

Clean Development Mechanism (CDM) – Key Concepts

Prerequisites for a project to be considered under CDM

- Contributes to the sustainable development of the host country
- Results in GHG emission reductions that would not have happened otherwise
- Generates real, measurable and long-term climate change mitigation benefits
- Approved by parties (host and purchasing) involved

Critical Issues for CDM

- Availability of Methodology
- Starting date of Project activity
- Prior Serious Consideration of CDM
- Baseline Scenario
- Additionality – why and how?

Availability of CDM Methodology

- Ideally there would be an existing methodology approved by Executive Board applicable directly to the proposed project
- CDM EB has provision for suggesting a new methodology or modification in an existing methodology
- As far as possible, use existing methodology to avoid complexity and time overrun

Critical Timelines

➤ Starting Date

“ The starting date of a CDM project activity is the earliest date at which either the implementation or construction or real action of a project activity begins.”

➤ Registration of the CDM Project

➤ Issuance of CERs for the CDM Project by EB

Prior and On-going Consideration of CDM

- Projects proponent must demonstrate serious CDM benefit consideration in decision to implement the project, e.g. Notice to UNFCCC and DNA; documentation showing prior consideration
- Consideration of CDM revenue as potential income in FIRR and/or EIRR in project loan application
- Entering an Emission Reduction Purchase Agreement
- Application of a new methodology to EB

Additionality

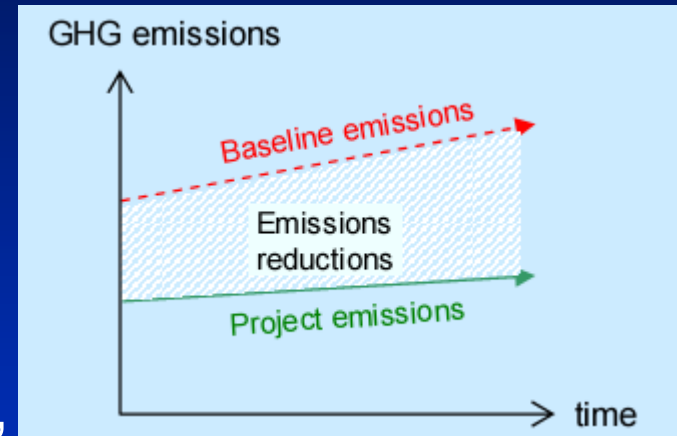
- Project has to be “additional” above and beyond business as usual
- Good rule of thumb for “Common Practice Test”
 - Has technology/type of project been implemented over past five years in that country?
 - If yes, to what extent? What is the rate of penetration of this technology?

Additionality

- Additionality demonstrated through Barrier Analysis: barriers to implementation?
 - Investment Barriers (barriers to finance, etc)
 - Technological (labour, infrastructure, etc)
 - Prevailing practice (first of kind)
- Must be documented with demonstrable evidence (legislation, data, statistics, etc)
- Investment analysis: project is economically or financially less attractive than other alternatives or no other economic benefits other than CER revenues.

CDM Baseline

- Baseline: the difference between the actual project emissions and the emission baseline constitute the volume of CERs
- Determining the Baseline:
 - Must use complete methodology
 - Purpose of Baseline methodology/additionality tool:
 - ✓ To determine the baseline scenario, based on rationale and complete justification
 - ✓ To determine the basis for and demonstrate additionality



Developing Baselines for CDM Projects

- Using approved methodologies (if not available, a new methodology has to be developed)
- In a transparent, conservative and justifiable manner
- On a project-specific basis
- Using simplified procedures for small-scale projects
- Taking account of national and/or sectoral policies

THANK YOU