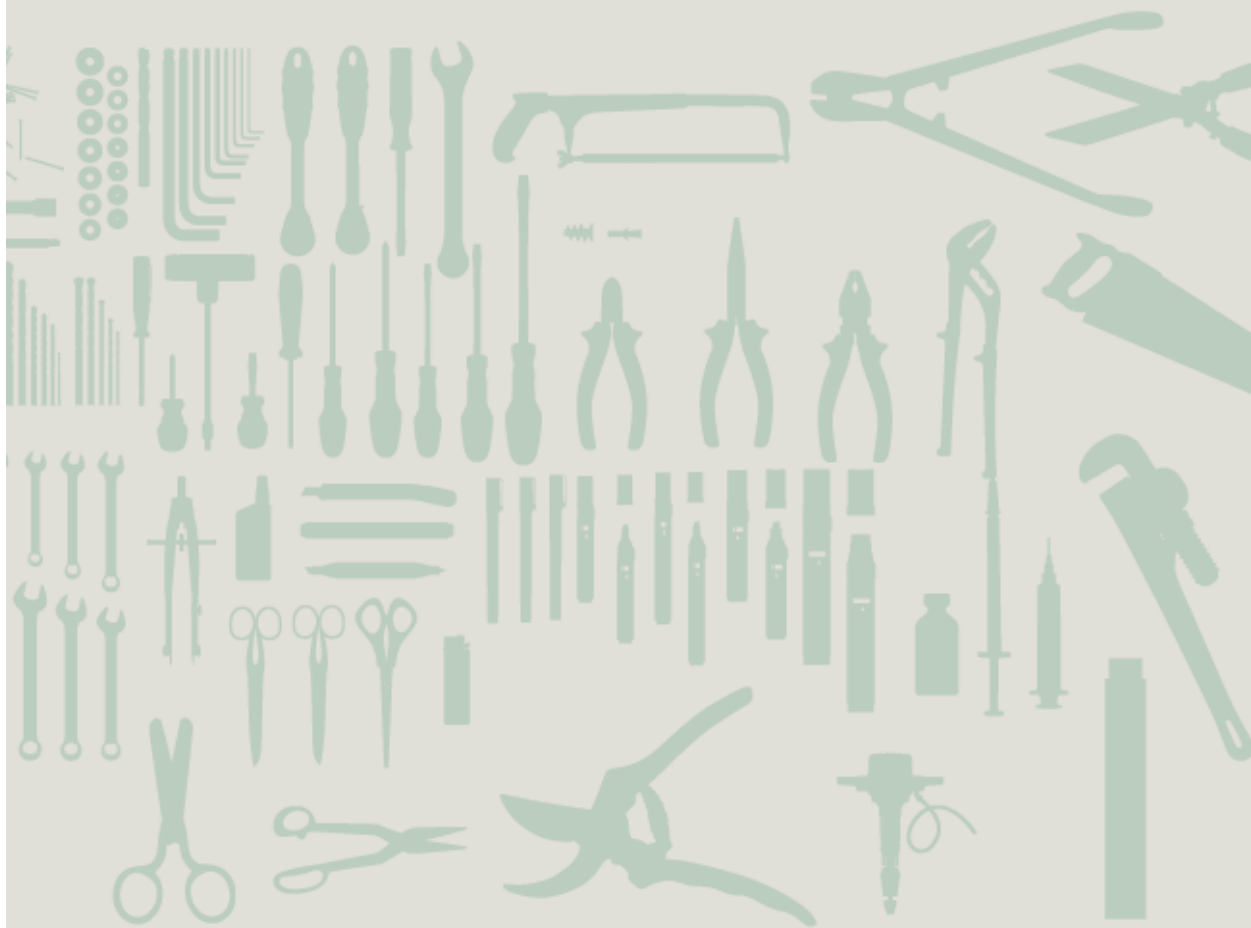




TOOLKIT 2.0

A RESOURCE FOR CITIZENS, ACTIVISTS AND NGOS



CDM Watch
Scrutinizing Carbon Offsets



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Introduction

This 'CDM Toolkit 2.0' is a complementary edition of the CDM Toolkit 1.0. It is designed as a guide for NGOs, activists and citizens to effectively engage in the CDM project cycle and implementation process and to address potential problems with CDM projects. Note that this CDM Toolkit 2.0 is not designed as a technical analysis, but rather as a practical tool for use by those who live in the vicinities of CDM projects and want to know how to assess and raise issues should problems arise. For a first introduction on how the CDM works and what opportunities for public participation there are throughout the lifecycle of a CDM project, please see our [CDM Toolkit 1.0 available in 8 languages](#).

This CDM Toolkit 2.0 first gives a general introduction about the CDM and an overview about CDM projects. It then outlines key aspects to focus on when assessing CDM projects during the public commenting period and beyond.

CDM Watch scrutinises carbon markets and advocates for fair and effective climate protection. CDM Watch provides an independent perspective on the CDM and wider carbon market developments. As a unique watchdog organisation with a large global network, CDM Watch advocates for stronger environmental and social integrity in carbon markets world-wide.

For more information, please contact CDM Watch at:

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Key Aspects to Analyse in a CDM Project

Despite the large number of projects, the CDM has faced serious difficulties in delivering on its dual goal of climate mitigation and sustainable development. A large majority of projects are industrial scale type projects who can typically cause serious adverse social and environmental impacts. In this chapter we specifically look into what aspects to focus on when analysing a project's PDD. This should guide you when writing a public comment or other communication, to help understand how to analyse these projects. The aim is to help you know how to assess and raise issues should problems arise. Here a brief introduction on aspects to look into when analysing a CDM projects:

As the CDM was designed 'to assist developing countries in achieving sustainable development and to assist developed countries in achieving compliance with their emission reduction commitments, emission reductions from CDM projects need to be real, measurable, and generate long-term benefits related to the mitigation of climate change. Most of all emission reductions need to be additional to any that would occur in the absence of the certified project activity See [Art. 12 Kyoto Protocol](#) for a full definition of the CDM. The following three aspects should therefore be the starting point for each analysis:

Additionality:

The CDM requires each approved project to be 'additional': that it only goes forward because of the extra financial support provided by the sale of carbon credits. In other words, projects that would be built anyway, without the extra financial support of the CDM, projects that are business-as-usual, should not get carbon credits because such projects generate credits that are not based on actual emissions reductions. Each business-as-usual project that is registered under the CDM allows an industrialised country to emit more than their targets without causing the equivalent emissions to be reduced in a developing country. There have been estimates that 20-70% of all CDM projects are non-additional.

Baselines:

Every project needs to determine what its emissions would have been if the project was not implemented. These are called the baseline emissions. The number of credits a project receives is then calculated by subtracting the project emissions from the baseline emissions. The problem is that in many cases, the baselines are not realistic or inflated. In some cases, project developers artificially increase baseline emissions to get more credits.

Sustainable development:

Despite the fact that the CDM has a fundamental goal to deliver sustainable development benefits to developing countries, there is little evidence that the CDM is actually doing so. Although several small-scale, pro-poor projects are bringing real benefits to local populations,

the majority of projects do not. This is in part due to the fact that sustainable benefits have no monetary benefit: only the emissions reductions are monetised as offsets, but not any other benefits. Also, sustainable development is defined by the host countries themselves and many of them have only very general requirements that are not checked by the auditors or monitored. Some CDM projects have actually caused significant harm to local populations and there is currently no grievance mechanism that allows affected communities to bring complaints against a project that is already registered.

Commenting Checklist

When analysing a CDM project it is useful to start by asking yourself the following questions:

1. Has the CDM authority in your country approved this project?
2. Does the project contribute to sustainable development in your country?
3. Were you or affected communities consulted by the project developer when they were designing the project? If so, does the summary of your comments that appears in the PDD accurately reflect what you said, and does it address the concerns you had?
4. Is the environmental assessment of the project adequate?
5. Is the baseline an accurate and credible estimation of what will happen in the absence of the project being registered as a CDM project?
6. Will this project go ahead anyway if it is not registered as a CDM project that is, is it additional?
7. Does the project violate any national or international laws or standards?

Comments on specific sections of the PDD can then be developed to support your claims for these broader issues, depending on how much information is available about this project.

Key validation requirements in the Project Design Document (PDD)

When writing a comment to a CDM project it is very useful to refer to official validation requirements. If you have the right guidelines and tools handy, it is easy to verify whether the provided information is sufficient or whether there are key requirements missing.

Below you find a list of key guidelines and tools that provide the right kind of information for each section of the PDD:

- Clean development mechanism validation and verification manual (CDM VVM)
- Guidelines for completing the project design document (CDM-PDD) and the proposed new baseline and monitoring methodologies (CDM-NM)
- Tools for the demonstration and assessment of additionality
- Combined tools to identify the baseline scenario and demonstrate additionality
- Guidelines on the assessment of investment analysis
- Guidelines on the demonstration and assessment of prior consideration of the CDM

You can access the latest versions of all these documents online at: <http://cdm.unfccc.int/>

To give you an overview of validation requirements, we have highlighted specific key requirements for important parts of the PDD in the extracted sections of the PDD-Form below.

SECTION A. General description of project activity

SECTION B. Application of a baseline and monitoring methodology

B.4. Description of how the baseline scenario is identified and description of the identified baseline scenario:

To identify the baseline scenario, the PDD must compare the proposed project to “realistic and credible alternative(s) available to the project participants or similar project developers that provide outputs or services comparable with the proposed CDM project activity.” All scenarios that are reasonable in the context of the proposed CDM project activity must be considered and reasonable alternative scenarios must not have been excluded.

Developing a baseline is critical for deciding whether a CDM project is additional, because testing for additionality involves asking whether the CDM project is the baseline – i.e. whether the project itself is the business as usual outcome. When assessing the PDD it is therefore worthwhile checking whether all alternative scenarios have been considered. Project developers often tend to “forget” alternative scenarios, i.e. renewable energy sources, imported electricity etc.

B.5. Description of how the anthropogenic emissions of GHG by sources are reduced below those that would have occurred in the absence of the registered CDM project activity (assessment and demonstration of additionality):

References to the following four steps of the additionality tool are crucial in assessing whether the PDD is fulfilling the basic requirements:

The project developer has to describe how the proposed CDM project activity is additional. Most projects use the “Tool for the demonstration and assessment of additionality” to explain how and why this project activity is additional and therefore not the baseline scenario in accordance with the selected baseline methodology. All projects must either do the investment or the barrier analysis. Many do both. All need to prove that the project is not “common practice”. But first of all, all alternatives to the project activity consistent with current laws and regulations have to be identified.

- 1) **Realistic and credible alternative scenario(s)** to the project activity that are in compliance with mandatory legislation and regulations need to be identified. If the proposed project activity is the only alternative amongst the ones considered by the project participants that is in compliance with mandatory regulations, then the proposed CDM project activity is not additional.
- 2) **The investment analysis** is used to determine that the proposed project activity is not the most economically or financially attractive or feasible, without the revenue from the sale of CERs. This analysis shows that the project’s expected financial returns are below a benchmark for what is considered good investment for that particular type of project. The investment analysis is very complicated. Therefore, the Executive Board has issued a guidance provided which should be used when assessing a project that uses this method. The guidance also foresees for example that the investment analysis has to be presented in a way that the reader can reproduce the analysis and obtain the same results.
- 3) **The barrier analysis** is used to show that there are barriers, most often expressed as risks, which prevent the potential CDM project activity from going forward but does not prevent the implementation of alternatives. Under this analysis, the project of the additional revenues generated by the sale of carbon credits offsets that risk. If the CDM does not alleviate the identified barriers that prevent the proposed project activity from occurring, then the project activity is not additional.
- 4) **The common practice** analysis is a credibility check to complement the investment or barrier analysis and is used to demonstrate that the project type has NOT diffused in the relevant sector and region. If similar activities to the project activity can be observed

and essential distinctions between the project activity and similar activities cannot reasonably be explained, the proposed CDM project activity is not additional.

Prior consideration of the CDM:

If the starting date of the project activity is before the date of validation, provide evidence that the incentive from the CDM was seriously considered in the decision to proceed with the project activity. This evidence shall be based on (preferably official, legal and/or other corporate) documentation that was available at, or prior to, the start of the project activity. In such cases project proponents shall provide an implementation timeline of the proposed CDM project activity. The timeline should include, where applicable, the date when the investment decision was made, the date when construction works started, the date when commissioning started and the date of start-up (e.g. the date when commercial production started). In addition to this implementation timeline, project participants shall provide a timeline of events and actions, which have been taken to achieve CDM registration, with description of the evidence used to support these actions. These timelines will allow the validator to assess the serious consideration of the CDM in the project decision-making process and project implementation (EB 41, Para 68).

As explained above, emission reductions since 2000 can be eligible to generate carbon credits. Therefore, when assessing additionality, another important exceptional rule has to be complied with if the starting date of the project activity is before the date of validation. In that case, project developers have to undergo stricter rules to convince that the CDM revenue was seriously considered when starting the project activity. If you know that a proposed CDM project would have happened anyway, that it will go ahead regardless of whether it is registered as a CDM project, then it is non-additional. This happens especially often in the case that the starting date of the project activity is before the date of validation. It is therefore important to check the chronology of the events of the project activity and cross-check with dates when contracts were signed etc.

SECTION C. Duration of the project activity / crediting period

SECTION D. Environmental impacts

Project participants shall submit documentation to the validator on the analysis of the environmental impacts of the project activity in accordance with paragraph 37(c) of the CDM modalities and procedures

Documentation of the environmental impact assessment has to be attached to the CDM-PDD so that you can verify what is being stated

SECTION E. Stakeholders' comments

All local stakeholders that can reasonably be considered relevant for the proposed CDM project activity shall be invited by the project developer to comment on the proposed CDM project activity. This consultation meeting has to be conducted prior to the publication of the PDD on the UNFCCC website. In the PDD, the project participant has to demonstrate how due account was taken of the comments received and has to provide a summary.

The project developer must show how stakeholder comments were taken into account. If you are a stakeholder and you have not been consulted then the project has not met the validation requirements. If your comments are not summarised accurately or if it is not stated how your comments were taken into account, then the project developer has not fulfilled the validation requirements.

Public Commenting Cheat sheet

PDD Section	What To Look For	Sources Of Information
A. Project description	<ul style="list-style-type: none"> Is the description of the project accurate? Note any inconsistencies with other project documents you may have. Note the project participants. Have they included all the known participants in the project? What buyer country is listed, if any? Are funders listed for the project? Be sure to include any information on additional funders to the project and their level of investment, if any. Has the project already started operation? 	Official documents: EIAs, feasibility studies, financial documents, news articles, etc.
B. Methodology	<ul style="list-style-type: none"> What is the baseline scenario of the project? Have they included all the available alternatives to the project? Investment analysis: What is the benchmark IRR that is chosen? Is this benchmark appropriate? Projects must show that without CDM financing, project IRR is less than 8%. What is the IRR of the project, and is this accurately calculated compared to IRR information from other sources? Has it included all existing sources of support such as government tariffs? Common practice analysis: Does the PDD make a strong argument for why the project is not a common project type? Barrier analysis: Does the PDD make a strong argument that there are significant barriers to the project without CDM financing? If a project timeline is included, does it accurately reflect the sequence of events? Is there mention of CDM consideration prior to the project starting date? Baseline emissions: Is the power density correctly calculated (check capacity, reservoir size, and emission factors). 	<p>Financial feasibility studies and reports to investors.</p> <p>Emission factors for national grids can be found on country energy websites.</p>
C. Crediting period	<ul style="list-style-type: none"> Is the start date reasonable? 	Site visits, official documents and news articles
D. Environmental impacts	<ul style="list-style-type: none"> Does the PDD document all the known environmental impacts, such as impact to fisheries, downstream water flow, sedimentation, water quality in the reservoir, biodiversity, erosion, land use change, health and social impacts, impacts to indigenous communities, impacts to sites of cultural importance, and geologic hazards? Often this section is based on project EIAs. Are there civil society and/or expert critiques of the EIA? What are the resettlement numbers listed? Is this accurate? 	Project EIA and SIA, independent assessments, EIA/SIA critiques by experts.
E. Stakeholder comments	<ul style="list-style-type: none"> Does the stakeholder consultation process follow national and international standards? How accurate is the description of the stakeholder consultation process? 	Your own experience, official documents, news reports.

Further information on the CDM

- <http://www.cdm-watch.org>: You can follow the work of CDM Watch at our website. We upload relevant studies, reports, comments, letters sent to the CDM Executive Board and policy makers, presentations of workshops, press releases etc.
- <http://cdm.unfccc.int/index.html>: The official UNFCCC webpage for the CDM. This website contains information about all CDM project activities including comments received on them. You can sign up for the UNFCCC newsletter service that will alert you to public calls for inputs and new proposed methodologies. However, there is no alerting system for new projects under public commenting period or new projects seeking approval.
- <http://cdmrulebook.org/>: The CDM Rulebook is an online database of the CDM rules. It has been developed by Baker & McKenzie and is freely available to the public.
- http://www.iges.or.jp/en/cdm/report_kyoto.html: "CDM in CHARTS" is a booklet provided by the Global Environmental Strategies from the Asia-Pacific Region with a good reputation for providing a straightforward and easy-to-understand description of the Clean Development Mechanism (CDM). The booklet is regularly updated according to new decisions and available in Indonesian, Persian, Portuguese, Mongolian, Spanish, Russian and Japanese.
- <http://cdmpipeline.org/>: The UNEP Risoe CDM/JI Pipeline Analysis and Database contains all CDM/JI projects that have been sent for validation/determination also contains the baseline & monitoring methodologies, a list of validators/verifiers and several analyses.

CDM Jargon buster

Additionality: A project is additional if it was built only because of the extra income from selling CERs. If a project would have happened anyway, then its offsets do not represent any reduction in total emissions. This means that a non-additional project will generate fake carbon credits that an Annex I country can use to avoid making real emission reductions domestically, and ultimately leads to an increase in global emissions above what was expected due to the Kyoto Protocol.

Baseline /Business as usual (BaU)

Baseline is essentially an idea of “what if nothing happens”. Baseline emission calculation is done to estimate how much emission would be generated without CDM project. Baseline is critical to assess whether the project meets additionally criteria, and how many CERs can be issued.

Certified Emission Reductions (CERs)

There are many types of credits under Kyoto Protocol, and CERs specifically refer to the credits generated by CDM projects. 1 CER is equivalent to a reduction of 1 tonne of carbon dioxide. Sinks CDM projects generate temporary credits that need to be replaced with permanent credits after a certain period of time.

Clean Development Mechanism (CDM)

The Clean Development Mechanism (CDM) is one of the three flexible mechanisms contained in the Kyoto Protocol. It allows entities from Annex I (developed) Parties to develop emission-reducing projects in non-Annex I (developing) countries, and generate tradable credits corresponding to the volume of emission reductions achieved by that project.

Crediting period

The crediting period is the length of time during which the project will generate carbon credits. Under the Marrakech Accords, projects can choose between a 7 year period which can be renewed twice to make a total of 21 years, or a one-off 10 year period. If they chose the former, they must renew the baseline after every 7 year period. There are longer periods for sinks project (up to 60 years). The crediting period is different from the project lifetime of a project: a dam, for example, may have an estimated life of 50 years, but only be a CDM project and generate credits for 10 of those years.

Designated National Authority (DNA)

DNA is a governmental organization of a country, and is a focal point for any issues related to CDM in the country. DNAs are usually connected to the Environment Ministry of a country. The DNA of a CDM host country is also responsible for “approving” the CDM project before the proposal can be submitted to the UNFCCC and for confirming that it complies with the sustainable development criteria of the host country. This means that DNA can reject any CDM projects if it decides the project does not meet their expectations.

Designated Operational Entity (DOE)

DOE is the independent auditor that (1) Verifies that a proposal meets all CDM eligibility criteria (2) Monitors the reduction of greenhouse gas and make sure that the reduction is happening as stated in Project Design Document.

Executive Board (EB)

Executive Board is the supreme decision making body in the CDM affairs. Every CDM project proposal is sent to EB for the final decision of registration acceptance or rejection.

Methodology

A methodology is a set of requirements that states how greenhouse gas should be reduced and measured in CDM projects. A CDM project must employ one of the methodologies. They vary in employment depending on the project type and size. OR: There are many methodologies designed for different project types and sizes. As of February 2010, there are 96 approved and published large-scale baseline methodologies and 55 small-scale baseline methodologies.

Monitoring

Monitoring is a process to make sure that the greenhouse gas reduction is happening as stated in the Project Design Document. It is carried out by the project operator – not the validator - , typically by installing monitoring equipment for energy production and fuel inputs. Detailed monitoring plan must be included in Project Design Document.

Project Boundary

Each CDM project has to identify a “project boundary”. The project boundary encompasses all of the increases and reductions of greenhouse gases that are reasonably attributable to the project so that total reductions can be calculated. For example, a biomass plant utilising agricultural waste that displaces coal fired electricity can claim credit for the reduction in emissions that results from its operations. But it may also have to account for the greenhouse gas emissions that result from the transporting of biomass to the plant. See also *Leakage*.

Programme of Activities (PoA)

Originally, policies or standards could not be considered as CDM project activities. With the new design of PoAs, implementing a policy, measure or stated goal that results in emission reductions or removals that are additional, can now be registered as a single CDM project activity. A PoA is made up of CDM Programme Activities (CPAs) which can be a single, or a set of interrelated measure(s). Multiple CPAs can be included under a PoA at the time of registration and additional CPAs can be added at any point in the life of the PoA. A PoA can also involve CPAs being run in multiple countries. Currently, there are two PoA registered.

Project Design Document (PDD)

PDD is the key document in the CDM process as it includes all relevant information about the project. As soon as this document is uploaded to the UNFCCC website, the public consultation period starts. All the assessments by Designated National Authority, Designated Operational Entity and Executive Board will be based on this document.

Registration

Registration is a formal process that Executive Board accepts a CDM proposal. It requires some registration fee to be paid. After registration, greenhouse gas reduction will be monitored and verified, and CERs will be issued.

Small-scale CDM (SSC)

SSC CDM is a project with relatively small amount of greenhouse gas reduction. It is often the case that such small project is not economically feasible, as the prospect revenue is low and transaction costs are high. To avoid such bias, there are simplified methodologies for SSC. It is hoped that these simplified methodologies attract investment to more rural and underdeveloped countries and regions, where large-scale CDM is often infeasible.

Stakeholders

Stakeholders are defined in the Marrakech Accords as “the public, including individuals, groups or communities affected, or likely to be affected, by the proposed clean development mechanism project activity”.

Unilateral CDM

In general, CDM project is supposed to have a project participant from Kyoto Protocol Annex 1 countries to obtain additional funding and technology. However, a decision by Executive Board stated that a project does not need to have a participant from Annex 1 countries at the stage of registration. This means that Non-Annex 1 countries, or developing countries, can run a CDM project on their own.

United Nations Framework Convention on Climate Change (UNFCCC)

UNFCCC is an international treaty that was agreed in 1992 in Rio de Janeiro to stabilize the greenhouse gas concentration in the atmosphere. But UNFCCC itself does not state who should reduce greenhouse gas by when. That is why Kyoto Protocol was agreed in 1997, to make the reduction legally binding. UNFCCC has a secretariat in Bonn, Germany, so that many UNFCCC-related meetings are held in Bonn.

Validation

For a project to be approved as CDM, it must be validated by one of the entities that are registered as validators (technically, they are called “Designated Operational Entities” or DOE). These validators make sure the CDM project meet eligibility criteria, such as additionality.

Verification

Verification is a process to make sure that a CDM project is reducing greenhouse gas emissions as stated in Project Design Document. Like validation, also this process is carried out by a Designated Operational Entity.