

CDM Review of No and Low Application Methodologies

Learning from experience to create a more effective CDM

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This submission pertains to the following call for public input posted on the CDM website.

The Executive Board, at its forty-seventh meeting, considered the reasons for no or low application of approved methodologies in CDM projects. The Board requested the secretariat to provide a detailed analysis of the issue (see paragraph 33 (e) of the EB47 report) and agreed to open a call for public inputs inviting the views on the following:

- 1) Reasons for low or no application of the approved methodologies (including methodologies for large-scale, small-scale and afforestation & reforestation CDM project activities). A list of methodologies with five or fewer no. of projects validated/registered is available as annex 1 to the annotations of EB47 meeting.*
- 2) Barriers or difficulties faced by the stakeholders for the application of methodologies, in general, and not limited to the methodologies with no/low use.*
- 3) Barriers or difficulties faced with the methodologies, in general, for the periods of monitoring and during the crediting period.*

Overview

Recent scientific evidence detailing the rapid onset of Climate Change makes imperative the involvement and inclusion of all nations and peoples of the world in combating the causes of Climate Change. Unfortunately, the opportunity of involving the developing world in general, and involving the huge mitigation potential of land use in the developing world, has not been realized. It would appear that there are methodological, structural, and perhaps philosophical issues at the root of this unfulfilled opportunity. In World Vision's opinion, it is critically important to both the well-being of the children of the planet and in the developing world in particular, that the mechanisms which allow the developing world and particularly the Least Developed Countries (LDCs) to more effectively participate in the solutions to Climate Change be reviewed and revised.

In short, the current mechanisms are best suited to industrial entities in more advanced developing countries than to land use opportunities such as AR in least developed countries. The challenges which the low use of certain methodologies highlight include technical and

financing challenges posed by the very nature of the process, the challenges which the temporary nature of many land use credits creates, the challenges posed by the small scale of AR project, as well as other challenges posed by the legal and regulatory structures in many LDCs.

What is needed is to make AR projects, especially in LDCs, easier to implement and more profitable. Issues of complexity and capacity, scale and duration of projects, program or templated methodologies versus context-specific approaches will all need to be considered.

A creative review of the goals of the CDM, as well as its strictures, may well allow the planet to take advantage of the great bio-sequestration potential of the developing world in general, and of the LDCs in particular, and also allow these nations to harness market mechanisms to both advance their own development as well as creating a funding mechanism for Climate Change Adaptation.

Introduction

The CDM has been a catalyst for international cooperation and collaboration in projects that provide both benefits to developed countries and build the standard of living for residents of developing countries. The CDM has demonstrated that markets for environmental services can be developed internationally, and can function with reasonable transparency and flexibility. However, as noted by the CDM, some sectors, and some regions have been poorly represented by projects registered within the CDM. This period of CDM methodological review offers the opportunity to critically consider the reasons behind very low application of certain CDM methodologies (and more generally some sectors), and provide feedback on how these barriers can be overcome.

In World Vision's experience in initiating several Climate Change Mitigation projects, and from our recent submission to the CDM EB of the Humbo Assisted Natural Regeneration project in Ethiopia, has provided us with many learnings and opportunities to understand the strengths and weaknesses of the CDM, particularly with regard to the AR methodologies.

We concur with the general concern about low uptake about various methodologies, and are particularly concerned that 15 of the methodologies which have been poorly applied relate to afforestation/reforestation (over 20% of the total number), and over 80% of the approved AR methodologies remain either unused or poorly used.

The following points, therefore, reflect World Vision's understanding of the barriers to AR projects within the CDM. We have attempted to first identify the barriers from a local or project developer perspective, and follow this with both general and specific recommendations for overcoming these barriers.

Barriers to AR Projects within the CDM

1. The Barrier of Insufficient Project Capital (stemming from a lack of lucrative financial opportunities for project developers)

Land use projects such as AR are by their very nature dispersed over a large area. They are likely to involve many parties with many different interests. They have relatively high fixed costs. They are also laden with risk. The generation of CERs is a long-term proposition, with yields often not being maximised for at least a decade. The structural relegation of most AR project to creating tCERs, which have been significantly discounted below CERs, exacerbates the problem. These factors combine to make AR projects relatively unattractive to specialist project developers from a purely financial perspective, especially in the light of many other significantly lucrative and low risk sectors being available. Because of these structural and methodological barriers, AR opportunities do not currently attract significant levels of local entrepreneurs, outside consultant's time, or investment capital. From an investor's perspective, almost everything is wrong with an AR project.

2. The Barrier of Opportunity Cost

Unlike most other sectors within the CDM, land use projects must consider the opportunity cost of the resource (land) upon which they are based. Even lands that are used irregularly must accommodate the rights and aspirations of users of that land, and the opportunities foregone by implementing a CDM project must be considered. The CDM sectors which have had significant numbers of project registered do not face this issue. This methodological hurdle should be reviewed, as its inclusion could be considered to be in place to make land use projects more difficult. Land access is a very emotive issue, and project developers must do more than simply prove to a community that a project is viable, they must demonstrate that is more viable than any other activity over the lifetime of the project.

3. The Barrier of Scale

Project developers must be able to work with land on a scale significant to justify the investment in the fixed costs of the project. In most developing countries, realising scale sufficient to overcome the significant fixed costs associated with the CDM necessitates working with a very large number of communities, making projects difficult to manage, consensus difficult to realise, and ongoing commitment from all participants difficult to ensure.

4. The Barrier of Regional Capacity

As AR projects are by their very nature dispersed over a large area, they are likely to involve many parties with many different interests. The individuals who can most effectively manage such projects are locally trained professionals, NGOs, or community-based organizations who can mobilise the communities and implement projects. Unfortunately, these individuals or groups frequently do not have access to training on integrating their current activities with the market opportunities available through accessing the CDM. The process of engagement with the CDM is

currently complex and filled with technical jargon. In its current form it cannot be accessed by even the tertiary educated population in least developed countries.

5. The Barrier of Technical and Methodological Complexity

There are many significant and complex factors which can impact AR projects, including many possible baseline and leakage scenarios, a broad range of stakeholders, and complexity in determining the true line of additionality. Methodologies need to accommodate these factors, making the application of such methodologies a very difficult process and a barrier to project development.

6. The Barrier of a Single Revenue Stream

As discussed above the transaction costs of LULUCF projects are as significant as project development in other sectors. However, in the development of AR projects carbon finance is often relied upon as the only source of revenue throughout the project life. Even within commercial plantations, generated revenue from timber is not significant for 10+ years. In contrast, the majority of industrial or energy-based projects combine revenue streams, with carbon finance making a relatively small contribution to overall IRR. This is a major barrier to entry and deterrent to many potential investors, leaving only those that are specifically looking to source credits with high ecological or social co-benefits.

7. The Barrier of Project Originality

The context-specific nature of LULUCF project activities prohibit the relatively easy scaling up and potential for project replication that is seen in other sectors, such as fuel switching or energy efficiency. Each project requires every aspect of project development to be tailored around the specific needs of the individual context, geography, pre-existing land use, climatic and soil features. Having an accepted methodology overcomes some issues, but there is still considerable need for context-specific changes to be made to each PDD. This means that, even with projects utilizing an accepted methodology, the need for an 'expert' within the field is paramount. This results in elevated costs, longer time frames for project development, and a small number of project in the pipeline at any one time.

8. The Barrier of Permanence (and non-fungibility of tCERs)

The CDM approach to the permanence problems presented by LULUCF projects is the tCER. However the 'boutique' nature of this product (the tCER), its lack of fungibility and transparency within the carbon market, create a significant barrier for any substantive investment into projects in the land-use sector.

9. The Barrier of Land Rights

Given that land-use project are intrinsically tied to the land upon which they are established, it is difficult to establish secure title to carbon in countries with ill-defined property rights. This is a fundamental barrier to entry for many AR projects, even if it can (in the end) be overcome. World Vision's experience in Ethiopia confirms the difficulties faced by a project developer in establishing a project where property rights are not robust.

Some Recommended Adjustments and Changes

In order to overcome these barriers, and in order to apply AR methodologies to a greater number of projects, the following recommendations are respectfully offered for consideration.

1. Consider Stratification of Non-Annex 1 Countries

There are vast difference between the countries grouped as non-annex 1 in terms of capacity, access to capital, and educational facilities. China and Cameroon should not be considered the same way. The list of countries which have created the vast majority of CERs points this out clearly. A special approach for LDCs should be considered, especially as the potential for bio-sequestration of atmospheric greenhouse gas from these countries is significant. Therefore, non-annex 1 countries should be stratified into two or possibly three categories. Perhaps a rule shift for annex 1 countries within the framework of the Kyoto Protocol (or its successor) could create the incentive and needed financing for LDCs. Perhaps there should be a limit or target on the volume or percentage of credits annex 1 countries can access from each category of non-annex 1 country. For example, if an annex 1 country can acquire up to 20% its credits from the CDM, perhaps a minimum or target of 10% of the CDM credits from LDCs should be set.

2. Consider Increasing the Threshold for Small-scale AR Projects

The scale at which an AR project moves from small-scale to regular project should be increased to 40,000 tCERs per year. At present, the low threshold for annual tCER generation prohibits small scale projects from offering a significant return. Communities must receive a significant revenue stream to overcome the barrier of opportunity cost of the effort required for participation, and of the lands whose uses have been foregone by the establishment of the project.

3. Consider a Radical Simplification of Methodologies for Application by Locally-Trained Professionals (especially in LDCs)

Methodologies (ideally the SSMs) should be reviewed to ensure they can be accessed, understood and utilised by professionals in developing countries (especially LDCs). They should be reviewed so that they do not necessarily require significant input from specialist experts. A template-based approach to project documentation development may help to overcome this barrier. As well, Specialized training programmes for local professionals could also help build in-country capacity and application of CDM methodologies.

4. Consider Increased Use of Programmatic Approaches to AR Project Activities

Increasing the ability of project developers to replicate quality projects (using the SSM) across multiple locations will greatly increase the application of AR methodologies. Development of a more programmatic approach to assessing additionality, leakage, and determination of baseline would assist in realising this

objective. The relatively young organization, Carbon Fix, offers an insight into a practical template based application process for CDM.

5. Consider Mechanisms to Seamlessly Integrate with other UN Conventions

It is widely acknowledged that AR Climate Change Mitigation projects can both deliver Climate Change Adaptation benefits, and deliver outcomes which realise the goals of the UNCBD and UNCCD. These additional outcomes should be valued and projects should benefit financially from the additional ecosystem services they offer.

6. Consider a review of CDM Sectors with Too Many ‘Soft’ Credits

A market barrier to the development of more AR projects is the relatively easy credits which can be generated in HFC projects. Perhaps these should have been excluded from the CDM and removed as a GHG source using another mechanism. The over-supply of these credits onto the market prohibits finance from flowing to eligible AR projects activities, and maintains CER prices (including tCER prices) at an artificially low level.

7. Consider Establishment of a ‘Development Working Group’

In order to maximise the benefit of developed methodologies to benefit poor communities, it is recommended that the CDM EB consider establishing a ‘development working group’ to assist in making the CDM process, and particularly the land use sector, more friendly to development, especially in the LDCs. This group could undertake such tasks as recommend areas where new methodological development should take place, integrate additional ecosystem services into carbon finance, review existing methodologies, and make recommendations to the CDM needed to better integrate with the capacity and circumstances in LDCs.

Conclusion

As should be inferred, World Vision believes that the developing world in general, and the LDCs in particular, have a unique and powerful role in the struggle against Climate Change. These countries are expected to suffer most from Climate Change, and have the least resources to properly adapt to the expected effects of Climate Change. Participating in the markets created by the UNFCCC is, therefore, both an issue of justice and development. World Vision believes that CDM mechanisms can and should be adjusted so that these goals can be realised.

If there are any further questions on these points, or if further clarification of World Vision’s experience and recommendations is required, the World Vision Climate Change Response Initiative (CCRI) can be contacted via Christopher Shore (Christopher_Shore@wvi.org) and Paul Dettmann (paul.dettmann@worldvision.com.au).