

**CDM-EB-89-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.
2. The Board considered an initial note on this matter at its eighty-eighth meeting (EB 88) and requested the secretariat to prepare a revised note that would include recommendations for focus areas of work and possible actions using the CDM infrastructure in other areas, including the use of certified emission reductions (CERs). Furthermore the secretariat launched a public call for inputs. This call closed on 15 April and the submissions are available on the UNFCCC CDM website. The responses to the call are broadly supportive of the extended use of the mechanism.
3. The CDM and its Board continue to operate under the authority of the CMP to the Kyoto Protocol. In recent years the breadth and depth of domestic and international action to address climate change independent of the Protocol has expanded dramatically. The primary guiding principle in supporting and encouraging broader applications of the CDM is the pursuit of the objective of the Convention. The broader application of the CDM is therefore being conducted against this background. While the range of users and uses of the CDM may expand the mechanism remains under the authority of the CMP and its evolution and future will be guided by the Parties to the Protocol. It should be further noted that Parties to the Convention have agreed that the lessons learned from the CDM be drawn upon in the design of the mechanism established under Article 6.4 of the Paris Agreement. The extent to which aspects of the CDM are drawn upon in the development of that mechanism is a matter for the Parties to the Paris Agreement and is not addressed within the scope of this note.
4. This work relates to the activity 'Partnerships and engagement activities' under objectives 2(a): 'Facilitate the acceptance of 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 (EB87, annex 1).

## **2. Purpose**

5. In light of the mandate "to continue to explore other uses for the CDM" the purpose of this concept note is to classify the potential scope of application of the CDM beyond its original purpose and to identify the specific activities which would support these applications. The note is intended as a framework to guide the activities under this workstream, to provide a basis for enhanced reporting of activities by the secretariat to the Board and to enable the Board to structure its reporting on this matter to the CMP.

## **3. Identifying the function and value-addition of the CDM**

6. The CDM provides primarily robust and globally trusted certification of quantified mitigation outcomes. In recent years, it has evolved to also recognize other outcomes including contributions to sustainable development.

7. This function was provided in the context of the Kyoto Protocol and, through the formative years of the mechanism, the primary demand for the function arose from non-Annex I Parties seeking certification of the outcome of their greenhouse gas mitigation projects through the issuance of CERs. These units were sold in the carbon market and used to comply with obligations under the Protocol or under regimes linked to the Protocol, in particular the European Union emission trading scheme. As a result the CDM has been considered primarily as a tool and component of the carbon market to carbon markets. However it is not by design a market tool or an offset instrument 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 function of the CDM could be categorized as:
    - (a) Providing a trusted basis for offsetting of emissions or emission limitation obligation; and
    - (b) Providing trusted recognition of the outcomes of mitigation activities.
  8. In its evolution to deliver its primary function of certifying quantified mitigation outcomes, 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 system to accredit the verifiers; (ii) 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.
  9. 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 emphasizes and focus on the use of the certification service provided by the mechanism, as this represents the most effective means of developing and maintaining an effective infrastructure.
- 4. Identification and classification of the potential other uses and users of the CDM**
10. Paragraph 6 above identifies the 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 nations, sectors or entities to comply with emissions reduction 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.
  11. Tables 1-3 below provides an assessment of the potential users of the CDM in each of these categories, identifies in more detail the nature of the uses and further identifies activities being undertaken by the secretariat under the existing management action plan.

**Table 1. Assessment of potential extended user base for the CDM**

<b>Providing flexible means to nations, sectors or entities to comply with emissions reduction or limitation obligations</b>		
<i>Potential users</i>	<i>Application</i>	<i>Activities</i>
National governments	Demonstration of progress towards or achievement of NDCs or recognition of activities implemented as part of an NDC	Promote CDM as a tool for demonstration of progress towards or achievement of NDCs in events and development of materials Engage with Parties on this matter
Public and private entities with compliance exposure under established or emerging systems	Compliance with regional, national or subnational emissions trading schemes	Promote CDM as a tool for compliance with other emissions trading scheme in events and development of materials Promote the enhancement of carbon pricing policies intending to utilize CDM/CERs Engage with Parties and non-State actors on this matter
Aviation operators with compliance obligations under ICAO proposed market-based mechanism	Compliance with international commitments	Promote eligibility of CDM for ICAO global market-based measure (GMBM) Support ICAO to allow early decision of aircraft operators to purchase of emissions units before 2021 for the use of offset compliance of GMBM in and after 2021 Develop aviation-related methodologies for offsetting in GMBM Further engagement with ICAO
Secretariat of the Montreal Protocol	Certification of supported mitigation activities	Promote the use of recognition through CDM under the Montreal Protocol Engage with the Montreal Protocol secretariat

<b>Certifying the outcomes of the enhanced deployment of climate finance</b>		
<i>Potential users</i>	<i>Application</i>	<i>Activities</i>
Asset managers, investors and issuers of commercial paper, such as bonds, asset backed securities, loan syndicates, crowd-sourcing platforms, impact investment funds, asset backed securities and private placement programmes that aim to mitigate GHGs	Certification of the mitigation outcomes of financial products.	Promote the use of recognition for green bonds Promote the use of CERs for result-based financing Engage with non-State actors

<b>Certifying the outcomes of the enhanced deployment of climate finance</b>		
<i>Potential users</i>	<i>Application</i>	<i>Activities</i>
GCF, GEF, 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	Promote the use of CDM in climate finance Engage with the GCF, GEF, banks and funds

<b>Providing visibility, legitimacy and recognition of voluntary contributions to climate neutrality</b>		
<i>Potential users</i>	<i>Application</i>	<i>Activities to enhance</i>
Individuals, organisations, corporates and event organizers	Offsetting and recognition of own action	Promote the use of voluntary cancellation platform
Cooperation agencies of donor countries such as KfW/GIZ, SEA, NORAD, SIDA	Visibility and recognition of delivered outcomes as financed	Promote the use of CDM as a recognition tool Engagement with non-State actors

## 5. Impacts

12. 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.

## 6. Subsequent work and timelines

13. The framework outlined in section 4 of this note would be used to guide both new and ongoing activities related to this workstream. The secretariat will continue to extend its promotion and engagement activities in line with this note. Future updates to the Board regarding new and ongoing activities related to this workstream would be reported to the Board in accordance with this framework. The outcomes of work under this workstream would be reported to the Board at EB91 for the purpose of informing preparation of the Board's report to CMP.

## 7. Recommendations to the Board

14. The secretariat recommends that the Board:
- (a) Take note of the framework contained in this note as a means of organizing activities within this workstream;
  - (b) Take note of the activities planned; and
  - (c) Provide further guidance on the work areas with this framework.

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### Document information

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