

# CDM project review - technology and regulation aspects

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# Outline

- DNA Approval
- Expert support as part of the host country approval process
- The contents of expert review

# Sustainable Development and the CDM

- Two-fold objective of the CDM:
  - assist Annex I parties in achieving compliance with their quantified emission limitation and reduction commitments...
    - helping to reduce compliance costs
  - ...and assist non-Annex I parties in achieving sustainable development
    - involving clean technology transfer
    - investments flows from north to south

# Sustainable development contribution of CDM projects

- Developing countries are responsible for: ensuring that their project approval criteria accurately reflect the nation's sustainable development goals and priorities both at the national as well as at the local levels.
- Guarantee the contribution of CDM projects to their sustainable development through project proposal evaluation and approval
- GHG emissions are verified through DOE verification, there is no international rules on the verification of sustainable development benefits achieved by CDM projects

# Roles of the host country DNA

- Develop national criteria for CDM project approval.
- Assess and approve the impacts of proposed projects against these criteria.
- Ensure that CDM projects are consistent with relevant national policies.
- Engage in marketing and promotion of CDM projects as necessary.
- Provide final approval of proposed projects through submission of a Letter of Approval (LoA) to the UNFCCC secretariat.
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# The Functions of DNA

## Regulatory role

- – CDM "Host Country" approval as per (mandatory): Sustainable Development criteria/guidelines
- Explicitly - Issue (LoA) Letter of Approval stating that project approved as per Article 12 of KP/project is voluntary/project meets SD criteria
- Promotional / Marketing role (optional):
  - – Facilitation and guidance to investors
  - – Scoping out project opportunities
  - – Marketing to potential investors/carbon funds
  - – Tracking and recording development of CDM/JI projects

# Letter of Approval

- The Host Country Letter of Approval is required as part of the condition for a CDM Project to be registered. It is up to the Host Country to determine the exact form of the Letter of Approval. Nonetheless, it is advisable for such letters to include:
  - ✓ (i) confirmation that the CDM Project activity assists in achieving the Host Country's goals for sustainable development;
  - ✓ (ii) confirmation that participation in the CDM Project is voluntary;
  - ✓ (iii) a statement that the DNA is the authorised body within the Host Country to issue CDM Letters of Approval

# The contents of DNA evaluation and approval

- In general, the DNA approval stage does not produce significant costs, though it can take some time.
- The level of effort required for DNA approval varies considerably among host countries, according to their administrative structures, processes, and procedures.
- Example: countries may limit their approval to the Sustainable development parts, while others also cover the CDM parts including baseline, emission reduction estimate, monitoring etc.
- Depending on the efficiency and rigor of the approval framework, in some countries it may be much easier and take shorter time to get DNA approval than in others



# Scope of DNA approval

## Principal requirements for CDM projects:

1. Beneficial to the host country (Non-Annex B Party)
2. Assist host countries in achieving sustainable development
3. Contributing to the objectives of the UNFCCC
4. Real, measurable and long-term emission reductions
5. Additionality

Some host country DNAs only checks Item 1 and 2 and leave the other items to the international CDM project approval process, while other DNAs check more or even all the 5 items

# DNAs – single unit vs multi-tiered structures

- DNAs can have either single-unit or multi-tiered structures. For example, a DNA can take the form of a:
- single unit or body located within an existing government department or ministry (for example, Bolivia and several African and small island countries);
- separate agency or committee with representatives from several different government departments and/or ministries (for example, the National CDM Authority in India); or
- multi-tiered structure consisting of two or more institutional components (such as a central committee or office supported by project review units, an advisory body, and/or a secretariat).

# Institutional structure for DNA

- Each country Party to the Kyoto Protocol is likely to structure their DNAs differently, depending on the existing institutions and allocations of responsibility within that country.
- Existing approaches taken by countries for DNA establishment:
  - (i) within an existing Government Department or Ministry (particularly those responsible for dealing with direct foreign investment and trade, environment or energy);
  - (ii) within the existing UNFCCC focal point for the CDM, to be found on the UNFCCC web site;
  - (iii) as an independent and new office
  - (iv) through a specific Government Minister.

# Effective DNA

No matter which institutional structure a country selects for its DNA, it is important that:

- (i) there exists a clear point of contact in the DNA for entities wishing to pursue a CDM Project; and
- (ii) the DNA can facilitate effective and efficient CDM Project approval; and
- (iii) the DNA can facilitate whole of government co-ordination so that any inter-government requirements and approvals necessary to enable the issue of Host Country Letters of Approval can be obtained without delay.

# Sustainable development assessment

Host country DNA issues a Letter of Approval (LoA) for a CDM project to explicitly state that the CDM project assists in achieving the country's sustainable development

- – The details of the approval procedure are up to each country
- – Typically, 3 broad development criteria are employed:
- – Economic: the project has a positive effect on economic development
- – Environmental: the project leads to reduced pressure on the environment
- – Social: the project has positive effects on social development

# Other host country requirements

- Compliance with national policies:

## Environmental Impact Assessment

- – Sectoral regulations (construction permits, licences, etc)
- – Compatibility with local/sectoral strategies and priorities

## Public participation:

- – Comments by local stakeholders directly and indirectly involved with the project

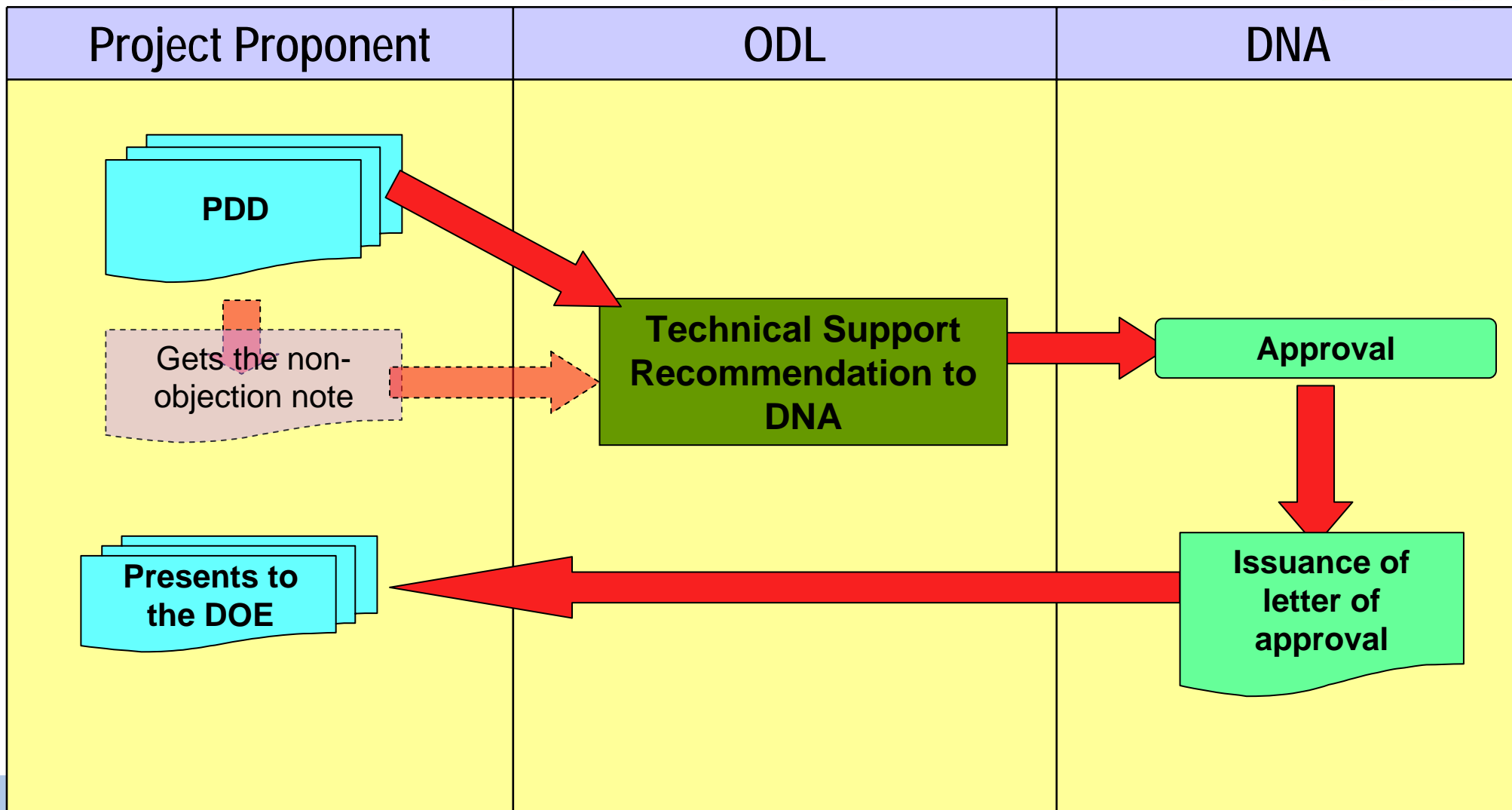
## Infrastructure and technical capacity:

- – Local availability of qualified human resources
- – Local availability of adequate institutional resources

# The knowledge and human resource requirement for CDM project approval

- CDM projects comes from a wide variety of industries, like energy, industry, waste, forest etc. and located in different parts of the countries
- They are subject to the laws, regulations and policies of different industries
- All the CDM projects in a host country are centrally approved by its DNA
- The DNA team is often small, and in many cases the approval decisions are made through inter-ministerial meetings
- In countries where DNA approval is based on detailed scrutiney of the project proposal, often a technical expert team is included in the approval process to advise the DNA and other members of the approval committee or board

# Example- Project Approval Process in Bolivia





# Expert review as part of the DNA approval process

- CDM projects can be from a wide range of sectors (energy, industry, agriculture, service, waste, forestry ...)
- They are projects that face various barriers, and are not widely implemented in the host country
- Sustainable development needs to be judged from the local context, experts familiar with local circumstances and relevant sectors' policies can help control the project quality, speed up the project approval process, and reduce the issue of
- To ensure accumulation of knowledge and continuity of process despite turnover of relevant government officials

# Basis for Expert review – Sustainable development criteria and approval regulations

- Required copies of the PDD and supporting documents prepared in national and/or language and format
- Domestic sustainable development criteria and procedures for CDM project approval

For example:

- Whether the project has finished certain normal project approval procedures (e.g. land use application approved)
- The project's financial viability (indicated in the project's feasibility study)
- CER sales agreement and price level

# Example: China's criteria for CDM project approval and contents of expert review

- Participation eligibility: 100% Chinese enterprises; or joint-venture enterprises: Chinese partner (s) holding at least 51% of shares, and the largest shareholder is a Chinese enterprise
- **Content of PDD:** meet the requirements of EB
- Price of CERs: no deviation too much from the market price
- Funding: additional to ODA
- **Technology transfer:** advanced technology
- Environmental impact: approval of EIA
- **Project feasibility:** approval of Engineering Feasibility Study
- Sustainable development factors: (1) increase of local income and employment; (2) alleviation of local poverty; (3) reduction of local environmental pollutants

# Existing Laws and Regulatory Frameworks (1)

- **Foreign Direct Investment Laws**

- ✓ CDM Project may be affected by the foreign direct investment framework of a Host Country if any of the participants, financiers, controlling shareholders or owners of the project are not nationals of the Host Country.
- ✓ The special requirements may include: government approval to FDI, restrictions on foreign ownership of assets (particularly land)
- ✓ Taxation on FDI
- ✓ Foreign current control and restrictions on repatriation of project profits
- ✓ Regulations on transfer property or rights to foreigners

# Existing Laws and Regulatory Frameworks (2)

## Environment Laws

- Whether the project follows the CDM environment assessment processes and the domestic normal environmental assessment processes are followed
- Some countries integrate these requirements and streamline these processes
- As part of the project evaluation process, the expert review will include checking the project design meet the relevant environment laws and regulations and necessary actions are taken to reduce negative environmental impacts to a permitable level
- The environmental impact assessment

# Existing Laws and Regulatory Frameworks (3)

## Securities and financial laws, and taxation

- In some countries, CERs are regarded as a kind of financial derivatives or instrument, therefore the securities and financial laws may apply
- The taxation laws and regulations on the import and purchase of different products and equipment, the investment in certain types of technologies or industries may apply to the proposed project
- The impacts of these laws and regulations need to be considered during the project review process as they affect the project's financial status

# Technical basis for host country approval

In addition to sustainable development criteria, some countries also include the CDM related contents as part of the basis for their approval decision:

1. Conformity with CDM rules – EB
2. Clearly defined additionality case
3. Baseline scenario conforms with real trends

# Contents of the expert review on the technical aspect

Check the description, statement, assumptions, and parameter choices in the PDD are correct or not:

- Features about the new technology applied by the project
- Technology status and trends in the host country
- The establishment of baseline
- The appropriateness of the selection of different parameters and data
- The supporting documents and evidences of the technical parameters and data



# The approval and expert review related to PoA

- Once the PoA and the 1<sup>st</sup> real cast CPA is approved, adding more CPAs do not request DNA approval
- Each PoA may include some programmes cover the whole country
- The approval of a PoA may make it difficult to implement more similar PoAs
- Some PoAs may rely on the same material supply, supplying goods and services for the similar targeting consumer groups
- They may affect each other in their implementation
- Therefore, even more considerations are needed in the PoA approval process

Thanks!

Website: [www.acp-cd4cdm.org](http://www.acp-cd4cdm.org)

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