Barriers and opportunities for the CDM as climate finance instrument
A South Pole Group perspective

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Agenda

About South Pole Group

**Alternative use of the CDM**

*Examples*

*Barriers and opportunities*

*Recommendations*
Developing solutions worldwide
We are the experts in sustainability

- Climate Change
- Forest and Land use
- Water
- Sustainable Cities and Buildings
- Renewable Energy and Energy Efficiency
Our solutions

Carbon Credit Solutions

Renewable Energy Solutions

Sustainability Advisory

Green Finance
Impact

Created
400+ projects

Saved 50 million tonnes of CO₂

Enabled 35,000 GWh of renewable energy
CDM evolution
Perception vs. potential of the CDM
What the CDM has to offer

• 15 years of learning by doing and constant improvements
• Most successful results-based instrument to date
• Largest (yet declining) pool of expertise worldwide for carbon offsets
• Robust mechanism for measurement, reporting and verification/certification of emission reductions
• Ready for growth and scaled-up mitigation action (also at a sectoral level): combination of standardised baselines and programmatic approach
Open questions

• Possible future of the CDM (and JI) under Article 6 of the Paris Agreement and beyond?
  ○ Role of CDM/JI under Art. 6.2 (cooperative approaches), 6.4 (SDM), (credited) NAMAs, GCF

• Potential adaptation of the CDM to fundamentals of the Paris Agreement:
  ○ Evolution of additionality and baseline concepts in the context of NDCs?
  ○ GHG accounting and use of CERs: avoidance of double counting and/or double claiming
Alternative use of the CDM: South Pole Group’s experience

Examples
Barriers & opportunities
Recommendations
Voluntary carbon offsets

**Examples**
- Climate Neutral Now
- Use of CERs for climate neutrality by public sector entities

**Barriers**
- Competition with other (more agile) standards specialised on voluntary markets (e.g. VCS, Gold Standard)
- Limited demand

**Opportunities**
- Creation of additional demand beyond current levels in voluntary market?

**Recommendations**
- Leverage convening power of UN to create more demand for voluntary offsets
- Improve public perception of offsets through more active PR work
- Think about positioning beyond existing voluntary carbon market standards
Domestic (compliance) offset schemes

### Examples

- Domestic offset schemes in China, Switzerland, Spain
  - Adapting elements of the CDM to create a new mechanism in most cases

### Barriers vs. Opportunities

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td>Desire by host countries to be in full control (sovereignty &amp; flexibility)</td>
<td>CDM as a ready-made instrument for countries that do not have the capacity to create their own schemes</td>
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<tr>
<td>Lack of infra-structure for use of CERs at domestic level</td>
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### Recommendations

- Consider allowing additional layers of regulation at host country level to address sovereignty issues and need for flexibility (e.g. extension of scope of LoA approvals, tagging concept?)
- Position CDM as an efficient solution for host countries that would like to introduce domestic schemes but may lack in capacity
# Credited NAMAs

## Examples

Use of CDM to measure, report and verify emission reductions and to channel funding (potentially from both domestic and international sources)

- PoA to NAMA approach: scaling up of cookstove PoAs to national level
- NAMA to PoA approach: Cement NAMA in Vietnam

## Barriers

- Perception of CDM as a burdensome instrument with high transaction costs
- Preference for more flexible, local approach

## Opportunities

- Use know-how and capacity available in the CDM to design robust NAMAs
- Leverage credibility of the CDM to attract international support

## Recommendations

- Promote/showcase use of CDM for internationally supported (or even domestic) credited NAMAs
### Results-based finance (+ other financial instruments)

#### Examples

- Use of CDM as an established climate finance instrument, potentially also as a proxy for other development benefits (e.g. health impact from cookstoves)
- World Bank’s Pilot Auction Facility
- Use the CDM to certify climate/SD impacts within financial instruments (e.g. Green Bonds)

#### Barriers

- Transaction costs
- Maturing of competing approaches targeting other outcomes beyond climate (e.g. energy access, ecosystem services)

#### Opportunities

- Further expand CDM’s position as leading RBF instrument
- Build upon momentum generated by SDGs to expand the scope of the CDM to other development benefits?

#### Recommendations

- Reduce transaction costs
- Showcase and promote possible usage of the CDM within financial instruments
- Consider positioning of CDM as SDG delivery instrument
Overarching recommendations

• Need for clarity on open questions above
• Reduce transaction costs by simplifying the project cycle and other measures
  o Consolidation of validation, registration and issuance process
  o Positive lists, use of conservative default factors
• Improve scalability of the CDM
  o Further development of standardised baseline framework
  o Improvement of PoA concept
• Reduce time lag between actual emission reduction and issuance
The mother of recommendations

Let’s not re-invent the wheel!
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