

Submission to the SBI 40: The World Bank's Views on "Possible Changes to the Modalities and Procedures of the CDM"

I. INTRODUCTION

This submission responds to the invitation made at the 39th session of the Subsidiary Body for Implementation (SBI 39) to Parties and Observers to submit their views on possible changes to the modalities and procedures of the clean development mechanism (CDM) by April 30, 2014. In this submission, suggestions for revision of the CDM Modalities and Procedures (CDM M&P) are presented based on the World Bank Carbon Finance Unit's extensive practical experience with CDM projects and programmes of activities.

II. SUGGESTED CHANGES TO THE MODALITIES AND PROCEDURES FOR THE CDM

It is requested that the Secretariat prepares a draft of the revised CDM M&P for discussion prior to COP20/CMP10 that incorporates the following:

1. **A Separate Section for PoAs:** The CDM M&P should include a separate section on Programme of activities (PoA), recognizing the need to treat the PoA framework differently to single project activities. The new PoA section should, inter alia:
 - a. Include a description of the PoA project cycle that allows for **the option (i.e. not mandatory)** of a simplified and streamlined validation and registration process for activities that satisfy micro-scale threshold and are considered automatically additional (e.g. through positive lists, micro-scale additionality or standardized baselines). This process would permit the:
 - Validation of a PoA without the submission of a specific CDM programme activity (CPA); and
 - Inclusion of CDM programme activities (CPAs) by the Coordinating and Managing Entity (CME) on the basis of a pre-approved standardized template for their inclusion without the need for validation through a DOE.
 - b. Recognizing that the PoA is different to single CDM project activities, permit CPAs to have different verification and issuance schedules in order to align the monitoring, verification and issuance procedures to the practical implementation realities of individual CPAs.
 - c. Develop separate guidance for multi-country PoAs that allow the start of a multi country PoA on receipt of a minimum of 2 Letter of approvals from participating countries, and permit the inclusion of CPAs in a PoA implemented in a country at the point in time the respective host country submits its Letter of approval (LoA).
 - d. Revise the definitions and thresholds relating to the size of small scale and micro scale project activities by specifying a threshold for the individual units within a CPA rather than applying thresholds for aggregate CPA.
2. **Simplified project cycle for some projects:** Add a provision to section G (validation and registration) of CDM M&P for single (non-PoA) projects that permit:
 - a. Clean Development Mechanism project activities that qualify as automatically additional (e.g. through positive lists, micro-scale additionality or standardized baselines) and use pre-approved baseline emission factors (e.g. default values in the methodology or standardized baseline) **can opt** (i.e. not mandatory) for simplified validation and registration so that:
 - Registration of a project under the CDM is approved on the basis of a standardized pre-approved registration template with objective criteria without prior requirement for validation by a DOE;
 - Ex-post confirmation at the first periodic verification that the implemented project activity complies with the pre-approved registered template.

- b. Considering that the practical implementation of monitoring requirements may not be fully anticipated by project participants at the registration, DOEs should be permitted to approve changes to the monitoring plan at the point of verification that do not have any impact on the decisions of validation (i.e. do not impact the baseline, additionality determination, etc.).
3. **Ensuring consistency between the decision 3/CMP.1 and the decision 5/CMP.1 and decision 6/CMP.1:** As per the decision 2/CMP.7 (FCCC/KP/CMP/2011/10/Add.1), the modalities and procedures contained in the decision 5/CMP.1 for afforestation and reforestation project activities under the clean development mechanism, and in the decision 6/CMP.1 for small scale afforestation and reforestation project activities under the clean development mechanism, shall apply, mutatis mutandis, to the second commitment period. To ensure consistency, the possible changes to the modalities and procedures of the CDM (decision 3/CMP.1) should be relevant to the decision 5/CMP.1 and decision 6/CMP.1.

Furthermore, revisions to the decision 5/CMP.1 and decision 6/CMP.1 need to be considered as a consequence of:

- a. Approval of changes to the modalities and procedures for the CDM (decision 3/CMP.1);
- b. Future decision of the Conference of Parties serving as the meeting of Parties to the Kyoto Protocol on the modalities and procedures for inclusion of additional LULUCF activities under the CDM (decision 2/CMP.7);
- c. Future decision of the Conference of Parties serving as the meeting of Parties to the Kyoto Protocol on the modalities and procedures for alternative approaches to addressing the risk of non-permanence under the CDM (decision 2/CMP.7); and
- d. Decision on the flexibility in the timing of the verification of A/R project activities during a crediting period (paragraph 37, decision 5/CMP.8).

It is recommended that these aspects be considered in the approval of possible changes to the modalities and procedures for the CDM (decision 3/CMP.1).

4. **Addressing DOE Liability:** The revised CDM M&P should be amended so that DOE liability to compensate for the issuance of CERs resulting from significant deficiencies in validation, verification and certification reports is addressed. Considering that further work is needed to clarify the implications of different options, it is suggested that no single option is defined in the CDM M&P. The CDM M&P sections on DOE liability should be redrafted in such a way that the Executive Board can select an option for addressing liability so as to ensure that environmental integrity is preserved, and that no additional costs are passed on to project developers and that the magnitude of liability to DOE is reasonable which allows them to perform their activities.
5. **Further clarification of the options for determining additionality:** The CDM M&P should be revised so that they encourage the use of objective and standardized approaches to additionality demonstration, including approaches such as positive lists, market penetration rates, and technology specific benchmarks.