

June 15, 2006

CDM Executive Board
UNFCCC Secretariat
Martin Luther King Strasse 8
P.O. Box 260124
D-53153
Germany

Attn: Mr. José Domingos González Miguez, Chairman

Re: Preparation of ACM00xx (AM0006 & AM0016)

Dear Mr. Miguez,

As a member of the World Bank Group, IFC's mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. IFC provides loans, equity, structured finance and risk management products, and advisory services to build the private sector in developing countries. As part of its mandate, IFC purchases CERs from projects on behalf of buyers in Annex I countries, invests in CDM projects, and offers financial products to help companies in developing countries guarantee delivery of their CERs to buyers. IFC supports the Executive Board's (EB) efforts to approve credible methodologies in support of projects that contribute to sustainable development, and to streamline the CDM project approval process. However, IFC, as any other financial institution, that lends or invests in CDM projects require a degree of regulatory certainty regarding the projects in which it invests as regulatory uncertainty increases the risk profile of projects and may make them financially unattractive.

Recently, IFC learned of the Methodologies Panel's (MP) proposal (Annex 6, 20th Meeting Report) to drop methodologies AM0006 and AM0016 in favor of a proposed "Consolidated baseline methodology for GHG emission reductions from manure management". IFC would like to offer to the EB the following comments regarding development, approvals and lifetimes of methodologies, as well as the use of default emission and discount factors as follows:

1. Retain approved methodologies (including AM0006 and AM0016): The proposed "Consolidated baseline methodology for GHG emission reductions from manure management" (ACM00XX) in Annex 6 of the Report of the 20th Meeting of the Methodologies Panel (MP) suggests that the ACM should be adopted without outside consultation or expert review, and that AM0006 and AM0016 (approved methodologies) should be dropped in favor of this as yet unapproved ACM00XX. This MP proposal has

introduced a significant amount of uncertainty into the CDM project development, financing and approval process in the manure management sector. Apparently, developers of CDM projects in this sector, who were relying on the two earlier approved methodologies, must now wait until a “Consolidated baseline methodology for GHG emission reductions from manure management” has been approved. This proposed removal would be premature and unfair. From IFC’s perspective, there is no justification to suspend all approved methodologies that could potentially be used in this sector until the ACM is approved as there is no clear timeline when this will occur. At a minimum, AM0006 and AM0016 should remain valid and available for use until they are revised, if needed.

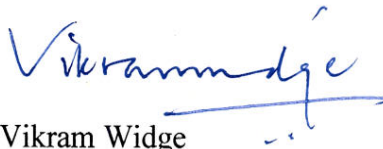
2. Lifetime of approved methodologies: Among other things, approved CDM methodologies are supposed to provide some level of certainty as to how projects will be evaluated/validated and monitored. Certainty is needed regarding the baseline to enable estimation of emission reductions. Certainty of methodologies is also needed for project design, financing and implementation. Without certainty, participants and lenders do not have an incentive to fund and implement projects. The experience with subsidies and other incentives for renewable energy provided by governments in some countries suggests that certainty is needed for a minimum period of several years in order for developers to develop, and investors to invest in, such projects. A baseline methodology must also last for several years in order to provide an incentive for the types of projects a methodology intends to promote. Certainty that lasts only a few months, or that could be eliminated at any time, is not helpful to various stakeholders, including the MP, project participants, service providers, financiers, and ultimately the developing countries themselves. While it can be argued that projects approved under a particular methodology are already grandfathered for the project’s crediting period, several methodologies, such as these, apply to smaller projects where longer term financing can only be obtained based on a plan to aggregate many projects that would have to be developed over time. Regulatory certainty over this time is imperative. IFC therefore would recommend that the MP and EB commit, as soon as possible, to allow the use of any approved methodologies for an agreed period of time. Such a time period could be consistent with the minimum period of a baseline allowed under the CDM (e.g., 7 years) or some other reasonable time (but preferably no less than 5 years). Approved baselines should automatically remain valid for this minimum period after which time they could undergo an automatic peer review and revision based on experience during the period. At the same time, new or consolidated methodologies could be introduced during the interim period and new projects seeking validation could be encouraged to use such new methodologies where applicable.
3. Retain Multiple AMs and ACMs: IFC has followed the multi-year process to develop and update ACM0006 (“Consolidated methodology for grid-connected electricity generation from biomass residues”), now in its 3rd Version. This methodology has undergone several revisions since it was adopted, suggesting that the approved “consolidated” methodology was not as comprehensive or technically suitable as originally intended. Lessons should be drawn from that process when considering development of an ACM for manure management. During the development of ACM0006, elements of methodologies proposed by participants

were used but in some cases those same participants still do not have as yet an approved methodology that they can use for their specific project. This must be avoided in the process of methodology consolidation, and possibly the easiest way to avoid such a problem is to allow for the continued use of approved methodologies so that several approved methodologies are available in the event an ACM cannot be used for a specific project or the ACM is being revised. In our experience in structuring projects, we have found that it is difficult, if not impossible, to apply a cookie cutter approach to projects, even when considering projects in the same sector.

4. Consultations to develop and revise AMs and ACMs: IFC suggests the EB and MP take greater advantage of outside expertise when consolidating methodologies, perhaps through a peer review and/or public consultation process prior to (not after) release of a new proposed methodology by the MP. The MP can and should use experts with extensive experience in the relevant sector who will add value to a peer review process, as they can anticipate project types or idiosyncrasies that the CDM process may not yet have been exposed to.
5. Use of Project-Specific Data in Baseline and Monitoring Methodologies: IFC recommends that the EB recognize that many projects are unique in one way or another, and therefore, methodologies should allow flexibility to use available data if it is verifiable. Project participants can/should be able to adapt any ACM to specific projects and use verifiable project-specific data, rather than default values, to calculate volumes of emissions and emission reductions. Rather than use default factors, if the participant can prove the use of alternative factors in such calculations through its monitoring systems and a DOE can validate/verify such claims, the MP and EB should make clear that this measurement technique is preferable. The IPCC's accepted data reporting standard indicates that reliance on measurable project data should supersede the application of generalized default values (e.g., data that a project monitors and a DOE validates/verifies actual emissions leakage rather than applying a discount factor that may have little relevance to a specific project situation).

IFC would be pleased to work with the EB, as appropriate, to assist in resolving these issues. We look forward to supporting the EB's efforts to evolve a CDM framework that supports continued funding for projects that support sustainable development in developing countries.

Sincerely,



Vikram Widge
Program Manager, Carbon Finance
Environmental Finance Group