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SUBMISSION TO THE CDM POLICY DIALOGUE

## CONTENTS

Introduction .....	3
1 The CDM as a financing mechanism.....	3
2 Governance of the CDM.....	4
3 Environmental integrity.....	4
4 Designated Operational Entities (DOEs) challenges and opportunities .....	5
5 Designated National Authorities (DNAs) challenges and opportunities .....	5
6 Challenges and opportunities for standardised baselines .....	5
7 Further standardisation and simplification of processes .....	6
8 Challenges and opportunities of PoAs (CDM Programme of Activities) .....	6
9 The CDM, UN mechanisms and other national mechanisms .....	6

## INTRODUCTION

CIMA welcomes the opportunity to provide input on issues to be addressed in the CDM Policy Dialogue, including external forces affecting the CDM, future challenges it can be expected to face, and opportunities and possible directions for its future use and development.

CMIA members have vast experience in developing and investing directly in CDM project activities. The perspective of CMIA is centered towards the CDM as a financing mechanism of emission reductions and practical implications of developing and implementing projects.

Below are a number of areas that should be considered by the CDM Policy Dialogue in order to fulfill the objective of providing recommendations on the future of the CDM.

Panel members of the CDM Policy Dialogue have the ability to establish working groups to focus on different aspects of the CDM. The headings below could be seen as potential working groups. Each heading contains concrete topics and questions that should be analyzed and explored by the Policy Dialogue.

### 1 THE CDM AS A FINANCING MECHANISM

We strongly advise the Policy Dialogue panel members to consider establishing a group that can focus on the benefits and shortcomings of the CDM as a financing mechanism. The CDM has managed to attract a vast level of interest from private sector investors. Viewing the CDM as a financing mechanism is an extremely important perspective that many times is not given enough consideration.

Some of the areas that this working group should consider are:

- Understanding how CDM projects get financed
- Understanding the CDM as a financing mechanisms for emissions reductions
- Exploring strengths and weaknesses of the mechanism in attracting risk capital
- Aspects of the CDM that help mitigate the risk of investing in emerging markets
- The nature of Certified Emission Reductions (CERs) that has allowed the use of CERs as 'AAA collateral'
- Exploring the role of the CDMs financing model as payment for verified results in the context of broader climate finance instruments

## 2 GOVERNANCE OF THE CDM

In the past years we have seen and welcomed many improvements to the CDM in particular in relation to the simplification of processes and methods of assessment of projects. However, little has been done to identify ways of improving the governance of the CDM. There are a number of systemic shortcomings within the governance of the CDM that if addressed would provide further integrity and transparency to the CDM.

Some of the areas that this group should consider are:

- Ways of improving the governance and transparency of the CDM
- Transparency and accountability of the secretariat
- Examine how the CDM Executive Board members manage conflict of interests, their election to the board and their role in national government delegations
- Examine the capacity, expertise and composition of the Executive Board
- Analyze ways of improving the communication channels between all stakeholders of the CDM
- How best to improve the support structure of the CDM
- Improving guidelines for conducting stakeholder consultations
- The establishment and composition of an appeals body

## 3 ENVIRONMENTAL INTEGRITY

Much progress has been achieved in the development of baseline determination, monitoring methodologies and the assessment of additionality. However, different methodological approaches impact directly on the transaction cost and viability of projects. Therefore, it is important to look at different ways to ensure environmental integrity whilst not constraining the possibility to implement activities that are additional and reduce emission reductions.

Suggested areas for consideration are:

- Lessons learnt from application of the additionality and baseline setting
- How to improve the environmental integrity of the CDM
- Examine the adequacy of CDM methodologies and tools
- How to move beyond 'business as usual' crediting baselines
- Assess the current application of the E+/E- rule
- Look into the different interpretation and evolution of the E+/E- rule
- Assess the role of positive lists and standardised baselines in determining additionality of project activities.

## 4 DESIGNATED OPERATIONAL ENTITIES (DOEs) CHALLENGES AND OPPORTUNITIES

One of the recurring issues affecting DOEs has been the definition of DOE liability. Hence we propose to look at this issue in depth.

- Analyse ways of resolving the issue of DOE liability in the case of excess issuance where significant deficiencies have occurred
- Examine ways of distributing liability for excess issuance amongst different parties
- Look into ways of enhancing the capacity of DOEs

## 5 DESIGNATED NATIONAL AUTHORITIES (DNAs) CHALLENGES AND OPPORTUNITIES

Much of the CDM learning has taken place and been captured by the UN system and the private sector. DNAs have not been as able in building expertise in the area of CDM baseline setting and carbon finance. There is a need to develop more skills and build capacity within DNAs. Now more than ever there is a need to enhance the capacity of host governments in the definition of crediting thresholds and their ability to manage their carbon assets. Thus the Policy Dialogue should also look at ways of enhancing the participation and capacity of DNAs.

We therefore suggest the following:

- Examine how DNAs assess the sustainable development contribution of CDM projects
- Examine how the technical capacity of DNAs can be enhance
- Evaluate what CDM liabilities are best managed domestically
- How can DNAs incentivise the development of standardised baselines

## 6 CHALLENGES AND OPPORTUNITIES FOR STANDARDISED BASELINES

A central development of the CDM in the past year has been the definition of standardised baselines. This opens the door for a simplified demonstration of additionality and the possibility of the CDM to reach a broader scale of emission reductions and target large segments of the economy. Early standardised baselines such as the grid emission factor have had an incredibly accelerating effect on CDM investment. Nevertheless, standardised baselines development has halted given the current uncertainty over the role of the CDM post 2012. Standardised baselines are an obvious space in which to think about the possible options for CDM positioning in the future.

It is important to consider and examine:

- The sectors that are best suited for standardised baselines
- Options for incentivising the development of standardised baselines in light of limited demand for certified emission reductions
- Ensuring the environmental integrity of standardise baselines.

## 7 FURTHER STANDARDISATION AND SIMPLIFICATION OF PROCESSES

As expressed previously the CDM has seen much improvement in the methods of assessment and simplification of processes. However, there is room to build on the achievements so far and to explore new ways of making the process more efficient and effective.

For this reason we propose to look at the following:

- Further improvements and consolidation of processes
- Benefits and opportunities for standardization
- Benefits of digitization of processes
- How to develop software tools to digitize the monitoring, verification, certification and issuance of credits from CDM projects activities

## 8 CHALLENGES AND OPPORTUNITIES OF POAs (CDM PROGRAMME OF ACTIVITIES)

PoAs have been seen as a way to reach new sectors and broaden the geographic distribution of the CDM. Nevertheless the implementation of PoAs has been rather slow. There is a need to identify how to facilitate the development and implementation of PoAs.

A few areas to look at are:

- Lessons and challenges of implementing PoAs
- Challenges and opportunities of coordinating entities in PoAs
- Monitoring methodologies for PoAs
- The role of POAs in the development of national mechanisms.

## 9 THE CDM, UN MECHANISMS AND OTHER NATIONAL MECHANISMS

Many developing countries are seriously and actively looking into the design and implementation of national schemes and mechanisms. A key question will relate to the capacity of CDM to develop and adapt to new national and international realities. This working group should look at the possible options of how to position the CDM in light of new developments and external factors impacting on the CDM. Some areas that should be explored are:

The lack of demand for certified emission reductions and the future of the CDM; examine the relationship between the CDM and other UN mechanisms; the CDM and other national mechanisms or policies; what level of technical coordination is needed between mechanisms to avoid double counting and preserve environmental integrity; where will the CDM sit within the new market mechanisms framework; how can the lessons from the CDM help build and inform new mechanisms and frameworks; and examine the role of the CDM's financing model as payment for verified results in the context of national and international climate financing instruments.

Further to the substantive issues highlighted above it will be very important to give some consideration to the organisational matters of the possible meetings, workshops or round tables that may be organised under the working groups devised as part of the Policy Dialogue. Based on previous experience of stakeholder workshops organised by the secretariat in 2011 it is very important to announce the timing of any meetings or workshops well in advance. Equally important is to provide any materials that will be discussed in such meetings or workshops with ample time. This is essential but is something that has regularly been overlooked. Early notification and availability of materials is fundamental for securing good representation and a substantive debate.

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**About the CMIA:**

The Climate Markets & Investment Association (CMIA) is an international trade association representing over 60 companies that finance, invest in, and provide enabling support to activities that reduce emissions. CMIA's membership accounts for an estimated 75 per cent of the global mitigation market, valued at USD 130 billion in 2010. Solely representing organizations that provide services to and invest in the environmental sector, membership does not include any entities with compliance obligations under cap-and-trade schemes. This results in a unique advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.