The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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CDM Executive Board
P.O. Box 260124,
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Subject: Response to the EB call for public inputs on Programme of Activities (PoAs)

Dear Members of the CDM Executive Board,

The Carbon Finance Unit of the World Bank welcomes the opportunity to contribute to the discussion on PoAs in responding to this call for inputs. This submission responds to the specific questions raised in the call: (a) What are the possible alternative concepts for a PoA?; (b) What are the barriers in the current rules?; (c) What are the rules that are not existing or are missing and should be there?

More than five years after the introduction of PoAs by a CoP/MoP decision about 80 PoAs have entered the CDM cycle. Most of these PoAs could only be developed through substantial support from Annex I countries. Private sector activity in PoAs is weak and the overall volume of CERs to be expected out of the CDM pipeline is low. Positively the PoA pipeline seems to do better than the pipeline of stand-alone CDM projects in terms of geographical distribution and sustainable development benefits (most PoAs are on micro activities in the household and SME area).

Despite the interest and potential of PoAs to address sustainable development the reach of PoAs is limited because of capacity constraints, financial barriers and limited revenue potential, notably where CDM revenues constitutes the only revenue for the CME. As a result PoAs are not attracting much private investor interest. In this context, it is clear that the existing regulatory imperfections impacting PoAs are not the only reason for the slow take off of POAs. However the improvement of the regulation is clearly a prerequisite for stimulating effective implementation of PoAs.

(a) What are possible alternative concepts for a PoA?

i. Categorizing programs

The current PoA procedures are based on the CPA-concept and the corresponding concept of CPA inclusion in a PoA. This does not really correspond to the market reality of PoAs. Most PoAs in the existing pipeline are carbon financed incentive schemes for micro activities. It is hard to apply the CPA concept in the context of a very large number of micro-technologies e.g. cook stoves or CFLs incentivized over time through a program. The current procedures do make sense when applied to CPAs that are an individual activity, e.g. a small hydro power plant or a composting unit. In such a case it makes sense to treat the CPA as the relevant unit for additionality testing and monitoring. For CPAs that are artificial defined sets of micro activities (e.g. X number of households) that does not make sense. We would like to make a recommendation to distinguish between programs (i) that promote micro-scale activities and (ii) that promote individual activity. This would remove the additional layer of artificially structured CPAs and enable simplification of baseline setting, monitoring and additionality assessment. The next point elaborates on type (i) PoAs.

If a categorization as proposed in this section can be undertaken, several of the barriers listed in subsequent sections of this submission, such as baseline setting, sampling and methodology combinations, can be addressed more logically. We would be happy to elaborate on this further.

ii. Redefining the CDM process for PoAs

The current CDM approval process for PoAs involves PoA and CPA validation and then verification of CPAs. This approach for CPA inclusion into a PoA is currently understood by DOEs as requiring an additionality assessment on the CPA level and monitoring of each CPA. This is not an appropriate approach for the reasons outlined above. To address this problem we recommend that a new approach for micro activities, defined as type (i) above, under PoAs are defined where the thresholds for the individual activities are set at 750 kW renewable energy capacity, 600MWh/y energy savings and 600t CO2e ER/y.

These PoAs should be registered on the basis of PoA-DDs not requiring separate CPA-DDs and not requiring the inclusion of CPAs over time as a procedural step prior to verification. The PoA-DD would define the eligible types of activities under the PoA that can be added any time by the CME. The compliance with the eligibility criteria would be verified within the verification of the achieved emission reductions. The guidelines on additionality for renewable energy projects <= 5MW and energy efficiency project with energy savings <=20 GWh per year (that should be extended to activities achieving <= 20kt CO2e ER/y) would apply and monitoring would be done periodically on the existing stock of included activities via sampling.

This process would then involve validation of PoAs and verification of CPAs for eligibility into the CPA. This actually would be more in line with the single CDM projects and will place the liability on the verifier.

iii. Expanding the PoA framework to allow city wide programs

Currently there are no rules for the development of programs that would allow CPAs to apply different methodologies. The basis of PoA is the existence of a cohesive programmatic framework that can be implemented, managed and monitored by a single coordinating, managing entity (CME). The expectation of PoA implementing similar CPAs is to support faster replication of dispersed activities, over a longer period of time and across a larger geographical area, while containing the transaction cost. A city-wide program would entail deviation from the expectation of identical CPAs. However, the administrative cohesion and longer-term certainty provided by the CME, geographical restriction to a smaller, urban area and use of approved methodologies would adequately ensure the required transparency, credibility and environmental integrity of a city-wide program. We would like to draw your attention to our submission of July 2010 and will be happy to provide further details.

City-wide programs will not yield large volumes of emission reductions but will allow the municipal sector, which has largely been left out of the CDM except for large landfill-gas projects, to access CDM. This approach will significantly benefit municipal authorities in LDCs, which struggle with provision of basic urban services to a burgeoning population and do not have the resources to make the lower-carbon technology choice and currently cannot access CDM. With the city-wide

program, a municipal authority, as a natural coordinating entity, could take a strategic approach to identifying emission reduction opportunities for implementation as CDM project activities.
We recommend the modification of PoA procedures, guidelines and forms to enable test application of city-wide programs. Based on the learning-by-doing approach and experience gained from engaging with cities and municipal authorities, PoA rules can then be further modified, as required.

(b) <u>What are the barriers in the current rules?</u>

The current rules for PoAs are at times inconsistent and incomplete, resulting in long delays in validation. As many of the rules are modifications of rules for single projects, they do not appear to fully support the achievement of the PoA goals to reduce transaction costs and facilitate smaller more widely dispersed projects. Notable barriers include:

i. Project Start date definition

According to current rules, a CPA cannot start prior to the PoA validation start, i.e., publication of the PoA on the UNFCCC website. However, rules also require the first specific CPA to be submitted along with the PoA for publication. The nature of PoAs is such that the institutional structuring of PoA can require more time than is needed to prepare the first CPA. PoA structuring thus substantially delays CPA implementation. We recommend that the EB considers allowing PoAs to submit a letter to the EB as proof of start date. The CPAs can then be allowed to start following an announcement of the PoA.

ii. DOE liability and the definition of an erroneous CPA inclusion

We observe that the lack of certainty on erroneous CPA inclusion is hindering DOEs from signing contracts for the inclusion of additional CPAs to a registered PoA. DOEs reluctance appears to be based on concerns identified by their legal advisors and insuring parties.

Currently a review of a CPA occurs at the request from either the host country Designated National Authority (DNA) or by any member of the Executive Board. These requests must be made either within one year after the inclusion of the CPA to the PoA or within six months after the first issuance of CERs from the CPA. However, these deadlines refer only to a trigger for initiating a review for a particular CPA. At the end of this period, that particular CPA is still not free and clear of further reviews. If another CPA under the same PoA is reviewed during the lifetime of the PoA, an investigation of all previously included CPAs could be required. Though such a situation is highly unlikely, the CPA, unlike a CDM project, is never "registered" creating unlimited liability for the entire PoA.

The open-ended nature of liability is exacerbated by the lack of confidence that the eligibility criteria defined for the PoA at the time of registration will continue to be interpreted and accepted till the end of PoA lifetime. This concern stems from the fact that the requirements for demonstration of additionality in 2011 are different from the requirements in 2005 and such evolution in understanding is likely to continue. This makes it difficult to define what would trigger a review and is difficult to insure against.

Finally, DOEs are held "strictly liable" for erroneous inclusion if the CPA does not meet the eligibility criteria defined in the CDM POA DD. This means that the DOE faces unlimited liability for all

mistakes by any party, even when the DOE has clearly achieved best standards in its due diligence. Therefore it is recommended that liability, though retained with the DOE, should be (a) limited in time and (b) limited to professional negligence of the DOE.

(c) <u>What are the rules that are not existing or are missing and should be there?</u>

As mentioned earlier, rules for PoAs have largely emerged from rules for single projects. This is seen by the fact that the design of CPAs mirrors that of a stand-along CDM project. This continuation of CPA-by-CPA thinking, while trying to accommodate the programmatic nature of the entire activity, results in contradictions and complexities in terms of assessment of the PoA and CPAs. Against this background we would like to request for guidance and suggest some changes on specific rules covering the program cycle to reduce delays in validation of PoAs currently.

i. Guidance on sampling of CPAs for securing DNA Letter of Approval

There are increasing numbers of cases, where DNAs seek to evaluate every CPA under a PoA to ensure compliance with national sustainable development criteria. Guidance developed by the EB and DNA forum on how to apply a sampling approach to sustainable development evaluation of CPAs would help host countries speed up this process and reduce regulatory delays.

ii. Defining key criterion for additionality demonstration

At present current rules are vague with respect to defining the key criterion for additionality demonstration. In the absence of clear guidance, DOEs insist that the additionality need to be demonstrated both at POA level and at CPA level even for those small scale projects where implementation is implausible without the establishment of the PoA. In such cases, we suggest the following approach as suggested in our submission in response to the "Call for public inputs on the Guidelines for demonstrating additionality for renewable energy projects <= 5MW and energy efficiency projects with energy saving <= 20 GWh per year" from March 8, 2011:

A PoA and its included subsystems/measures are additional if **one** of the following conditions is satisfied:

a) The subsystems/measures fulfill the criteria <= 5MW (renewable energy), <= 20 GWh (energy efficiency) or <= 20 kt/y emissions reductions (category III activities) **and** the PoA and all included subsystems/measures are located in LDCs/SIDs or special underdeveloped zones of the host country.
b) The size of each independent subsystem/measure in the project activity is equal or smaller to the following thresholds: 750 kW for RE; 600 MWh for EE activities; 600 tCO2e/year for type III activities **and** the end users of the subsystems/measures are households/low income communities/SMEs.

iii. Guidance on baseline emission calculations when PoA supports law enforcement

There is currently no guidance on how to assess the impact of mandatory law on baseline emissions. For example, in a situation where a program is assisting a government to achieve greater compliance of an existing mandatory law; it is not clear how to define the baseline situation. Is it sufficient to assume that non-enforcement would remain at the same levels as at project inception and then fix this level ex ante, or are measurements of enforcement required, and if so, what parameters should be used?

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iv. Guidance on sampling by DOEs at Validation/verification

In order to obtain an economy of scale and reduce transaction costs, guidance is needed on how DOEs may sample CPAs at validation and verification. Without clarity on procedures for sampling, DOEs are forced to evaluate all CPAs resulting in high transaction costs.

v. Methodology combinations

Whilst methodology combinations may be requested, it is not clear how the requests are to be processed, since there are currently no formal procedures for requests for methodology combinations. The result is that such requests are facing delays. We suggest to allow without prior approval process any combinations of simplified methodologies for small scale CDM projects. For combining methodologies for large scale projects a clear approval procedure should be established.

We will be pleased to provide further information and clarifications at your request and would welcome the opportunity to discuss these issues at a PoA workshop.

Yours sincerely

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