



Annex 7

SUMMARY OF THE PUBLIC CALL FOR INPUTS ON PROGRAMME OF ACTIVITIES

I. Background

1. The Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM), at its fifty-ninth meeting, considered the mandate given by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in its decision 3/CMP.6, paragraph 4, and agreed to launch a call for public inputs on programme of activities (PoA) from 18 February 2011 until 18 March 2011, to seek comments on the following issues:

- (a) The possible alternative concepts for a PoA;
 - (b) The barriers in the current rules; and
 - (c) The rules that are not existing or are missing and should be there.
2. In total, the UNFCCC secretariat received 19 inputs from stakeholders.

II. Summary of comments

3. Most of the comments are related to additionality and designated national authority (DNA) and letter of approval (LoA) issues. In addition, DOE liability, the application of methodologies to PoAs, inclusion of CPAs, and the proposal of improving the existing concept of PoA have been also raised in almost half of the inputs.

4. It is noted that all the stakeholders that submitted inputs with regard to alternative concepts to PoA, have actually suggested variations to the established PoA concept but not completely new concepts. This shows willingness from the stakeholders to scale-up the existing concept rather than develop a new alternative concept.

5. The rest of the comments refer to applicability of the existing rules to PoA; requirements of new rules/procedures for PoA; and other issues such as revision of monitoring plan; modality and frequency of issuance request; lack of IT processes and contact person for PoAs; guidance on the role of component project activity (CPA) implementer; registration fee calculation for multi-country PoAs.

6. The summary of the inputs is also presented in a graphical form in the Appendix 1 of this document.

III. Main issues raised

A. Additionality

7. The main issue concerning additionality is the need of clarity on whether to demonstrate additionality at PoA level or CPA level. The level of homogeneity between different CPAs is also an important factor. Some recurrent recommendations on this regard are the following:

- (a) Allow the project participants (PPs) to decide on the most appropriate additionality demonstration strategy. The demonstration of PoA level additionality would be undertaken along the lines of procedures provided in the methodology. The PoA would describe the barriers faced by CPAs and explain how they will be assessed at CPA level.



Best practice, generic barrier tests would be useful in this context and Board and Meth Panel are encouraged to consider developing some examples;

- (b) There is need for a clear, finite and consistently applied guidance text in all relevant documents (PoA guidance/procedures, Validation and Verification Manual) confirming that additionality has to be assessed on PoA level, and the eligibility criteria has to be used for the inclusion of CPAs in the PoA to establish additionality at the CPA level.

8. The second issue under additionality is the suggestion to allow the starting date of CPAs before the CDM-POA-DD is first published for global stakeholder consultation. The reason provided for this is that engaging the designated operational entity (DOE) and webhosting project design documents (PDDs) on UNFCCC website takes considerable time since the PoA's conceptualization, and timing the first CPA to match the above requirement becomes tedious. It is also recommended to introduce a prior consideration mechanism, similar to the existing prior consideration mechanism for single CDM projects, so each CPA can submit a prior consideration form before or within six months of the starting date of the CPA.

9. Other inputs regarding additionality refer to the need of revising the requirements in order to simplify the method for demonstration of additionality under micro-scale PoAs level, establishing thresholds (e.g. application of the *Guidelines for demonstrating additionality for renewable energy projects <=5MW and energy efficiency projects with energy saving <=20GWh per year*) or exempting additionality demonstration of small-scale energy efficiency PoAs at the household level, as it is clear that these projects have investment barriers .

10. It is also repeatedly emphasized that the guidelines for investment analysis and the small-scale guidelines for demonstrating additionality should be applicable to PoAs.

11. Some stakeholders point out the need for more clarity on the starting date of a PoA, defined in the "Glossary of CDM Terms". In addition, stakeholders also highlighted the pending guidelines for the demonstration of additionality for CDM PoAs and for determining eligibility criteria for the inclusion of CPAs in registered PoAs.

Additionality for policy based on PoAs

12. One observation is the absence of guidance on how to assess the impact of mandatory law on baseline emissions. For example, in a situation where a program is assisting a government to achieve greater compliance of an existing mandatory law; it is not clear how to define the baseline situation.

B. Designated national authority and letter of approval issues

13. With regard to the DNA and LoA issues of PoA, the concern on post registration addition of parties is clearly the most significant. Several stakeholders request to allow new countries to be included at any time during the duration of the PoA. Some inputs include suggested requirements on this regard: a Letter of Approval from the Local DNA should be presented and no changes other than the location and PoA boundary are to be made in the PoA-DD and generic CDM-CPA-DD. It is also noted that further guidance might be needed in cases where an expansion of the geographic boundary would lead to further implications on the PoA, such as, additionality and baseline determination.

14. Another concern under the DNA and LoA issues of PoA is related to the difficulties faced by the DNAs to evaluate sustainable development criteria for CPA inclusion. The Board, the DNA Forum and secretariat are requested to provide more guidance, including a sampling approach, to sustainable



development evaluation of PoAs and CPAs in order to help host countries speed up that process and reduce regulatory delays.

C. Designated operational entity liability

15. There are two central issues concerning DOE liability. One issue is the perception of the DOE liability as open ended and infinite and the consequences of no-fault liability. The main reason shared by the stakeholders is that the liability can be triggered at any point during the lifetime of a PoA. If the PoA is large the liability can become vast and difficult to determine ex-ante since volumes may be high and certified emission reduction (CER) prices might increase substantially in the future. Given the potential scale of the liability, this creates an unmanageable risk.

16. The other central issue regarding liability is the perceived need of reducing the DOE liability. Several stakeholders suggest to revise the existing “Procedures for Review of Erroneous Inclusion of a CPA (v.02)” in order to:

- (a) Share liability between PP and CME and clarify and limit the cause of erroneous inclusion:
A CPA shall be excluded when it is determined that it does not meet the eligibility criteria specified in PoA-DD with significant deficiencies related to fraud, malfeasance, or incompetence by PP/CME or the DOE. Include also a provision in case of changes to general CDM guidelines or PoA rules (which could have an impact on the assessment of the PoA eligibility criteria as defined in the PoA DD and become effective after the date of inclusion of a CPA), stating that those changes shall not lead to a retroactive determination by the Board of an erroneous inclusion.
- (b) Limit the scope of reviewing included CPAs:
A CPA which has passed the 1 year from inclusion and 6 months after 1st issuance whichever is later should be cleared from the sample check and should not be reopened for sample re-validation. Only those CPAs which are within 1 year of inclusion and the 6 months from issuance time line should be considered to be taken as a sample for check and not review again according to paragraph 10 (10% random sample) and further Para 16 (further 15% of included CPAs). Only the included CPAs under Request for Review shall be put on hold till EB gives the final decision and not the whole PoA. Other CPAs beyond the 1 year and 6 months timeline should be allowed to be verified and CERs should be issued.

17. In addition, the “Procedures for registration of a PoA as a single CDM project activity and issuance on CERs for a PoA” are suggested to be revised to reduce the DOE liability with regard to the methods to be applied to include CPAs and to verify the CPAs:

- (a) In many cases a document review is sufficient to ensure the CPA can be included and a site visit or an interview should only be performed in case the DOE has identified clear indications of misconduct or fraud by the Coordinating/Managing Entity. For PoAs consisting of homogenous activities, the inclusion of CPAs should be a standardised process like a simple check box approach.
- (b) Procedures for the validation of CPAs (at inclusion) and the verification of CPAs (PoA specific validation and verification protocols, non-ambiguous sampling plans) shall be fixed at the registration of the PoA and shall be applied by every DOE performing these services at a later stage. Thus improved consistency in the assessment can be ensured at from the very beginning. These validation and verification protocols need to be applied



in future assessments once the coordinating and managing entity (CME) starts to implement and roll-out the PoA.

- (c) Verification activities and consistency checks for CPA inclusion performed at the same time may result in single submissions to the Board, reducing transaction costs for PPs. Both should be based on the assessment of samples. In-depths checks of all CPAs before inclusion, the collection of data according to the monitoring plan and its “preliminary verification” shall be performed by or under the responsibility of the CME. The “final verification” which should be connected to the effective issuance of CERs should occur not more frequent than twice a year.
- (d) Gross negligence is by no way applicable to situations where individual CPAs have not been scrutinized in verification activities according to a documented sampling plan submitted at request for registration of the PoA. Notwithstanding the quality of such verification reports shall be included in the performance assessment of DOEs and shall therefore remain an essential step of the accreditation procedure.

18. Furthermore, another proposal entails the change in the “Procedures for Registration of a PoA as Single CDM Project Activity and Issuance of CERs for a PoA” (version 04.1), to allow the DOE who has performed validation/inclusion/ renewal of crediting period activities, to undertake verification of the CPAs for the same PoA. If not so, establish the advance approval process by the Board since it is lacking in the current procedure.

19. Other issues less frequently pointed out by stakeholders concerning the DOE liability are:

- (a) High transaction costs, high risks and long audit process are due to full DOE liability and full checking.
- (b) Concerns due to subjective assessment of eligibility criteria, e.g. additionality. Given the fact that the liability trigger is not limited to fraud and gross wilful misconduct by the DOE or PoA promoters, market participants can be held liable for all CERs on the basis of different, potentially subjective interpretations of the same guidelines or revisions to such guidelines introduced after inclusion of a CPA. It is not possible to exclude a scenario where different standards are applied ex-post to the PoA review process, and nothing in the PoA rules precludes such an eventuality.

D. Application of methodologies to programme of activities

20. The main concern raised regarding methodological issues is related to the application of multiple methodologies to a PoA. The combined application of methodologies is pointed out as critical for certain PoAs. But the requirement of prior submission of a request for the use of a combination of methodologies (EB 47, Annex 31, paragraph 2), is found discouraging, due to its additional delay in the registration of a PoA. There is a perceived need for a shorter timeframe for the approval of the combined application of methodologies.

21. The revision of methodologies (EB55, Annex 38) is seen as barrier for PoAs and CPAs, due to the frequent methodology changes observed under the CDM. It is suggested that once the methodology is revised, only the PoA should be revised accordingly and the DOE should be allowed to verify that the changes have been correctly included, without the requisite of the Board approval. The versions of methodology applied to already registered CPAs should be maintained until the renewal of the crediting period.



22. Some inputs imply that the current monitoring methodologies are not flexible enough for their application to PoAs (e.g. feasibility for PoA in least developed countries (LDCs) communities).

23. Few inputs point out that the de-bundling rules under a PoA are more restrictive than for a small-scale stand-alone CDM project activity, as two CDM project activities are not considered as de-bundled components of a large scale activity provided the first has been registered more than two years earlier. This exception does not apply to PoAs, as it has been dropped in paragraph 7 of the “Guidance for Determining the Occurrence of De-bundling under a PoA”. It is suggested to revise the aforesaid guidance to apply the same criteria established for a small-scale stand-alone CDM activity.

24. Other comments received refer to the application of standard approaches, such as default values and emission factors. The acceptance of default values from a certain approved methodology to be used when applying other methodologies was marked as a key element for the simplification of PoA procedures. Also, the use of standardized emission factors, such as electricity grid emission factor would contribute to improve the opportunities for PoAs, particularly in LDCs.

E. Improving the existing concept of PoA

25. Many suggestions were received proposing variants to the PoA concept with the aim of improving it. The following are the main ideas provided:

- (a) Integration of PoA and nationally appropriate mitigation action (NAMA) that serve a similar purpose. With the protection of the environmental integrity addressed on the NAMA level under the overall authority of the NAMA host country, the rules and procedures governing a PoA implemented in such systems could be simplified and more flexible;
- (b) Distinguish between programmes that promote micro-scale activities (e.g. cook stoves in households) and programmes that promote individual activities (e.g. small hydro power plant), to remove the additional layer of artificially structured CPAs and enable simplification of baseline setting, monitoring and additionality assessment to micro-scale activities;
- (c) Distinguish between commercial and pro-poor projects. Application of simpler methodologies and lower cost of project design and registration process for pro-poor projects;
- (d) Encouraging forestry and hedge forestry in urban centres, creating forestry PoAs as each garden in an urban household or a street side. Forestry PoA could give options for tree planting individually or massively, beating the limited attractiveness of forestry projects because of land size;
- (e) City-wide programs, which entail a deviation from the expectation of identical CPAs, allowing the application of different methodologies, but also promoting the municipal authority (as CME) to take strategic role identifying ER opportunities for implementation of PoAs, with geographical restriction to a smaller urban area, while ensuring transparency, credibility and environmental integrity;
- (f) Bundling concept can be thought of as a partial alternative to PoA concept, with some improvements in CDM guidelines applicable for bundled projects, allowing PP of bundled projects to include similar projects to be implemented in future, with consideration of different project start dates albeit within a shorter time span in



comparison with the PoA and crediting period. This would avoid the complex and time-consuming PoA approach, especially for micro-scale CDM components of a bundle.

F. CPA inclusion to PoA

26. The subsequent topic in importance is the CPA inclusion to PoA, which is a cross-cutting issue, as it is also related to DOE liability. However, in this segment the focus is on the two main concerns that stand out from the inputs received, which are the lack of clarity on the definition of CPA eligibility criteria and the scope of the eligibility criteria for CPA inclusion. Some of the inputs recommend the Board to provide guidelines for the defining the eligibility criteria, including also a sub-section in the PoA-DD on how the DOE is to judge whether the criteria are met.

27. Some inputs bring up that the CPA inclusion form to be filled-in by the DOE during CPA validation indicates checking almost all the major CDM parameters/issues (e.g. consistency/integrity, internal quality control aspects, additionality, emission factors). With current guidelines, it is not clear for DOEs how much time and efforts need to be put on to proceed for inclusion of CPAs. The lack of guidance for CPA inclusion into the PoA results in an overly cautious approach by the DOEs.

28. The inputs also highlight the insufficient clarity on what constitutes erroneous inclusion. Additionally, the erroneous inclusion review procedures leads to the assumption that secretariat will spend considerable efforts in the future on performing additional desk reviews for all CPAs, while there is in principle no incentive for the verifying DOE to report back non-verification issues at CPA sites, which are included for a first time in a sample undergoing a higher level of scrutiny.

G. Applicability of the existing rules to programme of activities

29. With regard to the applicability of the existing rules to PoAs, the inputs emphasize the necessity of explicitly stating which CDM rules apply to PoAs. One of the suggestions is to clarify that all approved baseline and monitoring methodologies, guidelines, clarifications and tools can be used for PoAs, unless explicitly excluded.

H. New rules/procedures for PoA

30. Some inputs indicate the need of new rules/procedures for PoA; specially sampling verification guidance/procedures to avoid DOEs to verify all CPAs, which result in high verification costs; and also guidelines for determining statistically sound verification techniques and methods. There is also a need for a process that enables the replacement of the initial CPA available when starting the validation of a PoA, given the case that this CPA does not meet the eligibility criteria. Otherwise such a PoA would never be able to be registered.

I. Other issues

31. Finally, other inputs stress a wide variety of issues which require to be considered and improved:

- (a) Monitoring procedures for the future CPAs can be improved/changed due to technological advancements and therefore there is a concern about whether to revise the monitoring plan in the registered PoA-DD or to allow different monitoring plans for CPAs of different vintages;
- (b) The request for issuance should be allowed for each CPA separately with flexible monitoring periods instead of a request for issuance for all CPAs included with a specified monitoring period, being consecutive. This will allow doing the verification and submission at different places as there is shortage of manpower and resources at both



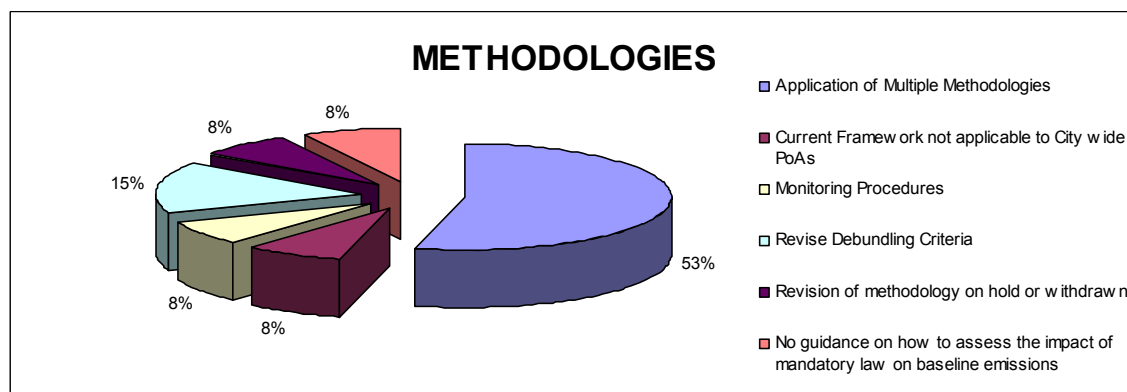
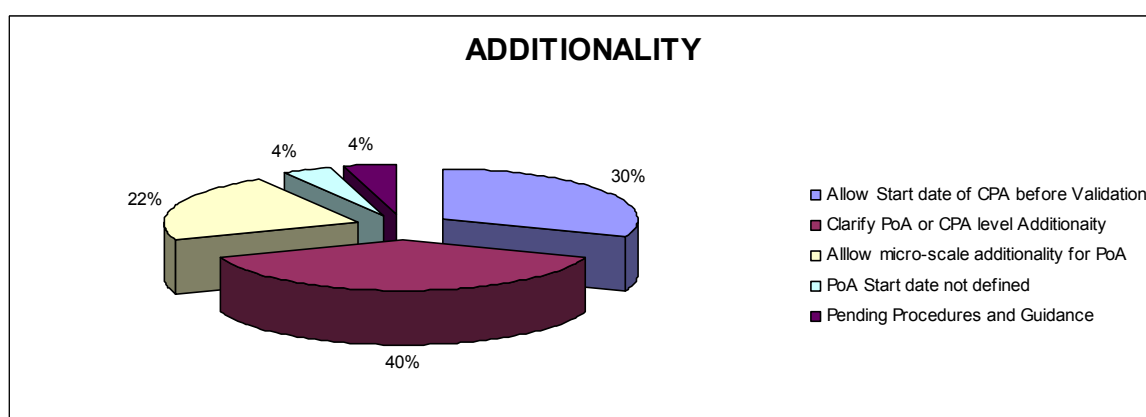
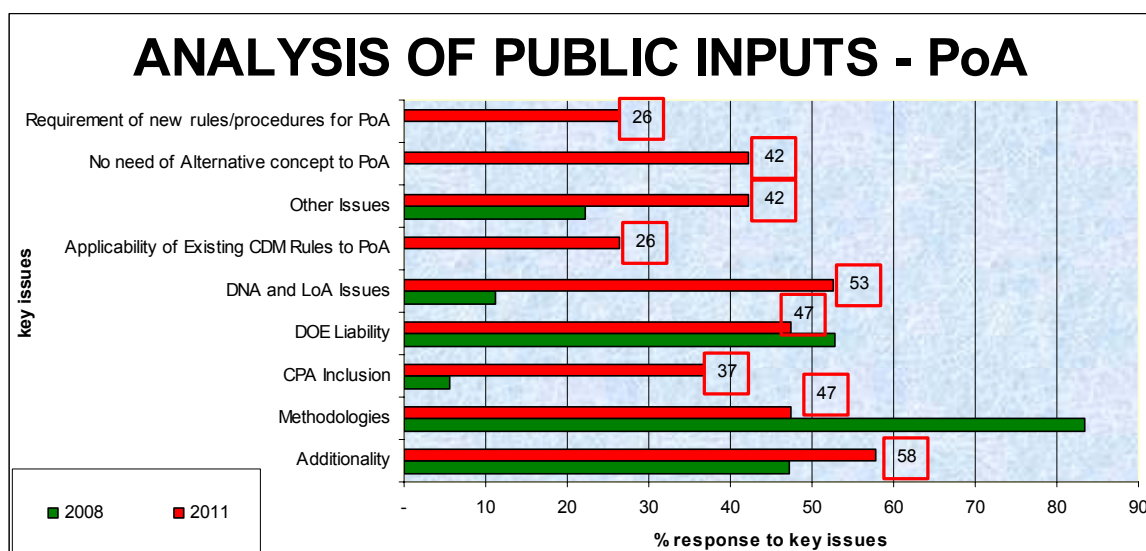
the DOE and PP end; also to facilitate the verification of multi-country PoAs. CPAs also could then have monitoring, verification and issuance as per the LDC and non LDC countries even if they all form a part of one PoA;

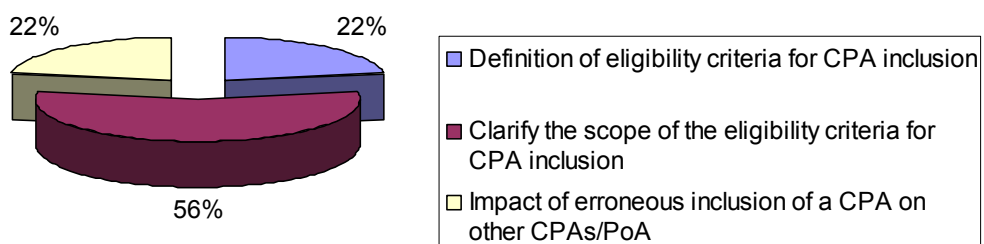
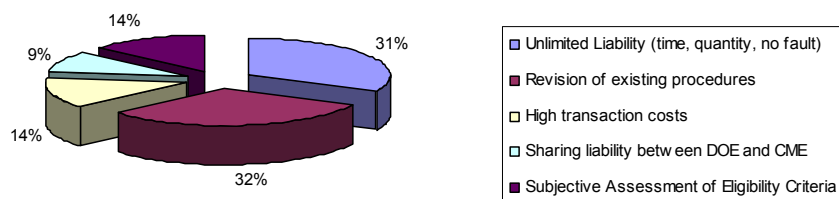
- (c) Lack of processes for PoAs that inhibit the key steps of the CDM process (uploading a monitoring report, uploading a final verification report, amendments to the PoA-DD), as well as lack of a clear point of contact at the secretariat for raising and resolving such procedural issues;
- (d) Since most PoAs may have different CPA implementers in addition to the CME at PoA level, the role of CPA implementer needs to be clearly defined and appropriate guidance including clarity on CER sharing between new CPA implementer and CME should be provided to the CPA implementers;
- (e) Clarity on the registration fee calculation in the case of multi-country PoA that includes both LDCs and non-LDCs.

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Appendix 1



**CPA INCLUSION****DOE LIABILITY****DNA & LoA ISSUES**