

Annex 13

Comments on the definition of special underdeveloped zones

(Version 01.0)

I. Background

1. The Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM), at its sixty-sixth meeting agreed to launch a call for public inputs on the definition of “special underdeveloped zones” (SUZ) as contained in annex 19 of the report of the thirty-fifth meeting of the small scale working group (SSC WG). The scope of the public input included but was not limited to options to simplify the definition, taking into account the availability of data at the regional and provincial level within a host country. The Board requested the SSC WG to recommend a revised definition of the underdeveloped zones at a future meeting of the SSC WG taking into account any input that will be received in response to the call.

2. Further the Board at its sixty-seventh meeting reiterated its request to solicit recommendations from the secretariat and the SSC WG on options and implications for the definition of SUZ for the consideration by the Board at its sixty-eighth meeting, taking into account the guidance and inputs provided by the Board at its sixty seventh meeting, in particular:

- (a) Definition of SUZ shall include both qualitative and quantitative criteria and provide flexibility to the project proponents to apply the guidelines considering that there is an acute paucity of data at the sub national level for many of the indicators;
- (b) USD 2 per day income is the preferred poverty indicator rather than the USD 1 per day indicated in the SSC WG recommendation.

II. Public comments, actions and responses

3. As suggested in some of the public comments one of the options that the Board may wish to consider is to exclude altogether SUZ from the Guidelines for demonstrating additionality of microscale project activities. A second option is to maintain the current qualitative definition indicated in the guidelines. The recommendation included in annex 12 to the 37th meeting report of the SSC WG i.e. draft revised “Guidelines for demonstrating additionality of microscale project activities”, would be valid only in the event Board wishes to proceed with providing further qualitative and quantitative criteria.

4. Below is a summary of the public inputs received, actions taken to address them and/or responses to the issues raised.

5. In total, four public submissions were received from stakeholders in response to the call for public inputs opened at the sixty-sixth meeting of the Board on the definition of “SUZ”.¹ The submitting entities are listed below:

- (a) [1] Project Developer Forum;
- (b) [2] Beijing Wenhui Economic Consult Centre;

¹ <http://cdm.unfccc.int/public_inputs/2012/eb66_03/index.html> and the criteria to define SUZ proposed by the SSC WG at its thirty-fifth meeting is contained as an appendix to this document for easy reference.

- (c) [3] Ecosur Afrique;
- (d) [4] The World Bank.

6. Submission [1] while appreciating the need for more clarity on the definition of SUZ states that in most developing countries the approach suggested by the SSC WG at its thirty-fifth meeting may not be very practical to implement (see appendix 1 for the approach recommended by the SSC WG at its thirty-fifth meeting) for two reasons:

- (a) The data is not readily available at the sub national level; or
- (b) It may involve significant transaction costs to collect the required data, as opposed to the aim of microscale guidelines to reduce transaction costs; in particular data for HAI, EVI and safe drinking water supply are hard to get.

7. The submission suggests keeping the original qualitative definition with some further clarification of an SUZ as a “region, zone, municipality, or other country subdivision which has been identified in official communication by the Host government as a designated unit for the purposes of developmental assistance [planning, management, and investment]”. It also recommends that a list of SUZ is compiled and maintained on the UNFCCC website.

Response: Data deficiency at sub national level is taken note of and revised definition takes into account the above issues. Compilation of a list of SUZ in consultation with DNAs is proposed for the consideration of the Board.

8. Submission [1] also suggests the following amendments if a quantitative definition is considered desirable:

- (a) Only one of the criteria should be required to be met given the purpose and taking into account the transaction costs;
- (b) In addition to Atlas method proposed, other methods such as PPP² should be allowed as Atlas method over three years is usually unavailable at the sub-national level;
- (c) Poverty headcount ratio of USD 2 per day, the median poverty line in developing countries, may be considered;
- (d) The statistics should be based on data from the time of investment decision. The project should not be punished for economic growth in the region during or after project construction;
- (e) Specific guidelines on concrete methodology for calculating the Human Assets Index (HAI) and Economic Vulnerability Index (EVI) are needed;
- (f) A host country-defined SUZ through different quantitative criteria and indexes than the ones proposed by the SSC WG should also be eligible;
- (g) Compilation of a list of all SUZ should be considered.

Response: comments 7(a) to 7 (d) and 7 (f) are taken into account in the revised definition. With regard to 7 (e) the SSC WG 35 proposal had been to rely on definitions used in identifying LDCs, however taking

² See the thirty-fifth meeting report of the SSC WG for the definitions.

into account data deficiencies at the sub national level HAI and EVI criteria are excluded in the revised definitions.

9. Submission [2] suggests that criteria in the SSC WG 35 proposal can be combined into one provided that they exhibit a linear relationship or similar trend. DNA of the host country could provide the most recent data and it can be compared against statistical year book by DOE.

Response: It is possible that there is a linear relationship between the criteria in many instances, however, having more criteria provides flexibility for the project proponents, especially now that only one criteria needs to be satisfied in the latest recommendations. Guidance from the CDM Executive Board would be required regarding the DNA submission, if the Board would wish to consider a revision of the guidelines to allow recommendations from the DNA.

10. Submission [3] while acknowledging clear and specific indicators would allow comparability across countries, cautions that regional disparities and inequalities may be difficult to highlight based on relevant and recent subnational data using the indicators recommended by SSC WG 35. It is suggested that former qualitative definition should remain available for cases when statistical evidence or published literature related to the default indicators are not existent.

Response: Revised definition takes the above issue into account.

11. Submission [4] argues that the CMP decisions related to micro scale project activities target activities promoting minimum standards of living (e.g. access to electricity through off grid renewable energy, improved cook stoves, efficient lamps, water purifications), therefore irrespective of the geographic location these activities should be eligible. It therefore suggests deleting paragraph 2(a) related to restrictive definition of eligible geographic locations. Following further points are made :

- (a) Data for many of the criteria are not available at sub national level or when they are available significant differences may exist between SUZ as per the national policies and procedures, and international data and standards;
- (b) Countries may view that the criteria based on geographic location exceed the CMP mandate pertaining to the simplified modalities and procedures for the demonstration of additionality of microscale project activities.
- (c) Wide-ranging consultations with experts and stakeholders such as DNAs, project developers and development agencies should be made if the Board moves forward with work on the identification of SUZ.

Response: The case being made for simplified methods for additionality for projects promoting minimum living standards is taken note of and is being addressed under the work stream of developing positive list of technologies. The suggestion being made on exclusion of SUZ altogether from the guidelines is being brought to the attention of the Board to seek further guidance.

Appendix 1

Recommendations by the SSC WG (see SSC WG 35, annex 19)

1. 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.
2. 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.
3. 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)³ of the zone is less than the value in the reference group⁴ as indicated by CDP of UNESC (see http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_criteria.shtml);
 - (c) Economic Vulnerability Index (EVI)⁵ of the zone is less than the value in the reference group, as indicated by CDP of UNESC (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%;⁶
 - (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/>).

³ 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.

⁴ A reference group consisting of LDCs and other selected developing countries.

⁵ 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.

⁶ 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>.