Submission to annotated agenda of the 87th CDM Board meeting

23-27 November 2015, France

19 November 2015

Carbon Market Watch welcomes the opportunity to provide input to the CDM Board on issues included in the annotated agenda of the 87th meeting, particularly on the following agenda items:

1. Agenda item 2.2. Strategic planning and direction
   - Action 5: nurturing demand for the CDM and CERs
2. Agenda item 4.1. Standards/tools
   - Action 20: Guidance to concept note on agriculture CDM
3. Agenda item 4.2. Procedures
   - Action 37: improving of stakeholder consultation processes

1. Agenda item 2.2. Strategic planning and direction

Action 5: nurturing demand for the CDM and CERs

The Board requested the secretariat to continue the efforts to nurture demand for the CDM[1] and its certified emission reductions (CERs) in line with the goal in the 2014–2015 business plan. The secretariat recognized engaging with several international finance institutions (IFIs) as one of the main strategies to promote the use of the CDM. This includes exploring the use of the CDM as a tool for results-based finance (RBF) through a number of institutions including the Green Climate Fund (GCF).

The secretariat noted that in the absence of a clear signal from the GCF, Accredited Entities are reluctant to build the use of CERs into their GCF funding structures. It has also interpreted that prejudices held against the CDM are due to the market crisis, and are wrongly perceived as a failure of the instrument.

However, experiences with the CDM so far show that the reputation of the mechanism goes beyond the issues with the lack of demand for CERs. In fact, they demonstrate:

- lack of additionality of a large number of implemented projects;
- absence of a safeguard system or an established grievance mechanism, and failure to manage environmental and social risks in a number of projects;
- missing incentives on reporting, monitoring and verification of sustainable development benefits.

[1] CDM-EB87-A02

Based on this, the CDM has a weak case for presenting itself as a model for a RBF through the GCF. The GCF has requirements for new, additional, adequate and predictable financial resources to developing countries. This should not only address the type of finance but also extend to the type of projects and credits. It is therefore important to avoid that any funding through the GCF and other climate finance channels will be used to soak up the oversupply of already existing CERs. Moreover, there is a need to assess the eligibility of technology types. The GCF should not mobilse finance for coal power projects, even if already registered under the CDM.

The parameters of financing institutions, such as the GCF, for RBF are much more encompassing and go beyond quantification of solely emission reductions, which is the case in the current CDM. The CDM should therefore strive to address the gaps and undergo a reform process to become an eligible and successful tool for RBF.

If the CDM sees a future role for CDM projects to be financed through the GCF, it needs to acknowledge that there are substandard projects in the existing CDM project pipeline and put forward recommendations based on this reality. For example the GCF could support CDM projects in the future if they:

- **are additional:**
  → CDM should exclude project types with low likelihood of additional greenhouse gas emission reductions through a negative list.
- **comply with the GCF's interim environmental and social safeguards:**
  → CDM should establish environmental and social safeguards based on best practice;
  → CDM should establish a CDM grievance mechanism and introduce best practice guidance for national effective grievance mechanisms.
- **have high sustainable development potential:**
  → CDM should improve the SD tool to increase access to all stakeholders, include no harm safeguards, increase stakeholder involvement, and include a requirement for conformity with applicable laws and regulations.
  → CDM should exclude project types with high GHG emissions and those associated with other high environmental and social costs (e.g. fossil fuel).
- **respond to community identified needs, with strong engagement of the civil society in development, implementation and monitoring:**
  → CDM should strengthen requirements for stakeholder involvement and establish local stakeholder communication channels for case specific matters.

2. Agenda item 4.1. Standards/tools

Action 20: Guidance to concept note on agriculture CDM

Carbon Market Watch would like to briefly comment on Annex 10 of the annotated agenda, namely the concept note on exploration of methodological options for developing 'agriculture CDM'[2].

According to Annex 10 to the annotated draft agenda, the main obstacles cited for the lack of agricultural mitigation activities are linked to measurement/methodological impediments, high transaction costs and limited options. While the methodology and high transaction costs can be improved upon, Carbon Market Watch believes that expanding activities for its own sake should be carefully analyzed. More time should be given to the assessment of proper activities that are not subject to problems of non-permanence, meaning easy reconversion to emitting carbon. Of the total mitigation potential in the AFOLU sectors cited in the concept note, only the 9% from mitigation of CH4, 2% from N2O emissions and exceptional sequestration projects with more permanent CO2 abatement (such as peatland rewetting) should be given consideration under CDM activities. The remaining potential from soil carbon sequestration projects are better treated under mechanisms that do not give credits, as the effects are easily reversible and thus cannot be considered tradable with other types of credit.

Additionally, the suggestion of high-yielding crops and inorganic fertilizer (in line with concepts of 'sustainable intensification' and 'Climate Smart Agriculture') should not be considered under a climate change mechanism as proving the additionality and effectiveness of these projects can be uncertain. To give an example, the Kenya Agricultural Carbon Project, funded by Syngenta, relies on the use of the company's herbicides sencor 480sc and Velpa to decrease tilling of the land (an activity which releases carbon in the soil), which is assumed to prevent GHG emissions. Success of these techniques is highly uncertain with sceptics questioning if carbon sequestered in soil is any greater than CO2 released in the production of the agrochemicals used. Furthermore, the World Bank Environmental and Social Assessment (ESA) identifies increased pest and diseases as a result of the proposed practices[3].

These are just preliminary comments to the concept note on exploration of methodological options for developing 'agriculture CDM'. Carbon Market Watch as well as numerous other organisations have carried out in-depth work on this issue. However, the time provided for input ahead of this Board meeting did now allow for a more substantive comment.

For a wider perspective on views on the assessment of activities, methodologies and initiatives to be considered for introduction in the CDM, we strongly urge the Board to request an open consultation for input to the concept of agriculture CDM projects.

[2] CDM-EB87-A10

[3] IATP (2011), Elusive Promises of the Kenya Agricultural Carbon Project http://www.iatp.org/documents/elusive-promises-of-the-kenya-agricultural-carbon-project

3. Agenda item 4.2. Procedures

Action 37: improving stakeholder consultation processes

Carbon Market Watch would like to reiterate its strong support for the concept note on improving stakeholder consultation processes[4] that was presented at the last meeting and kindly remind the Board about the broad support by civil society organisations and individuals.[5]

We would like to recommend to the Board to adopt the recommendations in the concept note, particularly with regards to:

- The clear guidance on how local stakeholder consultations should be conducted.
- The necessary information that need to be made available in local languages.
- The minimum group of stakeholders that has to be invited to local stakeholder consultations as well as the definition of the appropriate means to do so.
- The proposed solutions for concerns regarding human rights.

Moreover, we would like to bring to the Board's attention a recently published article[6] that reveals certain country positions from a leaked document on internal struggles for human rights protection at the World Bank. The article contains a statement by Executive Directors of the World Bank, representing the UK, Italy, France, Germany, the Netherlands as well as the Nordic and Baltic representative, stating that "it is very much the responsibility of the Bank to ensure that its operations do not violate human rights."[7]

This statements underlines the urgent need for the CDM to establish robust social safeguards, including an institutional safeguard system and to adopt the practical solutions to operationalize the Cancun mandate to protect human rights in all climate related actions, as outlined in the concept note on improving stakeholder consultation processes. Improving the CDM's quality standards and safeguards would thereby be an essential step to make the CDM competitive with other instruments and to secure for this mechanism to play a continued important role in the future. If the CDM should play any role in the Paris climate agreement, rules must be adopted to ensure that the CDM applies appropriate human rights standards in line with standards of other institutions involved in climate finance.

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[4] CDM-EB86-A15

[5] See Open letter to implement UN obligations to respect human rights and Open letter to the CDM Board by United Nations Special Rapporteur John Knox

[6] http://www.huffingtonpost.com/nezir-sinani/leaked-document-reveals-i_b_8582120.html

[7] Ibid.

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