

Information note

Definition of “Special Underdeveloped Zone” (SUZ) under the “Guidelines for the demonstration of additionality of microscale project activities”

I. Background

1. This note is in response to the request from the CDM Executive Board (the Board) at its sixty-fifth meeting as below:

“The Board (EB 65 report) requested the SSC WG to propose additional guidance on the definition of “underdeveloped zone of the host country” taking into account the experience gained and approaches used in PDDs.”

2. The following paragraph is quoted from the “Guidelines for demonstrating additionality of microscale project activities”:

Paragraph 2 (a) “The geographic location of the project activity is in one of the least developed countries or the small island developing States (LDCs/SIDS) or in a special underdeveloped zone of the host country identified by the government before 28 May 2010”

II. Analysis

3. The Board at its fifty fourth meeting while approving the ‘Guidelines for demonstrating additionality of microscale project activities’ also approved the criteria of ‘a special underdeveloped zone (SUZ) of the host country identified by the government before 28 May 2010’ with a view to broaden the scope of the guidelines. Independent analysis by stakeholders (e.g. IGES report titled “CDM Reform 2011: Verification of the Progress and the way forward”¹) concludes there are indications that the new guidance is positively impacting the regional distribution of CDM projects.

4. Of the four criteria provided by the guidelines, SUZ criteria is the most often used. In the absence of a formal definition of SUZ in the guidelines there is considerable heterogeneity in the definitions assumed in the PDDs. Extract from several PDDs is attached in Annex 1, which seems to indicate that in many developing countries there are official statistics at the national and regional level about poverty including ranking of poor zones. Income indicators reported generally have been in terms of local currencies. Further recent notifications (closer to May 2010) as well as notifications dating as far back as 1990 have been used.

5. Given the income inequities are likely to be significant between non annex I countries, using the internal country poverty ranking as above, may not allow an easy comparison of SUZ criteria used.

6. To make things easier and comparable it might be necessary therefore to include additional criteria using international and national standards besides an approach to compare official national statistic against these standards. Towards this end, internationally agreed criteria for defining the Least Developed Countries (LDC’s) and indicators used in Millenium Development Goals (MDG) may be suitable to use to meet the requirements of paragraph 2(a) of the microscale additionality guidelines so that the information in PDDs becomes comparable.

¹ http://www.iges.or.jp/en/cdm/report_reform.html.

7. The Committee for Development Policy (CDP), a subsidiary body of the UN Economic and Social Council (UNESCO), is – *inter alia* - mandated to review the category of LDCs every 3 years and monitor their progress after graduation from the category. The identification of LDCs is currently based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks. The latter two are measured by two indices of structural impediments, namely the human assets index and the economic vulnerability index. The SSC WG also took into account public inputs received in response to call for public inputs on guidelines for demonstration of additionality of microscale project activities <see http://cdm.unfccc.int/public_inputs/2011/renewable_energy/index.html> regarding SUZ. Among others the public inputs propose the use of indicators in Millennium Development goals (MDG) such as ‘Proportion of population below \$1 per day under Goal 1’ and ‘Proportion of population using an unimproved drinking water source under Goal 7’.

III. Recommendations

8. The SSC WG recommends that the SUZ is a ‘zone’ within a country that is officially recognized as an administrative unit. Identification of underdevelopment shall be based on the federal or provincial government’s notifications and publicly available official data.
9. The SSC WG recommends that the threshold date of 28 May 2010 in the guidelines is removed as it is not conducive to make conclusions on most recent available data.
10. The SSC WG recommends that at least two of the below conditions are satisfied for a SUZ:
- (a) The average GNI per capita of the most recent 3 years in the zone should be lower than or equal to \$905 as per the World Bank Atlas method. The GNI per capita shall be reported in USD;
 - (b) Human Assets Index (HAI)² of the zone is less than the value in the reference group³ as indicated by CDP of UNESCO (see http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_criteria.shtml);
 - (c) Economic Vulnerability Index (EVI)⁴ of the zone is less than the value in the reference group, as indicated by CDP of UNESCO (see http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_criteria.shtml);
 - (d) The proportion of population with income less than USD 1 per day in the zone is greater than 50%⁵;
 - (e) The proportion of population with no access to improved drinking water supply as per WHO / UNICEF Joint Monitoring Programme (JMP) for Water Supply and Sanitation is greater than 50% (see <http://www.wssinfo.org/data-estimates/table/>).

² Human Assets Index (HAI) is based on indicators of: (a) nutrition: percentage of population undernourished; (b) health: mortality rate for children aged five years or under; (c) education: the gross secondary school enrolment ratio; and (d) adult literacy rate.

³ A reference group consisting of LDCs and other selected developing countries.

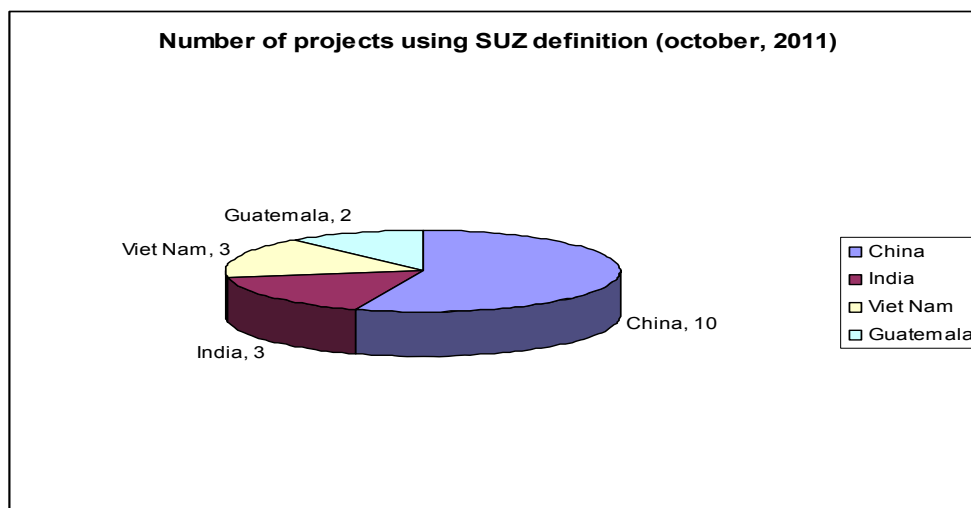
⁴ Economic Vulnerability Index (EVI) is based on indicators of: (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry and fisheries in gross domestic product; (e) share of population living in low elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production.

⁵ According to MDG Report 2011, proportion of population living below \$1 (PPP) per day is 53.4% in LDCs. <http://unstats.un.org/unsd/mdg/Resources/Static/Data/2011%20Stat%20Annex.pdf>

Annex 1

APPROACHES USED IN THE PDD'S

1. The following project PDD's (18 number) that used the condition 2(a) of the "Guidelines for demonstrating additionality of microscale project activities", were explored:

**Projects in China**

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Registered	3933	Shaanxi Langao Xiangziba Hydropower Project	China	Hydro Power
CC	5107	Gansu Province Yangtian and Hanjianshan Bundled 4.89MW Small Hydropower Project	China	Hydro power
CC	5108	Gansu Province Qingshuihe and Wangmo Bundled 3.99MW Small Hydropower Project	China	Hydro power
Validation		Sichuan Mabian Small-scale Hydropower Bundled Project	China	Hydro power
Validation		Sichuan Xiaoxingchang Second Stage Small Hydropower Project	China	Hydro power

2. Out of the 10 projects in China, five of them in the table above, in order to identify the SUZ, used the definition of the State Council Leading Group Office of Poverty Alleviation and Development notified on 19 Nov. 2006

<http://www.cpad.gov.cn/data/2006/1119/article_331579.htm> (Chinese):

"The Chinese government concentrates its poverty alleviation efforts on the ethnic minority areas, old revolutionary base areas, border areas and destitute areas in the central and western China,

and determines some key counties in these special areas according to relative standard. These standards of the key county are as follows:

To determine the number of the key counties use “631 exponential methods” in each province:

The proportion of provincial poverty population accounts for those in the whole country (the weights of the absolute poverty and low-income population is 0.8 and 0.2 respectively). Its weight is 0.6;

The proportion of the counties with low net per capita income of farmers in a province accounts for those in the whole country. Its weight is 0.3;

The proportion of the counties with low per capita GDP or low per capita revenue in a province accounts for those in the whole country. Its weight is 0.1.

Where:

The standard of the low net per capita income of farmers is 1300 yuan⁶ in the old revolutionary base areas and destitute areas, and is 1500 yuan in the ethnic minority areas and border areas.

The standard of the low per capita GDP is 2700 yuan. The standard of the low per capita revenue is 120 yuan.

The standard of the net per capita income of the absolute poverty and low-income population is 625 yuan and 865 yuan respectively.

According to the list of the national key working county for poverty alleviation and development (referred to as the key county or the poverty county) published by the State Council leading Group Office of Poverty Alleviation and Development on 19 Nov. “ (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), Shaanxi Langao Xiangziba Hydropower Project, Version : 03, 07/07/2010.)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
CC	5247	Sichuan Province Dayan River 4th Level Hydropower Project	China	Hydro power

The following justification was used for the project above:

“The Project is located in Yuexi County, which was identified as a National Level poverty county by China Government as early as in 1994.”⁷ (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), Sichuan Province Dayan River 4th Level Hydropower Project)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		Sichuan Mianning Tuoluohu Bundled Hydropower Project	China	Hydro power

The following justification was used for the project above:

⁶ This is equivalent to \$205, at the exchange rate of 1 CNY = 0.15837 USD (as of 13/01/2012).

⁷ China Development Brief

<http://www.chinadevelopmentbrief.org.cn/ngo_talkview.php?id=924>. (Chinese)

“The installed capacity of Tuoluohe I project is 2.4MW and the installed capacity of Tuoluohe II project is 3.83MW, both of them are less than 5MW. And as per the summary of special underdeveloped county in Sichuan Province, Mianning County is a special underdeveloped zone of the host country identified by the government before 28 May 2010, which is in compliance with criteria⁸” (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), Sichuan Mianning Tuoluohe Bundled Hydropower Project)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		Jiewei Hydropower Project	China	Hydro power

The following justification was used for the project above:

“Jiewei Hydropower Project locates in Lianshan region (Liangshan Yi Nationality Autonomous Region) which is one of the least developing regions in Sichuan and China. Yi minority nationality comprises the main proportion of population. 25.7% total population and 31.6% rural population lives under the national poverty standards here and 11 national poverty counties out of total 36 ones in Sichuan Province is in Liangshan region identified in 2008”⁹ (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), Jiewei Hydropower Project)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		Luoergou Bundled Hydropower Project	China	Hydro power

The same justification as the abovementioned project was used.

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		Yunnan Yujing Cascade I Hydropower Project	China	Hydro power

The following justification was used for the project above:

“The Project is located in Yiliang County, which is the national level poverty county identified by the Chinese government in 2009.”¹⁰ (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), Yunnan Yujing Cascade I Hydropower Project)

Projects in Guatemala

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		La Perla Hydroelectric plant	Guatemala	Hydro power

The following justification was used for the project above:

⁸ <http://www.scfp.org.cn/show.aspx?page=2&id=169&cid=138>.

⁹ http://www.unicef.org/china/zh/media_14575.html. (Chinese)
http://www.cmpy.cn/HDraft/Show_570.Html. (Chinese)

<http://zhidao.baidu.com/question/75270668.html>. (Chinese)

¹⁰ <http://zhidao.baidu.com/question/75270668.html>. (Chinese)

“The project is located in Guatemala, Alta Verapaz province under the municipality of Tukurú. Guatemala government in 2009, used a General index of poverty and identified the extreme poverty municipalities in this country. The list of extreme poverty stricken area was published where the municipality of Tukurú is identified as the extremely poverty stricken area. The list is attached as Appendix A. The list identifies 125 municipalities having high General index of poverty and 125 municipalities having extremely high proverbs. These municipalities, if ranked with highest poverty area on top, the project activity is located in Tukurú which is rated as the 13th highest extremely poverty stricken area (refer Appendix B) with considerably high General index of poverty and extreme poverty index. Thus it can be considered as a special underdeveloped zone of the host country which has been identified before 28 May 2010. Since the project is located in this geographical location with a renewable energy capacity of 3.712MW (<5MW), this project is considered additional.”¹¹ (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), La Perla Hydroelectric plant)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		Canbalam I Hydroelectric Project	Guatemala	Hydro power

The government poverty index¹² was used for the project above, similar to the abovementioned project.

Projects in India

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
Validation		3.70 MW Grid Connected Wind Power Project in Madhya Pradesh	India	Wind power

The following justification was used for the project above:

“The geographical location of the project activity is in Dewas district of Madhya Pradesh in India. The Govt. of Madhya Pradesh has notified through its notice no. F. 20-14/05/B/XI dated 09/06/2005 that Dewas is a backward district in the state. The notified date is much before than the specified date 28/05/2010. Hence, it can be concluded that the project activity is located in the underdeveloped zone of host country.” (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), 3.70 MW Grid Connected Wind Power Project in Madhya Pradesh)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
CC	4998	1.85 MW Bundled Wind Power Generation in Tamil Nadu	India	Wind power

The following justification was used for the project above, but there is no reference:

¹¹ http://www.segeplan.gob.gt/2.0/index.php?option=com_remository&Itemid=274&func=fileinfo&id=103. (Spanish)
An email was sent to segeplan for further clarification. According to segeplan, three definitions were used to measure poverty: The unsatisfied basic needs, the low access levels and the low consumption levels.

¹² http://www.segeplan.gob.gt/2.0/index.php?option=com_remository&Itemid=274&func=startdown&id=87.

“The project activity is located in the backward district of Tamil Nadu as notified by the Government of Tamil Nadu much before 28/05/2010.” (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), 1.85 MW Bundled Wind Power Generation in Tamil Nadu)

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
VA		4 MW Solar Energy based Power Plant	India	Other renewable energies

The following justification was used for the project above, but the reference is a broken link:

“The project activity is implemented in Chandrapur district of Vidharbha region in Maharashtra which is regarded as an underdeveloped and backward region in India.” (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), 4 MW Solar Energy based Power Plant)

Projects in Vietnam

Status-ID	CDM-EB Ref	Name of CDM Project Activity	Host Party	Type of Project
VA		Suoi Trang Hydropower Plant, Vietnam	Viet Nam	Hydro power
VA		Khe Giong Hydropower Plant, Vietnam	Viet Nam	Hydro power
VA		Ea Kar Hydropower Plant, Vietnam	Viet Nam	Hydro power

The same justification was used in the three projects in the table above, but the reference did not explain the indicators to define the geographical areas with difficult socio economic conditions:

“Appendix II of the Decree No. 108/2006/Nd-Cp of September 22, 2006, Detailing and Guiding the Implementation of a Number of Articles of the Investment Law (promulgated together with the Government’s Decree No. 108/2006/ND-CP of September 22, 2006) lists the geographical areas with difficult socio-economic conditions. The Cao Phong District of Hoa Binh Province is thereby included under number 10. Thus the project area is clearly inside the area marked by the government as a special underdeveloped Zone.” (Source: PROJECT DESIGN DOCUMENT FORM (CDM-SSC-PDD), Suoi Trang Hydropower Plant, Vietnam)
