

# **Clean Development Mechanism (CDM) – Key Concepts**

# Prerequisites for a project to be considered under CDM

- Ø Contributes to the sustainable development of the host country
- Ø Results in GHG emission reductions that would not have happened otherwise
- Ø Generates real, measurable and long-term climate change mitigation benefits
- Ø 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

- Ø Ideally there would be an existing methodology approved by Executive Board applicable directly to the proposed project
- Ø CDM EB has provision for suggesting a new methodology or modification in an existing methodology
- Ø 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

- Ø 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
- Ø Consideration of CDM revenue as potential income in FIRR and/or EIRR in project loan application
- Ø Entering an Emission Reduction Purchase Agreement
- Ø Application of a new methodology to EB

# Additionality

- Ø Project has to be “additional” above and beyond business as usual
- Ø 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

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



# CDM Baseline

Ø Baseline: the difference between the actual project emissions and the emission baseline constitute the volume of CERs

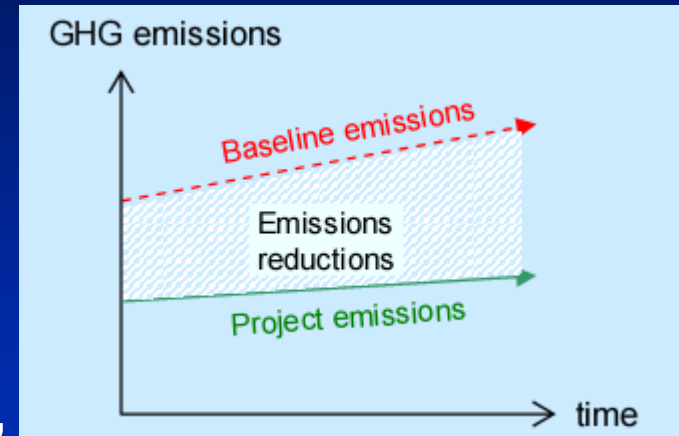
Ø Determining the Baseline:

§ Must use complete methodology

§ Purpose of Baseline methodology/additionality tool:

ü To determine the baseline scenario, based on rationale and complete justification

ü To determine the basis for and demonstrate additionality



# Developing Baselines for CDM Projects

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

**THANK YOU**