

Head and Members of the CDM Executive Board  
Mr. Duan Maosheng  
Chairman  
UNFCCC Secretariat  
Martin-Luther-King-Strasse 8  
D 53153 Bonn  
Germany

**Project Developer Forum Ltd.**  
100 New Bridge Street  
UK London EC4V 6JA

Europe: +44 20 7121 6100  
Asia: +65 6578 9286  
Americas: +1 321 775 4870  
office@pd-forum.net  
www.pd-forum.net

CHAIRPERSON:  
Gareth Phillips  
[gareth.phillips@pd-forum.net](mailto:gareth.phillips@pd-forum.net)

CO VICE CHAIRPERSONS:  
Leo Perkowski  
[Leo.perkowski@pd-forum.net](mailto:Leo.perkowski@pd-forum.net)  
Rachel Child  
[Rachel.child@pd-forum.net](mailto:Rachel.child@pd-forum.net)

To cdm-info@unfccc.int  
From [rachel.child@pd-forum.net](mailto:rachel.child@pd-forum.net)  
Date 4 April 2012  
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Subject **Call for public inputs on the definition of  
“special underdeveloped zones”**

Honorable Members of the CDM Executive Board,  
Dear Mr. Duan,

The PD Forum submits this response to the call for public inputs launched by the CDM Executive Board, at its sixty-sixth meeting on the definition of "special underdeveloped zones" as contained in annex 19 of the report of the thirty-fifth meeting of the small scale working group (SSC WG).

We understand that the scope of the public input shall include but is 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.

Firstly, the PD Forum applauds the efforts of the Board to remove some of the barriers to the development of microscale projects. The "Guidelines for demonstrating additionality of microscale project activities" represent a significant step forward in reducing transaction costs associated with developing projects of this scale.

At present, the Guidelines can be used for microscale projects "located in a special underdeveloped zone of the host country identified by the government before 28 May 2010". We understand the reasoning of the Board and the SSC WG to clarify this definition further to increase the transparency and comparability of PDDs that use this reasoning for additionality, by identifying a special underdeveloped zone (SUZ) using similar criteria for identifying LDCs.

However, we firmly believe that data deficiencies at the sub-national level in many developing countries make the approach currently suggested by the SSC WG and EB to be impractical. While data may be available in some advanced developing countries, experience of PD Forum members shows that the data sets recommended by the SSC WG will be almost impossible to acquire at the sub national-level in many developing countries.

If project developers were to be put into a position where they are tasked with collecting these statistics on the sub-national level, they would face unaffordable new costs in terms of time and resources. Since the SUZ concept was introduced to facilitate the project additionality assessment, a new definition with high data requirements complicates rather than simplifies the modalities for microscale CDM projects, paradoxically increasing overall transaction costs.

In particular, data for the Human Assets Index (HAI), Economic Vulnerability Index (EVI) and drinking water supply as per the WHO / UNICEF Joint Monitoring Programme (JMP) for Water Supply and

Sanitation data is only available on the national level. A project developer would not be able to gather the complex required data for a microscale project in a suitably robust manner.

Therefore, we suggest that the new definition should include more realistic requirements to enable project developers to keep transaction costs at a minimum whilst at the same time not compromising environmental integrity.

To this end, our strong preference would be to keep the original qualitative definition, with some further clarification i.e.

*"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]."*

If a quantitative definition is considered desirable, we recommend the following amendments to the SSC WG's suggestions:

1. Only one of the proposed quantitative criteria should be required to be met. The proposed criteria are all fairly restrictive metrics already, and acquiring the data for more than one criteria will dramatically increase transactions costs.
2. Other measures of GDP/GNI should be allowed. The only method currently suggested (Atlas method over 3 years), is usually unavailable at the sub-national level. GDP/GNI using either the Atlas method or PPP should be allowed, as long as these are internationally comparable, produced by a reliable source, and able to be validated by a DOE
3. The EB should consider using the poverty headcount ratio of \$2 a day, the median poverty line in developing countries.<sup>1</sup>
4. The statistics should be based on data from investment decision time. If an area has reached its development goals during or after project construction, the project should not be unfairly punished for economic growth in the region.
5. As it is with other calculations used in PDDs, the EB should provide specific guidelines to the concrete methodology (possibly simplified) for calculating the Human Assets Index (HAI) and Economic Vulnerability Index (EVI). This will increase comparability between PDDs and facilitate the work of microscale developers and DOEs.
6. In its new definition, the EB should also consider the cases when a Host country has introduced SUZ that are defined through different quantitative criteria and indexes than the ones proposed by the SSC WG.

Finally, to further reduce transaction costs further the EB should strongly consider compiling a list of all Special Underdeveloped Zones. Such a list would provide increased transparency and clarity for all stakeholders.

We thank you for the opportunity to provide our comments on this issue and would be very happy to discuss them with you further,

Kind regards,



Rachel Child  
Co Vice Chair, Project Developer Forum

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<sup>1</sup> Please refer to the UN poverty calculations methodology <http://iresearch.worldbank.org/PovcalNet/index.htm?0,2>