

The World Bank submission on the review of the modalities and procedures for the Clean Development Mechanism (CDM)

Introduction

The World Bank Group appreciates the opportunity to contribute to Parties' important work on the review of the modalities and procedures for the CDM as requested by CMP8:

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at CMP8, (...) Reiterates that, pursuant to decision 3/CMP.1, the first review of the modalities and procedures for the clean development mechanism, as contained in the annex to decision 3/CMP.1, shall be carried out by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session; (...) Invites Parties and admitted observer organizations to submit to the secretariat, by 25 March 2013, their views on possible changes to the modalities and procedures for the clean development mechanism;

This submission draws from insights and lessons derived from more than one decade of the World Bank's carbon finance experience across many different types of projects, programs and sectors around the world. It suggests using the review and necessary up-dating of the modalities and procedures (M&P) of the CDM as an opportunity to reposition the mechanism, and provides specific recommendations in that regard. We hope that this submission will be constructive input to Parties' deliberations. The World Bank would be pleased to elaborate further and contribute to this important work as needed.

1. Why repositioning the CDM and up-dating its modalities and procedures?

The first commitment period of the Kyoto Protocol has shown that the CDM can deliver emission reductions in developing countries at scale. The second commitment period foresees continuation of the CDM, but will probably not be able to create demand for new CDM project activities unless ambition levels are increased. This should however not lead to keep the CDM in a pure maintenance, stand-by mode as it would undermine what was achieved in terms of building capacity, institutional structures, knowledge and awareness in developing countries. It would also miss opportunities to use the CDM infrastructure beyond its original purpose of supporting an offset mechanism. The CDM has the potential to contribute to the delivery of results-based climate finance to developing countries if it can adapt to a finance logic besides an offsetting logic.

Besides repositioning there is a need to update the 2007 CDM modalities and procedures defined for a mechanism that was understood would develop on the basis of "learning by doing". As a result of moving forward, the CDM of today no longer reflects the CDM described in the original M&P.

2. How to revise the CDM Modalities and Procedures?

The following reflects the recommendations the World Bank made in January 2013 in responding to a call of the CDM Executive Board on possible changes to the CDM M&P.

Scope

1. The revised M&P needs to reflect the expanded scope of the CDM as a scaled up mechanism via programmatic and standardization approaches.

Increasing regional distribution of the CDM

2. **Defining suppressed demand procedures.** There is a need to consistently incorporate the concept of suppressed demand into methodologies, tools and guidelines approved under the CDM, whilst taking into account the characteristics of the project types and sectors.
3. **Address the problem of data limitations** that is common in several developing countries. Provisions need to be made for the use of higher aggregate data in standardized baselines for a period of time until improvements to data quality are implemented by host countries.

Governance

4. **A procedure for appeals needs to be adopted.** The appeals process will enable project participants to appeal the decisions with reference to the registration of projects and programmes of activities, issuance of CERs, and operational aspects of the CDM.
5. **Composition and professionalism of EB members.** EB members should have the appropriate professional qualifications to enable them to effectively perform their role as part of the Executive Board, and their election process should be transparent.
6. **Roles and responsibilities of the EB, Panels and DOEs .** The roles and responsibilities of the EB need to be clarified to enable the EB to function as the strategic and policy making body of the CDM. The EB should delegate the operational responsibilities of the CDM to a full time administrative body/panel. The role of DOEs and administrative body needs to be re-defined to remove duplication of efforts with the secretariat.
7. **Role of DNAs.** The Role of DNAs need to be reflected on the revised M&P to strengthen their capacity and to ensure oversight of the implementation of standardized baselines.
8. **Communication with stakeholders.** The possibility of a project participant to have direct communication with the EB/Secretariat/Panels should be included within the revised M&P.

Methodology and CDM project cycle

9. **The additionality concept must be revised.** Additionality has been controversial since the early days of the mechanism. Additionality assessments should become more objective. We therefore recommend that the revised M&P encourage the use of objective and standardized approaches to additionality demonstration such as positive lists, market penetration rates, technology specific benchmarks, etc.
10. **Guidance on materiality.** To improve the efficiency of validation and verification, the modalities and procedures need to provide guidance for the application of the concept of materiality.

11. Simplified project cycle track for small scale projects using standardized baselines and for micro scale programme of activities. Recognising that simplification of the project cycle lowers transaction costs, promotes efficiency and predictability, it is recommended to establish a simplified project cycle as an option for small-scale CDM project activities using standardized baselines and for programmes of activities targeting micro-scale activities („micro-scale PoAs“).

The CDM project cycle procedures for small scale projects should be simplified as follows:

- automatic registration of projects using standardized baselines and a standardized project design document (check list); and
- verification and certification of a registered CDM project activity combines (simultaneous) ex post assessment by the DOE of a project's compliance with the requirements of the registered standardized project design document (check list) and of the monitored emission reductions.

The CDM procedures for micro-scale PoAs should be simplified as follows:

- micro-scale thresholds are applied at the level of each individual activity without the need for grouping them to CDM Programme Activities (CPAs) in order to simplify inclusion of individual units in a PoA;
- automatic inclusion of micro-scale activities;
- monitoring approaches are simplified and streamlined; and
- verification and certification of a registered PoAs combines (simultaneous) ex post assessment by the DOE of PoA' micro-activities compliance with the eligibility requirements of the registered PoA and of the monitored emission reductions.

12. Project cycle timelines. The revised M&P needs to reflect the latest project cycle timelines approved by the EB. Furthermore we suggest that it encourages the continuation of efforts to streamline the registration and issuance process; e.g. continued use of a version of a methodology used in the registration of a project or programme of activity should be permitted in cases where the methodology expires during the period of completeness check and information and reporting check.

Afforestation/Reforestation (AR)

13. Flexibility in the timing of the verification. In accordance with the request from the CMP8, allow for flexibility in the timing of the verification of afforestation and reforestation projects during a crediting period and during commitment periods that are longer than 5 years.

14. Estimation of baseline stocks and removals. In accordance with the request from the CMP8, consider the use of more cost-effective approaches in A/R methodologies for the estimation of baseline stocks and removals, including the use of remote sensing for monitoring.

15. Definition of AR. The current definition of afforestation and reforestation under the CDM need to be revisited for the second and subsequent commitment periods. Definition of 'Reforestation' with a reference to 31 December 1989 was specific to the first commitment period. It is proposed to revise this definition for the second and subsequent commitment periods in relation to the starting date of the project activity.

16. Threshold for small scale CDM A/R projects. It is recommended that this threshold for small scale AR project activities is revised to make it consistent with the threshold in other sectors.

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