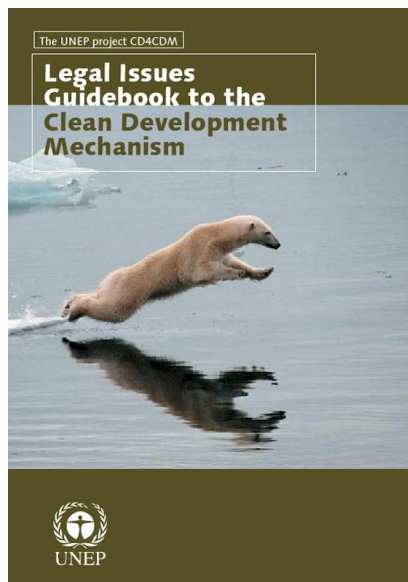


CDM Governance and Regulation: *Lessons from UNEP's CD4CDM Program*



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Outline

- DNA roles & functions and typical steps
- Examples of approval procedures and criteria
- Good practice on DNA set-up, financing and CDM investment promotion
- Summary of lessons learned

Introduction

“There is no such thing as a correct approach to establishing a (DNA). There are many possibilities and each country will have to decide on the particular form of institutional development that is appropriate to national circumstances.”

International Framework for DNA

- Participation requirements for CDM:
 - Ratify the Kyoto Protocol
 - Marrakech Accords (decision 17/CP.7) stipulate designation of a National Authority (DNA)
 - Establish *institutional and legal frameworks* for project evaluation & approval
- No further guidance given on roles and functions
- The DNA is a part of overall CDM system
 - Kyoto Protocol sets up other institutions and structures to ensure that projects results in real, measurable, long term emissions reductions
 - CDM EB, Methodology Panel, DOEs, desk review experts, registration review experts all check GHG benefits and adherence to CDM rules

DNA Models

- Choice of structure/approach defines key differences between DNA
- Models:
 - Single government department
 - A two-unit model
 - Inter-departmental government committee
 - FDI-piggyback (e.g., investment authority)
 - Outsourcing model

Project Development

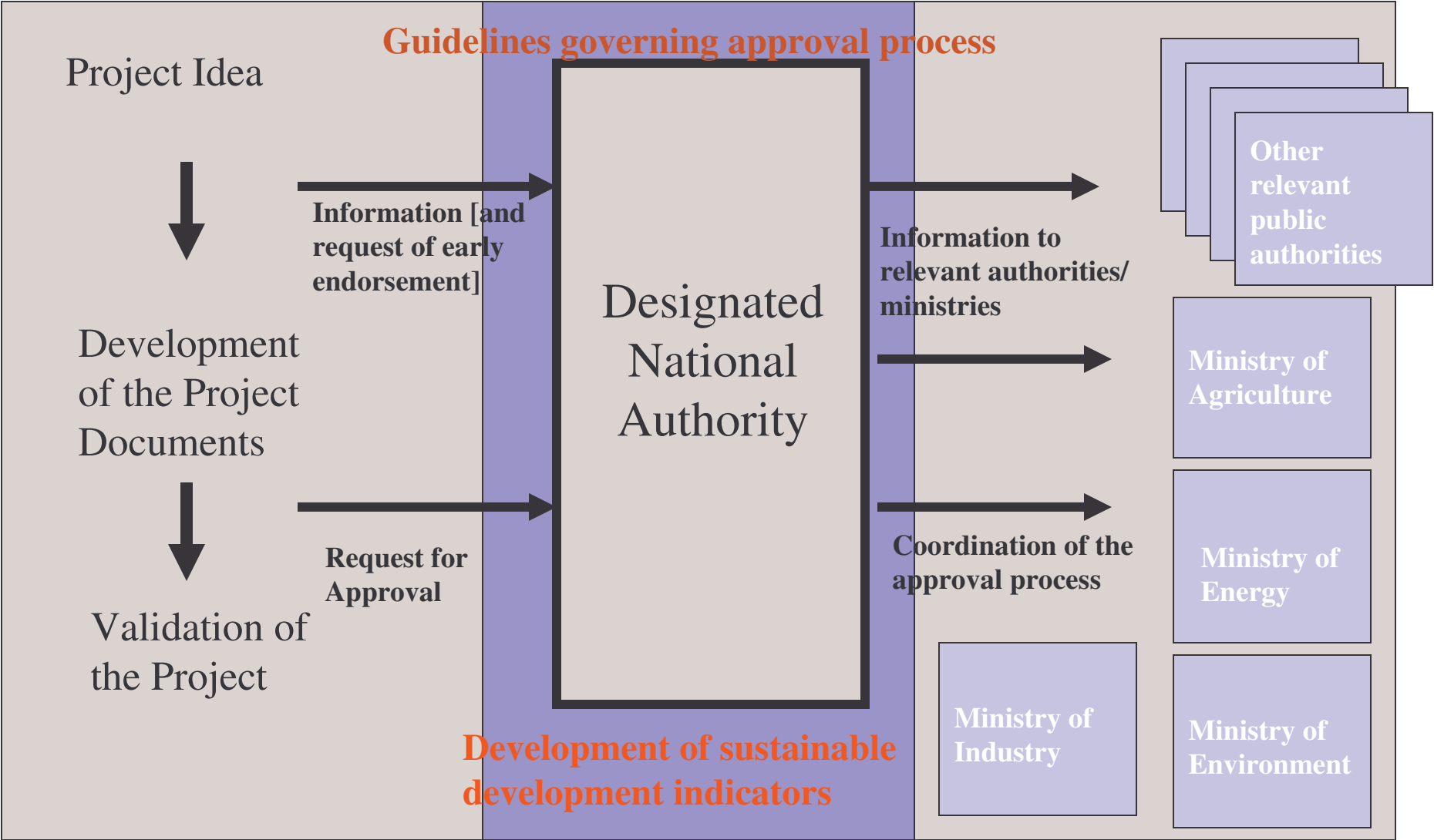
Approval of the Project

Governmental Review and Approval Process

Project Participants

Government-Project Participants Interface

Government



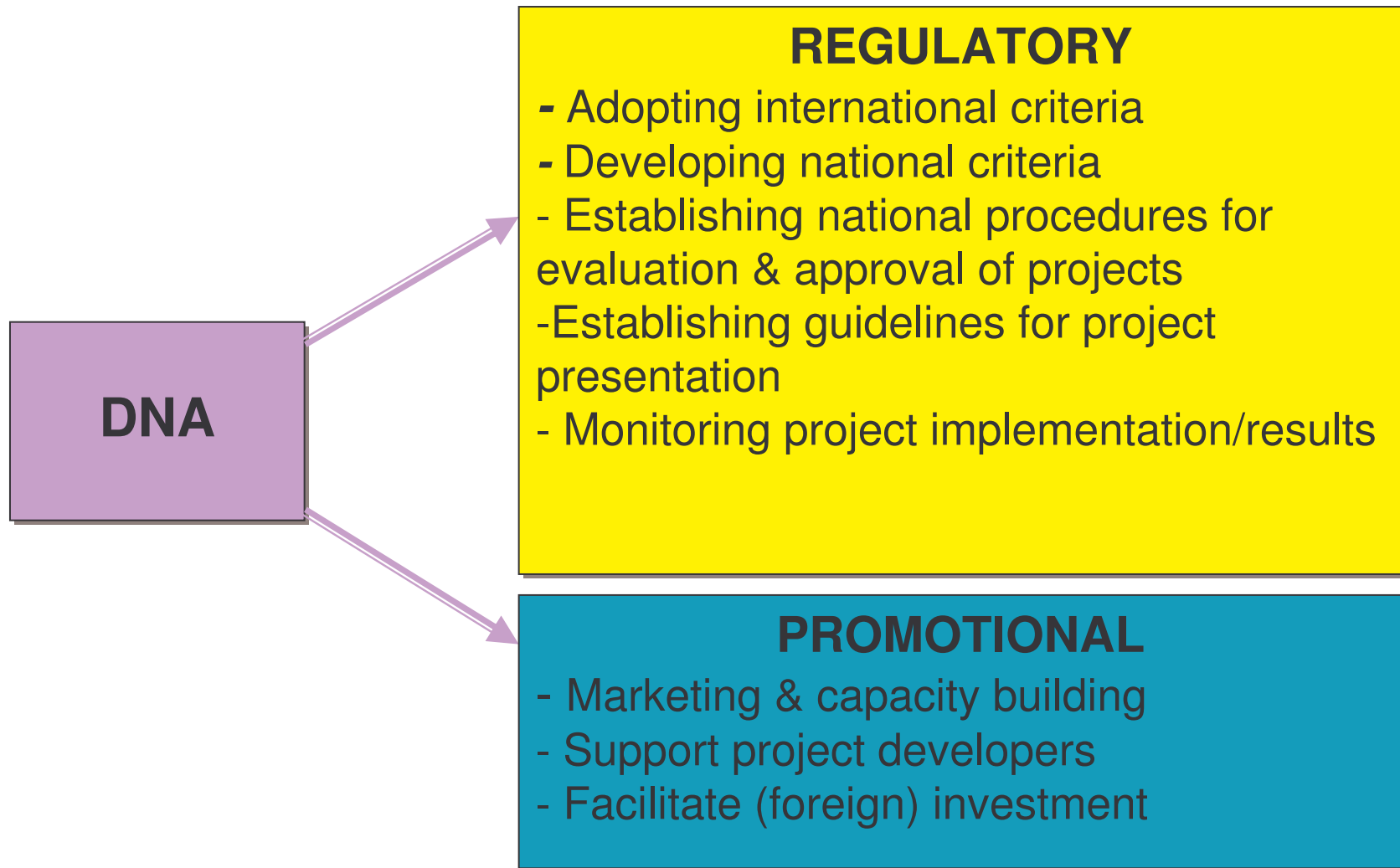
Typical steps for operationalising DNA

1. Clarify mission and objectives (roles, see later)
2. Obtain official status (e.g. through legislature, presidential or ministerial decision/decreed).
3. Enhance national legal framework for DNA decisions and regulating carbon trade.
4. Align national CDM strategy with sustainable development priorities (criteria, other policy).
5. Obtain financial and non-financial resources.
6. Deploy appropriate human resources with an identified capacity development programme.
7. (Re-)evaluate efficiency, transparency of procedures, governance

Possible Functions of a DNA

- Key DNA role is to evaluate the (non-GHG) sustainable development aspects of the project
- Issuing host country Letters of Approval – a key part of the CDM project cycle
- Developing the rules and procedures for approval, including national SD criteria
- Providing a point of contact for national CDM policies & procedures Reporting on CDM activity
- Act as a “one stop shop”
- Facilitating the development of a portfolio of CDM projects and promoting investment

Regulatory vs. Promotional

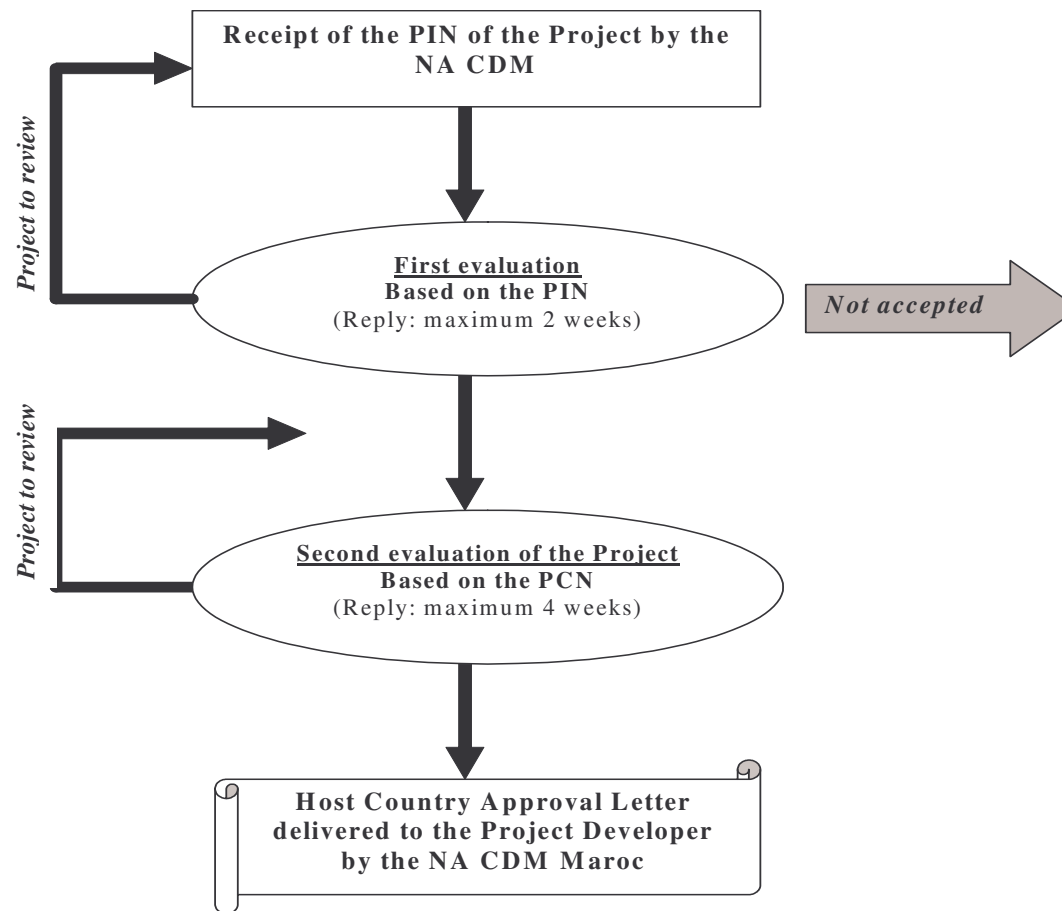


Important to distinguish between two to avoid conflict of interest

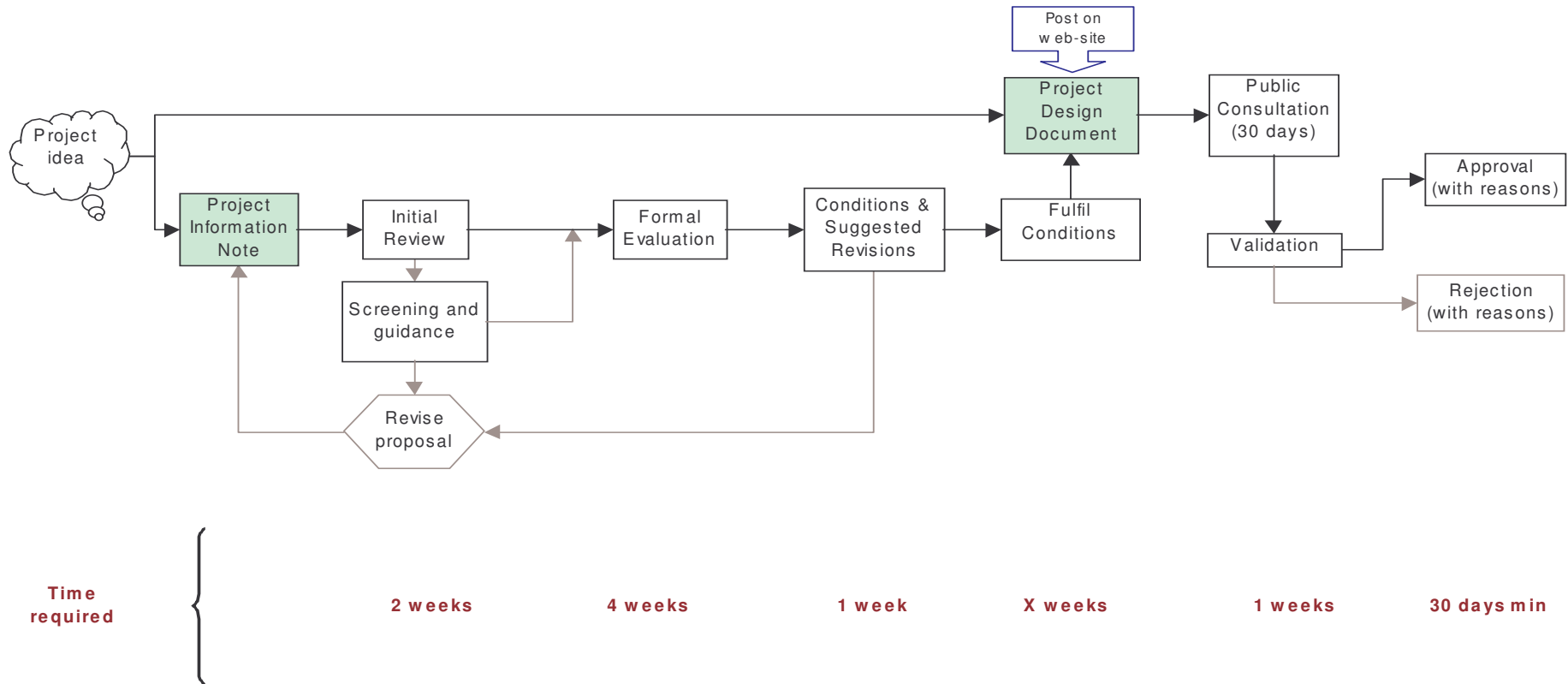
DNA role is common for Government

- Government departments and agencies regularly evaluate whether projects, programmes, and policies align with national development priorities
- Since ‘sustainable development’ is inherently subjective, this evaluation is almost never done through a “scientific” process, but through the gathering of informed views from those engaged with policy, with expert input where necessary

Moroccan CDM Approval Process



South African CDM Approvals



Peru: Example Project Approval Procedure and Costs

- Ad Hoc committee is formed on per project-basis (i.e. *meets only when there is a project to approve*):
 - Permanent committee members:
 - National Council for the Environment (the DNA)
 - National Environment Fund
 - Office for Promotion of Private Investment
 - Ministry of Foreign Affairs
 - International Cooperation Agency
 - Project-related committee members:
 - Line-ministry related to project sector
 - NGO (from project locality)
 - National EIA/other experts

Peru: Example Project Approval Procedure and Costs

Procedure	Responsible Party
1. Submit PDD & request national approval letter (PIN is optional)	CDM Project Developer
2. PDD sent to all members of CDM Project Committee	DNA
3. Visit project location/interviews. Produce a report on SD	DNA
4. Call & hold the Ad Hoc CDM Project Committee meeting	DNA
5. Committee meeting: Assess contribution to SD (case by case analysis) & interview project developer	CDM Project Approval Committee
6. Letter of Approval issued	DNA/CDM Committee
Total Approval Process: 45 days Cost per project: \$4,800	

Revenue sharing and Levies

- ▶ Some DNAs impose fixed charges to cover their administrative expenses (e.g. Germany, Ghana)
- ▶ While others avoid such levies in order to reduce transactions costs and further CDM incentives (e.g. Georgia, Brazil);
- ▶ A couple of DNAs adopt a ‘revenue sharing’ or taxation scheme (China and Egypt). Adds fiscal, legal complexity
 - 2% of the benefits for energy efficiency, renewable energy, methane recovery and forestry projects;
 - 35% for N₂O projects; and
 - 65% for HFC and PFC projects.

CD4CDM: lessons learned (1): General issues

- *Awareness raising*: National policies vs. global concerns
- *Political will critical*: understanding linkages between CC & national economic goals
- CDM is *multi-sectoral*, requiring coordination among
 - stakeholders (Govt, private sector, NGOs)
 - Government departments
- Broad participation useful but existence of a *local champion* or one-stop-shop is essential

CD4CDM: lessons learned (2): Procedures

- Keep it simple – fewer, more transparent rules the better
- Build on existing institutions and structures wherever possible
 - Most effective DNAs draw upon and leverage existing roles and capacities of those agencies entrusted with related processes – e.g. EIA, FDI
- Take advantage of NGO/academia capacity
- Adopt time-bound deadlines for decisions

CD4CDM: lessons learned (3): Attracting investment

- Well defined legal and contractual rights & responsibilities
- Transparency
- Rapid feedback to project developers
- Aim to minimize overall transaction costs
- Possible promotional functions as “phase II”
 - Support liaison with other agencies, permits and licensing authorities
 - Promote country’s CDM portfolio at trade fairs
 - Facilitate project development through data clearinghouse, consultants’ roster, etc.

Conclusion

The DNA process is iterative ...

One cannot expect

“to check off a to-do list and see a complete institution. Institutions grow and change; a National Authority for the CDM is no exception to that rule”