Small sized potential CDM projects

Results of UNDP’s analysis

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Environmentally Sustainable Development Group (ESDG)

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UNDP and small-scale CDM projects

- UNDP ‘per definition’ focuses on small-scale projects (sust./rural development)
- UNDP internal assessment to determine:
  - type of CDM projects UNDP could assist with
  - the CER generation costs for such projects
  - UNDP’s role in CDM projects
- Eight existing projects selected (mostly under implementation) and assessed using Netherlands guidelines for CERUPT 2001
Assessment main results

- ODA format projects
- Grant portion of investments up to 35%
- Calculation of CER over 15-25 years
- Often unrealistic assumptions made
- CH4 projects - CER cost (1-2 $/t CO2)
- Off-grid projects - CER cost > 10 $/t CO2
Main conclusions (1)

• Careful with generalization of results (only limited number of projects assessed)

• Only CH4 projects meet the international CDM cost-effectiveness criteria

• Small-scale / off-grid projects are expensive this is a FACT

• Enormous lack of capacity throughout the CDM project development cycle with virtually all stakeholders to be involved
Main conclusions (2)

• In the carbon **business** a number of issues are important that are hardly considered in the ODA, climate ODA environment:
  – assuming risks, access to equity and loan capital, avoiding delays (time is money)

• Focus is on bringing down CER generation costs (bundling, standardized baselines, streamlining validation procedures, etc.); [cost-effectiveness criteria]
Main conclusions (3)

• Although CDM projects are to contribute to sustainable development this is in practice secondary to the cost-effectiveness criteria.

• Willingness to invest in expensive CER’s for public sector and private sector Public Relations does exist.

• Willingness to invest in on-the-job learning does exist with public and private sector.
Main conclusions (4)

- The carbon business is per definition a Public Private Partnership (PPP)
- This ‘forced’ PPP does not imply that it works smoothly by itself. It needs assistance in its design and early years of operation
Main recommendations (1)

• Cost-effectiveness:
  – Continuation of exploring ways to bring down CER generation costs for small-scale projects (bundling, reducing baseline and validation costs, etc.)

• Sustainable development aspects:
  – Explore ways to set up and finance a CDM top-up fund for sustainable, rural development projects (renewables, off-grid, rural areas) - ODA??
Main recommendations (2)

- Practical/implementation aspects (financial)
  - Explore ways to fund CDM project preparation costs (as is done with GEF projects through the Project Preparation Development Facility - PDF A, B or C)
  - Explore ways to set up and finance risk mitigation and/or guarantee schemes to attract private sector investment capital required for joint carbon investments
Main recommendations (3)

• Practical/implementation aspects (financial)
  – Development of innovative and creative use of (host country) public funding sources:
    • debt for carbon investment swaps?
    • reduction of export/import duties and VAT reductions for carbon investment related activities
  – Systematically explore niche markets for public and private sector Public Relations CER’s
Main recommendations (4)

- Practical/implementation aspects (capacity)
  - Extensive CDM capacity building activities to be designed and implemented for all phases of the CDM project cycle
    - heavy focus on design and implementation
    - do not develop projects in a vacuum (e.g. pilot projects), but follow the carbon business rules throughout the project cycles
    - make a distinction between project based capacity building and institutional, programme oriented based capacity building
Main recommendations (5)

• Practical/implementation aspects (capacity)
  – extensive on-the-job training whereby twinning of international expertise to be considered as a rule and not as an exception
  – develop multi-year (~ 5 years) twinning arrangements, partnerships; for example CDER (Morocco) - ECN (Netherlands)
Main recommendations (6)

- Practical/implementation aspects (PPP)
  - design and assist in the implementation of carbon PPP’s
  - carbon PPP’s could be in various formats:
    - national private sector + national public sector
    - international private sector + national public sector
    - national private sector + international public sector (jointly with national public sector)
    - international private sector + international public sector (jointly with national public sector)
Specific role for UNDP (1)

- CERUPT 2001/PCF/others: on-the-job capacity building on actual projects:
  - provide guidance to project proponents, including CDM focal points, to ensure
    - a) project preparation assistance
    - b) ERPA’s
    - c) financial closure of projects

- CDM human and institutional capacity building for selected countries (depending on strong local presence of UNDP)
Specific role for UNDP (2)

- To provide first our second independent opinions on CDM projects and/or portfolios for non-annex 1 countries
- Transfer knowledge, experience and best practices on CDM for example through making use of the SURF’s
- Stretch current UNDP PPP activities to the area of carbon business