

CLEAN DEVELOPMENT MECHANISM

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**CDM-EB75-A01**

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# CDM Business plan 2014–2015

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Ensuring the continued success of the CDM

1. The Board considers that its role, within the guidance set by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), is to ensure that the CDM remains a viable and effective tool for use by Parties and the private sector to mitigate climate change.
2. Last year, the Executive Board (the Board) expressed its vision for the CDM to continue as *“a credible mechanism for a low greenhouse gas future promoting sustainable development”*. While the desire for continued credibility remains valid and important, the Board considers that the developments over the past twelve months, combined with the uniquely powerful role that the CDM could play, now require it to update its vision of what the CDM can contribute to help the world combat climate change and achieve the ultimate objective of the Convention. To this end, the Board has formulated the following vision for the CDM to guide its future work: **“to continually enhance the CDM as an innovative, effective, credible and successful mechanism for mitigating climate change and driving sustainable development”**.
3. This business plan sets out the Board’s strategic direction for the CDM and establishes two goals each supported by a set of objectives for the period 2014-2015.
4. The goals reflect the medium term desired outcomes. The objectives are more specific and are intended to guide the immediate work to be undertaken to achieve the Board’s goals. The Board intends to prioritize and allocate resources, via a supporting management plan (MAP), to activities which support the achievement of the goals and objectives. The MAP defines the work, capacity needs, and resource requirements needed by the Board and its support structure to achieve the goals and objectives of the business plan.

## 2. The current and evolving context

### 2.1. The current operational context

5. The CDM is the largest and most widely recognized offset mechanism in the world. 7,217 projects in 89 countries and 215 programmes of activities (PoAs) in 58 countries have been registered since 2004. The implementation of these projects and programmes is estimated to have leveraged at least USD 315 billion<sup>1</sup> in capital investment to underpin climate mitigation efforts and support the achievement of a range of sustainable development outcomes for host Parties. It has also issued over 1.38 billion certified emission reductions (CERs) and stands ready to further contribute through the crediting of a further 1.4 to 6.2 billion emission reductions by 2020.<sup>2</sup>

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<sup>1</sup> Total capital investment as reflected in the PDDs of 85% of project activities considered not dormant (source data: UNFCCC/UNEP Risoe as of 1 October 2013).

<sup>2</sup> Projects which are currently issuing CERs are projected to continue issuing a further 1.4 billion CERs, while all currently registered projects could result in the issuance of up to 6.2 billion additional CERs to 2020.

6. With over a decade of operation, the CDM has world-leading expertise in the development and implementation of greenhouse gas emission offset mechanisms. This includes the three core functional areas:
  - (a) In assessments, the CDM maintains and administers uniform procedures for registering activities that reduce or remove emissions, issuing credits for such reductions or removals, and accrediting third-party verifiers;
  - (b) In standards, the CDM maintains the world's largest source of credible and internationally accepted standards for measuring, reporting and verifying emission reductions and removals, and these are already widely used by mechanisms and stakeholders outside the CDM;
  - (c) In regulatory management, the CDM has an established, transparent and trusted governance structure, functional emissions registry and a transparent repository of the status and description of all projects and programmes.
7. The CDM accrued strengths from its period of rapid growth from 2009 to 2012 which include a healthy carryover of financial resources, a secretariat with substantive knowledge and expertise, and a rich network of public and private-sector contacts (including designated national authorities, designated operational entities, project participants, and others) in over 120 countries.
8. However, current demand for CERs is low. A number of Annex I countries are not participating in the Kyoto Protocol or its second commitment period. In addition, approximately two-thirds of the present quantitative limit set by the European Union Emissions Trading System for the use of emission reduction units (ERUs) and CERs has already been used. Therefore currently confirmed demand is not nearly sufficient to accommodate the current supply capacities of the mechanism.
9. A comparison between the average figures for the 2008–2012 period and the figures for 2013 reveals that requests for registration have declined significantly, and are now at levels not seen since 2005. They may be expected to remain low for 2014 and 2015, and potentially beyond, barring significant and unexpected external developments. Requests for issuance have also declined though less significantly, primarily because the marginal cost of requesting issuance is relatively low in comparison with the costs of developing, implementing, and registering a project. Nevertheless, rates of issuance requests are well below the peak levels of 2011 and 2012 and may be expected to remain low in light of the current demand levels.

## 2.2. The evolving external environment

10. Four trends currently characterize the situation facing market approaches in global climate policy.
11. First, **commitments for the second commitment period of the Kyoto Protocol have been inscribed in a Doha Amendment that is in the process of ratification by Parties.** The end of the first commitment period was shrouded by a period of uncertainty regarding on-going implementation of agreements under the Kyoto Protocol. The outcome of CMP.8 has provided the CDM with a firmer basis for its evolution and a potential source of demand through renewed and potentially more ambitious, targets by some Annex I Parties. In addition Parties are proceeding with negotiations under the

ADP to conclude an agreement by 2015. However such an agreement will not directly affect the CDM during the course of this business plan.

12. **Second, an increasing number of governments (local, national and regional) intend to utilize market-based policies to address greenhouse gas emissions.** In addition to established emissions trading systems in Europe, New Zealand, and regions in the United States of America, systems are emerging in jurisdictions as diverse as Australia, Canada, China, Kazakhstan and South Korea. Crediting programmes are also emerging, including bilateral mechanisms between developed and developing countries as well as a range of offset protocols. A number of other jurisdictions are at more exploratory stages.
13. **Third, the intergovernmental negotiations regarding market-based mechanisms are progressing towards consideration of operational aspects.** Parties, via their subsidiary bodies, are negotiating a “framework for various approaches” (FVA), which aims to clarify the role of national and sub-national mechanisms in the international process. They are also negotiating the “new market-based mechanism” (NMM), and reviewing the CDM and joint implementation (JI) with a view to defining their operational rules within the international climate process. Finally, they are focusing on the broader role of market-based (and non-market-based) mechanisms as part of the 2015 outcome.
14. **Fourth, interest in voluntary offsetting and corporate carbon neutrality is increasing.** There is interest among governments and the private sector to use market-based mechanisms as a means of attaining carbon-neutrality and promoting development benefits. While this share of the market has been historically small relative to the compliance market, it is growing. The CDM registry has to date facilitated the voluntary cancellation of 286,694 CERs. Much of this demand in this area is met by voluntary approaches that allow for third-party verification of development benefits. Credits from these voluntary approaches, particularly those tagged with development benefits, are trading at a premium price.

### **2.3. Enhancing the CDM within this context**

15. The Board considers the growth of carbon market approaches to be a welcome sign of confidence in their potential. The Board notes that the contributions of the CDM in enhancing the cost-effectiveness of mitigation actions, building constituencies supportive of ambitious climate action in developed and developing countries alike, and delivering development benefits may have provided a successful impetus for this growth.
16. However, the Board also notes that the growth of carbon market approaches worldwide appears to be proceeding in different directions, creating potential risks:
  - (a) **Reduced environmental integrity:** the impact of uncoordinated actions by policymakers may be the setting and/or agreeing of standards that do not consistently evaluate emission reductions and removals, thereby raising concerns about environmental integrity and placing further downward pressure on prices of CERs;
  - (b) **Inefficiency:** as the atmosphere is agnostic about where emissions are reduced, market-based mechanisms work most effectively if they are connected to cover as large an area as possible, so as to broaden the range of opportunities for identifying and implementing mitigation activities;

- (c) Increased transaction costs: the burden of navigating multiple regulatory systems may increase transaction costs for the private sector, discouraging participation;
  - (d) Complexity of linking: linking mechanisms designed with differing evaluation and monitoring criteria would be an inherently complex undertaking and could pose challenges to environmental integrity.
17. The Board contends that the CDM provides a toolkit for addressing most of these potential risks, in that it can generate a robust set of universal standards for evaluating emission reductions and removals, enhances liquidity by virtue of its broad geographic and sectoral scope, decreases transaction costs through the creation of a single regulatory apparatus, and provides a means for indirect linking of different mechanisms.

### 3. Goals and objectives

18. To achieve its vision, the Board has established the following two goals and supporting objectives for the period 2014-2015.

#### 3.1. Goal 1: Enable the implementation of mitigation activities and ensure the trusted certification of their outcomes efficiently and transparently

19. The core strength of the CDM is its capacity to drive the implementation of a broad range of mitigation activities through affirmation of mitigation activities and evaluation of emission reductions and removals. The Board intends for the CDM to maintain its leadership position through optimizing the core functional areas of project and entity assessments, governance, and standard-setting.
20. This goal intends to build upon and continue the work of the Board in recent years to improve the credibility, transparency, user-friendliness, environmental integrity and consistency of the CDM. Equally, this goal allows for the development of innovative ways to increase the scale of mitigation activities that can be addressed through the CDM in preparation for more ambitious mitigation targets in the medium to longer term. These include considering how emission sources at a broader level of aggregation can be targeted through the CDM, how greater use of standardization can reduce transaction costs, and how the use of the CDM can further contribute to an overall reduction in global emissions.
21. Under this goal, the following objectives have been identified:
- (a) **Operate efficient project and entity assessment processes:** the Board intends, inter alia, to fully implement the project cycle and accreditation procedures and meet all prescribed timelines without compromising the quality of assessments;
  - (b) **Operate an effective regulatory framework resulting in reduced transaction costs for participants in the mechanism:** the Board intends, inter alia, to consolidate current practices for revising regulatory documents;
  - (c) **Develop simplified and user-friendly standards and procedures that increase efficiency and ensure environmental integrity:** the Board intends, inter alia, to continue to simplify methodologies and tools, further develop the regulatory framework for standardized baselines, facilitate the registration of

additional PoAs, and identify quantifiable means to incorporate net mitigation into the CDM.

### **3.2. Goal 2: Nurture policies to broaden demand for, and participation in, the CDM**

22. The Board and the secretariat continue to undertake many measures to support designated national authorities and project participants in underrepresented countries and sectors, including the CDM loan scheme, a help desk, and, more recently, regional collaboration centres. These are additional to the work of the Board in developing new approaches under the CDM that are particularly well suited to underrepresented countries, including the development of standardized baselines, PoAs, specific methodologies and tools, positive lists of technologies, and the incorporation of suppressed demand, and other tools that the market demands.
23. This goal intends to build upon and continue the work of the Board in recent years to position the CDM as a reliable source of trusted offset credits. This goal also sets a more explicit direction for encouraging the use of CERs to meet a variety of compliance and voluntary purposes, both now and into the future, for increasing the use of voluntary cancellations in the CDM registry, and for better understanding the contribution of the CDM towards sustainable development.
24. The potential of the CDM to contribute to mitigation and sustainable development in the longer term is however far from exhausted, both as a stand-alone mechanism and as a means to support other collaborative measures by Parties. The Board seeks to continue extending the CDM in realizing this greater potential.
25. Under this goal, the following objectives have been identified:
  - (a) **Facilitate the acceptance of CERs for compliance purposes:** In addition to the use of CERs by Parties to the Kyoto Protocol, the Board intends, inter alia: to engage in dialogue with emissions trading systems and sectoral programmes on the use of CERs in such systems; to support initiatives for the use of CERs to help close the pre-2020 mitigation gap and possibly facilitate meeting post-2020 international mitigation targets; and to develop strategic partnerships;
  - (b) **Enhance the use of the CDM for voluntary purposes:** the Board intends, inter alia, to develop a strategy for achieving greater offsetting by public and private entities;
  - (c) **Further develop the CDM as a key tool for monitoring, reporting and verifying the outcomes of mitigation finance:** the Board intends, inter alia: to plan for the implementation of the revised modalities and procedures; to provide recommendations to Parties on further improvements to the CDM and links between it and other components of the evolving international response to climate change; to consider links between the CDM and supported nationally appropriate mitigation actions; and to establish the CDM as an accepted delivery vehicle for development and climate financing (including via the Green Climate Fund).

## 4. Principles guiding the elaboration of the MAP

26. As noted above, the MAP will define the work, capacity needs, and resource requirements needed by the secretariat to realize the Board's vision. The Board intends to prioritize activities that help realize its vision and to terminate activities that do not. In implementing this business plan and considering the supporting MAP the Board renews its commitment to:
- (a) Operate with the highest level of integrity, ensure the adequacy of technical, quality, and information/knowledge systems to support the CDM in the long term, and secure a healthy long-term financial future;
  - (b) Strengthen its review of performance in light of the CDM's environment and financial situation, including via appropriate monitoring systems;
  - (c) Undertake reviews of the revenues and expenditures of the Board and assessing what activities are necessary to sustain the CDM, identifying and implementing adjustments over time as needed;
  - (d) Prioritize its work and agendas to support the efficient use of its meeting time and resources;
  - (e) Ensure the capacity and expertise of a highly-skilled and motivated support structure by providing a framework that supports collaboration within the support structure;
  - (f) Instruct the secretariat to optimize the use of the Board's meeting time through the provision of enhanced reports that identify and present clear options requiring policy direction;
  - (g) Instruct the secretariat to continue managing costs prudently, and make precautionary cuts in expenditures to respond to reduced resource requirements in order to maintain the financial resources necessary for the operation of the mechanism.

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### Document information

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