

DNA Establishment and Project Approval Criteria & Procedure

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Jyoti Prasad Painuly
UNEP Risoe Centre, Denmark

Outline

- DNA Roles and Functions
- Project approval criteria and procedure examples
- DNA set-up, financing and CDM promotion
- Lessons learnt

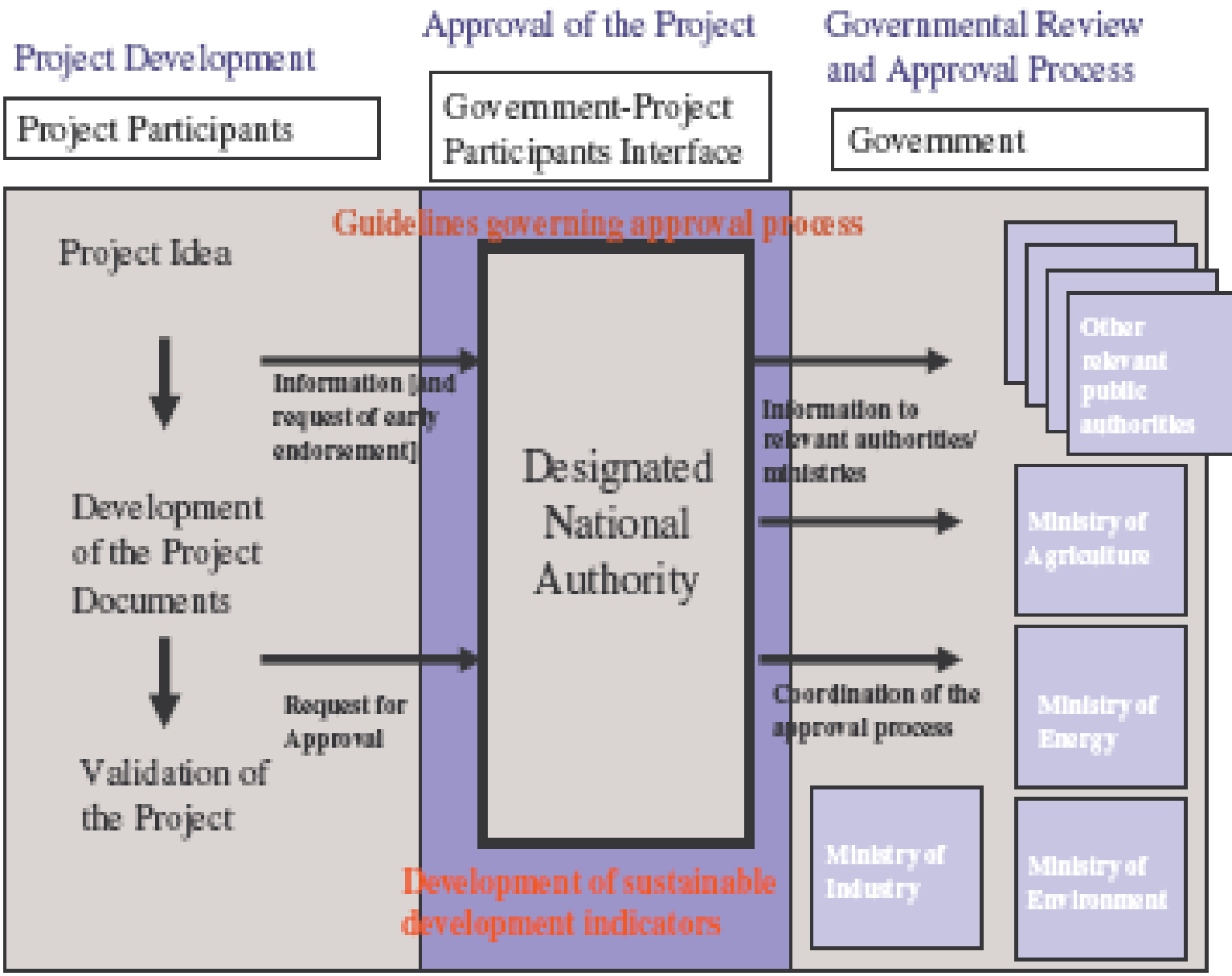
International Framework for DNA

- 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

“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.”

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



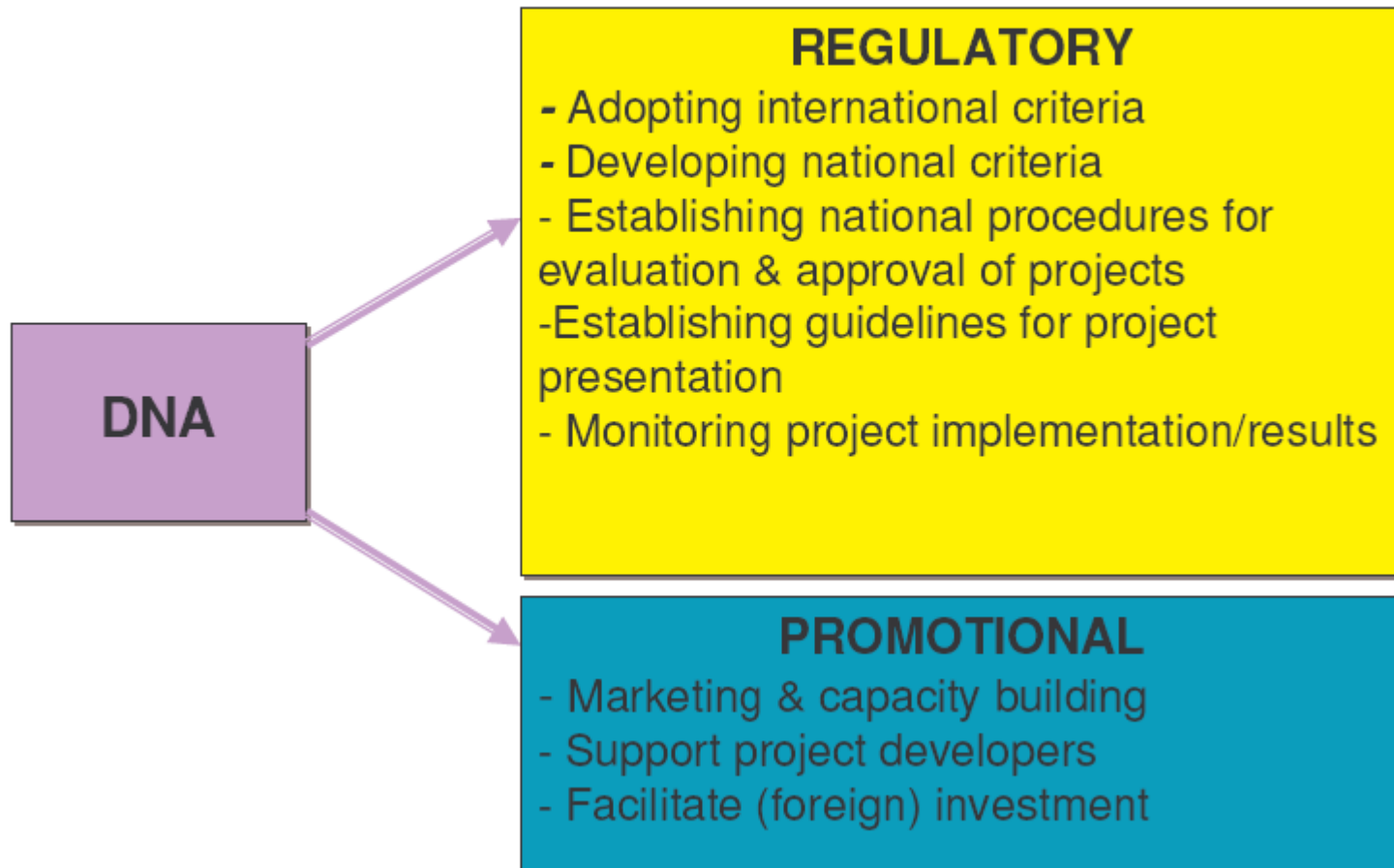
Typical steps for operationalising DNA

1. Clarify mission and objectives (roles)
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

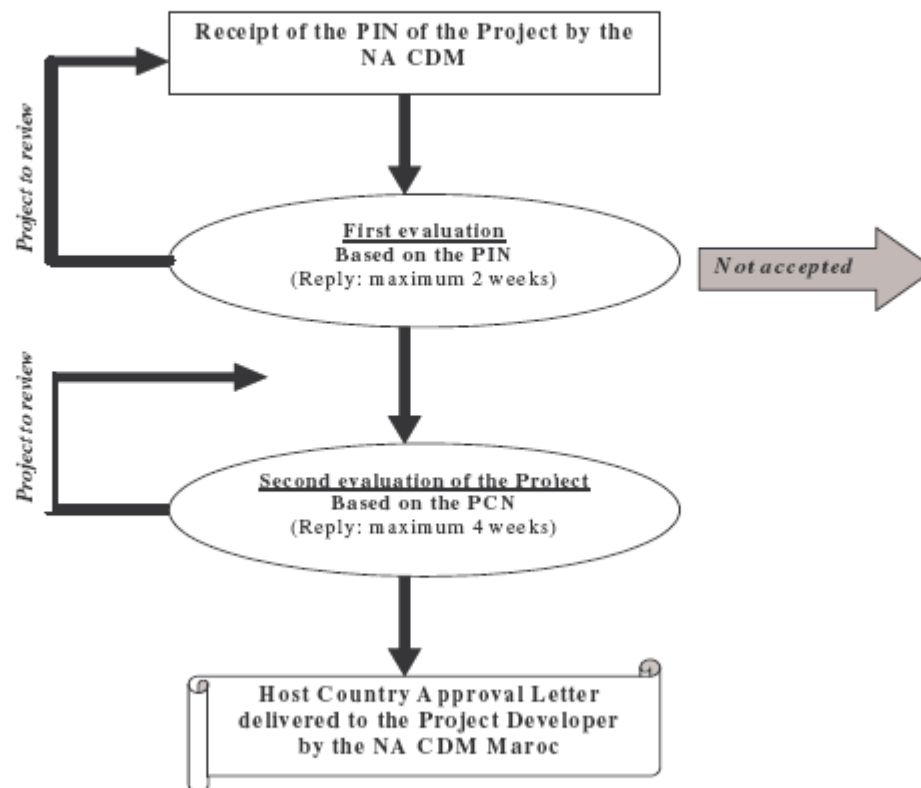


Important to distinguish between two to avoid conflict of interest

DNA role is common for Government

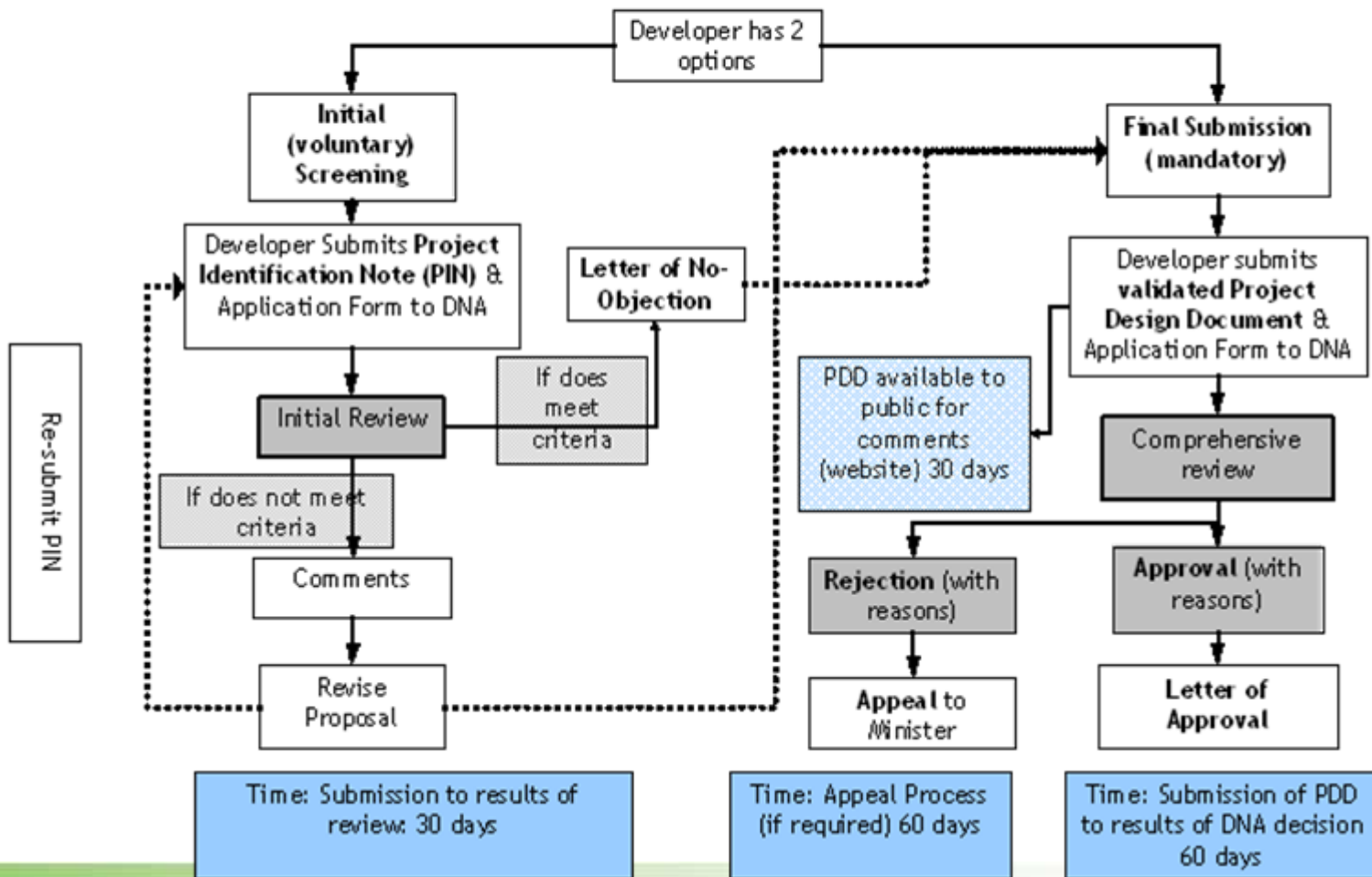
- Government departments and agencies regularly evaluate whether projects, programmes, and policies align with national development priorities
- Since ‘sustainable development’ is inherently subjective, this evaluation is almost never done through a “scientific” process, but through the gathering of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

Moroccan CDM Approval Process



DNA Project Approval Procedures

South Africa



South Africa

- SD Criteria

- Economic: Does the project contribute to national economic development?
- Social: Does the project contribute to social development in South Africa?
- Environmental: Does the project conform to the National Environmental Management Act principles of sustainable development?

- DNA has commissioned studies:

- CERs taxation implications (completion - September 2007)
- Review of SD criteria (completion - August 2007)

- DNA rolling out CDM awareness raising & capacity building initiatives

- DNA supports establishment of functional DNAs in other African countries

Sustainable Development Indicators- India

- ❑ *The Project has to confirm, if it assists in achieving sustainable development.*
 - Social well being: The Project should lead to alleviation of poverty by generating additional employment, Removal of social disparities, Contributing to the provision of basic amenities to people leading to improve the quality of life of people.
 - Economic well being: Project should bring in additional investment consistent with the needs of the people.
 - Environmental well being: Impact of the project activity on resource sustainability and resource degradation, if any, due to proposed activity; bio-diversity friendliness; impact on human health; reduction of levels of pollution etc.
 - Technological well being: The project should lead to transfer of environmentally safe and sound technologies with a priority to the renewable sector or energy efficiency projects that are comparable to best practices in order to assist in up gradation of technological base.

Project Approval Procedure and Costs; Peru Example

- 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

Project Approval Procedure and Costs; Peru Example

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
<p>Total Approval Process: 45 days Cost per project: \$4,800</p>	

Running cost and funding

- Operating the DNA will incur costs, e.g. for staff in the DNA secretariat and project-specific expenditure such as for experts assessments and stakeholder forums
- Plan for financing the DNA (**Indonesia- 2009**)
 - Firstly: a fee to be paid by project proponents (0.5% of the expected value of CERs
 - After consultation process: 0.2%; then 0% because a fee-based funding scheme would impose considerable administrative hurdles. Under Indonesian law, the DNA fee would have to be considered general government revenue and would have to be channelled to the Ministry of Finance.
- Until 2008, fund for the DNA was part of the Ministry of Environments' recurrent budget

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.

Indian Approach- Recommendations of Working Group

- Structure of DNA
- CDM Cell
- CDM Promotion Agency
- State wise CDM Awareness Campaign
- Sector-specific *Capacity Building* Programs
- CDM *Implementation Manual*
- CDM *Investor's Guide*
- International CDM *Road Shows*
- *Processing Fees* for CDM Projects
- *Bundling* of Projects
- Management of *Transaction Costs*
- *Capacity Building* of Local Consultants
- Easy access to *Information Base*
- *Awareness & Training* Workshops
- Marketing for attracting *International players*
- Need for Local *Targeted Marketing*

- Hiring of *CDM Promotion Agency* – (DNA)
- Execution of *CDM Awareness Campaign* - (MoEF)
- Preparation of *CDM Implementation Manual / Investor's Guide* - (MoEF)
- Execution of *International Road shows* – (MoEF)
- *CDM Fund* - to meet the *Establishment Cost* of DNA by charging a *Nominal Fee* for Projects Generating CERs
 - up to 50,000 p.a. - *Exempted* from any charges.
 - exceeding 50,000 but less than 1 Lakh charged @ 1% of CERs in excess of 50,000 p.a.
 - In excess of 1 Lakh p.a. - charged @ 2%.
 - Otherwise, a *fixed slab* - on the total CERs can be charged in the line of *Registration Fee Structure* of *UNFCCC Executive Board*.

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”*

Thank You

Jyoti Prasad Painuly

Jypa@risoe.dtu.dk