

The World Bank

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CDM Executive Board
c/o UNFCCC Secretariat
P.O. Box 260124
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Germany

RE: Call for inputs on First-of-its-Kind and Common Practice

Dear Members of the CDM Executive Board,

We welcome the opportunity to respond to the call for inputs on the use of the first of its kind and common practice assessment made at EB62.

Please note that we would be happy to provide further input or clarifications to this submission on request.

Kind Regards,



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1. First of its Kind (FOIK)

Definition: Prevailing practice can be understood as the most commonly used technology or method to deliver a defined service or product in a given sector within a defined geographical boundary. Technologies that are "prevailing practice" have clear advantages compared to technologies/methods that are not "prevailing practice" (*Response to question a*). The barriers to "non prevailing practice" technologies or methods could include:

- Higher costs and availability of finance.
- Lack of technological.
- Lack of available skills to service technologies or implement methods.
- Lack of suitable regulatory policy environment supporting the project.
- Lack of awareness of alternatives.

A FOIK test is expected to result in greater efficiency and simplicity in proving additionality requiring no additional demonstration of how the CDM overcomes the barrier of FOIK (*response to question f*). As a one step simplified additionality test the FOIK is expected to:

- i) Improve efficiency and lower transaction costs of demonstrating additionality for projects that are in the early stages of technology deployment in the relevant market, e.g. in cases where the FOIK reflects that the activity is too expensive (e.g. solar power); and
- ii) Support projects where although the economic rational is on the side of the project a further stimulus is required because of barriers e.g. lack of awareness of SMEs or administrative hurdles with municipalities. The application of FOIK allows the recognition of imperfect economic rational without requiring analysis of the obvious reasons (i.e. lack of economic rational due to less developed market economies) (*Response to question c*).

A FOIK additionality test is expected to be most beneficial to small scale energy efficiency projects, fuel switch projects and waste management projects implemented by SMEs and municipalities/communities. In some cases, however, a first of its kind project may not face barriers due to prevailing practice (due to policy/regulation/grant support etc). As a result it will be necessary to identify principles that define when the "first of its kind" additionality test can be applied and when it is not appropriate (*Response to question b*).

To ensure environmental credibility, FOIK testing should not be eligible for all projects. The following examples illustrate projects that should not be eligible for FOIK:

- i. ***Large scale projects for which implementation is based on strong economical/financial rationale.*** A company's investment in a supercritical coal plant might be the first one in a particular country but related to perhaps only 5 other existing coal fired plants. The decision to invest will be mostly guided by financial/economic analysis and therefore the project should apply investment analysis to assess additionality.
- ii. ***Projects developed under existing and successfully implemented policy/regulation e.g. through feed-in tariffs.*** In this context however CDM rules on national policies/regulations need to be considered.
- iii. ***Micro scale projects already eligible for automatic additionality*** (i.e. micro-scale projects located in LDCs or under developed regions, or micro scale projects using technologies included on a positive list submitted by the DNA and approved by the EB in accordance with the Guidelines for micro-scale projects).

To ensure clarity and facilitate appropriate use of the FOIK test, it is recommended that guidance is also provided to identify when projects may apply FOIK (*response to question d*). Such conditions could include auditable thresholds (i.e. checklist criteria) such as the following:

- CDM Technology/method used in the project is either new or introduced in the country during last (3-5) years, or
- CDM Technology adopted in the project is not a part of the baseline technology (co-generation in Sugar plants, waste heat recovery in cement and steel industries etc) or
- CDM Technology is not used/adopted in more than (20%) of the plants (similar in nature) in the country, or
- CDM Technology has favorable conditions (subsidy, tariff etc) in another region/sector in the country but not in project boundary
- Technology is included on a FOIK positive list submitted by the DNA and approved by EB. These lists could be an extension of the positive list already approved for micro projects. They would need to be updated every 3 years and would identify FOIK technologies at local, regional and national levels (*response to question e*).

In the establishment of thresholds it is recommended that if the project does not take place in an LDC or under-developed region, CDM projects are included. Threshold definitions can exclude CDM projects if the project takes place in LDCs or under-developed regions (*response to question g*).

2. Common Practice

The common practice test is in essence a mechanism for double checking the credibility of either the investment analysis and/or the barrier analysis for large scale CDM projects. Due to discrepancies in the quality of available data for different technologies, host countries and even within different regions of the same country (compare Shanghai to Guizhou in China), the common practice element has become a barrier for some projects. This raises the question of whether the double check on additionality using CP is useful for preserving the environmental integrity of the CDM?

In considering the application of the investment and barrier analysis tests, it is recommended that the following project situations are excluded from applying the CP, since it does not improve the additionality assessment (*response to questions a, b, c, e & f*):

- If investment analysis is applied.
- If one of the barriers applied in a barrier assessment is project specific.
- If any similar project is not registered as CDM.
- If the project is eligible to use the FOIK additionality test.