

Barriers and opportunities for the CDM as climate finance instrument

A South Pole Group perspective

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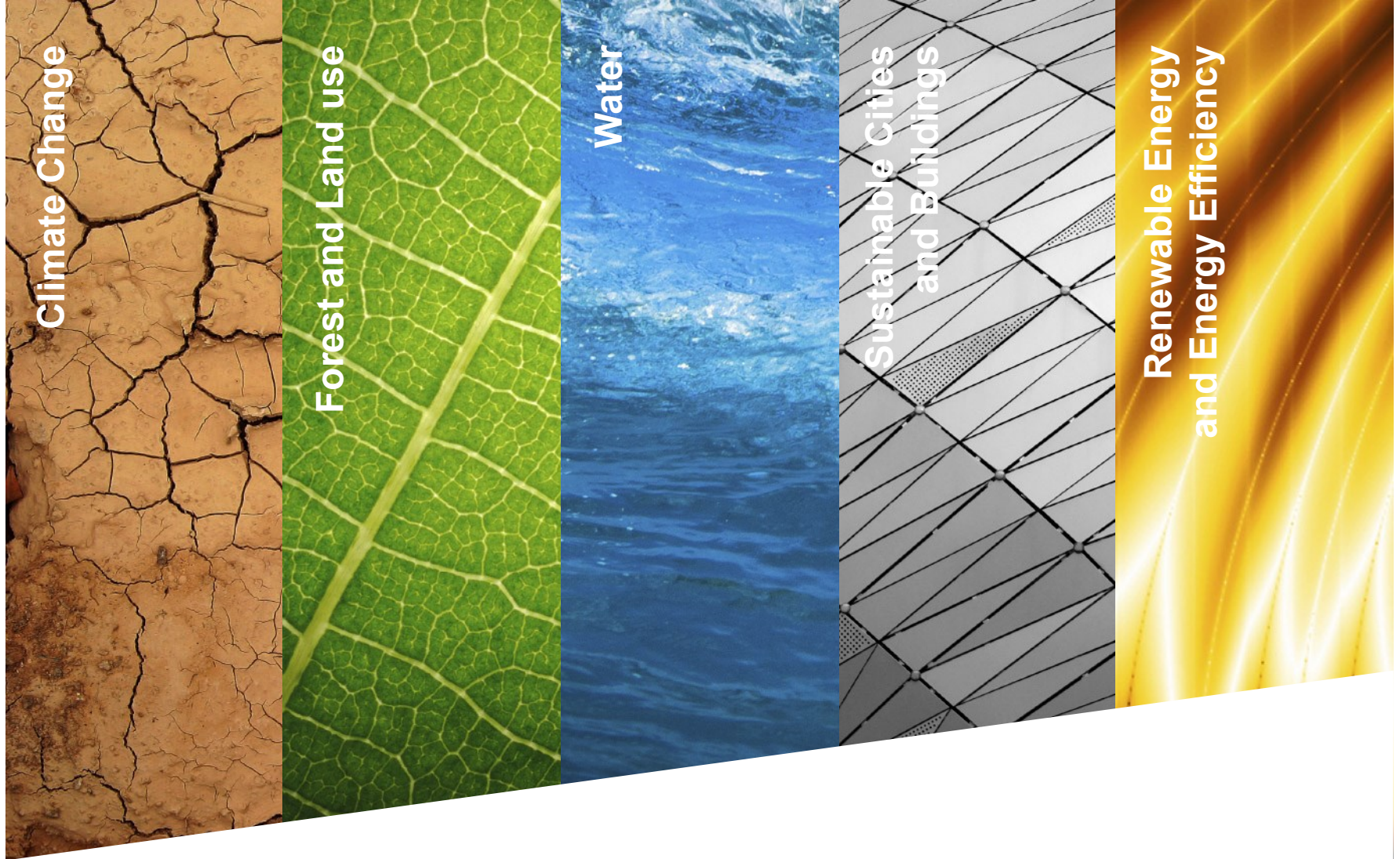
About South Pole Group



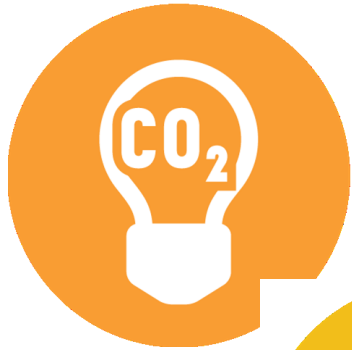
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Impact

Created
400+ projects



Saved 50 million
tonnes of CO₂



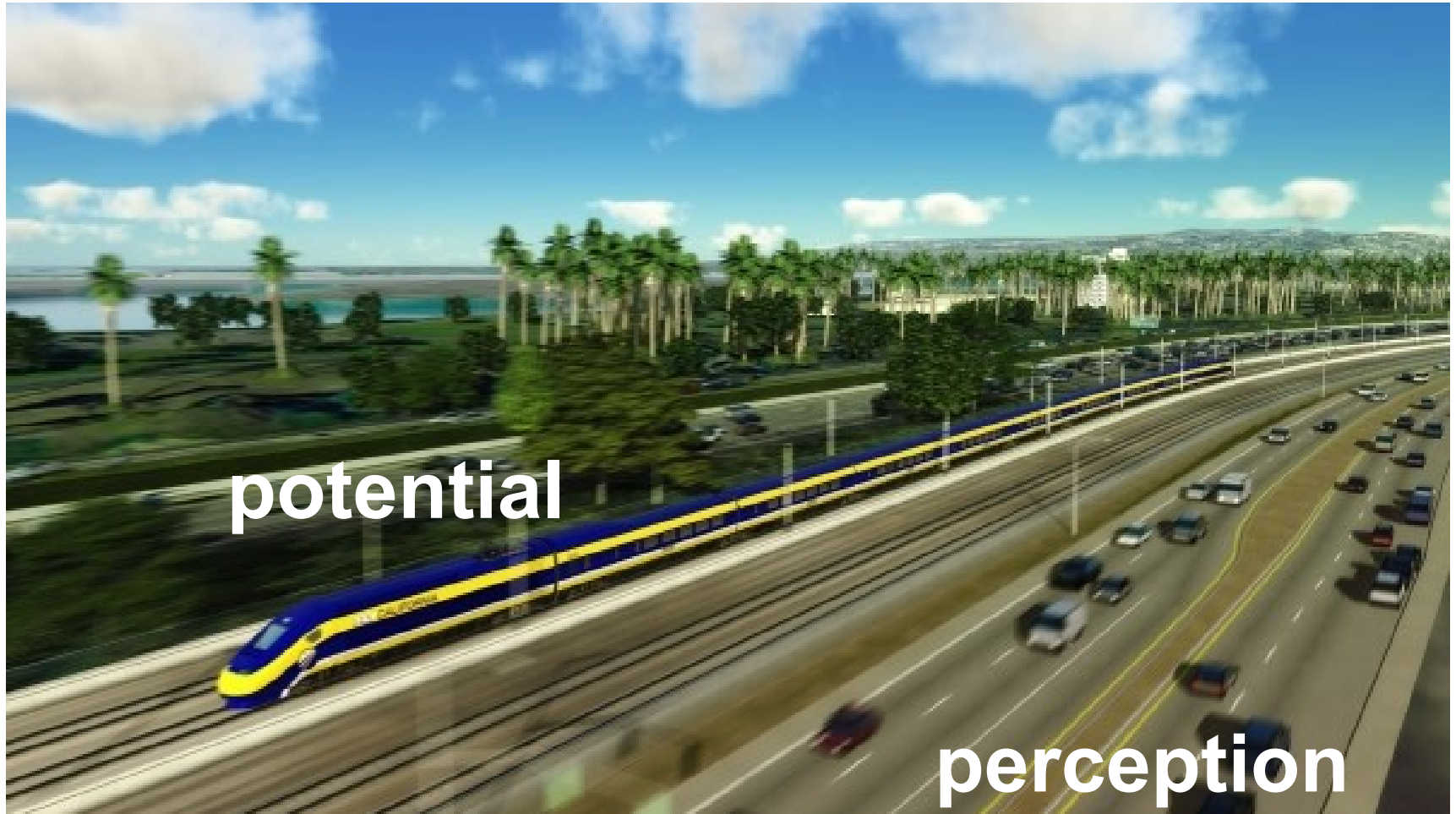
Enabled 35,000 GWh
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CDM evolution



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

- Desire by host countries to be in full control (sovereignty & flexibility)
- Lack of infra-structure for use of CERs at domestic level

Opportunities

- CDM as a ready-made instrument for countries that do not have the capacity to create their own schemes

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

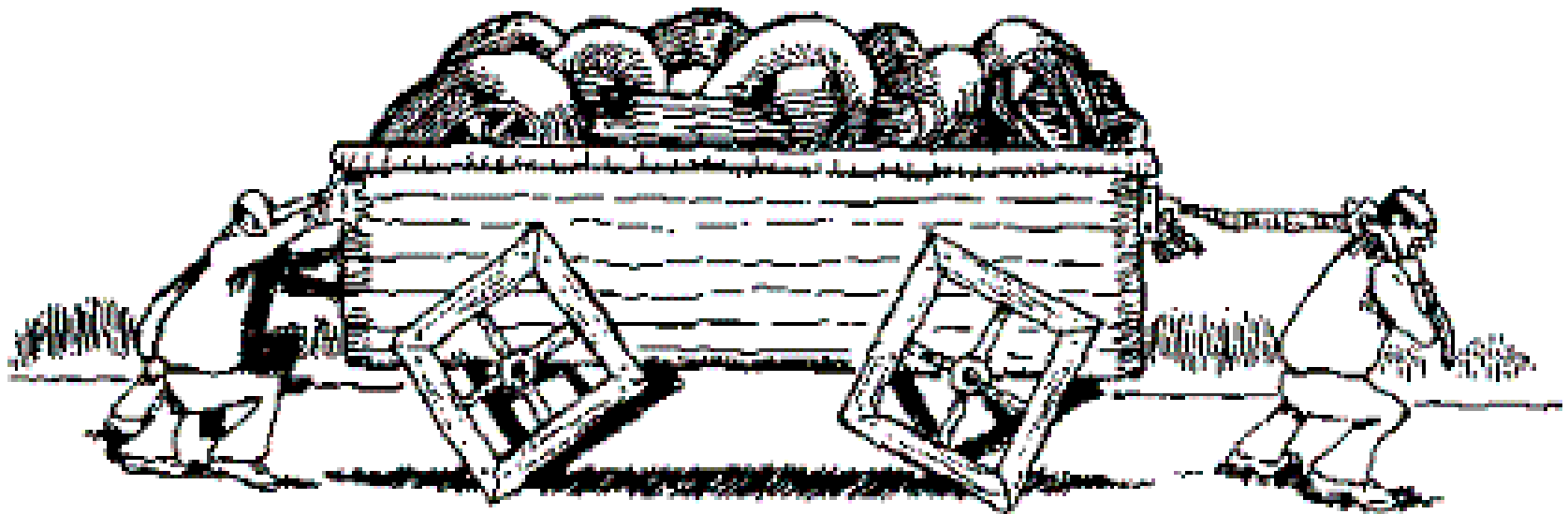
- Reduce transaction costs
- Showcase and promote possible usage of the CDM within financial instruments
- Consider positioning of CDM as SDG delivery instrument

Overarching recommendations

- Need for clarity on open questions above
- Reduce transaction costs by simplifying the project cycle and other measures
 - Consolidation of validation, registration and issuance process
 - Positive lists, use of conservative default factors
- Improve scalability of the CDM
 - Further development of standardised baseline framework
 - 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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