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Concept note

Participation by small and micro businesses in the Article 6.4 mechanism

Version 01.0



United Nations
Framework Convention on
Climate Change

1. Procedural background

1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) requested the Supervisory Body of the mechanism established by Article 6, paragraph 4, of the Paris Agreement (Article 6.4 mechanism) to consider ways to encourage participation by small and micro businesses in the Article 6.4 mechanism, in particular in the least developed countries (LDCs) and small island developing States (SIDS);¹

2. Purpose

2. The purpose of this concept note is to present a process for the Supervisory Body to encourage participation by small and micro businesses in the Article 6.4 mechanism, in particular in the LDCs and SIDS.

3. Key issues and proposed solutions

3. There is currently there is no globally consistent definition for “small business” and/or “micro business” and as such, definitions vary between states, and in particular between developed and developing country Parties. The Organisation for Economic Co-operation and Development (OECD), in its Glossary of Statistical Terms,² provides the follow definition:

“Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees.”

Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers. (emphasis added)

Financial assets are also used to define SMEs. In the European Union, a new definition came into force on 1 January 2005 applying to all Community acts and funding programmes as well as in the field of State aid where SMEs can be granted higher intensity of national and regional aid than large companies. The new definition provides for an increase in the financial ceilings: the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million.

¹ Decision 3/CMA.3, paragraph 5(g).

² OECD Glossary of Statistical Terms is available at: https://www.oecd-ilibrary.org/economics/oecd-glossary-of-statistical-terms_9789264055087-en.

Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively.”³

4. Under the CDM the focus is not on the size of the business that is participating but in the scale of the emission reduction/removal project that is being undertaken. The following are CDM definitions for small-scale and micro-scale project activities:

Small-scale CDM project activity⁴

Type I project activities shall remain the same, such that renewable energy project activities shall have a maximum output capacity of 15 megawatts (or an appropriate equivalent);

Type II project activities or those relating to improvements in energy efficiency which reduce energy consumption, on the supply and/or demand side, shall be limited to those with a maximum output of 60 gigawatt-hours (GWh) per year (or an appropriate equivalent);

Type III project activities, otherwise known as other project activities, shall be limited to those that result in emission reductions of less than or equal to 60 kilotonnes of carbon dioxide equivalent (ktCO₂eq) annually;

Micro-scale CDM project activity⁵

Type I: Project activities up to 5 MW that employ renewable energy as their primary technology;

Type II: Energy efficiency project activities that aim to achieve energy savings at a scale of no more than 20 GWh per year; or

Type III: Other project activities not included in Type I or Type II that aim to achieve GHG emissions reductions at a scale of no more than 20 ktCO₂eq per year.

5. Rather than attempt to create a new classification around business size, which could be complex and difficult to verify, leading to added cost for these businesses, it is proposed that the Supervisory Body use the definitions of “small-scale activity” and “micro-scale activity” as proxies for the definitions of “small business” and “micro business”, respectively, on the **default assumption** that small and micro businesses would generally only be able to undertake small-scale and/or micro-scale activities.
6. It is further proposed that when developing methodologies, additional provisions may be considered that specifically address small and micro businesses (using the definitions for small-scale and micro-scale activities) including, inter alia:
- (a) Simplified or default additionality and baseline determinations;

³ Definition (OECD Glossary of Statistical Terms). Compares also the discussion of small business definition in <https://www.investopedia.com/terms/s/smallandmidsizeenterprises.asp> or <https://www.ofgem.gov.uk/sites/default/files/docs/2008/04/ofgem---defining-micro-businesses-180308.pdf>.

⁴ Decision 1/CMP.2, paragraph 28.

⁵ TOOL19. Methodological tool: Demonstration of additionality of microscale project activities (ver. 9.0), paragraph 2.

- (b) Simplified monitoring requirements; and
- (c) Simplified emission reduction calculations.

7. It is furthermore noted that small and micro businesses can also benefit from the framework of a programme of activities in which reductions achieved at a smaller level can be individually aggregated in order to participate in a larger programme. In this way, they can reduce transaction costs by gaining the benefits of scale.

4. Subsequent work and timelines

8. No further subsequent work is expected for the development of a separate guidance document specifically for small and micro businesses (using the definitions for small-scale and micro-scale activities). Further work to address this mandate will be done in the context of the framework for the development of methodologies.

5. Recommendations to the Supervisory Body

- 9. The secretariat recommends that the Supervisory Body include provisions that specifically address small-scale and micro-scale activities as a means of supporting the participation of small and micro businesses in the framework for development methodologies, to be considered on a case-by-case basis.
- 10. The secretariat further recommends that the Supervisory Body report on how it has addressed this mandate from the CMA in its next annual report to the CMA.

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