



## Annex 19

### Regional distribution of clean development mechanism project activities

#### Mandate

1. Taking into account the provisions of the Marrakesh Accords reflected in Decisions 3/CMP.1, 4/CMP.1 and 7/CMP.1 especially the latter in which paragraphs 32-36 requested Parties to submit to the secretariat, by 31 May 2006, their views on systematic or systemic barriers to the equitable distribution of clean development mechanism (CDM) project activities and options to address these barriers, for consideration by COP/MOP 2. Such submissions from Parties are contained in document FCCC/KP/CMP/2006/MISC 1.
2. By its Decision 7/CMP.1 (paragraph 33), COP/MOP 1 also requested the Board to report to it at its second session information on systematic or systemic barriers to the equitable regional and subregional distribution of clean development mechanism project activities, and options to address these issues.
3. In addition, decision 29/CMP.1 on ‘Capacity-building relating to the implementation of the Kyoto Protocol in developing countries’ and decision 30/CMP1 ‘Capacity-building relating to the implementation of the Kyoto Protocol in Parties with economies in transition’, reaffirmed the framework for capacity building and presented priority areas specifically for the implementation of the Kyoto Protocol. Items (d) and (e) of decision 29/CMP.1 (see Annex A) respectively concerned the provision of support for “*broader participation*” and “*improving geographical distribution*”.

#### Principles

4. The Executive Board agrees that for further consider the issue of regional distribution of CDM project activities it must be kept in mind that:
  - a. Each non-Annex I Party should have an opportunity to realize its full potential to access the opportunities offered by the CDM, especially LDCs countries and with particular attention to African countries and small islands developing States;
  - b. The term equitable distribution should not be taken to mean equal distribution of CDM project activities (e.g. the same number of projects in each country; preferences for small- or large-scale projects; an equal number of CERs generated).

#### Progress to date

5. The following measures have been undertaken by the EB so far to alleviate some of the concerns on equitable geographic distribution:
  - a. simplified modalities and procedures for small scale projects;
  - b. removal of the registration fee for projects below 15,000 t/yr emission reductions;
  - c. lower amount of share of proceeds for the first 15,000 CERs issued per year;
  - d. differentiation in the method of payment of the application fee for Applicant Entities from non-annex I Parties;
  - e. establishment of the DNA Forum;



- f. participation in sub-regional and global capacity building events or awareness raising activities; and
- g. CDM Bazaar (underway).

### Barriers

6. The Board acknowledged the existence of barriers at different levels and different stages and is cognisant of the fact that only a few of them can be addressed at the EB level, others at the Party level and yet others by the public and private sector in Party countries.
7. Considering the market-based nature of the CDM and that the private sector will naturally gravitate to low risk, high opportunity locations and projects, some of the main obstacles are financial; insufficient access to funds for technical assistance and capacity building and insufficient access to project finance and risk management tools.
8. The following are some of the other barriers:
  - a. Structural and institutional issues such as weak institutional and administrative capacity relating to the development of CDM project activities;
  - b. CDM-specific capacity issues such as lack of CDM-related awareness and experience in relevant sectors, investment conditions and small size of projects;
  - c. CDM process issues such as facilities and procedures not being in place, complexity of processes and methodologies, insufficient guidance on bundling and size limit of bundles, and lack of clarity with regard to the relationship of ODA involvement in the project cycle;
  - d. Uncertainty of the role of CDM post 2012.

### Recommendations

9. The Executive Board, taking into account the mandate received, agreed on the following recommendations to be submitted to COP/MOP2 for its further consideration and guidance:
  - a. *Financing and financial tools*
    - i. Encourage Annex I Parties to establish CDM financial facility(ies)<sup>1</sup> to help non-Annex I Parties, especially LDCs countries and with particular attention to African countries and small islands developing States with less CDM project activities, to cover the start-up costs relating to the development of CDM project activities, in particular by:
      - providing seed funding for developing and implementing CDM project activities which could be reimbursed from the generation of CERs from such projects;
      - supporting the development of methodologies applicable to LDCs and other non-Annex I Parties with less CDM project activities;

<sup>1</sup> More than one facility would be possible depending on how Annex I Parties choose to group or cooperate on this issue.



- organizing hands-on trainings for project developers, local experts, DNAs and other stakeholders as necessary;
  - providing support to develop expertise for the development of PDDs.
- ii. Contributions by Annex I Parties to the above facility(ies) would be voluntary and reimbursable from the CERs generated by the project activities implemented through the facility;
  - iii. Noting that CDM is only complementary to other sources of funding for realizing a CDM project activity, encourage Annex I Parties to explore ways to develop financial tools to secure funding for the development of CDM project activities that can help developing countries and non-Annex I countries with economies in transition with lack of access to financing, taking also into consideration activities of multilateral financial institutions which are investing in enhancing the capacity in those countries;
  - iv. Encourage financial institutions to provide seed funding to develop CDM project activities using CERs as collateral.
- b. *Capacity building and training*
- i. Encourage Parties and UN organizations to focus on capacity building areas that are specific for the development of CDM project activities, for example development of PDDs, assessing proposals, awareness raising, financial engineering, information sharing and facilitating the application of AEs from Africa and other non-Annex I Parties, and the development of methodologies;
  - ii. Encourage Parties and UN organizations to also focus on capacity building activities that build the institutional capacity which can assist Parties in developing CDM project activities and DNAs, in particular in countries with low emissions and less projects;
  - iii. Support non-Annex I Parties to create an organized infrastructure which will facilitate capacity building for the implementation of the Kyoto Protocol provisions, and namely to establish permanent CDM offices at the national level in non-Annex I Parties with a local expert team, which would develop a portfolio of CDM projects using experts from an established roster of experts in the field.
- c. *Co-operation*
- i. Encourage regional cooperation in order to facilitate the exchange of experience and information at all levels;
  - ii. Encourage Annex I Parties engaged in the CDM market to pay particular attention to a more equitable distribution of CDM project activities;
  - iii. Encourage Parties to cooperate bilaterally in order to develop and implement CDM project activities;
  - iv. Encourage cooperation between the DNAs of Annex I and non-Annex I Parties in particular through the DNA forum.



- d. *Involvement of other stakeholders*
- i. Encourage Designated Operational Entities (DOEs), to establish offices and partnerships in African countries and small islands developing States in order to contribute to a more equitable distribution of CDM project activities;
  - ii. Encourage a greater involvement of national industry associations and local banks in the CDM market;
  - iii. Encourage the participation of Regional Banks in the development and promotion of CDM project activities;
  - iv. Encourage synergies between all Intergovernmental Organizations (IGOs) in coordinating activities relating to capacity building and technical and financial assistance.
- e. Request the UNFCCC secretariat to develop a public awareness programme to facilitate the availability and sharing of information on the CDM process in non-Annex I Parties.

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**Annex A****A. Extract from Decision 29/CMP.1**

10. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol ...  
Decides that capacity-building relating to the implementation of the Kyoto Protocol in developing countries within the scope of the framework reaffirmed in this decision should be provided to enhance the ability of developing countries to participate effectively in project activities under the clean development mechanism, such as those priority areas listed below;
- a. Institutional capacity-building to assist developing countries in establishing and strengthening designated national authorities;
  - b. Increasing awareness, training and networking of developing country designated national authorities, non-governmental organizations, the private sector and all relevant stakeholders, particularly for the development of skills relating to the clean development mechanism project cycle
  - c. Supporting and facilitating communication, cooperation and networking between developing country designated national authorities, and clean development mechanism Executive Board, and other clean development mechanism actors;
  - d. Providing support for broader participation in the clean development mechanism, including participation in designated national authority forums in conjunction with sessions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the subsidiary bodies;
  - e. Improving geographical distribution, knowing well the difficulties of Africa to attract clean development mechanism projects, by supporting the development of clean development mechanism projects in least developed countries and small island developing States, through training, clean development mechanism market analysis and forums;
  - f. Enhancing capacity to formulate mitigation activities and policies and to integrate them with other policy instruments within the framework of sustainable development;

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