

Text Box 3-8 Examples of DNA Legalization

The process of legalizing the DNA will depend on the individual government system of the host Party (i.e., presidential, semi-presidential or parliamentary) and the institutional procedures for establishing a new government body or granting approval authority to an independent entity. Legal documents that have been used in the past include presidential and ministerial decrees, new laws, amendments to existing laws, or a government act or order. The following country examples illustrate the processes that could be used to establish a DNA:

- **Georgia** uses a semi-presidential government system, which means that the President and the cabinet have authority to create new government functions without directly involving the parliament. Thus, policy makers in Georgia have determined that a government decree would be the best and quickest option for establishing the DNA instead of going through the parliament to pass a new or amended law. In January 2005, a Decree of the Cabinet of Ministers was passed which appointed the Ministry of Environmental Protection and Natural Resources as the DNA. In September 2005, the National Board on the Clean Development Mechanism (CDM) was established by Government Decree No172. A procedure for the National Board was then approved by the Minister of Environmental Protection and Natural Resources who is also the Chair of the Board. The National Board makes recommendations to the Government (Prime-Minister) regarding whether or not a project should be approved while the Administration of Hydrometeorology and Climate Change of the Ministry of Environment serves as the DNA Secretariat. The government is considering a proposal for DNA approval procedures and sustainable development criteria. An Annex is attached with the proposed PIN template, sustainable development criteria, and the process for evaluating these.
- The **Republic of Macedonia** has yet to establish a DNA. However, a recent UNDP study found that in order to establish such an entity, a new or amended law would have to be passed by the parliament because Macedonia uses a parliamentary system whereby all major government functions have to be initiated by the assembly. In addition to passing a law, the ministerial by-laws of the individual ministry hosting the DNA Secretariat would have to be amended to add the required staff and describe their functions and qualifications.
- **Kyrgyzstan**, which has a presidential system, issued a Decree in July of 2005 authorizing the inter-ministerial National Climate Change Committee as the DNA and the Ministry of Ecology and Emergency's (MEE) National Climate Change Centre as its implementing organ. It also tasked the Deputy Minister of MEE with supervising the implementation of the Decree. In addition, the MEE passed a Statute establishing the National Climate Change Centre as a non-governmental body and authorizing it to support the DNA as well as other climate change activities in the country.

3.5.1 Obtain Permanent Legal Status for the DNA

The legal validation of the DNA may come from the legislature, a government decree or another similar legal instrument (see Text Box 3-9). The specific instrument will depend on the unique circumstances of each country, including links to other related laws and the country's procedures for establishing new institutions. It also depends on the method used to ensure that all affected ministries recognize and approve of the establishment of the DNA, including the Ministers of Environment, Energy, Transportation, Natural Resources, Agriculture, Trade, Finance, and Foreign Affairs. Most of the existing and proposed DNAs in the CIS have been established via a governmental decree because these countries operate under presidential or semi-presidential systems similar to that of the Russian Federation. Countries with parliamentary systems, which are more common in Eastern Europe, would most likely have to create the DNA by amending or passing a law via the legislature.

Some countries have not yet ratified the Kyoto Protocol. In these countries, parties interested in the CDM would first have to promote governmental ratification of the Protocol and make sure that the UNFCCC is notified of this decision. Ratification of the Kyoto Protocol is typically done via the legislative process. Most countries in Eastern Europe and the CIS have already completed this process.

Even countries that have ratified the Protocol may still need to enlist the support of key political figures and educate legislators, policy makers and other decision makers about the CDM before a legal agreement on the DNA can be issued. This process can take several months or even a year. Most lawmakers are unfamiliar with the concept of CDM. Moreover, its multi-disciplinary nature requires that most ministries must be involved in the process of designing a CDM authority. An interagency and/or multi-stakeholder working group should therefore be established to discuss options for the institutional design and functions of the DNA before a final agreement is reached.

The agreement validating the DNA should contain clear statements regarding its legal justification, authority, objectives, organizational structure, functions, priorities and procedures. In some cases, two or more agreements will be required, with the first consisting of a notification of the location of the DNA and the second containing more specific information on the DNA's institutional make-up, evaluation functions, and sustainable development criteria. The staged legalization process is useful in cases where the DNA is needed to help clarify the objectives and structure of the evaluation process, and where CDM projects have already advanced to the approval stage and quick implementation is required. Armenia, for example, ratified the Kyoto Protocol in 2002, and later on, in 2003 the Ministry of Nature Protection was appointed as the DNA, without having specific application procedures and criteria in place. In early 2005, the Ministry of Nature Protection issued its first approval letter for a CDM project. It was not until 2005, with the assistance of an EU-funded capacity building project that Armenia started the process of developing and approving an institutional procedure for evaluating projects. Armenia's draft legislation is included in Annex IX while the Ministry of Environment Order to establish procedures for Georgia's National Board for the CDM is included in Annex X.

As indicated by the case of Armenia, a document declaring the legal status of a DNA need not necessarily from the outset declare the who, how, what and where of the new entity. However, it should contain clear statements regarding the rationale for creating the DNA and the legal authority it is granted. It may also provide guidelines for the process of consultation, discussion and consensus building which later should be used to develop a concrete action plan for the DNA.

3.5.2 Review Linkage to Existing Legal Framework

Before deciding on the final legal framework for the DNA it will be useful to review any relevant normative and legal documents which the proposed framework should link to and which should be taken into consideration during the DNA's review of CDM projects. Documents that may be relevant include those that direct foreign and domestic investment, energy and energy efficiency laws and strategies, and environmental legislation, including rules on EIAs. Table 3-6 provides an example of such laws identified in Uzbekistan. Text Box 3-9 describes legal developments in Russia to implement the Kyoto Protocol and enable JI in the country.

Table 3-6 List of normative and legal documents which could be applied for CDM project implementation in Uzbekistan

Type of document	No	Date of issue	Title
Law	609-I	30.04.1998	On Foreign Investments
Law	611-I	30.04.1998	On guarantees and measures aimed at protecting foreign investors
Law	719-I	24.12. 1998	On investment activity
Resolution of the Cabinet of Ministers of the RoU	58	09.02.2004	On improvement of the mechanism for foreign investment attraction required for implementation of priority investment projects
Resolution of the Cabinet of Ministers of the RoU	59	09.02.2004	On measures aimed at regulating inventory and monitoring of priority projects implemented with the involvement of foreign investors
Resolution of the Cabinet of Ministers of the RoU	389	09.10.2000	On issues related to the implementation of the Environmental Action Programme of the RoU for 1999-2005.
Law	73-II	25.05.2000	On environmental assessment
Resolution of the Cabinet of Ministers of the RoU	491	31.12.2001	On approval of the regulation on state environmental assessment
Resolution of the Cabinet of Ministers of the RoU	538	01.12.2003	On measures aimed at improving the activity of the State Committee for Architecture and Construction

Source: Liliya Zavyalova, *CDM Project Infrastructure in Uzbekistan*, 2005

Text Box 3-9 Legislation in support of the Kyoto Protocol in Russia

In 2005, Russian legal experts and policy makers organized a series of public discussions and consultations to answer the following questions related to the implementation of JI and the Kyoto Protocol in Russia:

- Is it necessary to develop a new, special state law or can changes be made to existing legislation?
- To which part of national legislation should any new provisions belong? Most experts favoured revisions to the environmental sections of existing legislation.
- How should AAUs, ERUs, CERs and RMUs be treated? Are the Kyoto units a right, valuable security, a thing, or a natural resource?
- Is it necessary for the government to delegate rights to ERUs to legal entities participating in JI projects and, if so, how would it be done?

Development of national legislation to fulfil the obligations under the Kyoto Protocol and to regulate Russia's participation in the flexible mechanisms is in process at the Federal level. The Ministry of Economic Development and Trade is planning to submit a concept of appropriate changes to the national legislation that will be considered at a meeting of the Russian Government in 2006.

On 9 February 2005 a roundtable, organized by the Environmental Committee of the State Duma (Russian Parliament) with the participation of members of the Council of the Federation, Russian ministries and agencies, the Academy of Sciences, and NGOs, agreed to the following recommendations, which demonstrate the possible directions in future legislative developments:

- The Public Chamber should take on the supervision of federal activities related to the fulfilment of Russian commitments under the Kyoto Protocol
- The Russian Government should:
 - *Consider the issue of establishing personal responsibility related to activities to fulfil Russia's international commitments under the UNFCCC and the Kyoto Protocol;*
 - *Appoint a responsible authority at the ministry and agency level for managing Russia's assigned amount;*
 - *Develop a draft State Law on economic mechanisms for regulating emissions and sinks in the Russian Federation;*
 - *Develop a regulatory act aimed at realizing JI projects in Russia; and*
 - *Provide taxation and budgetary protectionism for best available technologies.*
- The Council of the Federation should develop regulations on the economic mechanisms for regulating GHG emissions and sinks, payments for negative impact on the environment, introduction of an environmental insurance system, and the rehabilitation of waste as secondary energy resource.

Finalization and approval of all the necessary legislation to meet the requirements of the Kyoto Protocol remains a serious and ambitious target for 2006 and 2007.

3.5.3 Identify Improvements to Existing Legal Frameworks

The overall legal framework in the country may also affect the success of the DNA and the development of CDM projects in the country. Potential CDM investors will look for countries where the regulatory environment is most conducive to investment. CDM lawmakers should therefore consider the relative strength of their incentives for investment and make improvements wherever necessary and feasible. The following are some examples of issues where the legal and regulatory environment will be critical.³¹

- *Investment*: This could include legislation regarding foreign participation in domestic companies, including legislation to limit foreign participation in CDM projects, such as the one passed in China. Another issue that could hinder CDM investment would be a requirement that entities must remit profits earned abroad, such as those gained by selling CERs.
- *Taxation*: Tax incentives for certain types of investment, including those favoured by CDM investors, could encourage increased investment in the country. Malaysia, for example, is considering introducing tax incentives for green projects. Such an incentive could positively affect the number of CDM projects in the country. Other forms of taxes may have a negative effect on CDM investment in a country. Such taxes could include remissions of earnings from the sale of CERs, such as those imposed by the Chinese government on certain types of CDM projects. Other taxes may be levied in the form of import or export duties on CDM project technologies or CERs. This will all depend on how the CERs are classified within the domestic legal framework. To provide clarity and reduce risk to investors, host countries may benefit from issuing a legal document clarifying if and how CDM projects and the underlying CERs will be affected by existing tax laws. Vietnam, for example, is working on a regulation that clarifies the treatment of CER revenues in corporate taxation. The country is doing this even though no direct CER tax is planned. The regulation is expected to be finalized in the last quarter of 2006 together with a document that outlines the integration of CDM in the economic planning process of the Vietnamese government. Alternatively, Peru has announced that it will levy an income tax on the profits earned from the CERs, but that the profits are exempt from value added tax (VAT).
- *Energy*: Rules concerning foreign-owned power generation, transmission or distribution facilities, incentives for clean energy projects and constraints on the length or type of concessions may also influence the interest and ability of foreign investor to participate in CDM projects in individual host countries.
- *Environment and Natural Resources*: Pollution regulations, incentives or disincentives for investing in protected areas, endangered species provisions, forestry practices and constraints on logging, environmental impact studies, agrochemical regulations and rules concerning exploitation of water and waterways may also influence CDM project development, either by preventing a specific technology from being deployed or by encouraging adoption of certain processes or technologies. For example, integration of domestic EIA processes with the international environmental assessment requirements of CDM projects could speed up the project development and approval process.
- *Urbanization and Land Development*: Zoning regulations, waste disposal regulations, ease or difficulty of obtaining construction permits and incentives for development in underdeveloped regions could also influence project development. For example, host

³¹ Christiana Figueres (ed.). Establishing National Authorities for the CDM: A Guide for Developing Countries. IISD and CSDA. 2002.

countries may want to consider whether permitting procedures are sufficiently streamlined and transparent to encourage investors to explore CDM opportunities in their country.

Depending on the priorities of each individual country, some of these laws may or may not be compatible with CDM investment, and may depend on how the projects and the underlying CERs are classified. For example, the CERs could be treated either as 'securities' or 'commodities', which would then determine which legal framework(s) would be applicable for their regulation.

Those nations with the most transparent rules and the most streamlined investment regimes will be in the best position to compete for CDM investment resources.

3.5.4 Clarify Property Rights to CERs

The possibility of creating a valuable commodity (i.e., CERs) from reducing GHG emissions is a new concept with little guidance on who will be legally entitled to the CERs. This issue is important because the CDM Executive Board will only issue CERs to the accounts of entities that are listed as project participants in the PDD. In the past, the general approach adopted by most host governments, project developers and CER purchasers was that in the absence of any law or contract to the contrary, the entities listed as the project participants in the PDD were the legal owners of any CERs produced. However, recently, some host countries have claimed, or are considering claiming, full or part ownership of the CERs generated from CDM projects within their national borders.

The Kyoto Protocol is an international agreement that provides rights and obligations for national governments. However, its rules do not deal with CER ownership. In the absence of guidance in this area, some have expressed the view that the reduction of GHGs represents the management of a natural resource.³² If a country considers that natural resource management, such as air and water, is a responsibility and property of the government, the country may consider that CERs are a sovereign right which could be owned and traded for profit by the government. China, for example, views CERs as a national resource and thus government property. It has also specified that only enterprises under sole Chinese ownership or joint ventures, where the foreign stake does not exceed 49 per cent, can participate as project participants in a CDM project. Because the Chinese government claims ownership of CERs, it has announced that it will charge a fee on the sale of these, but is so far the only country to impose such a levy. As described in Text Box 3-10, China has instituted the following tax structure for CER proceeds: (i) 65 per cent of revenues from hydrofluorocarbon (HFC) and perfluorocarbon (PFC) projects; (ii) 30 per cent of revenues from nitrous oxides (N₂O) projects; and (iii) 2 per cent of revenues from energy efficiency, renewable energy, methane capture, and forestation/afforestation projects.

32) UNEP Risoe Centre. *Legal Issues Guidebook to the Clean Development Mechanism*, Roskilde, Denmark. June 2004.

Text Box 3-10 China's Guidance on Revenues from CERs

The following language pertaining to China's October 2005 rule on government fees on CER revenue was extracted from the document Measures for Operation and Management of Clean Development Mechanism Projects in China:

“Article 24 Whereas the emission reduction resource is owned by the Government of China and the emission reductions generated by specific CDM project belong to the project owner, revenue from the transfer of CERs shall be owned jointly by the Government of China and the project owner, with the allocation ratio defined as below:

- 1 the Government of China takes 65 per cent CER transfer benefit from HFC and PFC projects;
- 2 the Government of China takes 30 per cent CER transfer benefit from N2O projects;
- 3 the Government of China takes 2 per cent CER transfer benefit from CDM projects in priority areas defined in Article 4 (energy efficiency, new and renewable energy, and methane recovery) and forestation projects.
- 4 The Article does not apply to the projects already approved by the Government of China before 12 October 2005.

The revenue collected from CER transfer benefits of CDM projects will be used in supporting activities on climate change. Detailed regulations on collecting and using of the revenue will be formulated by the Ministry of Finance jointly with NDRC and other relevant departments”.

Source: *China Climate Change Info-Net* www.ccchina.gov.cn/english/

The concern of many market participants is that the nationalization of CERs by a host country government could remove most of the incentives for the private sector to develop CDM projects and sell the associated CERs. If private sellers cannot make a profit on the sale of CERs because they cannot own them, they will not participate in the market. Instead, it will be up to the individual host government to develop CDM projects in order to generate and sell the underlying CERs. Potential buyers of CERs will likely be less concerned about who ultimately owns the CERs, as long as the property rights are clearly defined. The CER purchaser's primary concern when entering into a contract to buy CERs is to ensure that the seller under the Emission Reduction Purchase Agreement (ERPA) can prove that it has legal title to the CERs. If the seller cannot provide such a title, the purchaser may insist on various warranties to provide remedies.

To provide clarity on the issue of property rights, government policy on the matter of legal ownership of the CERs should be made clear to potential CDM project participants, either through legislation establishing the DNA or through guidance issued by the DNA. For example, if GHG emission reductions are considered a 'natural resource' it may be possible for the government to allow private CDM project developers to enter into concession arrangements to manage these resources and create CERs from them.

3.5.5 Establish a Link to the CER Registry of the CDM Executive Board

Another issue that should be addressed by host countries is the process for linking with the CDM Executive Board's Registry. This registry is currently under development and is expected to be completed by the end of 2007. Once a CDM project begins to generate certified CERs the CERs will be issued to the accounts of the relevant entities identified by the project participants in the PDD. Host countries are also entitled to hold accounts within this registry, and should therefore establish procedures for receiving CERs from relevant CDM projects, such as those developed unilaterally. At this point, it is not clear whether any host countries have started considering this issue.

3.7 FREQUENTLY ASKED QUESTIONS AND ANSWERS

1. Can a host country approval letter be issued before the DNA has established project approval procedures?

As soon as a host country has appointed a DNA, the DNA can start issuing approval letters, even if no formal approval procedures have been adopted yet. Both Albania and Armenia provided host country approval letters to projects before official review procedures were in place. However, to streamline the evaluation procedure and make it more transparent to the project developers, it is important to adopt specific approval procedures and evaluation criteria as soon as possible after the official designation of the DNA.

2. Should the revenue of generated credits be subject to value added, sales, or income tax?

Whether or not CERs or ERUs are subject to value added and other taxes will depend on how 'emission reductions' are interpreted within relevant national laws. Each country must undertake a careful assessment of its trade, tax and financial regulations to determine whether or not any tax should be added to any emissions permits (CERs) that are transferred out of the country.

3. What are the legal implications of an approval letter signed by the DNA?

The DNA approval letter provides a guarantee to the project developer that the project meets the Protocol requirements of voluntary participation and contribution to sustainable development. It also serves as a government approval that the CERs or ERUs can be transferred out of the country. Because of this government guarantee, the project developers are able to negotiate contractual agreements with potential investors that specify the future transfer of CERs to other entities outside the country once these CERs have been generated and certified. The host country approval also enables the project developer to request registration of the project with the CDM Executive Board. The host country approval letter does not guarantee delivery of the claimed emission reductions or provide assurance of the implementation of the project itself.

4. Can a project be rescinded once approved by the DNA?

Within the rules of the Kyoto Protocol there are no provisions allowing host countries to reverse a decision once their DNA has approved a project. This is the case even if it turns out that the project failed to meet the country's sustainable development criteria after it was implemented. However, countries are sovereign nations and could in theory rescind a project at any given time, or nationalize the assets associated with the emission reduction activity. At this point, no government has reversed its project approval, which means that the consequences of doing so have not been legally tested. Typically, project developers address this risk when they structure the terms of the ERPA.

5. Is the DNA office, and the government, liable if a project does not receive CDM approval, or the project defaults?

The DNA and the government are not liable if the project fails to deliver on the claimed emission reductions. If the project does not get approved by CDM EB, the DNA is not liable either since it is not within the DNA's responsibility to assess the GHG aspects of the project proposal.

6. Should the DNA office review ownership arrangements for each project?

According to the Marrakesh Accords, a “project participant is (a) a Party involved, or (b) a private and/or public entity authorized by a Party involved to participate in a CDM project activity.” This distinction is significant because the decision on the distribution of CERs from a CDM project activity must be taken exclusively by project participants.

The Kyoto Protocol requires that at least one of the Parties involved in the project must authorize the project participant(s). This is typically done by explicitly mentioning the project participant(s) in the letter of approval, or by addressing the approval letter to the project participant(s). Authorization does not necessarily need to be provided by the country where the private or public entity is located but can also be provided by the DNA of another country participating in the project. If the host country DNA takes on this responsibility it would have to review the ownership arrangement for that individual project along with the list of claimed participants. This is important because many CDM proposals confuse the list of participants with the list of consultants and suppliers who may not directly participate in the project.

7. Can the government limit foreign participation in the country’s CDM projects?

There are no rules against limiting foreign participation in CDM projects. However, doing so may prevent potential investors and project developers from investing in the country, thus reducing the potential for CDM projects and the resulting environmental, social, and economic benefits of their implementation. There are only a few examples of host countries limiting foreign participation in the CDM. China, for example, specifies that only enterprises under sole Chinese ownership or joint ventures where the foreign stake does not exceed 49 per cent can act as owners of a CDM project. Despite some criticism, China continues to adhere to this practice.

4 MAKING THE DNA/DFP WORK

An important factor in establishing a sustainable CDM or JI authority is the practical implementation strategy. A well-planned strategy can help save time and resources in the long run. The following provides some practical tips to consider during the development of a DNA or JI implementation strategy.

4.1 Human and Technical Requirements

If the DNA or DFP is located within an existing department, which is probably the most likely scenario, the main requirements for new human and technical resources are staff, communications equipment, and office space.

4.1.1 Staffing

The question of how to staff the DNA will depend on the structure that is adopted, the diversity of organizations involved, existing experience with climate change issues, and the resources available. For small-to-medium countries, with fewer than 10 projects expected per year, additional staffing requirements will probably be one to two person(s). The following should be considered for staffing:

- **Permanent versus *Ad Hoc*:** The staff could be employed on a permanent basis or hired part-time during the proposal evaluation phase. It is recommended that staff be hired on a permanent basis because this ensures continuity and builds experience and capacity over time. Moreover, while project evaluation may only occur during certain periods of the year, experience shows that CDM staff is busy year-round due to other responsibilities in terms of technical assistance and outreach. Permanent staff would also be better able to coordinate with potential donors and investors, and attract funds for capacity building.
- **Technical/scientific versus policy/administrative:** Another consideration to make is whether new staff should be mostly technical for the evaluation of project baselines and emissions accounting methodologies, or whether they should be more focused on policy and strategic issues related to outreach and marketing of the project pipeline. This may depend on the specific evaluation criteria of the DNA/JI unit and on how much the DNA/JI unit relies on technical experts from other departments during the project review. The best strategy would be to hire some combination of both. In either case, English language skills are clearly necessary.

4.1.2 Communications equipment

The DNA and JI staff will spend most of their time communicating with potential project developers, donors, investors, and relevant reviewers and decision-makers within the government. Access to reliable communication is therefore crucial. Equipment that should be provided to each staff member is a computer, telephone, email account and dial-up connection, and access to a fax and copy machine.

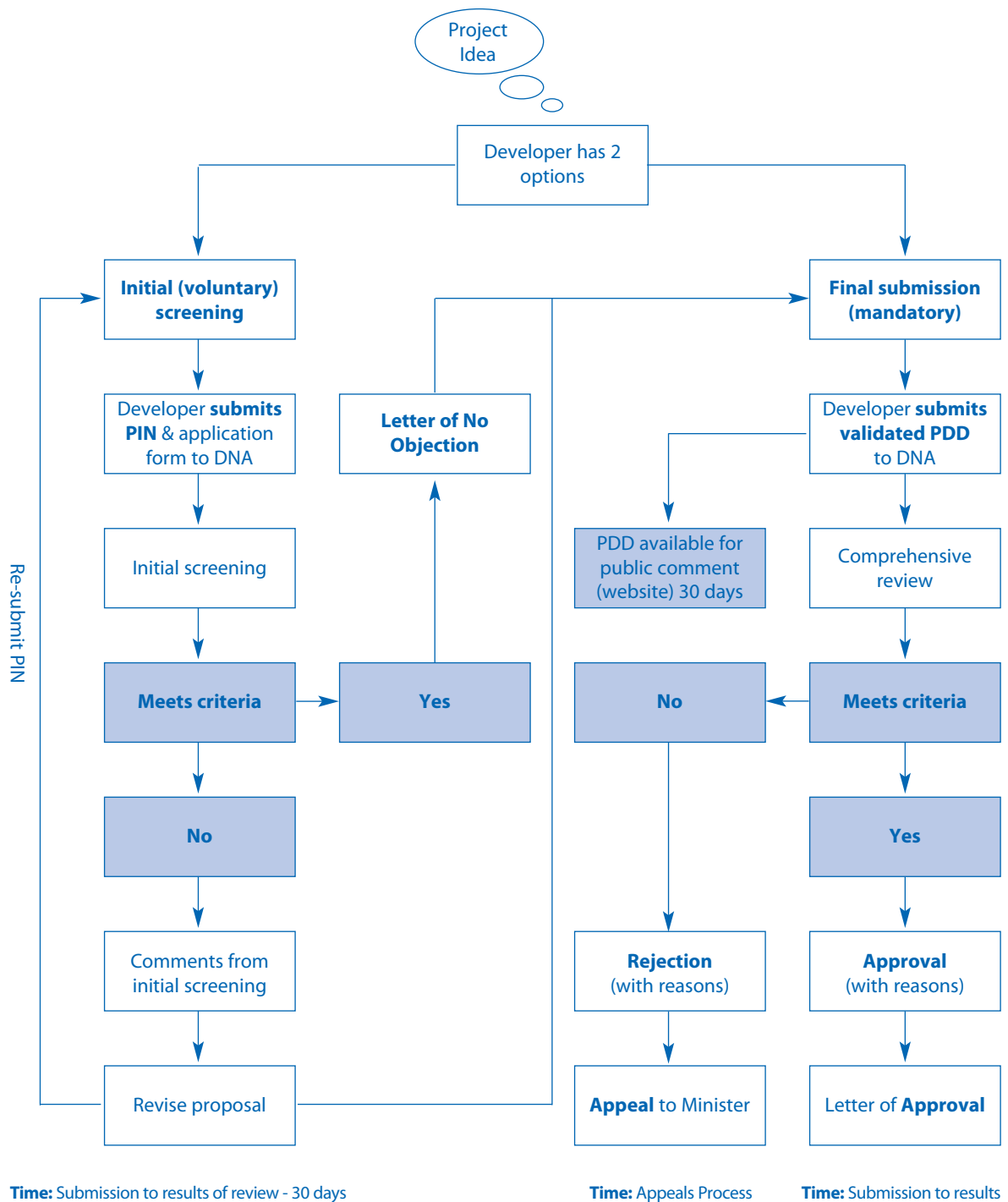
4.1.3 Office space

Depending on the structure of the DNA, the secretariat staff will be located in an existing or a new organization. It would be preferable to house the staff together with the UNFCCC focal point or other climate change personnel because many of the topics and contact groups overlap.

4.2 Processing the Project

A key element for attracting CDM investment is the use of quick and transparent procedures for screening, evaluating and approving projects. The use of such procedures will also ease the workload of already overburdened government personnel. To facilitate this goal, the government should implement a standardized system to screen, evaluate, and approve projects (Section 3.1 above). For each step within this process the DNA should set aside a number of days to ensure that the review cycle remains on schedule.

Figure 4-1 South Africa's CDM Project Approval Procedure



4.2.1 Initial screening

Once the proposal has been received the actual screening of the project can be divided into two stages. First, a primary screening of the proposal could be undertaken by mid-level, non-technical staff to make sure that the information provided is complete and adequate and that all required supporting documentation is included. This review should not address the technical adequacy of the proposal and would be quick to complete. To facilitate this review, a standardized checklist of required information should be prepared by the DNA. A sample application checklist is provided in Annex II.

4.2.2 Notification of missing information and/or data

If the primary screening identifies any data or documentation gaps the project proponent should be notified that additional information should be submitted. The DNA may wish to prepare a template letter for notifying project developers of any such additional information requirements.

4.2.3 Expert screening

Once the proposal is complete a second screening would be undertaken by technical experts, often at the inter-ministerial level, to evaluate the technical information provided in the proposal. The purpose of this review would be to ensure that the project meets all the relevant requirements of the host country, as specified in Section 3.1. To standardize the review, the Secretariat may wish to develop a template for how an evaluation report should be prepared and provide a matrix for scoring and tracking specific sustainable indicators. Annex III provides a template of a questionnaire for undertaking a general review of a PDD while Annex IV provides an example of a more detailed technical questionnaire for examining the additionality of CDM projects. DNAs are not required to undertake as detailed a PDD review as suggested in Annex IV, but may wish to do so if resources and technical expertise are available.

4.2.4 Letter requesting technical clarification

It is possible that the technical reviewers discover areas that need clarification before a final evaluation can be completed. In that case, the project proponent should be notified that a technical clarification is required. The DNA may wish to prepare a template letter for notifying the project proponent of such clarification needs.

4.2.5 Letter of approval or rejection

Once the technical reviews have been completed the Secretariat will draft a decision letter either approving the project or rejecting it with recommended improvements. This letter will be reviewed by relevant ministries and departments identified as final decision makers before a final letter is drafted for signature. Most DNAs have already prepared template decision letters. A few samples are included in Annexes V, VI, and VII.

4.2.6 Final notification

Once the approval letter has been signed, it should be mailed to the project proponent(s). To increase the transparency of the evaluation process, the approval/rejection letter should be posted on the website of the DNA, together with the results of the technical evaluation. Making this documentation public will help alleviate any concerns regarding undue influence, favouritism, or corruption.

4.3 Establish Project Data-Base

One of the major functions of the Secretariat will be to keep track of emerging, proposed, and approved CDM and JI projects. This information should be kept in a database to facilitate data storage and presentation. It is likely that potential investors will contact the DNA to inquire about projects in the pipeline. The DNA may also want to track projects in development in order to better target specific outreach and capacity building events towards interested beneficiaries. The type of information that could be tracked includes:

- Proposed project background: project title, description and location
- Type of project: project size, GHGs, and potential CERs
- Methodology used: approved, small-scale, or existing/new CDM baseline and monitoring methodology
- Expected schedule of implementation
- Financial details
- Project participants: owners, participants, advisors, and buyers
- Validation/certification: name of DOEs
- Current status of project documents: feasibility, PIN, and PDD
- List of sustainable development indicators: check marks under which SD objectives the project fulfils
- Status within DNA: not yet submitted, submitted, request for clarification, approved/rejected
- List of other evaluation criteria: check marks whether project meets those criteria

The information can be tracked in a simple spreadsheet, which is what many DNAs in Eastern Europe and the CIS have been doing at the initial stage. However, as the pipeline grows and more projects are accumulated, a more extensive database using Microsoft Access or other software should be developed. Figure 4-2 illustrates the type of data that a DNA may include in such a database.

Figure 4-2 Data-base Template for Armenia

REPUBLIC OF ARMENIA						
Designated National Authority for the Clean Development Mechanism under the Kyoto Protocol						
Clean Development Mechanism Project Activities Database						
Information on the proposed project activity						
Title of the proposed CDM project activity						
Brief description of proposed project activity						
Location of Project Activity		Host country, province				
		City/village/community				
Type of the project						
Category of project activity						
Project size		Small scale		Bundled		Regular
Greenhouse gases (GHG) targeted		CO2	CH4	N2O	HFCs	PFCs SF6
Generation of CERs (tCO2e)		Total:		Annual:		
Sector in which project activity falls		<i>Please chose relevant sectoral scope from the list below</i>				
Methodology Used						
Approved B&M methodology		Number: AM / Title:				
Approved consolidated methodology		Number: ACM / Title:				
Approved Small Scale methodology		Number: AMS / Title:				
Proposed New Methodology*		Number: NM / Title:				
*) Indicate below the status of acceptance by the EB						
Exepected Schedule						
Project preparation		Years:	From:	To:		
Project lifetime		Years:	From:	To:		
Proposed crediting preiod for the project		Years:	From:	To:		
Financial Details						
Development						
Investment						
Other						
Total						
Project Participans						
Applicant (Project owner)		Company (legal status)				
		Main activities				
		Contact person (position, title)				
		Address				
		Phone, fax and e-mail				
Project Participant		Company (legal status)				
		Main activities				
		Contact person (position, title)				
		Address				
		Phone, fax and e-mail				
CDM project developer		Company (legal status)				
		Main activities				
		Contact person (position, title)				
		Address				
		Phone, fax and e-mail				
ProposedCERs buyer		Company (legal status)				
		Main activities				
		Contact person (position, title)				
		Address				
		Phone, fax and e-mail				
DOE chosen for validation of CDM Project		Entity name				
Doe performing verification/certification		Entity name				
Current status of the project documents						
(Pre-) Feasibility study		Under development / available				
Project Idea Note		Under development / available			Submiss.: dd/mm/yy	
Project design Document		Under development / available			Submiss.: dd/mm/yy	
Description of the project's contribution to SD		Under development / available			Submiss.: dd/mm/yy	

4. 4 Outreach and Communication

A number of tools can be used for outreach and awareness building. The following provides tips for developing and targeting relevant user groups.

4.4.1 Website

An important tool for attracting international investors is the development of a website describing the host country's CDM and JI application procedures and summarizing projects in the pipeline. However, as of November 2005, only a third of the Annex I countries with established DNAs have developed a website. Many of these countries have also been the most successful at developing and registering their projects with the CDM Executive Board.

The main reason for the absence of DNA websites is the general lack of resources to host a website. One solution to this funding problem may be to pool limited resources with neighbouring countries to prepare a regional website for DNA activities, or to share websites with other on-going climate change capacity building projects for GHG emission inventories, national communications, and CDM projects. If countries do manage to obtain the necessary resources for creating a website, for example via donor funds, here are some tips on what data and information to include on this site:

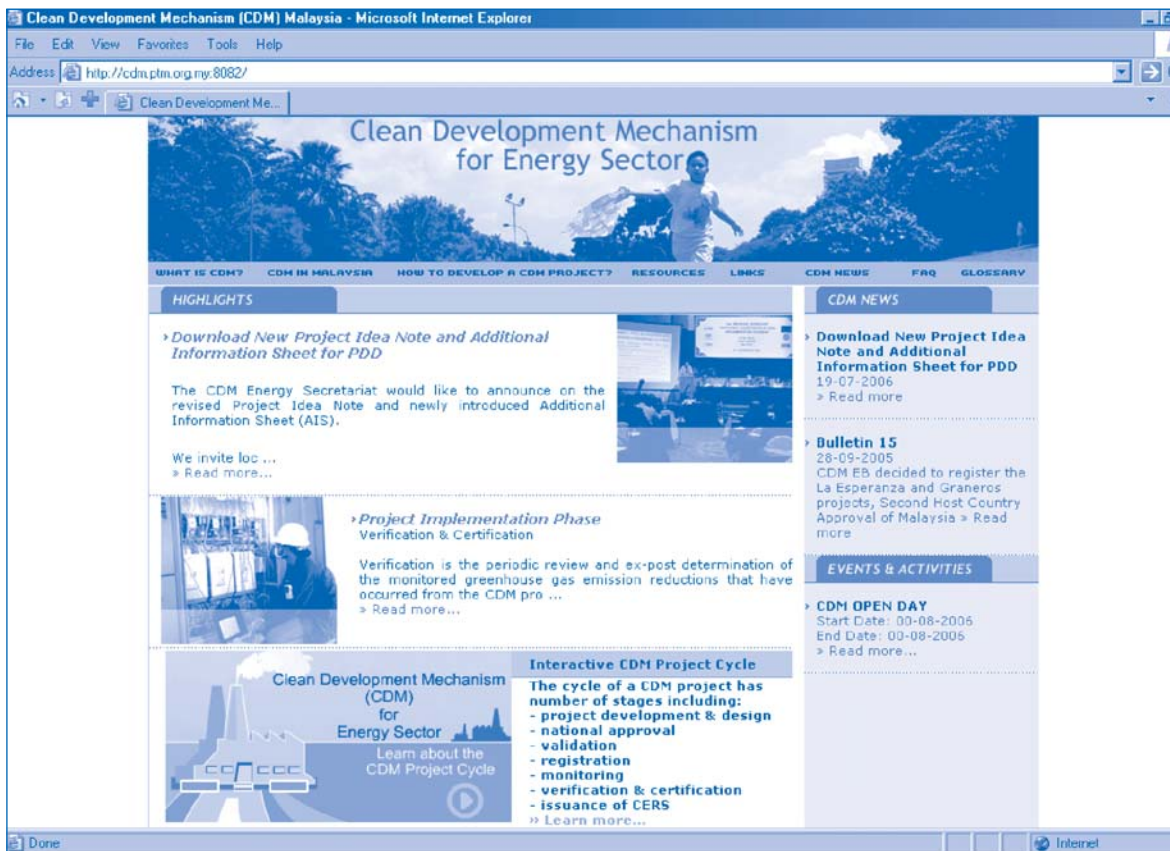
- General information on the UNFCCC and the Kyoto Protocol
 - Description of the CDM project cycle and application requirements, including links to the CDM Executive Board website
 - Links to publications on the CDM
- Background on the DNA
 - DNA structure
 - Host country approval criteria and procedures
 - List of documents requested for project assessment and approval
 - PIN and PDD templates
 - DNA contact information
 - List of approved projects, approval letters, and their project evaluation report
 - List of potential CDM projects in the pipeline
 - Other studies on the CDM potential in the country
 - Copy of signed Memoranda of Understanding with investor countries
 - Description of ongoing capacity-building activities
- News and events, including workshops for project developers
- List of national CDM experts and local DOEs
- List of potential lending institutions in the country
- An overview of the investment framework in the country

Smaller countries with few CDM projects may not need to include all of the above topics. Instead, they should focus on including the most basic information related to the CDM and the application procedures of the DNA.

Note that, if possible, all materials should be provided in English and the national language. Moreover, the website should be monitored on a regular basis to remove outdated materials, particularly if the approval procedures have been changed. Further suggestions for structuring a DNA website can be obtained from the publication *Efficient Documentation and Webmarketing Strategies for DNAs*.³³

33) Naman Gupta and Axel Michaelowa. Efficient documentation and webmarketing strategies for DNAs. HWWA Discussion Paper 334. November 2005. www.hwwa.de/Publikationen/Discussion_Paper/2005/334.pdf.

Figure 4-3 CDM Website of Malaysia



Source: CDM Website of Malaysia. June 2006 <http://cdm.ptm.org.my:8082/>

4.4.2 Communication and marketing tools

Marketing materials and activities should be directed towards two sets of users: domestic and international.

Domestic outreach should be focused on finding people who may be interested in developing CDM projects. Communication tools should be diversified to reach those individuals who do not have access to the Internet on a regular basis. Possible tools include television and radio ads, newspaper articles, and articles targeting specific trade journals. These ads should focus on the potential benefits of participating in the CDM, such as the potential for additional financing for new projects. This may encourage potential project proponents to seek out the DNA for additional information.

An effective way of reaching the relevant target audience would be through direct contact with entities that may have projects to offer. Representatives of the DNA could make presentations at workshops and public meetings organized for officials in the relevant sectors in order to spread the word about the programme. In addition, the DNA may try to get donor financing for organizing its own workshops. In this case, workshops targeting specific sectors should be prioritized, because they provide an opportunity to develop materials and presentations that are specifically useful to the targeted industry.

Text Box 4-1 Philippines' CDM Helpdesk

In January 2006, the Philippines DNA announced the establishment of a CDM Helpdesk to promote CDM by providing timely and personalized assistance to domestic and international users. In particular, the CDM Helpdesk is set up to:

- 1) Address inquiries related to CDM implementation in the Philippines submitted by project developers/proponents, local and foreign investors, local government officials, NGOs, and the general public;
- 2) Serve CDM stakeholders regardless of geographical location by means of appointment, phone, facsimile or email;
- 3) Make available comprehensive information on the CDM;
- 4) Offer practical guidance on the CDM project cycle; and
- 5) Interface with relevant government agencies and other stakeholder groups.

The Helpdesk was established partly through funding from the Japanese government. It was promoted by sending an announcement to the list-serve, Climate-L, which reaches thousands of climate change practitioners throughout the world.

International outreach should focus on potential CDM project investors and donors for capacity building activities. DNAs are finding increasingly innovative ways to reach investors in other countries, including:

- A common approach is to participate in regional and international carbon expos or to organize public side events during the climate change meetings organized by the UN. This includes the annual Conference of Parties to the UNFCCC where government officials typically participate anyway because of the ongoing climate change negotiations. The DNA Secretariat should keep track of such events and prepare promotional materials to be used by any government representative participating in international meetings related to climate change, clean energy, and sustainable energy financing.
- The DNA can enter into special agreements with investor countries and individual carbon funds to collaborate on the development and approval of CDM projects. This is typically done by signing a Memorandum of Understanding (MOU), such as the one agreed to by Macedonia and Italy. The MOU with Italy does not mean that Macedonia cannot collaborate with other countries or carbon funds. Rather, agreements with more than one investor would increase competition for projects and perhaps lead to a better price for the CERs. The DNA should therefore actively cultivate potential investor countries and carbon funds to increase collaboration.
- DNAs also send press releases to international climate change news services about important developments in the host country, including the free list serve "Climate Change Info Mailing List (or Climate-L)" to which thousands of practitioners in the climate change community subscribe. For example, the Cambodian Climate Change Office sent an announcement to the list when the DNA had approved its first CDM project. A subscription to Climate-L can be obtained at <http://www.iisd.ca/email/subscribe.htm>. The Philippines' DNA used Climate-L to announce the establishment of a CDM Helpdesk for promoting CDM projects (See Text Box 4-1).

4.5 Financing

Obtaining funds for operating the DNA will be crucial to its success. The required budget varies from country to country depending on the structure of the DNA, labour costs, the number of stakeholders involved, and the amount of outreach conducted. In many cases, several ministries support the DNA by making available existing staff for project review and promotion and even dedicated DNA staff often participates in other functions within their respective departments. This makes it difficult to determine the true cost of operating a DNA. Regardless, a key finding of past UNDP studies of DNAs around the world is that financial sustainability has emerged as a serious challenge for many host governments,³⁴ and that several DNAs maintain operations partly through short- and medium-term donor activities.

4.5.1 Resources provided by the host country

Host countries provide a range of resources for the DNA, including office space, communications equipment, and travel for outreach, climate change negotiations, and workshops. While many countries include non-governmental stakeholders in their national DNA bodies, the overwhelming majority of resources and personnel comes from government agencies. The most common source of DNA personnel is from staff supplied in-kind by participating ministries and departments.³⁵ The costs of their inputs are usually absorbed through regular departmental/ministerial budgets. The government-sourced DNA staff often have other regular full-time positions and responsibilities and their DNA and project screening tasks are usually additional to their everyday duties. Some DNA's also have dedicated full-time positions, but most early DNAs in Eastern Europe and the CIS rely on existing climate change staff, supplemented by donor-funded office staff that work closely with the DNA. Georgia's DNA, for example, is supported by eight existing staff members of the Climate Change Administration of the Ministry of Environmental Protection and Natural Resources who all have other duties in addition to the CDM work.

4.5.2 Donor Funds

In some cases, financing provided from international donor activities have directly helped to cover some of the cost of operating the DNA or the DFP. For example, the Dutch government funded staff salaries and operating costs of starting up a JI Unit in Bulgaria until the Ministry of Environment and Water was able to take over operation of this unit.³⁶

In other cases, if the DNA is short of technical expertise to review, track, and promote CDM projects, host Parties may be able to draw on local staff hired by donor-funded capacity building projects to support the administrative and implementing functions of the DNA. UNDP/GEF's efforts to develop capacity in the area of climate change have led to the establishment of climate change offices in each country in Eastern Europe and the CIS which work closely with the UNFCCC Focal Points. Staff from these offices has helped increase the understanding of CDM and has participated in the process towards establishing DNAs. The European Union, through TACIS, has also funded technical capacity building for the development of institutional procedures for CDM in the CIS.³⁷ Staff provided through TACIS has helped with project identification and review as well as design of legislation to implement the DNA.

³⁴ United Nations Development Programme (UNDP). "An Assessment of Progress with Establishing the Clean Development Mechanism (CDM). 2006.

³⁵ United Nations Development Programme (UNDP). "An Assessment of Progress with Establishing the Clean Development Mechanism (CDM). 2006.

³⁶ Ivona Grozeva, "Country Case Study: JI Secretariat in Bulgaria," February 2005.
<http://europeandcis.undp.org/files/uploads/Kyoto%20Protocol/JI%20case%20study%20BG%20fin.doc>.

³⁷ One TACIS task (Lot 2) covers Armenia, Azerbaijan, Georgia, and Moldova while the other project (Lot 1) targets the Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Both projects provide support for establishing DNAs, developing sustainable development criteria, and training relevant government officials in each country.

In the short term, DNAs may benefit from the strong competition among Annex I countries and carbon funds for high-quality projects that can provide substantial amounts of CERs before the end of the first Kyoto commitment period in 2012. This means that donor countries may be more willing, at least in the short- to medium-term, to support DNAs in order to make sure that proposed CDM projects get approved within a short time period.

4.5.3 Charging a Fee for Project Review and/or Assistance with Project Development

The role of the DNA is to confirm that the proposed CDM project meets the government's sustainable development criteria and that it complies with other national laws and regulations. Usually, for conflict of interest reasons, the DNA does not act as a participant in the project and therefore does not benefit from the financial gains of selling the associated CERs. Instead the investors, who finance part of the project, or companies, which provide some of the technologies used, get the rights to the CERs in exchange for their contribution to the project.

One way for the government to recuperate some of the cost of project review would be to charge a fee as part of the approval process. The fee could either be charged for the review of all projects, or could be tied to the provision of technical assistance to project developers. Moreover, the potential fees could be differentiated to affect large projects more than smaller ones to avoid disproportionate transaction costs on small-sized projects. Some DNAs in Eastern Europe and the CIS that are heavily involved in the design and development of CDM projects are considering charging a fee for their technical assistance services while offering actual project review free of charge. It would then be up to the project developers to decide whether they would pay the DNA for the extra services provided.

In the end, each individual country will have to weigh the pros and cons of charging a fee, promoting CDM, and perhaps forfeiting other development priorities due to scarce resources. To date, only a few countries have introduced any fees on project review and/or design. Bangladesh and the Philippines charge a small fee for project review and Egypt is considering introducing fees-for-services that would be indexed to the CER revenues of individual CDM projects.³⁸ Most other countries have refrained from introducing a fee on project evaluation, mainly out of concern that it would discourage potential investors from proposing projects in that country.

Only China has instituted a cost recovery (or revenue generation) mechanism, whereby a levy is charged on the CER stream once the project has been registered by the CDM Executive Board (see Section 3.5). By levying fees after issuance of the CERs, the disincentives associated with up front payments are minimized, which would be particularly relevant for small-scale projects. It also ensures that the host country shares some of the financial benefits from CDM projects, particularly highly profitable projects like hydrofluorocarbon (HFC), nitrous oxides (N₂O), and landfill gas projects. These profits could potentially be re-directed towards activities that more directly contribute to the sustainable development objectives of the host country. For example, the World Bank is working with the Chinese authorities to establish a Clean Development Fund (CDF) that will use the collected CER fees for climate change-focused clean development projects. The CDF is expected to finance GHG mitigation projects in China's priority sectors such as energy efficiency, renewable energy, and coal mine methane recovery and use.

³⁸ United Nations Development Programme (UNDP). "An Assessment of Progress with Establishing the Clean Development Mechanism (CDM)." 2006.

4.6 FREQUENTLY ASKED QUESTIONS AND ANSWERS

1. How can the DNA track potential project opportunities?

The best way to track CDM and JI projects that are under development is to input all available information into a standardized spreadsheet format or a database. From time to time, the DNA may want to contact the project developer to determine if any updated information is available.

2. How can the DNA keep abreast of CDM methodology developments?

The methodology work of the CDM EB and the CDM Methodology Panel continues to evolve as more projects and baseline/monitoring methodologies are submitted for review. This makes it difficult to stay completely up to date on the most recent methodological developments. To stay informed the DNA staff should visit the CDM website at cdm.unfccc.int on a regular basis. At this website, the DNA staff can also sign up for regular email announcements from the CDM EB to receive meeting summaries, registration of new projects, and any other major policy developments related to the CDM.

3. In what language should outreach materials and application packages be developed?

Application packages and most outreach materials should be developed in both English and the national language. In particular, it is very important to ensure that any evaluation criteria and application templates are prepared in English.

5 CONCLUSIONS

This paper has discussed a range of aspects related to the development of DNAs and DFPs for implementing the project-based mechanisms of the Kyoto Protocol in Eastern Europe and the CIS and has reviewed progress to date. As noted throughout the report, a prerequisite for effective CDM and JI project development is the creation of host country capability to identify, develop, screen, and approve CDM and JI projects. However, many countries in Eastern Europe and the CIS are still in the early stages of developing the required capacity and institutions for implementing the CDM and, as a result, only a few CDM projects from this part of the world have been registered with the CDM Executive Board. Meanwhile, an increasing number of exciting project opportunities have entered the pipeline and are waiting for the establishment of the requisite procedures to obtain host country approval.

To help develop and strengthen the institutions for CDM project review in the region, this guidebook was developed to assist national governments, UNDP country offices, and other regional stakeholders in getting a better understanding of the options for establishing, legalizing, implementing, and financing a DNA or DFP. To that extent we offered a range of practical examples, drawn from past experience in other countries.

The views and observations contained in the report are largely based on UNDP experience in the region and in other countries that are actively engaged in establishing effective DNAs. Undoubtedly some stakeholders will disagree with some of the observations and recommendations but care has been taken to present as balanced and objective an analysis as possible based on the information available. Moreover, we recognize that the implementation of CDM and JI in many host countries is evolving quickly and that some of the highlighted case studies may no longer be completely up to date. However, we hope that the information in this report is practical and provides hands-on examples for strengthening DNAs and DFPs throughout the region.

6 REFERENCES

6.1 Official information on DNA

Marrakesh Accords. UNFCCC. Report of the Conference of the Parties on its seventh session, held at Marrakesh from 29 October to 10 November 2001. This is the most important official reading on DNA - modalities and procedures for the Clean Development Mechanism.

<http://cdm.unfccc.int/Reference/Documents/cdmmp/English/mpeng.pdf>

UNFCCC – DNA web-site: official UNFCCC web-site fully devoted to Designated National Authorities. Here you can find DNA's addresses, contacts and web-sites.

<http://cdm.unfccc.int/DNA>

6.2 Guidelines and manuals

Establishing National Authorities for the CDM: A Guide for Developing Countries. 2002. Figueres, C. (Ed). Centre for Sustainable Development in the Americas, Climate Change Knowledge Network, International Institute for Sustainable Development. This is a step-by-step guide for developing countries interested in establishing a DNA. It focuses primarily on the institution-building activities to CDM, and hereby it differs from many of the other guides and manuals on CDM.

http://www.cckn.net/pdf/cdm_national_authorities.pdf

CDM Information and Guidebook. 2004. Unep Risø Centre on Energy, Climate and Sustainable Development. Roskilde, Denmark

This guidebook gives a comprehensive overview of CDM, its project cycle and related issues with more focus on the CDM project cycle and the PDD (Project Design Document). It also provides an overview of the impact of CERs on project viability, sources of funds and risk management, and reviews early CER market transactions and price trends.

UNDP CDM Userguide. 2003. United Nations Development Programme. This userguide provides all necessary information for CDM-beginners. You will find here a description of CDM's history and objectives, participants and project types. It also covers CDM cycle, project design document, transaction costs and their implications on project feasibility (including small projects). There is also an overview of CDM market evolution: CER market size, prices and buyers.

www.undp.org/energy/docs/cdmuserguide-2003.pdf

UNEP Risoe Centre. The Clean Development Mechanism. This is a good overview of the CDM's background, structure, and project cycle. The guide also examines the potential value and benefits for participating developing countries. You can also find here steps for developing a national CDM strategy and examples of CDM projects.

<http://www.uneprisoe.org/CDMCapacityDev/CDMintro.pdf>

Clean Development Mechanism PDD Guidebook: Navigating the Pitfalls. 2005. UNEP Risoe Centre. If you are planning to be involved in developing a PDD – this is your book. Here, DNV identifies the 20 most common pitfalls, based on the systematic analysis of all projects it has validated up to September 2005, and provides detailed guidance on how to avoid these pitfalls.

http://www.cd4cdm.org/Publications/UNEP-DNV_PDD%20Pitfalls%20Guidebook.pdf

UNEP Risoe CDM Pipeline Overview. Add to your 'Favourites' - this link provides a regularly updated list of CDM pipeline projects

<http://www.cd4cdm.org/Publications/CDMpipeline.xls>

6.3 Analytical papers/Lessons learned

Gupta, N., Michaelowa, A. **Efficient documentation and web-marketing strategies for DNAs.** HWWA Discussion Paper 334. November 2005. This paper looks at DNA's websites. It reviews information available on DNAs' websites and suggests some improvements. You can also find here information on tools for web-marketing.

www.hwwa.de/Forschung/Publikationen/Discussion_Paper/2005/334.pdf

Michaelowa, A. **CDM Host country institution building.** 2003. This paper covers institutional aspects of CDM rules described in the Marrakesh Accords. You may find useful three case studies of DNA establishment (Indonesia, Morocco, India), experiences with donor-funded capacity building and institutional recommendations for host countries.

<http://www.cd4cdm.org/Background%20papers/CDM%20host%20country%20institution%20building.pdf>

OECD. 2003. **The State of Development of National CDM Offices in Central and South America.** This is an attempt to determine the current state of the national CDM offices with respect to the requirements and legal responsibilities established by the Convention, the Kyoto Protocol, the Marrakech Accords and the decisions taken by the CDM Executive Board; to evaluate their ability to support development of the CDM potential in their countries; and to identify their main deficiencies and weaknesses and their immediate needs with respect to said obligations.

<http://www.oecd.org/dataoecd/10/62/2962286.pdf>

OECD. 2004. **Taking Stock of Progress Under the Clean Development Mechanism.** This paper provides critical analysis of CDM experience to date, outlining the nature of the "CDM challenge".

<http://www.oecd.org/dataoecd/58/58/32141417.pdf>

World Bank. 2003. **The Establishment of Designated National Authorities under the Clean Development Mechanism of the Kyoto Protocol.** This background note outlines legal requirements for the establishment of DNA, and provides examples of proposals to establish DNAs in Non-Annex 1 Countries (Indonesia, South Africa, Argentina, Zambia, Swaziland).

<http://www.dme.gov.za/publications/pdf/cdm/Establishment%20of%20DNAs%20World%20Bank%20.pdf>

World Bank. 2003. **Approval of Clean Development Mechanism Projects by the Host Country.** Background Note. This is useful information on the rules of the Kyoto Protocol in relation to Host Country Letters of Approval.

<http://www.dme.gov.za/publications/pdf/cdm/Paper%20on%20HC%20Approval%20clean.pdf>

6.4 National CDM strategies/policy documents/guidelines

Cambodia CDM Guide. The Guide provides information necessary for successful implementation of CDM projects in Cambodia, including relevant references to official documents and contact details. It also describes CDM project approval procedures of Cambodia's designated national authority (DNA)—the Ministry of Environment, through its Cambodian Climate Change Office (CCCO)—including Cambodia's official sustainable development objectives.

<http://www.iges.or.jp/en/cdm/pdf/countryguide/cambodia.pdf>

Defra. 2005. **UK Guidance on approval and authorizations to participate in Clean Development Mechanism Project Activities.** This guidance applies to the approval and authorizations of CDM projects in the UK.

<http://www.defra.gov.uk/environment/climatechange/trading/eu/pdf/cdmapproval-guidance.pdf>

Egypt's National CDM Approval Procedures

<http://www.cdmegypt.org/ProjectsAP.htm>

Indonesia CDM Project Approval Procedures and SD criteria

<http://dna-cdm.menlh.go.id/en/>

Malaysia CDM Administrative Guide

http://www.ptm.org.my/CDM_website/cdminmalaysia/index.htm

Rules and regulations governing the CDM approval process in the Philippines. DENR

Administrative Order No. 2005-17

<http://www.emb.gov.ph/archive.htm>

Morocco CDM Strategy:

http://www.mdpmaroc.com/English/cdm_nationalstrategy.html

South African DNA Project Approval Process

http://www.dme.gov.za/cdm/approval_processes.htm

6.5 Presentations/case studies on National DNA/CDM process

CDM Institutional Frameworks in Southern Europe and the CIS. Here you will find a summary of existing institutional structures for DNAs and lessons learned. This paper also discusses priority capacity building needs, existing technical assistance and possible UNDP involvement.

Georgia: DNA case study. Prepared by Georgian DNA, this case study provides interesting information on the DNA's structure, national approval procedures, DNA's sustainability issues.

Moldova: DNA case study. Everything about DNA in Moldova: institutional structure, sustainable development criteria, human and financial capacities, lessons learned.

Poland: JI Secretariat case study. Here you will find lessons learned and recommendations from one of the longest operated JI institution in Central and Eastern Europe.

Bulgaria: JI Secretariat case study. Here you will find everything about the JI Secretariat in Bulgaria, from its history to lessons learned from its work.

Overview of JI Secretariats in Eastern Europe and the CIS. In addition to the overview of JI Secretariats in Eastern Europe and the CIS, you will find here a summary of best and worst approaches to the establishment of JI Secretariats in Eastern Europe and the CIS, as well as information on donor assistance and priority capacity building needs for JI Secretariats.

<http://europeandcis.undp.org/index.cfm?wspc=KyotoProtocol>

Matookane, L. 2005. **South Africa's Designated National Authority for the Clean Development Mechanism.** The presentation provides information on functions of DNA Authority in South Africa, institutional arrangements, sustainable development criteria, approval steps, potential projects.

http://www.unido.org/file-storage/download/?file_id=45438

6. 6 Capacity building projects supporting DNAs

EuropAid “Technical assistance to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan with respect to their global climate change commitments” (Lot 1). You will find here information on one of the first Kyoto protocol related projects in Central Asia. This EU-funded project assists Central Asian countries in the fulfilment of their obligations in respect to the UNFCCC and Kyoto protocol.

<http://www.sofreco.com/projets/c886/>

EuropeAid project “Technical assistance to Armenia, Azerbaijan, Georgia and Moldova with respect to their global climate change commitments” (lot 2).

Armenia:

<http://www.nature-ic.am/CDM/project.html>

Azerbaijan:

<http://www.eco.gov.az/Azerbaijan/project.html>

Georgia:

http://www.climatechange.telenet.ge/cdm_web/index.html

Moldova:

<http://www.meteo.md/cdm/index.html>

UNEP Project on Capacity Development for the Clean Development Mechanism

<http://www.cd4cdm.org>

7 ANNEXES

7.1 Annex I Project Idea Note (PIN) – Template

Designing a Project Idea Note (PIN)

The format in this proposed PIN closely follows the format of the PINs for Georgia and Armenia. Other formats were reviewed as well to make sure that the proposed PIN is consistent with general practices. In general, a PIN should provide indicative information on:

- The type and size of the project;
- Project location;
- The anticipated total amount of Greenhouse Gas (GHG) reduction compared to the “business-as-usual” scenario (which will be elaborated in the baseline later on at Project Design Document [PDD] level);
- The suggested crediting life time;
- The suggested Certified Emission Reductions (CER) price in US\$ or _ /ton carbon dioxide equivalent (CO₂e) reduced;
- The financial structuring indicating which parties are expected to provide the project’s financing; and
- The project’s other socio-economic or environmental effects/benefits.

Template for the Project Idea Note (PIN)**A Project Identification**

Title of the project activity:

Applicant:

Date of submission:

B Project Participants**B 1 Applicant**

Name	
Type of organisation <i>Please also describe the ownership structure.</i>	Government Government agency Municipality Private company Non-governmental organisation Other
Main activities	
Name of contact person	
Address	
Phone/fax	
E-mail	

B 2 Project developer/advisor

Name	
Type of organisation	Government Government agency Municipality Private company Non-governmental organisation Other
Main activities	
Name of contact person	
Address	
Phone/fax	
E-mail	

B 3 Other project participants/sponsors *(if more than one, please copy this part of the table)*

Name of project participant	
	NGO Other
Name of contact person	
Address, Phone/fax	
E-mail	

C Location of the project**C 1 Location of project activity**

Host Country	
Region/State/Province etc.	
City/Town/Community etc.	
Brief description of the project location	<i>No more than 3-5 lines</i>

D General Project Information**D 1 General Information**

Project name	
Project objective	
Description of project background	

D 2 Category(ies) of project activity

Project category	Energy efficiency		
	Heat	Electricity	Transport
	Industry	Commercial/Communal sector	
	Renewable energy		
	Hydro	Wind	Biomass
	Geothermal	Solar	
	Fuel switch		
	Coal-to-gas	Oil-to-gas	
	Methane capture		
	Landfill	Waste incineration	
	Wastewater handling	Gas and oil exploitation	
	Gas distribution	Pit gas	
	Industrial processes		
	Mineral products	Chemical industry	
Metal production	Others		
Production and consumption of halocarbons and sulphur hexafluoride			
Solvent use	Sorbent use		
Agriculture			
Enteric fermentation	Manure management		
Rice cultivation	Agricultural soils		
Filed burning of agricultural residues			
Carbon sinks, sequestration			
Afforestation	Forest protection and reforestation		
Other			

D 3 Technical aspects

Technical description <i>The essential technical aspects should be briefly presented.</i>	
--	--

E Project Organisation

E 1 Project team

Project-specific qualifications and experiences.

The essential qualifications and experiences should be briefly presented.

E 2 Schedule

Current project status	Project idea Pre-Feasibility study Feasibility study
Status of financing	
Status of permission procedures of authorities	
Project preparation	From: _____ to: _____
Project lifetime	From: _____ to: _____
Generation of CERs	From: _____ to: _____

E 3 Financial aspects

Costs of CDM-project development (EUR) Please give figures and briefly explain (background of) calculations.	
Costs of Investment (EUR) Please give figures and briefly explain (background of) calculations.	
Estimated annual operating costs (EUR) Please give figures and briefly explain (background of) calculations.	
Estimated annual revenues (EUR) Please give figures and briefly explain (background of) calculations.	
Financing sources	

F Greenhouse Gas Emission Reductions

Only projects resulting in emission reductions of greenhouse gases listed in table F1 can be accepted as CLEAN DEVELOPMENT MECHANISM projects. All emissions and/or emission reductions must be stated in metric tonnes of CO₂ equivalent.

F 1 Greenhouse gases

Greenhouse gases to be reduced by the project	CO ₂ HFC _s	CH ₄ PFC _s	N ₂ O SF ₆
---	-------------------------------------	-------------------------------------	-------------------------------------

A Baseline is the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the project ("business-as-usual-scenario"). By comparing the Baseline with the project emissions the emission reductions generated can be calculated.

F 2 Baseline

CDM projects must result in GHG emissions being lower than "business-as-usual" in the Host Country. At the PIN stage questions to be answered are at least:

What is the proposed Clean Development Mechanism (CDM) project displacing?
What would the future look like without the proposed CDM project?

F 3 Project emissions

Description and estimation of project-specific greenhouse gas emissions

F 4 Emission reductions

Crediting period	_____ years (i) a maximum of seven years which may be renewed at most two times, for a total of 3 periods of 7 years, provided that, for each renewal, the baseline is still valid or has been revised and updated; (ii) a maximum of ten years with no option of renewal.
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Estimated annual and total abatement of greenhouse gas emissions in tonnes of CO₂ equivalent in comparison to the Baseline scenario

F 5 Monitoring

Describe the parameters that will be used as performance indicators that will be monitored to verify that emission reductions are taking place.

Note: parameters may include emissions output, energy production, energy sales, environmental impacts, etc.

G Sustainable Development Effects

The following section deals with the effects of the project activity on sustainable development. It follows the DNA procedures for assessment of the project's contribution to the country's sustainable development.

Note: This section is based on Armenia's sustainable development (SD) criteria and should be revised according to the SD criteria of the individual host country adopting the PIN. Armenia's SD criteria are included here to illustrate how the questions could be illustrated in the PIN.

G 1 Expected Social effects

Stakeholder participation

Improved service availability

Capacity development

G 2 Expected environmental effects

Expected local environmental effects (positive and negative) of the project (if an Environmental Impact Assessment is mandatory, please use these results here; otherwise indicate the expected environmental effects of the project)

G 3 Expected Economic effects

Improved regional economy	Does the project have positive or negative effects on the regional economic situation?
Employment generation	How many jobs are created (over the crediting period)?
Sustainable technology transfer	Is the project's technology innovative for the country and can it be implemented and maintained locally?

G 4 Expected Policy effects

National/Regional policy	Does the project contribute to national and/or regional policy objectives?
Sector policy	Does the project contribute to specific sector objectives?

H Additionality

CDM projects must comply with international and national criteria. One of the key-criteria is "Additionality of the project". In table H1 a first (indicative) presentation must be made on why the project is additional.

H 1 Additionality

Presentation of the Additionality of the project

Please explain briefly how and why the project is additional and therefore not the (considered) Baseline scenario. Please describe why the emission reductions would not occur in the absence of the proposed project activity, taking into account national and/or sectoral policies and circumstances.

7.2 Annex II Application Checklist – Template

Information Requirements to Obtain a Host Country Approval Letter for a CDM

Project in [host country name]

The following documents must be submitted to [host country name] DNA at [ministry or inter-ministerial commission] before final evaluation of the CDM project will be performed and a Host Country Approval Letter will be issued to the project developer:

- _____ A formal letter to [DNA title] requesting host country approval and providing contact information for the project developer.
- _____ A PDD in [host country language] and English, including electronic versions. The PDD should be based on the most recent PDD template used by the CDM Executive Board. This template can be accessed at: <http://cdm.unfccc.int>. The PDD should also use one of the baseline and monitoring methodologies that have already been approved by the CDM Methodology Panel. These methodologies can be accessed at: <http://cdm.unfccc.int/methodologies/PAmethodologies>;
- _____ A validation (or pre-validation) report, including a version translated into [host country language].
- _____ A letter from [title of relevant authority issuing the EIA] stating whether an Environmental Impact Assessment (EIA) is required. This depends on the project type. If an EIA is needed, the letter of approval will be conditional on the outcome of the EIA.
- _____ A signed declaration on the financial and legal status of the offering company(ies).
- _____ If more parties are involved in the CDM project, the company must show letters of evidence that it has the rights to the emission reductions.
- _____ If desired, a letter of support from the municipality or other relevant institution (optional).
- _____ Any documents or information requested in the “letter of endorsement” issued by the [DNA title] in response to the PIN.

The application package should be submitted to the following address:

X
X
X

7.3 Annex III Questionnaire for General Review of PDDs

INSTRUCTIONS:

Instructions for completing the form *[insert any special instructions]*:

Time line for review:

For questions, please contact:

REVIEWER:

Name: _____

Affiliation: _____

GENERAL EVALUATION:

1. Is the proposed CDM project in compliance with all relevant legal and regulatory requirements for projects in the individual sector, including requirements for an Environmental Impact Assessment?
2. Has the proposed CDM project been validated by an independent entity? Have all public comments been adequately addressed?
3. Does the proposed CDM project use an established baseline and monitoring methodology as approved by the CDM Executive Board? Does the proposed project type match the project type parameters described in the CDM baseline and monitoring methodology?
4. Based on the information provided in the PDD, are the project participants financially sound and stable?
5. Please complete the evaluation of whether the proposed project meets [host country title's] sustainable development criteria. The sustainable development evaluation form is attached with this Questionnaire *[attach sustainable development criteria, once finalized]*. Please include your final score below.

FINAL RECOMMENDATION:

Do you recommend approving the proposed CDM project?

Yes _____

No _____

If no, do you have suggestions for improvements to the project proposal? Please describe below

7.4 Annex IV Detailed CDM Project Selection Criteria - Template

Table 7-1 Applicability of criteria that contra-indicate additionality³⁹

Question	Answer	Conclusion / Go to question
1. Are there laws and regulations that make the project activity obligatory?	No Yes	No problem for additionality. Go to 2 Go to 1a
1a Is the law / regulation for more than 50% enforced?	No Yes	No problem for additionality. Go to 2 Go to 1b
1b. Does the project go further than what the law / regulation requires	No Yes	Do not select the project. Stop. No problem for additionality. Go to 2
2. Did construction of the project already start?	No Yes	No problem for additionality. Go to 3 Do not select the project. Stop.
3. Have already contracts been signed for the implementation of the project activity?	No Yes	No problem for additionality. Go to 4 Go to 3a
3a Do the contracts contain clauses that make the contracts revocable, such as "subject to financial closure" clauses? ⁴⁰	Not explicitly but based on tacit understanding No and no tacit understanding Yes	No immediate problem for additionality. Go to 4 Go to 3b. No immediate problem for additionality. Go to 4
3b Is the project a large dam (> 20 MW)?	No Yes	Go to 3c Go to 3c, but in development pay additional attention to recommendations from World Commission on Dams
3c For which percentage of the total investment amount have contracts been signed?	< 40% > 40%	Probably no problem for additionality. Go to 4 Go to 3d
3d Are there good arguments that show that the project would not be implemented despite the signing of the contracts?	No Yes	Do not select the project. Stop. Describe and discuss. Probably not a suitable project. Go to 4.
4. Have project-specific financing agreements already been signed?	No Yes	No immediate problem for additionality. Go to 5. Go to 4a.
4a. Do the financing agreements contain penalty clauses if the funds attracted will not be used?	No Yes	No immediate problem for additionality. Go to 4b. Go to 4b.
4b. For which part of external financing needed have already project specific financing agreements been signed?	< 40% > 40%	No immediate problem for additionality. Go to 5. Do not select the project. Stop.
5. Has the public owner already made public announcements that the project will go ahead?	No Yes	No immediate problem for additionality. Go to 6. Go to 5a
5a. Has the announcement been revoked, or was the announcement made more than 2 years ago and has no further progress in the implementation of the project been made?	No Yes	Do not select the project. Stop. No immediate problem for additionality. Go to 6.
6. Conclusion: The project does not run into problems with the contra-indications for additionality		Move to next table

³⁹ These sample CDM Project Selection Criteria were developed as part of the EU-funded capacity building project Lot 3 – Technical Assistance to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan with respect to their Global Climate Change commitments. The criteria can be obtained at www.sofreco.com/projects/C886/Reports/International%20best%20practice%20on%20CDM%20project%20selection.pdf

⁴⁰ If such clauses are not contained in the PDD this may be understood as standard practice in the host country. It could be that all parties know that a contract will be renegotiated or cancelled if the financing cannot be arranged.

Table 7-2 Applicability of additionality arguments

Criteria	Answer
1. Is the prevailing practice other than the proposed project activity? To be precise: Is the project activity used in less than 5% of the cases where it could be used?	Yes No
2. Is the proposed project activity (1) loss-making without the CDM revenues, or (2) are there alternatives that are more profitable without the CDM revenues?	Yes No
3. Is it impossible to arrange the financing of the project in absence of the CDM revenues?	Yes No
4. Are there technological barriers that can only be overcome when CDM revenues can be obtained?	Yes No
5. Only for rehabilitation projects: for how long has it been impossible to rehabilitate the project?	Yes No
6. How many times was the answer “Yes” given to questions 1-5?	0 times. Don’t select the project. Stop 1 time. Discuss. Probably don’t select the project unless the argument is strong 2 times or more. Proving additionality is no problem. Move to next table.

Table 7-3 Inapplicability of criteria indicating that the project fail

Criteria	Answer
1. Have at least two of the following approval steps been completed?	Yes No
Agreement for project proposal obtained Feasibility report completed Feasibility report approved Environmental impact table prepared Environmental impact assessment completed Agreement on power price reached (if applicable)	Completed Completed Completed Completed Completed Completed § Not completed § Not completed § Not completed § Not completed § Not completed
2. Will the project reach financial closure (be able to complete the necessary financing) if CDM revenues can be obtained?	Yes No
3. Will the project be economically attractive to implement if CDM revenues can be obtained?	Yes No
4. Is the project technically feasible, and does the project owner have access to the requisite technological skills and expertise?	Yes No
5. Conclusion: Is the answer to each of the questions 1-4 “Yes”?	Yes. Little danger that the project will not be implemented. Move to next table No. Danger that the project will not be implemented. Don’t select. Stop.

Table 7-4 is provided below. If you start at Table 7-1, and then go through all tables as directed, the result for the project in question will be given at the end of Table 7-4. However, in a large number of cases you will not get there; for example, if a project activity is required by law, the law is enforced, and the project activity proposed does not go further than the law, the conclusion is that the project is not additional, and the analysis will stop there (Question 1 of Table 7-1).

Table 7-4 Attractiveness of the project

Criteria	Answer
1. Scale – does the project result in greenhouse gas emission reductions in excess of 50,000 tons of CO ₂ equivalent per year or is the project a small-scale project (< 15 MW for a renewable power project, ...)?	Yes No
2. Sustainability – does the project score a “Yes” on at least two of the following questions?	Yes No
Will the project on balance have favourable social impacts?	Yes No
Will the project on balance have favourable economic impacts?	Yes No
Will the project on balance have favourable environmental impacts?	Yes No
3. At what CER price is the project just commercially attractive (= just profitable)? If the project becomes commercially attractive at a price below 2.0 EURO (answer categories 1 and 2) it is very attractive, if between 2.0 and 2.5 EURO/ton CO ₂ eq. it is an attractive project, if between 2.5 and 3.0 EURO it is a reasonably attractive project, if between 3.0 and 3.5 EURO it is doubtful that the project will be attractive, and above 3.5 EURO the project is likely to be commercially unattractive, even with the benefits from CDM.	1. Below 0.0 EURO/ton CO ₂ eq. 2. 0.0-2.0 EURO/ton 3. 2.0-2.5 EURO/ton 4. 2.5-3.0 EURO/ton 5. 3.0-3.5 EURO/ton 6. > 3.5 EURO/ton
4. Conclusion. Did the project score “Yes” on questions 1 and 2, and was the answer on question 3 either 1, 2, 3 or 4?	Yes. Suitable and attractive project. Select No. Discuss

Projects that satisfy these selection criteria will be attractive.

7.5 Annex V Letter of Endorsement - Template

To:
*[name and address of
project sponsor/owner]*

*[subject]
[date]
[place]*

Dear Sir/Madam _____ ,

After reviewing the Project Idea Note (PIN) of project *[project title]* *[project number in national database]* that you submitted on *[date]*, I declare the following.

1. that the *[inter-ministerial commission or ministry title]* is the authorized Designated National Authority (DNA) in *[host country name]* in accordance with *[title of legal document establishing the DNA]* agreed to on *[date]*;
2. that the project on the basis of the PIN and other documents submitted does not show any violation of *[host country name's]* sustainable development criteria;
3. that the DNA is committing itself to render such assistance as may be necessary in the future validation, verification, issuance and transfer of CERs; and
4. that this letter in no way shall compromise the opinion, independence or transparency of the DNA when subjecting the project to the later final evaluation process required for granting of a formal host country approval letter.

[Optional Paragraph] As authorized representative of the DNA for *[host country name]* under the Kyoto Protocol, I offer the following recommendations for improving the project:

1. XXX
2. YYY

Yours Sincerely,
[Name of Signatory]
[Title]

7.6 Annex VI Letter of Approval – Blank Template

To:

*[name and address of
project sponsor/owner]*

[subject]

[date]

[place]

Dear Sir/Madam _____ ,

After reviewing the Project Design Document (PDD) of project *[project title]* *[project number in national database]* that you submitted on *[date]*, I declare the following.

1. the *[DNA title]* is the authorized Designated National Authority in the *[host country name]* in accordance with the Amendment to the Law on Environment agreed to on *[date]*;
2. that the *[host country name]* is participating voluntarily in the proposed CDM activity;
3. that the project on the basis of the PDD and other documents submitted contributes to achieving the sustainable development objectives of the *[host country name]*;
4. that the *[host country name]* has ratified the Kyoto Protocol;

As authorized representative of the DNA for *[host country name]* under the Kyoto Protocol, I further authorize:

1. The participation of *[the project entities]* as Project Participants in the project;
2. that the DNA of *[host country name]* authorizes the project developer and/or any future project owner to generate Certified Emission Reductions (CERs);
3. that the project developer/owner has full legal title to the officially generated CERs; and
4. that the DNA will assist the contractor/owner in any transfer of CERs;

Yours Sincerely,

[Name of Signatory]

[Title]

7.7 Annex VII Sample Host Country Approval Letters

National Commission for the implementation and realization of the commitments under United Nations Convention on Climate Change and of the mechanisms and commitments of the Kyoto Protocol

State Forest Agency „MOLDSILVA”

No. 018 – 03/9.04 from 2nd of September, 2004
on No. 01-07/401 from 20th of July 2004

On examination of the project proposals “Soil conservation in the Republic of Moldova”

Through the present, we acknowledge that the **National Commission for the implementation and realization of the commitments under the United Nations Framework Convention on Climate Change and of the mechanisms and commitments of the Kyoto Protocol**, as the Supreme Designated National Authority, responsible for the implementation of the Clean Development Mechanism of the Kyoto Protocol, has examined on its meeting from 9th of August 2004 the project “Soil Conservation in the Republic of Moldova”, elaborated and presented by the State Forest Agency “MOLDSILVA”. As result of examination, the National Commission concluded the following:

1. The State Forest Agency “MOLDSILVA” is the only responsible for elaboration and implementation of the CDM Project “Soil Conservation in the Republic of Moldova”. In the name of the Government of the Republic of Moldova, the Agency has negotiated and contracted with the World Bank Prototype Fund all the conditions of the CDM Project (Government Resolution No. 1155 from 26th of September 2003).
2. In case of implementation of the CDM Project in its actual version, the planned activities would essentially contribute to the sustainable development of the Republic of Moldova and would positive influence the quality of the environment.
3. Through this CDM Project, the Republic of Moldova is participating on voluntary basis on realization of the Clean Development Mechanism of the Kyoto Protocol.

Constantin MIHAILESCU

*Minister, Ministry of Ecology and Natural Resources,
Chair of the National Commission*

*Draft Resolution Designated National Authority Georgia***Template of Letter of Approval – Georgia**

To:

*[name and address of
project sponsor/owner]*

[subject]

[date]

[place]

Dear Sir/Madam _____ ,

After reviewing the Project Design Document (PDD) of project *[project title]* *[project number in national database]* that you submitted on *[date]*, I declare the following.

5. that the Ministry of Environmental Protection and Natural Resources is the authorized Designated National Authority in Georgia in accordance with the Decree of the Cabinet of Ministers No.2 of 20 January 2005;
6. that Georgia is voluntary participating in the proposed CDM activity;
7. that the project on the basis of the PDD and other documents submitted in accordance with national criteria of sustainable development contributes to achieving the sustainable development objectives of Georgia;
8. that Georgia has ratified the Kyoto Protocol;

Yours Sincerely,

[DNA]

[Name and address of Director]

Draft Resolution Designated National Authority Georgia

Template for issuing additional clauses – Georgia

To:

*[name and address of
project sponsor/owner]*

[subject]

[date]

[place]

Dear Sir/Madam _____ ,

In addition to the issued Letter of Approval related to project *[project title]* *[project number in national database]* that you submitted on *[date]*, I inform you of the following.

- that the DNA of Georgia authorizes the contractor and/or any future project owner to generate Certified Emission Reductions (CERs);
- that the project contractor/owner has full legal title to the officially generated CERs;?
- that the DNA will assist the contractor/owner in any transfer of CERs;

Yours Sincerely,

[DNA]

[Name and address of Director]

7.8 Annex VIII**Sample Sustainable Development Criteria – Armenia, Georgia, and South Africa****Armenia: Draft National Sustainability Criteria****1. Social Criteria**

“The project has positive effects on social development.”

The criteria under this sub-goal estimate the direct impacts on social development. System boundaries to assess social development include the region where the project is implemented. Short-term effects, as well as long-term impacts during the ten years after project implementation are considered.

The sub-goal of “social development” is divided into the following criteria:

- A. Stakeholder Participation (enlarging people’s choices)
- B. Improved Services Availability (material well-being)
- C. Capacity Development (intellectual capital)

Criterion A: Stakeholder Participation

Description of Criterion

“Stakeholders can participate in the project development.”

Criterion B: Improved Service Availability

Description of Criterion

“The project contributes to improved availability of essential services.”

Criterion C: Capacity Development

Description of Criterion

“The project generates opportunities for additional capacity development.”

2. Environmental Criteria

“The CDM project leads to positive or decreased negative environmental effects.”

The environmental criteria examine to what degree the proposed project has positive or negative effects on the environment – this in addition to the GHG reductions for the proposed duration of the project duration (crediting period).

The actual environmental criteria, which need to be taken into account, depend on the type of CDM project proposed. The next table shows an example which criteria could be considered for different CDM project types.

3. Economic Criteria

“The project has positive effects on the economic development of the country.”

A CDM project will have economic implications for the host country, and especially for the project perimeter. The criteria under this sub-goal estimate the direct positive / negative economic impacts of a project.

Short-term effects, as well as long-term impacts during the ten years after project implementation are considered.

The criteria proposed concern only the direct effects of projects. For example, under “employment generation” we count only jobs that are offered in the project construction and the project operation phase. The sub-goal “economic development” is divided into four criteria:

- A. Regional Economy (generation of wealth in a disadvantaged region)
- B. Employment Generation
- C. Sustainable Technology Transfer (technical innovation for the country)

Criterion A: Regional Economy

Description of Criterion

“The project contributes to the development of the regional economy.”

Criterion B: Employment Generation

Description of Criterion

“The project creates jobs.”

Criterion C: Sustainable Technology Transfer

Description of Criterion

“The project applies innovative, locally manageable technology.”

4. Policy effect criteria

"The project has positive effects on the achievement of national, regional and sector priority objectives."

Criterion A: Effects on national and/or regional priority objectives

Description of Criterion

"The project has positive effects on the achievement of national and/or regional priority objectives."

Criterion B: Effects on sector priority objectives

Description of Criterion

"The project has positive effects on the achievement of sector priority objectives."

Georgia: Draft National Sustainability Criteria and Indicators

The following section presents the proposed criteria along with their respective indicators and scales.

1. Social Criteria

“The project has positive effects on social development.”

The criteria under this sub-goal estimate the direct impacts on social development. System boundaries to assess social development include the region where the project is implemented. Short-term effects, as well as long-term impacts during the ten years after project implementation are considered.

The sub-goal of “social development” is divided into the following criteria:

- D. Stakeholder Participation (enlarging people’s choices)
- E. Improved Services Availability (material well-being)
- F. Capacity Development (intellectual capital)

Criterion 1.A: Stakeholder Participation

Description of Criterion

“Stakeholders can participate in the project development.”

Indicator

Qualitative indicator with a 5-step descriptive scale

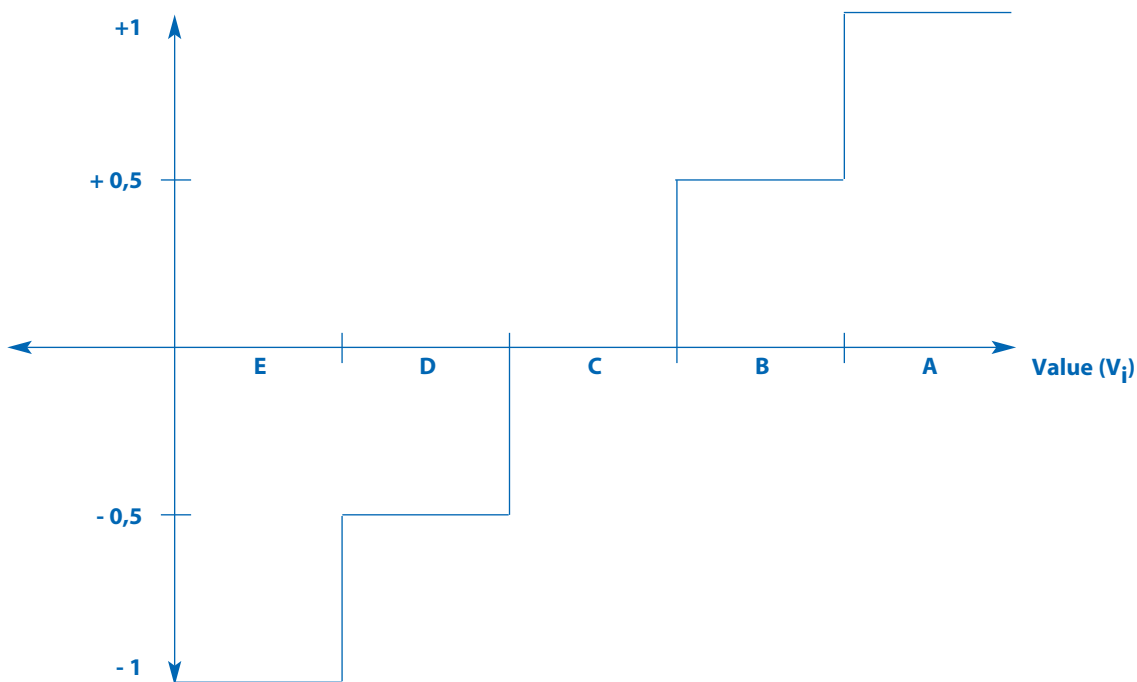
Measurement of Indicator

The indicator examines to what extent concerned stakeholders are involved in the project development. Relevant stakeholders are: people living in the vicinity of the project, people who are directly involved in the project (labourers and suppliers), and relevant NGOs.

- A = stakeholders can participate in the decision process
- B = stakeholders are invited to give inputs / raise concerns
- C = stakeholders are informed
- D = stakeholders are only informed upon request
- E = stakeholders are not involved at all, no access to data is possible

The chart below shows the utility function for the qualitative score on the criteria. It is the same for all other qualitative criteria.

Utility (U_j)



Criterion 1.B: Improved Service Availability

Description of Criterion

"The project contributes to improved availability of essential services."

Indicator

Semi-quantitative indicator, change in availability of services compared to baseline

Measurement of Indicator

Quantitative compilation of affected services / qualitative judgements. Locally prioritised (core) services, as well as other essential services are investigated through a survey or expert consultations and are compared to the baseline. Services under consideration are: access to fresh water, access to energy, transport facilities, telephone, sanitation, etc.

- A = Significant increase in availability of core service
- B = Significant increase in availability of other service / moderate increase in availability of core service
- C = No change to baseline
- D = Significant decrease in availability of other service / moderate decrease in availability of core service
- E = Significant decrease in availability of core service

Utility function:

Please refer to the utility function of the criterion Stakeholder Participation

Criterion 1.C: Capacity Development

Description of Criterion

"The project generates opportunities for additional capacity development."

Indicator

Qualitative indicator, compared to baseline

Measurement of Indicator

Opportunities for capacity development during the 10 years after project implementation are investigated and compared to the baseline. The number of created or destroyed opportunities for capacity development is considered, along with their quality.

A = considerably more opportunities or more sophisticated capacity development

B = slightly more opportunities or more sophisticated capacity development

C = no change in capacity development

D = slightly less opportunities or less sophisticated capacity development

E = considerably less opportunities or less sophisticated capacity development

Utility function:

Please refer to the utility function of the criterion *Stakeholder Participation*

2. Environmental Criteria

"The CDM project leads to decreasing pressure on the environment."

The environmental criteria examine to what degree the proposed project has positive or negative effects on the environment – this in addition to the GHG reductions.

The environmental criteria proposed in this tool follow a pragmatic approach. It must be stressed again that the criteria here cannot be comprehensive.

A. Fossil energy resources (contribution to a reduced consumption of fossil energy resources)

B. Air quality (1)

C. Water quality (1)

D. Other environmental effects (1)

(1) actual criteria are determined by project type.

The actual environmental criteria for air and water quality and other impacts as well as their utility functions shall be defined per individual project since the impacts differ per project type. Whenever available, the results of a project's Environmental Impact Assessment (EIA) shall be used to determine the environmental criteria for the assessment. For projects without an EIA, the strictly quantitative indicators used to measure these criteria seem to be too data-intensive. It is therefore proposed the application of semi-quantitative indicators. Semi-quantitative indicators comprise a quantitative assessment as well as a qualitative expert judgment.

First, different quantitative parameters of relevance are listed (e.g. emission levels of various air pollutants). Based on this compilation of quantitative data, a qualitative expert judgment is made for the scoring of the indicator (e.g. the experts see a "moderate decrease of air pollutants" compared to the baseline case). This judgment includes the relevance of the considered aspects, the project size, as well as the sensitivity of the project perimeter with regard to these aspects.

Criterion 2.A: Fossil energy resources

Description of Criterion

"Contribution to a reduced consumption of fossil energy resources."

Indicator

Change in consumption of core resource, compared to baseline

Measurement of Indicator

$$[TC_b - TC_p]$$

CER

where:

TC_p = t Fossil per year used by project

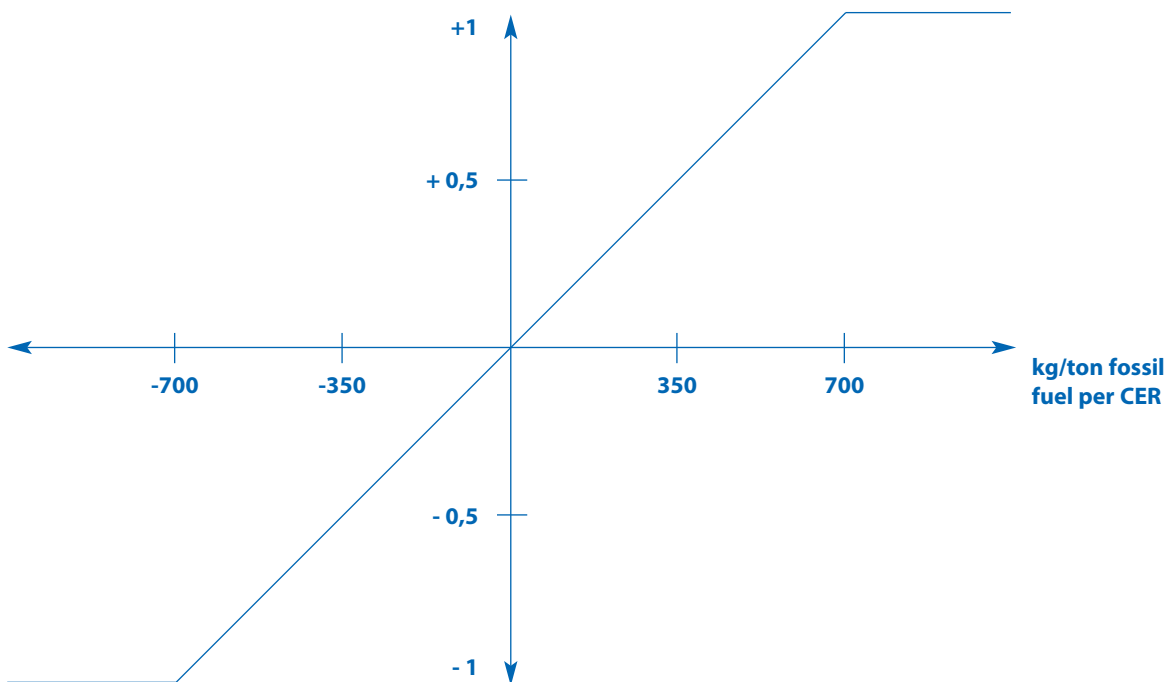
TC_b = t Fossil per year used by baseline

CER = Emission Reductions

Utility function

Maximum utility (1): A Project that generates all CERs with replacement of fossil fuel based energy.

Utility (U_i)



Criterion 2.B: Air quality

Criterion 2.C: Water quality

Criterion 2.D: Other environmental impacts

The actual environmental criteria for air and water quality and other impacts as well as their utility functions shall be defined per individual project since the impacts differ per project type. The approach to define the specific (sub-)criteria is outlined below.

Description of each (sub-) criterion

"The project contributes to decreasing pressure on the [environmental impact]."

Indicator

Semi-quantitative indicator; change in impact on environmental quality

Measurement of Indicator

Quantitative compilation of emissions / qualitative judgements. Issues of relevant pollutants are examined and compared to the baseline.

1. Identify significant pollutants that are of concern in the project design. Identify a unit to measure the changes of each pollutant. Decide whether the issues at hand are relevant enough to be further considered.
2. Calculate change: for all relevant pollutants the change to the baseline is calculated.

Scale

The scales range from a significant increase to a significant decrease in the pressure on environmental quality (water and groundwater, air and other).

Give a qualitative judgment for the scoring of the indicator. This judgment reflects the relevance of the project with regard to air quality. It includes the project size as well as the sensitivity of the project perimeter in terms of these emissions. High dust emissions, for example, matter more if the project stands next to a city than if it is located in an uninhabited rural area.

- A = considerable decrease in the pollutant emissions
- B = moderate decrease in the pollutant emissions
- C = no change to baseline
- D = considerable increase in the pollutant emissions
- E = considerable increase in the pollutant emissions

Utility function:

Please refer to the type of utility function of the criterion *Stakeholder Participation or Fossil Fuel reduction*.

3. Economic Criteria

"The project has positive effects on economic development."

A CDM project will have economic implications for the host country, and especially for the project perimeter. The criteria under this sub-goal estimate the direct positive / negative economic impacts of a project.

Short-term effects, as well as long-term impacts during the ten years after project implementation are considered.

The criteria proposed concern only the direct effects of projects. For example, under "employment generation" we count only jobs that are offered in the project construction and the project operation phase. The sub-goal "economic development" is divided into four criteria:

- D. Regional Economy (generation of wealth in a disadvantaged region)
- E. Employment Generation
- F. Sustainable Technology Transfer (technical innovation for the country)

*Criterion 3.A: Regional Economy***Description of Criterion**

"The project contributes to generation of wealth in a disadvantaged region."

Indicator

Semi-quantitative indicator; economic performance of project location

Measurement of Indicator

Quantitative compilation of economic indicators / qualitative judgments. The indicator assesses the economic situation of the project location in context of the whole country. This indicator measures whether a project brings benefits to an economically disadvantaged region. Regions within the country therefore have to be classified into three classes according to their economic situation.

The following parameters can be used to classify the regions:

- average income of working people
- unemployment rate
- GGP per capita

A = project location in economically disadvantaged region

B = project location in economically average region

C = project location in economically privileged region

D = project at economically average location hinders project at disadvantaged location

E = project at privileged location hinders project at disadvantaged location

Utility function:

Please refer to the utility function of the criterion Stakeholder Participation (No. 1). Alternatively, a host country could issue a list with regions of special preference.

*Criterion 3.B: Employment Generation***Description of Criterion**

"The project creates jobs."

Indicator

Additional man-month per GHG Reduction

Measurement of Indicator

The number of man-months of labour is counted and compared to the baseline project. The 10 years after a project has been implemented are also considered. The absolute change in man-years created is normalised with the amount of CER created.

$$EG = \frac{[J_p - J_b]}{CER_p}$$

Unit Employment Generation (EG): where:

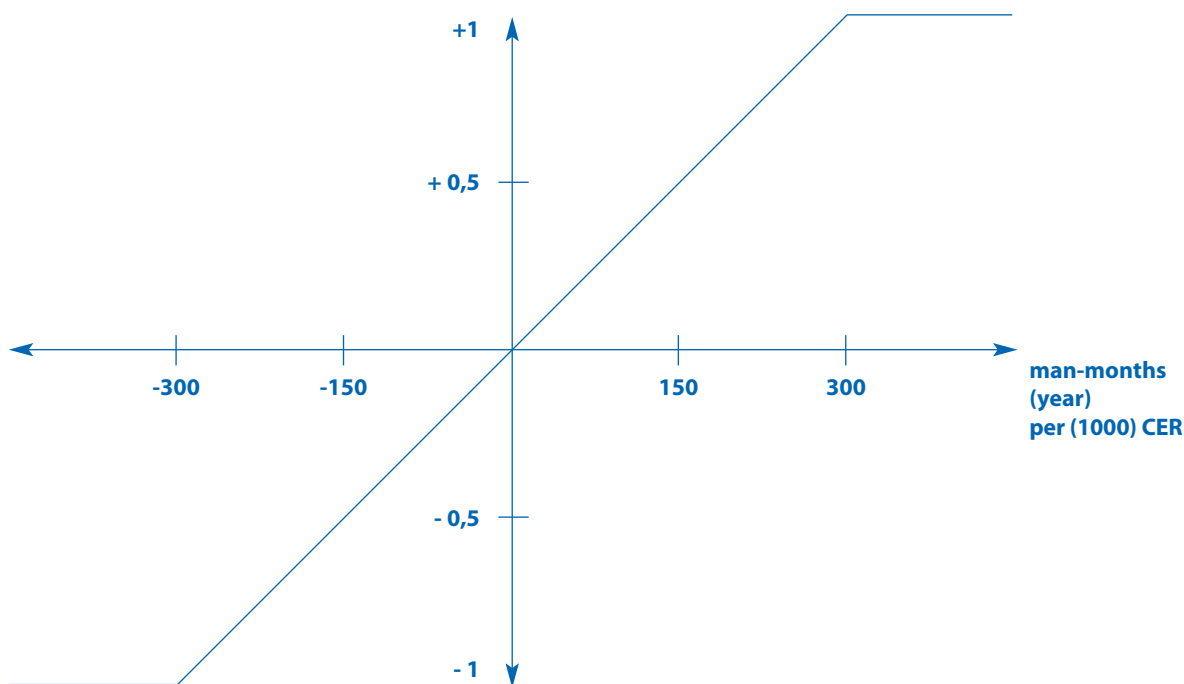
J_p = the total amount of man-months created by the project, including the construction and operation phases

J_b = the total amount of man-months created in the baseline case

CER_p = Emission Reductions by the project

Utility function

Maximum utility means for example that 300 additional man-months job opportunities are generated per 1000 CERs. This value is based on a realistic best practice project (4.5 MW biomass power plant MPPL, India). A 0 value is equal to no change compared to baseline.

Utility (U_i)*Criterion 3.C: Sustainable Technology Transfer***Description of Criterion**

"The project applies innovative, locally manageable technology."

Indicator

Qualitative indicator

Measurement of Indicator

The applied technology, its planned implementation, supply of spare parts, and expected maintenance are examined. It is estimated whether the applied technology is actually an innovation for the country and whether it can be locally maintained.

- A = the potential capacity exists locally to maintain and manage the implemented technology
- B = local skills can be developed with the assistance of external expertise
- C = no technology transfer is involved
- D = external skills must be imported with the transferred technology
- E = the transferred technology cannot be maintained and managed in the long term

Utility function:

Please refer to the utility function of the criterion *Stakeholder Participation*

South Africa: Sustainable Development Criteria for Approval of Clean Development Mechanism Projects by the Designated National Authority of the CDM

14 October 2004

1. Background

In accordance with the procedures for the CDM agreed at Marrakech in 2001 participants in CDM projects will have to provide *“written approval of the voluntary participation from the designated national authority of each party involved, including confirmation by the host party that the project activity assists it in achieving sustainable development”* (Section 40(a), Decision 17/CP.7).

Host country project approval is one of the prerequisites of the registration of a potential CDM project with the United Framework Convention on Climate Change and the Kyoto Protocol. The rules which govern the CDM require a letter from the DNA of the host country which confirms that the project activity assists it in achieving sustainable development. The CDM procedures leave the definition of what sustainable development means as a sovereign decision of each developing country.

Therefore, for South Africa’s participation in the CDM there has to be a procedure in place for deciding whether a proposed CDM project does assist the county in achieving sustainable development. The criteria to be used by the DNA in evaluating whether a project supports sustainable development are provided below. A companion document outlines the approval procedure to be followed.

2. Definition

Sustainable development is defined in the National Environmental Management Act (NEMA) as *“the integration of social, economic and environmental factors into planning, implementation and decision making so as to ensure that development serves present and future generations”*. This definition of sustainable development will inform the decisions of the DNA of the CDM.

3. Criteria for CDM Project Approval

In accordance with the NEMA definition of sustainable development, three core criteria will be used to assess the contribution of the proposed project to sustainable development in South Africa. These are supported by additional criteria to allow the DNA to effectively regulate clean development mechanism project activity in South Africa.

Sustainable Development Criteria

The DNA will evaluate CDM projects submitted to it through consideration of the following three criteria:

1. **Economic:** Does the project contribute to national economic development?
2. **Social:** Does the project contribute to social development in South Africa?
3. **Environmental:** Does the project conform to the National Environmental Management Act principles of sustainable development? These are that *“sustainable development requires the consideration of all relevant factors including the following:*
 - a. That the disturbance of ecosystems and loss of biological diversity are avoided, or where they cannot be avoided, are minimized and remedied
 - b. That pollution and degradation of the environment are avoided, or where they cannot be altogether avoided, are minimized and remedied

- c. That the disturbance of landscapes and sites that constitute the nation's cultural heritage is avoided, or where it cannot be altogether avoided, is minimized and remedied
- d. That waste is avoided, or where it cannot be altogether avoided, minimized and reused or recycled where possible and otherwise disposed of in a responsible manner
- e. That the use and exploitation of non-renewable resources is responsible and equitable, and takes into account the consequences of the depletion of the resource
- f. That the development, use and exploitation of renewable resources and the ecosystems of which they are part do not exceed the level beyond which their integrity is jeopardized
- g. That a risk averse and cautious approach is applied, which takes into account the limits of current knowledge about the consequences of decisions and actions
- h. That negative impacts on the environment and on people's environmental rights be anticipated and prevented, and where they cannot be altogether prevented, are minimized and remedied."

In determining the answers to questions 1-3 the DNA should be informed by consideration of the project indicators provided in Table 1 (next page).

General Regulatory Authority

If a project is deemed by the DNA to be contrary to the spirit of the Kyoto Protocol or contrary to the intention of stated government policy the DNA reserves the right to refuse project approval until such time as suitable alterations are made to the project design. In such instances clear reasons for the rejection of a project must be provided by the DNA.

4. Application of Criteria

The DNA will consider each project application against the three core criteria and will make an assessment of whether on balance the project supports sustainable development in the country. In some instances, projects will have a negative impact on one or more dimensions of sustainable development and a positive impact on the other dimensions. In such cases the DNA, in fulfilment of its regulatory role and with support from the inter-departmental advisory committee, will assess the overall contribution or otherwise of the project to sustainable development.

Reasons for Decision

The DNA will provide reasons for the decision. In these reasons the DNA will set out the analysis behind the decision and will note the expected performance of the project against the relevant indicators used. Given the complexity of numerically weighting indicators against one another the DNA will not use a pre-defined formal scoring system to score and evaluate projects.

Table 7- 5 Indicators in support of project approval criteria in South Africa

	Criteria	Indicator
ENVIRONMENTAL	Impact on local environmental quality	<ul style="list-style-type: none"> - Impact of the project on air quality; - Impact of the project on water pollution - Impact of the project on the generation or disposal of solid waste - Any other positive or negative environmental impacts of the project (such as impacts on noise, safety, visual impacts, or traffic)
	Change in usage of natural resources	<ul style="list-style-type: none"> - Impact of the project on community access to natural resources; - Impact of the project on the sustainability of use of water, minerals or other non-renewable energy sources - Impact of the project on the efficiency of resource utilization
	Impacts on biodiversity and ecosystems	<ul style="list-style-type: none"> - Change in local or regional biodiversity arising from the project
ECONOMIC	Economic impacts	<ul style="list-style-type: none"> - Impact of the project on foreign exchange requirements - Impact of the project on existing economic activity in the area - Impact of the project on the costs of energy - Impact of the project on foreign direct investments
	Appropriate technology transfer	<ul style="list-style-type: none"> - Positive or negative implications for the transfer of technology to South Africa arising from the project - Impacts of the project on local skills development - Demonstration and replication potential of the project
SOCIAL	Alignment with national, provincial and local development priorities	<ul style="list-style-type: none"> - How the project is aligned with provincial and national governmental objectives - How the project is aligned with local development objectives - Impact of the project on the provision of, or access to, basic services to the area - Impact of the project on reallocation of communities, if applicable - Contribution of the project to any specific sectoral objectives (for example, renewable energy targets)
	Social, equity and poverty alleviation	<ul style="list-style-type: none"> - Impact of the project on employment levels (specify the number of jobs created/lost; the duration of time employed, distribution of employment opportunities, types of employment, categories of employment changes in terms of skill level, gender and racial equity) - Impact of the project on community social structures - Impact of the project on social heritage - Impact of the project on the provision of social amenities in the communities where it is situated - Contribution of the project to the development of previously underdeveloped areas or specially designated development nodes
GENERAL	General project acceptability	<ul style="list-style-type: none"> - Are the distribution of benefits reasonable and fair

7.9 Annex IX:**The Government of the Republic of Armenia – Draft Resolution on DNA
Implementation, May 2005****The Government of the Republic of Armenia DECREE May _____ 2005, N _____**

The Decree on

“The Establishment of the Procedure for the Clean Development Mechanism of the Kyoto Protocol under the United Nations Framework Convention on Climate Change”

Based on the fact that the Kyoto Protocol under the United Nations Framework Convention on Climate Change, ratified by the Armenian Republic on December 26, 2002, entered into force on February 16, 2005 and taking into consideration the following:

- a) The Republic of Armenia is interested and voluntarily participates in the Clean Development Mechanism under the Kyoto Protocol;
- b) The projects under the Clean Development Mechanism are to assist the Republic of Armenia in achieving sustainable development, which includes social, economic and environmental components;
- c) Clean Development Mechanism projects will promote attraction of investments to several sectors of Armenian economy.

The Government of the Republic of Armenia has decided as follows:

1. The Ministry of Nature Protection of the Republic of Armenia as the Designated National Authority for the Clean Development Mechanism under the Kyoto Protocol has to:
 - a) Approve documents concerning project activities under the Clean Development Mechanism in accordance with procedures of the Kyoto Protocol;
 - b) Authorize the project participant or participants from the Republic of Armenia to be involved in the proposed CDM project activity.
2. Orders the Ministry of Nature Protection of the Republic of Armenia:
 - a) Within 1 month to:
 - Establish the DNA Secretariat (Working Group) for organization, promotion and implementation of Designated National Authority’s activities,
 - Negotiate with international organizations on technical and financial assistance to the Designated National Authority,
 - Develop and approve a procedure for submission and approval of CDM project documents;
 - b) Agree with the Ministry of Trade and Economic Development of the Republic of Armenia and the Ministry of Labour and Social Security of the Republic of Armenia on the submitted CDM project documents in accordance with established procedure.
3. The Decree enters into force on the following day upon its publication.

Draft

Approved by the Decree of the
Minister of Nature Protection of RA
N_____ of "_____" "_____" 2005

PROCEDURE

The Implementation of Project Activities under the Clean Development Mechanism of the UNFCCC Kyoto Protocol in the Republic of Armenia

I. General Regulations

1. The present procedure defines and regulates terms and procedures for submission, evaluation and approval of the project documents concerning the activities implemented in the framework of the Clean Development Mechanism (CDM) under the UNFCCC Kyoto Protocol.
2. According to the Decree of the Government of RA N_____ of "_____" "_____" 2005 "The Establishment of the Procedure for the Clean Development Mechanism of the Kyoto Protocol under the United Nations Framework Convention on Climate Change", the Ministry of Nature Protection of RA is the Designated National Authority (DNA) for the Clean Development Mechanism.
3. The Designated National Authority for the Clean Development Mechanism organizes and implements its activities with assistance of the DNA Secretariat (Working Group). The functions of the DNA Secretariat (Working Group) are the following:
 - a) Organize and regulate the process of submission, evaluation and approval of the CDM project documents.
 - b) Carry out consulting for development of project documents, including development and provision of Project Idea Note forms, guides and other relevant materials.
 - c) Register the Project Design Documents of the project activities in the national Clean Development Mechanism database and make the documents public in electronic format.
 - d) Review officially submitted project documents and prepare evaluation reports for decision making by the Designated National Authority.
 - e) Develop and maintain a publicly accessible database containing information from all approved project design documents and their evaluation reports on which the Designated National Authority based its approval decision as well as subsequent validation and verification reports on emission reductions from approved projects.

II. Procedure for Submission, Evaluation and Approval of Project Documents

Project Information Note

1. Project participants may develop the Project Idea Note for initial review of the proposed project and obtaining the Letter of Intention from the DNA base on the received conclusion and recommendations.
2. The Project Idea Note is to be prepared in accordance with the format developed by the DNA Secretariat (Working Group) and displayed on the relevant web page. The PIN shall be officially introduced to the DNA.
3. Upon its official submission, the PIN will have been reviewed by the DNA Secretariat (Working Group) within 10 (15) working days, and relevant conclusions will be drawn.

- a) If the submitted document complies with all the Designated National Authority's requirements, the Letter of Intention will be issued, which will serve as a base for Project Design Document development.
- b) If the submitted document does not comply with the Designated National Authority's requirements, the DNA returns the document to the project participants indicating the rationale for rejection and/or necessary improvements.

Project Design Document (PDD)

4. For the purpose of obtaining approval for project activities under the Clean Development Mechanism project participants shall develop and officially submit to the Designated National Authority in electronic and printed format the following documents:
 - a) The Project Design Document (both in English and Armenian) in accordance with the requirements and guidelines of the international Clean Development Mechanism Executive Board under the UNFCCC. Additionally, the project participants shall provide a description of the project's potential contribution to sustainable development according to the criteria presented in Annex I.
 - b) A declaration signed by all project participants identifying the responsible person and the form of communication with the Designated National Authority Secretariat (Working Group).
 - c) A Letter of Commitment stating the distribution of any ultimately acquired Certified Emission Reductions.
5. The Designated National Authority shall forward the project documents for agreement to the Ministry of Trade and Economic Development of the Republic of Armenia and the Ministry of Labour and Social Security of the Republic of Armenia.
6. The Ministry of Trade and Economic Development of the Republic of Armenia and the Ministry of Labour and Social Security of the Republic of Armenia shall submit their opinion to the Designated national Authority within 10 (ten) working days after having received the project documents.
7. The Designated National Authority shall take a final decision on the CDM project activity within 20 working days after official receipt of the project design document.
8. The Designated National Authority may require additional information from project participants in which case the period mentioned in Point 7 will be halted until the required information has been received.
9. The Designated National Authority shall issue the Letter of Approval according to the content outlined in Annex II and any additional clauses deemed necessary by the DNA.
10. The Clean Development Mechanism secretariat shall develop and maintain a publicly accessible database containing information from all approved project design documents and their evaluation reports on which the Designated National Authority based its approval decision as well as subsequent validation and verification reports on emission reductions from approved projects.
11. The regulations and procedures of the Designated National Authority may be adapted according to changes in international Clean Development Mechanism regulations or changes in national policy.

7. 10 Annex X: Order for the Establishment of National CDM Board in Georgia

MEPNR Order to Establish Procedures for the National Board for the Clean Development Mechanism (CDM), February 2006

**„Approved“
by the Order No 89
of the Minister of Environment Protection
and Natural Resources of Georgia
issued on 09.02.2006**

Procedure of the Board for coordination of activities for implementation of the Clean Development Mechanism (CDM) determined by the Kyoto Protocol of the United Nations Framework Convention on Climate Change in Georgia

Article 1. General Statement

1. National Board on Clean Development Mechanism (CDM), mentioned hereafter as the Board, was established by the Decree No172 of the Government of Georgia dated on 29.09.2005 „On Establishing the National Board for coordinating the activities for the implementation of the Clean Development Mechanism determined by the Kyoto Protocol of the United Nations Framework Convention on Climate Change“ in Georgia. The Board shall be guided by international agreements and conventions, the Constitution of Georgia, Laws of Georgia, Orders and Decrees of the President of Georgia, Resolutions and Decrees of the Parliament of Georgia, the current procedure and other legal documents.
2. The Board is composed of representatives of the relevant Ministries and institutions as well as those of the society. The composition of the Board shall be confirmed by the Government of Georgia.

Article 2. Duties of the Board

Duties of the Board are:

- to define, in accordance with the established criteria, whether the submitted CDM project contributes to the sustainable development of country's economy, corresponds the national and/or sectoral policy, and to submit a recommendation on implementation of the CDM project to the Georgian Government for approval;
- to identify the Host Party share of the Certified Emission Reductions (CER) generated by the CDM project;

Article 3. Objectives of the Board

3. The main objective of the Board is to make it efficient the implementation of the Clean Development Mechanism under the Kyoto Protocol of the United Nations Framework Convention on Climate Change in the country and thus facilitate the attraction of new type of investments for implementation environmentally sound projects.

Article 4. Procedure of the Board

4. The Board meets as necessary but at least twice a year. The decision shall be made by the simple majority of votes.

5. The Board is regularly updated on the current status of the CDM projects.

Article 5. Board Secretary

6. The Hydrometeorology and Climate Change Administration of the Ministry of Environment Protection and Natural Resources serves as the Board Secretary.