neutral growth in their operations through the immediate voluntary cancellation of CERs
Certifying the outcomes of the enhanced deployment of climate finance	Asset managers, investors and issuers of commercial paper, such as bonds, that aim to mitigate GHGs	Certification of the mitigation outcomes of financial products	Request the Board and the secretariat to engage with the financial and investment communities to promote the use of the CDM as an measuring, reporting and verification (MRV) tool for green securities

Options for other uses	Potential users	Potential application	Potential action by CMP
	The Green Climate Fund and the Global Environment Facility multilateral development banks, regional development banks, national development banks, climate funds	Certification of the mitigation outcomes of activities supported by international climate finance, including those financing climate resilience	<p>Invite the COP to request the operating entities of the financial mechanism to use the CDM as a tool for the consistent MRV of mitigation activities</p> <p>Request the Board, in consultation with the operating entities of the financial mechanism, to explore means to simplify the application of the CDM for activities which are funded via the financial mechanism</p>
Providing visibility, legitimacy and recognition of voluntary contributions to climate neutrality	Individuals, organizations, corporations and event organizers	Offsetting and recognition of own action	Encourage Parties, public and private entities and citizens to contribute to the reduction in global emissions by supporting additional emissions reductions verified through the voluntary cancellation platform
	Cooperation agencies of donor countries such as KfW/GIZ, SIDA, NORAD, SIDA	Visibility and recognition of delivered outcomes as financed	Invite development agencies and multilateral development banks to use the CDM as a means to verify the mitigation outcomes of their supported activities

## 4. Impacts

13. The continued and increased use of the CDM infrastructure beyond the purpose of contributing to compliance with Kyoto Protocol targets would result in an increase in the demand for the CDM and strengthen its ability to enhance mitigation activities in line with the objective of limiting temperature increase.

## 5. Subsequent work and timelines

14. The final description of options would be reported to CMP 12; additional work and budgetary implications would be assessed following guidance by the CMP.

## 6. Recommendations to the Board

15. The secretariat recommends that the Board recommend to the CMP that it:
- (a) Invite the COP/CMA to consider the use of CERs as a means of demonstrating achievement of NDCs, including as early action towards the achievement of NDCs;
  - (b) Invite Parties to recognize the use of CERs as a compliance instrument in emerging national and subnational emission trading schemes;
  - (c) Invite ICAO to recognize the CERs as eligible units in its Global Market-based Mechanism;
  - (d) Encourage aviation companies to commit to climate-neutral growth in their operations through the immediate voluntary cancellation of CERs;
  - (e) Request the Board and the secretariat to engage with the financial and investment communities to promote the use of the CDM as an MRV tool for green securities;
  - (f) Invite the COP to request the operating entities of the financial mechanism to use the CDM as a tool for the consistent MRV of mitigation activities;
  - (g) Request the Board, in consultation with the operating entities of the financial mechanism, to explore means to simplify the application of the CDM for activities which are funded via the financial mechanism;
  - (h) Encourage Parties, public and private entities and citizens to contribute to the reduction in global emissions by supporting additional emission reductions verified through the voluntary cancellation platform; and
  - (i) Invite development agencies and multilateral development banks to use the CDM as a means to verify the mitigation outcomes of their supported activities.

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### Document information

<i>Version</i>	<i>Date</i>	<i>Description</i>
01.0	30 August 2016	Initial publication as an annex to the annotated agenda of EB 91.
Decision Class: Operational Document Type: Information note Business Function: Governance Keywords: CMP, increasing CER demand, mitigation, offsetting, verifying and certifying		

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