

## UNITED NATIONS DEVELOPMENT PROGRAMME

### Global Programme Project Document

Project Number: **GLO/99/H06/A/1V/31**

Project Title: **Engaging the Private Sector in Clean Development Mechanism (CDM) Project Activities under the UNFCCC/Kyoto Protocol**

Starting Date: 1 January 2000  
Duration: 24 months  
Overall Coordination/Reporting: UNFCCC Secretariat  
Lead Implementing Agency: UNDP  
Partner Implementing Agencies: UNCTAD and UNIDO  
Associated Entities: World Business Council for Sustainable Development (WBCSD)  
ACC/UNDP Sector: Environment (2010)  
Subsector: Energy and Environment

#### **Budget allocations for the UNFCCC Secretariat, UNCTAD, UNDP, UNIDO**

UNFCCC Secr. Coordination	50,000
UNCTAD Activities (incl. adm)	193,334
UNDP Activities (incl. adm)	966,666
UNIDO Activities (incl. adm)	290,000

<b>Total</b>	<b>US\$1,500,000</b>
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Financial Source : United Nations Foundation (UNF)

Note: Amounts listed for UNCTAD, UNDP and UNIDO include admin. costs, ref. budgets in section J

The point of departure for the project presented herein is the UNFCCC/Kyoto Protocol intergovernmental process and an overall proposal entitled "Capacity building support for a Clean Development Mechanism (CBS/CDM)" jointly prepared by the UNFCCC Secretariat, UNCTAD, UNDP, UNEP and UNIDO. This overall proposal was submitted by the UNFCCC Secretariat to UNFIP early 1999 and a subset of the activities and funding proposed was subsequently approved by UNFIP/UNF. The present project regards this subset of activities. The activities to be carried out in the short-term by the respective agencies under this project will provide information and experience for the further more long-term capacity building work to be carried out in the context of the overall CBS/CDM coordinated by the UNFCCC Secretariat. An updated version of the overall CBS/CDM is annexed for reference.

The project is a two year inter-agency collaborative effort involving the UNFCCC Secretariat (as overall coordinator responsible for coordinating and compiling all reports as chair of the Project Steering Group), UNDP (as lead implementing agency in the operational execution of project activities), UNCTAD and UNIDO. UNEP does not have operational activities under the project, but will play an important role in the work to be undertaken under other parts of the overall inter-agency proposal. The respective agencies are responsible for the execution of their respective work plans contained in this project document. In their execution of their respective work plans, and through the convening of the Project Steering Group, the agencies will seek to identify and capitalize on synergy effects. As lead implementing agency for the execution of operational activities, UNDP will have a particular responsibility to assist the UNFCCC secretariat in ensuring proper coordination of the project activities.

Furthermore, UNDP's activities under the project will be executed in close collaboration with the World Business Council for Sustainable Development (WBCSD). As such, the project will focus largely on engaging the private sector and providing other stakeholder groups with a private sector perspective relative to the CDM. This collaboration is aimed at stimulating and delivering "learning by doing" projects (CDM pilot projects) involving the private sector with the view to examine on a practical and pragmatic level the key issues associated with a viable CDM. As defined in the Kyoto Protocol, the purpose of the CDM shall be to assist developing countries in achieving sustainable development and contributing to the ultimate objective of the Convention, and to assist developed countries in achieving compliance with their emission limitation and reduction commitments. In order for developing countries to participate as equal partners with developed country counterparts under the CDM once the mechanism becomes operational, it is important to address issues related to development of baselines, monitoring, verification, auditing and certification of project activities, as well as assessment of costs and risks, in a consultative and transparent manner. The project will provide a neutral forum for addressing and demonstrating options for these and other emerging issues. The project can be deemed an exclusively charitable project because, as described in the project objective, it contributes to advancement of education through the learning by doing approach.

Elaborated workplans containing further specification of the objectives, activities and outputs defined by the present project document will be prepared by the respective agencies 31 March 2000. For the UNDP/WBCSD partnership, such workplan including country selection will be fully coordinated with the respective regional bureaux and the internal Climate Change Task Force chaired by the Director of the Bureaux for Development Policy and comprising members of all regional bureaux within UNDP. The UNDP/WBCSD partnership will be executed by UNOPS and a sub-contract will be issued to the WBCSD.

The project represents an important step towards the overall capacity building objectives of the overall inter-agency proposal referred to above. The project will address a number of the capacity building needs related to the CDM identified under the intergovernmental process, and will be modified as necessary if actions taken by the Conference of the Parties so require.

<b>Signed on behalf of</b>	<b>Signature</b>	<b>Name/Title</b>	<b>Date</b>
UNDP/BDP	_____	Ms. Eimi Watanabe Assistant Adm. & Director	_____
UNOPS	_____	_____	_____
UNCTAD	_____	_____	_____
UNIDO	_____	_____	_____
UNFCCC Secr.	_____	_____	_____

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<b>A.</b>	<b>CONTEXT</b>	
<b>A.1</b>	<b><u>The United Nations Framework Convention on Climate Change (UNFCCC)</u></b>	

A product of the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro in 1992, the United Nations Framework Convention on Climate Change (UNFCCC) is a treaty for environment and development. The ultimate objective of

the UNFCCC is to stabilise atmospheric concentrations of greenhouse gases at a level that would prevent dangerous anthropogenic (man made) interference with the climate system. This should be done within a time frame that allows ecosystems to adapt naturally to climate change, ensures that food supply is not threatened and enables economic development to proceed in a sustainable manner.

The UNFCCC contains general commitments for all Parties relating to reporting on inventories of greenhouse gases, national mitigation and adaptation plans, technology, policy integration, science, education and information exchange. Developed country Parties are committed to providing new and additional financial resources to meet certain agreed costs of developing country Parties' fulfilment of their commitments. The UNFCCC contains a stabilization objective for greenhouse gas emissions by developed country Parties. No similar provision exists for developing country Parties.

## **A.2 The Kyoto Protocol**

At its first session (1995), the Conference of the Parties (COP1) to the UNFCCC concluded that the commitments contained in the Convention were not adequate and agreed to begin a process (Berlin Mandate) to enable it to take appropriate action for the period beyond 2000, including the strengthening of the commitments of developed countries, the Parties included in Annex I of the Convention (Annex I Parties). The output of this mandate was the protocol adopted by COP3 in Kyoto in 1997. The Kyoto Protocol contains quantified commitments for developed country Parties and introduces several new mechanisms for cooperation among Parties in achieving compliance with their commitments. The Protocol, which is yet to enter into force, represents the international framework for achieving the ultimate objective of the UNFCCC. The operational modalities for the various provisions and mechanisms of the Protocol is currently under negotiation in the context of the Buenos Aires Plan of Action adopted by COP4 in 1998, scheduled to be concluded by COP6 (cf. Section A.3 below).

Under the Protocol, developed countries (Annex I Parties) are committed to reduce or limit their emissions of six specified greenhouse gases in the period 2008-2012 relative to 1990 levels by an aggregate of at least 5%. The Protocol provides a certain degree of flexibility in how the commitments may be met:

- 1) Article 6 of the Protocol allows Annex I Parties to transfer to, or acquire from, any other such Party "emission reduction units" from projects aimed at reducing GHG emissions or enhancing sinks of GHG emissions in any sector of the economy;
- 2) Article 12 of the Protocol defines a clean development mechanism (CDM) which purpose is to assist developing country Parties in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Annex I Parties in achieving compliance with their quantified emission reduction commitments under Article 3 of the Protocol.
- 3) Article 17 of the Protocol concerns emissions trading, which in contrast to the mechanisms defined in articles 6 and 12 is not project specific in nature. Annex I Parties may participate in emissions trading for the purposes of fulfilling their commitments under Article 3 of the Protocol.

Among the above mechanisms, only the CDM is designed to involve non-Annex I Parties.

## **A.3 Status Update on the UNFCCC Intergovernmental Process**

CoP4 convened in Argentina, November 1998, adopted the "Buenos Aires Plan of Action" (decision 7/CP.4). This plan, which was reconfirmed at CoP5 (decision 1/CP.5) in Bonn,

November 1999, sets a time table for defining the operational modalities for the Kyoto Protocol, including the mechanisms for international collaboration. According to the agreed time table, the decisions on operational modalities shall be taken at COP 6 to be held in the Netherlands (The Hague) in November of the year 2000.

Annex I of Decision 10/CP.5 on Capacity-building in Developing Countries lists capacity building under CDM as one of the capacity-building needs of developing countries, and is attached as annex 1. This list constitutes the point of departure for the project's activities on areas of learning, cf. section B.1 below.

#### **A.4 The Envisaged Role of the Project**

The point of departure for the project is the UNFCCC/Kyoto Protocol framework and intergovernmental process and the overall inter-agency project of the UNFCCC Secretariat, UNCTAD, UNDP, UNEP and UNIDO entitled "Capacity-building support for a Clean Development Mechanism (CDM)", attached as Annex 9.

Within the broader objectives of the inter-agency project, this project will focus on engaging the private sector and providing other stakeholder groups with a private sector perspective relative to the CDM through demonstration activities. This collaboration is aimed at stimulating and delivering "learning by doing" projects (CDM pilot projects) involving the private sector in one or more selected developing countries with the view to examine on a practical and pragmatic level the key issues associated with a viable CDM.

#### **A.5 Relevant Prior Assistance by UNCTAD, UNDP and UNIDO**

The implementing agencies under the project are UNCTAD, UNDP and UNIDO. Background information on their relevant prior experiences are provided herewith:

##### *Relevant Prior Assistance by UNCTAD*

UNCTAD has, for a considerable period of time, contributed to research and policy analysis in the implementation of the Kyoto mechanisms. In particular, extensive work has been done on the greenhouse gas emissions trading. The work has been documented in a series of publications. The latest of these publications "International Rules for Greenhouse Gas Emissions Trading – Defining the principles, modalities and guidelines for verification, reporting and accountability" was released in June 1999. The World Investment Report, one of UNCTAD's flagship publications, is the World's leading publication in the field of foreign direct investment. In its annual issues, it analyses policies and trends in foreign direct investment in general as well as in a regional and industry specific context.

In addition, UNCTAD is assisting developing countries and countries with an economy in transition in facilitating foreign direct investment flows to and among developing countries; and fostering transfer and diffusion of technology and capacity building. Through its Advisory Services on Investment and Technology (ASIT), UNCTAD has provided technical assistance to many of these countries directed to creating an enabling framework for investment and strengthening investment promotion efforts. It assisted the establishment of a world-wide network of investment promotion agencies through the World Association of Investment Promotion Agencies (WAIPA), which at present has reached a membership of 103 agencies from 102 countries, both of the developing and the developed world. This network supports the exchange of best practices and successful approaches in investment promotion, directed in particular to improve investor targeting and after-investment service capacities in developing countries and countries with an economy in transition.

### *Relevant Prior Assistance by UNDP*

UNDP's central goal is the eradication of poverty through sustainable human development. Many of UNDP's activities involve the reconciliation of the need for sustainable development with the mitigation of and adaptation to climate change through both socio-economic development and environment protection. The UNDP programme in support of the UNFCCC and Kyoto Protocol, considers climate change as one aspect of the broader set of issues that must be addressed within the context of sustainable development. Being one of the implementing agencies of the Global Environment Facility (GEF), UNDP is assisting over 100 countries in preparing national climate change action plans and strategies and with preparing their initial national communications to the UNFCCC. This assistance is aiming to reconcile the process of climate change policy development with economic planning and to ensure consistency with national development priorities.

Moreover, the UNDP Initiative for Sustainable Energy (UNISE) is providing practical models which demonstrate how energy can be used as an instrument for sustainable human development. UNDP's Energy and Atmosphere Programme has highlighted the essential linkages between energy policies and sustainable development in all areas of UNDP's programme focus. Its 1997 publication *Energy After Rio: Prospects and Challenges* was prepared to support international dialogue on energy and sustainable development links at the UN General Assembly Special Session which reviewed progress in implementing Agenda 21 five years after the Rio Earth Summit. *Energy After Rio* examines the unsustainability of current patterns of energy production and use, and outlines a reorientation of world energy systems to promote social and economic development, environmental protection, and geo-strategic security.

UNDP approaches the CDM as an opportunity to assist its programme countries with achieving sustainable development in a manner that is consistent with its overarching mandate. UNDP has coordinated the preparation of two CDM-relevant publications, "Issues and Options related to the CDM" and "Promoting Development while limiting Greenhouse Gas Emissions". Following COP 4, UNDP established initial capacity building in CDM project activities in Peru, the Philippines and South Africa (similar capacity building assistance related to article 6 of the Kyoto Protocol was earlier established in Bulgaria). These activities are currently under way involving local consultant teams working in consultation with the local UNDP field offices and the national UNFCCC focal points. Further activities in this area involving a broader range of countries are currently being formulated.

### *Relevant Prior Assistance by UNIDO*

Since the industrial sector has been designated by IPCC as one of the key mitigation sectors, UNIDO's involvement in climate-change-related activities falls naturally within its mandate, which is to support sustainable industrial development in developing countries and economies in transition. Responding to climate change is integral to achieving sustainable industrial development because, unlike any other development issue, climate change unites the problems of industrial development and environment through the nexus of energy services use, industrial production and economic growth. It therefore follows that, in operational terms, UNIDO's mandate translates into assisting its member States to move towards a more sustainable path of economic and industrial growth. This, in terms of climate performance, is best defined as decoupling the tight correlation between carbon emissions and industrial output and lowering the carbon intensity of industrial production.

In order to encourage a better understanding of energy saving process and technologies, UNIDO has published manuals on ten key industries: iron and steel, pulp and paper, textiles, cast iron foundry, tire manufacturing, ceramics, plastic forming, glass, cement and food

processing. The manuals provide information on energy management techniques and applicable energy conservation techniques and technologies. They are of particular interest to managers in industry and government, engineers and plant operators in developing countries and countries with economies in transition.

Other relevant work includes development of methodology and a software package for assessment of energy technology investment (IDENTIFY) that has a strong potential for being used as a practical tool for evaluating CDM investment projects in industry and UNIDO's work in various aspects of technology transfer, including capacity building for transfer, management and adaptation of low-emissions technologies, support for access to assessed information in industrial technologies and support to technology transfer negotiations (Manual on Technology Transfer Negotiations).

## **B. PROJECT JUSTIFICATION**

The project is a response to capacity building needs identified under the UNFCCC/Kyoto Protocol process and represents an important step towards identifying synergies among UN agencies related to facilitating the operationalization of the CDM. As defined in the Kyoto Protocol, the purpose of the CDM shall be to assist developing countries in achieving sustainable development and contributing to the ultimate objective of the Convention, and to assist developed countries in achieving compliance with their emission limitation and reduction commitments. In order for developing countries to participate as equal partners with developed country counterparts under the CDM once the mechanism becomes operational, it is important to address issues related to development of baselines, monitoring, verification, auditing and certification of project activities, as well as assessment of costs and risks, in a consultative and transparent manner. The project will provide a neutral forum for addressing and demonstrating options for these and other emerging issues.

### **B.1 Problem to be Addressed - Area of Learning: Capacity building in CDM project activities through facilitating "learning by doing" projects**

The project concerns issues related to capacity building in CDM project activities. At this stage, without an operational framework and incentive structure in place for the CDM, there is a concern that private sector perspectives are not being taken sufficiently into account in the intergovernmental process related to defining operational modalities for the mechanism. The obstacles to constructive and tailor-made private sector inputs appear to be lack of incentives to be early movers, lack of confidence in the political process, perceptions of risk, (perceptions on the likelihood of ratification of the KP, uncertainty of carbon emission reduction revenue streams, methodological risks, bureaucracy and transaction costs) and opportunity cost. Importantly, there is a need to generate understanding among other stakeholder groups (government, NGOs, national institutions) to better understand how private sector investment decisions will be made in relation to projects under the CDM, when it becomes operational. Against this background, the project will facilitate "learning by doing" projects involving the private sector. Public policy makers and other stakeholders will also be involved in the project with the view to stimulate dialogue and maximize the learning effects.

The project will address a number of the needs identified in relation to the CDM as per the decision on Capacity-building in developing countries adopted at CoP5 (decision 10/CP.5) as follows:

- Establishment of Institutional Linkages required for Implementation of the CDM;
- Project Identification, Formulation, and Design;
- Monitoring, Verification, Auditing, and Certification of Project Activities;
- Development of Criteria including for Sustainable Development Indicators (e.g - for

- adaptation);
- Development of Baselines;
- Project Negotiation Skills;
- CDM Demonstration Projects to enhance Capacity Building (learning by doing), including assessment of costs/risks (long and short-term);
- Data Acquisition and Sharing.

These aspects of capacity building in CDM project activities will be addressed by the activities under the project through practical case work and through learning by doing projects focusing on the following objectives:

- Assisting in achieving sustainable development at the local level, notably through contributions to economic growth, poverty alleviation, employment creation and reduction of local air pollution;
- Assist in systemizing the internalization of costs associated with GHG emission abatement, i.e. quantifying GHG emission abatement effects and providing cost-effectiveness estimates.

## **B.2 Expected Results and Possible Follow-up Activities**

Practical experience will be gained and shared among a range of stakeholders at the national level and reported to the international community regarding the identification and formulation of early start CDM projects. Emphasis will be placed on ensuring transparency in addressing the transaction costs for projects meeting the objectives of the CDM as defined in the Kyoto Protocol. Through a project development forum the project will develop methodologies and relationships enabling the private as well as public sector to embark upon CDM projects. In particular, the project will have generated a higher level of understanding about the role of the private sector and how it could function in relation to the CDM. The project is expected to deliver the following:

- Private and public sector, as appropriate, to engage in project identification and development with CDM considerations included as an integral component in the project design (thereby stimulating exploring of relevant issues on a practical level);
- Execution of one or more pilot projects involving the private sector. This will be facilitated through the covering of transaction costs associated with CDM related considerations, i.e. the private sector project proponent would cover all investment costs (receive no capital subsidy) while receiving financial support for some feasibility work, GHG monitoring, verification and certification by an independent entity.

For the specific outputs under the project reference is made to section D.

Lessons learned from the project will be shared and published, particularly within the UNFCCC process and its stakeholders. This will be an important part of the project and will be coordinated within the inter-agency project.

## **B.3 Target Beneficiaries**

The project will focus largely on the private sector, but may also be of benefit to financial institutions, public policy makers and non-governmental organizations (NGOs) in selected developing countries. The capacity of the private sector will be strengthened to engage in investing in early start CDM projects. The capacity of policy makers, financial and other relevant institutions and NGOs will be strengthened through a greater understanding of implementation aspects related to the CDM and the conditions for effective private sector participation. In this respect, the project will aim to build the capacity of all relevant stakeholders in selected host countries to participate effectively and meaningfully in the



CDM. The experiences gained and lessons learned will be shared with the international community through the UNFCCC process.

#### **B.4 Reasons for UNFCCC Secretariat, UNCTAD, UNDP and UNIDO Assistance**

In order to ensure consistency with the UNFCCC intergovernmental process, the UNFCCC Secretariat is the coordinator of the inter-agency project of which this project is a part. Beyond its functions to facilitate project coordination among the UN agencies involved and coordinate and prepare the reports (see section H), it has no specific activities under this project.

UNCTAD's extensive experience in promoting and facilitating foreign direct investment flows to and among developing countries, and fostering transfer and diffusion of technology and capacity building through its Advisory Services on Investment and Technology (ASIT) and its World Investment Report place it in an excellent position to assist developing countries in providing appropriate frameworks for attracting investors, also in relation to the CDM.

UNDP is the principal provider of technical assistance within the UN system. Being one of the implementing agencies of the Global Environment Facility (GEF), UNDP is assisting over 100 countries in preparing national climate change action plans and strategies and in preparing their initial national communications to the UNFCCC. This assistance is aiming to reconcile the process of climate change planning and policy development with the economic planning and to ensure consistency with national development priorities. Moreover, the UNDP Initiative for Sustainable Energy (UNISE) is providing practical models demonstrating how energy can be used as an instrument for sustainable human development. The CDM work will draw upon these experiences.

UNIDO's extensive experience in work with governments, business associations and individual companies in the industrial sector over the last 30 years places UNIDO in an excellent position to strengthen the capacity of developing countries to identify and develop CDM projects in the industrial sector.

#### **B.5 Special Consideration: Reason for Collaboration with the UN agencies**

In order to best serve the capacity building needs of Non-Annex I Parties under the UNFCCC and to avoid duplication of effort, it is important that UN agencies work together to identify synergies and coordinate efforts with the view to avoid duplication of efforts. As underlined by the UNF Board in its funding decision (refer Annex 2), the project is intended to represent a step forward in the integration of climate change related activities of the UN agencies under the leadership of the UNFCCC with each agency providing contributions consistent with their mandate and areas of expertise and experience.

#### **B.6 Special Consideration: Reason for Collaboration with the WBCSD**

The World Business Council for Sustainable Development (WBCSD) is a coalition of 125 international companies united by a shared commitment to the environment and to the principles of economic growth and sustainable development. Its members are drawn from 30 countries and more than 20 major industrial sectors. The WBCSD also benefits from a global network of national and regional business councils and partner organizations. The WBCSD was formed in January 1995 through a merger between the Business Council for Sustainable Development (BCSD) in Geneva and the World Industry Council for the Environment (WICE), an initiative of the International Chamber of Commerce (ICC), in Paris. The WBCSD aims to develop closer co-operation between business, government and all other organizations concerned with the environment and sustainable development. It acts as a

leading business advocate on issues connected with the environment and aims to create a framework that allows business to contribute effectively to sustainable development. In implementing the Kyoto Protocol, this mandate complements the role of the UN implementing agencies in assisting governments and delivering capacity building assistance related to climate change and in particular the CDM. Given that the confidence and participation of the private sector will be crucial for the development of a viable CDM, the collaboration with WBCSD represents a fundamental point of departure for the project.

## **B.7 Project Coordination Arrangements**

The project is a sub-project of the CBS/CDM involving the UNFCCC Secretariat, UNCTAD, UNDP, UNEP and UNIDO, cf. annex 9. The project, like the other 3 proposed sub-projects of the CBS/CDM, is coordinated within the inter-agency Project Steering Group, which is convened by the UNFCCC Secretariat and comprised by the project representatives of the respective UN agencies. This framework will ensure that project activities remain consistent with and conducive to the overall framework of the CBS/CDM and with the funding decision of the UNF/UNFIP Boards. The respective agencies are responsible for the execution of their respective work plans contained in section D of this document. In their execution of their respective work plans, the agencies will seek to identify and capitalize on synergy effects. As lead implementing agency, UNDP will have a particular responsibility to assist the UNFCCC Secretariat in ensuring proper coordination of the activities under the project. The present project document will, once approved internally within UNDP, be forwarded to the UNFCCC Secretariat for formal submission to UNFIP. The UNFCCC Secretariat has been duly consulted during the preparation of the project document and will endorse and forward the project document to UNFIP.

The funding for the project provided by UNFIP will be channeled through the UNFCCC Secretariat to UNCTAD, UNDP and UNIDO, respectively, according to the prescribed funding allocations. The UNF grant (USD 1,500,000) will be deposited in the special account created for this purpose by the UNFCCC Secretariat, ref. Basic Implementation Agreement (BIA) between UNFCCC Secretariat and UNFIP, Article VIII para 1 (a)). The secretariat will retain USD 50,000 in order to help cover development, coordination, reporting and administrative costs incurred by the project. The remaining USD 1,450,000 will be allocated as follows: UNCTAD: USD 193,334, UNDP: USD 966,666 and UNIDO: USD 290,000. The secretariat will transfer the funds to UNCTAD and UNIDO in one tranche. The secretariat will transfer USD 966,666 to UNDP as per the following schedule:

1 January 2000:	USD 639,727
1 January 2001:	USD 326,939

On the basis of the BIA and the present project document, the UNFCCC Secretariat and UNCTAD, UNDP and UNIDO, respectively, will establish Memorandums of Understanding (MoUs) for the implementation of the respective activities under the project. The UNFCCC Secretariat, as chair of the Project Steering Group (PSG), will compile the financial and substantive reports submitted by UNCTAD, UNDP and UNIDO, respectively, for submission to UNFIP in accordance with the procedures established by the BIA, ref. section H for the specific reporting requirements.

The PSG will meet regularly, in conjunction with UNFCCC COP or Subsidiary Body meetings or through teleconferencing, to exchange information for the purposes of the overall collaborative framework and to explore synergies in the implementation of project activities. No costs will be incurred for travel expenditures, etc. for convening the PSG or other coordination activities under the project. The membership of the PSG will be as follows:

### **Table 1-1 Permanent Membership of Project Steering Group**

UNFCCC Secretariat (Chair):	Mr. Janos Pasztor
UNCTAD:	Mr. Frank Joshua/Mr. Joerg Simon
UNDP:	Mr. Thomas Johansson/Mr. Geir Sjoberg
UNEP:	Mr. John Christensen/Ms. Anja Janz
UNIDO:	Mr. Robert Williams/Ms. Marina Ploutakhina

In addition, representatives of countries participating in project activities and of the WBCSD, UNF and UNFIP will be invited to participate in meetings of the PSG as deemed appropriate by the permanent members. Annex 3 specifies the terms of reference for the PSG.

For the respective parts of the project, separate project management groups may be established to facilitate day-to-day operational activities. For the UNDP/WBCSD partnership, the Project Management Group (PMG-UNDP/WBCSD) will comprise the PSG members of UNDP and WBCSD as well as a representative of the UNF. The UNFCCC Secretariat Project Manager is an ex-officio member of this and any other steering committee or project management group established to facilitate the activities under the project. The PMG will coordinate necessary implementation arrangements and will report on implementation progress to the PSG, including with respect to country selection. Annex 4 specifies the terms of reference for the PMG.

### **B.8 Project Expansion Provision**

The respective agencies may individually seek to raise additional funding thereby making possible a wider outreach of activities in accordance with the present project document. The respective agencies will individually manage any such additional funds. Information sharing with the UNFCCC Secretariat and the other partners in the inter-agency framework will continuously be carried out through the Project Steering Group referred to above.

In order to expedite the project activities, the present project document will serve as the substantive and procedural basis for any project expansion and inclusion of further programme countries.

## **C. DEVELOPMENT OBJECTIVE**

The development objective of this project is to facilitate effective governance and handling of risk in relation to the CDM. A necessary first step in this regard will be to generate the required understanding among different stakeholders in participating countries related to the clean development mechanism and its potential to contribute to sustainable development objectives while at the same time reducing the growth in emissions of greenhouse gases through active participation by the private sector. The project will focus on concrete learning-by-doing projects in order to illustrate on a practical level win-win opportunities, i.e. projects that can successfully meet both the objectives of the CDM as defined in the Kyoto Protocol, and the governance requirements inherent therein.

The longer-term developmental and global objective is to further the implementation of the UNFCCC/Kyoto Protocol and promote sustainable development by elaborating and testing methodologies, mechanisms and tools for project development and investment promotion that can help to reduce the high transaction costs involved in CDM transactions. High transaction costs are likely to reduce the cost-effectiveness of CDM projects, jeopardizing in turn the inflow to developing countries of resources and technologies for sustainable development. The activities under the project will help to refine the project development and implementation capacities of selected developing countries, lower the transaction costs of CDM operations and facilitate the efficiency and the volume of market activity in future CDM investments.

The experiences gained will be shared among all Parties to the UNFCCC and are intended to form part of the bank of knowledge and information required to develop a viable CDM on the international level.

## **D. OBJECTIVES, ACTIVITIES AND OUTPUTS**

The respective agencies are individually responsible for the execution of their respective work plans as defined under this section of the project document. In their execution of their respective work plans, the agencies will through the Project Steering Group seek to identify and capitalize upon synergy effects. Elaborated workplans containing further specification of the objectives, activities and outputs listed below shall be prepared by each agency by 31 March 2000.

### **D1. UNFCCC SECRETARIAT: OBJECTIVES, ACTIVITIES AND OUTPUTS**

The role of the UNFCCC Secretariat in the project is to act as overall coordinator with the key objective to ensure consistency of all project activities with the UNFCCC intergovernmental process. Beyond the coordination activities referred to in section B and the reporting requirements referred to in section he UNFCCC Secretariat will have no operational activities or outputs under the project.

### **D2. UNCTAD: OBJECTIVES, ACTIVITIES AND OUTPUTS**

UNCTAD's contribution to the project is focusing mostly on up-stream activities related to investment in CDM projects. This includes the improvement of the enabling framework for CDM investments, reinforcement of the institutional framework for CDM investment promotion and strengthening relevant investment promotion activities. Particular emphasis will be given to establishing national coalitions of interest including the representatives of the government, investment promotion agencies, private sector and non-governmental organizations (NGOs). The assistance to governments and investment promotion agencies will be carried out by a demand-driven Advisory Services on CDM Investment, which will respond to requests for technical assistance from participating non-Annex 1 countries. UNCTAD will closely co-operate with the World Association of Investment Promotion Agencies (WAIPA) which at present has reached a membership of 103 agencies from 102 countries, both of the developing and the developed world. Through the world-wide WAIPA network UNCTAD will contribute to (i) raising awareness in investment promotion agencies for CDM investments and their potential to national economies as well as for the environment, (ii) exchanging information on best practices and successful approaches, and (iii) national capacity-building in CDM investment promotion.

Elaborated workplan containing further specification of the objectives, activities and outputs listed below shall be prepared by UNCTAD by 31 March 2000.

#### **D.2.1 Objective 1; Activities and Outputs**

**Immediate Objective 1.** Strengthen the capacity of governments, investment promotion agencies and private sector institutions in participating countries in order to improve the enabling framework for CDM investment, reinforcement of the institutional framework for CDM investment promotion and strengthening relevant investment promotion activities.

Activities to meet Immediate Objective 1:

Analyse the framework for CDM investments, institutional framework for CDM investment promotion and relevant promotion activities, prepare subsequently recommendations for enhancing the enabling environment for CDM investments and their promotion, and develop an action plan for the implementation of the recommendations. Develop and implement a training programme for officials related to the enabling environment for CDM investments and its promotion. Assist in the creation of a national coalition for promoting CDM investments including representatives of government, investment promotion agency, private sector and NGOs. Participate in the Project Development Forum. Establish at UNCTAD the Advisory Service on CDM Investment including the development of a roster of highly qualified experts.

Output/Success Criteria:

Agreed action plan for the implementation of the recommendations. Established round table mechanism for the national coalition of interest. 20 experts trained in CDM investment targeting, including experts from government, investment promotion agency and private sector. Established demand-driven Advisory Service on CDM Investment and a roster of experts.

**D.2.2 Objective 2; Activities and Outputs**

**Immediate Objective 2.** Raising awareness in investment promotion agencies for CDM investments and their potential to national economies; contribute to national capacity building through international networking, exchanging information on best practices and successful approaches, and providing CDM investment promotion related training.

Activities to meet Immediate Objective 2:

Distribute information on the role of CDM investments, best practices and successful approaches in improving the enabling environment for CDM investments and their promotion, by using the world-wide network of WAIPA and its manifold activities (conferences, training, publications, Internet discussion forum and website). Prepare a two-day training programme on targeting CDM investments. Prepare case studies on successful CDM investment promotion. Prepare information material on investor strategies in the energy sector, including e.g. information on location decision making, selection criteria, investor needs on information, financing mechanism, risk management.

Output/Success Criteria:

Organized panel on CDM investments and its promotion in two annual conferences of WAIPA. Organized one regional training workshop with 20 participants on targeting CDM investments. Published two case studies on successful CDM investment promotion. Published information material on investor strategies in the energy sector.

**D.3 UNDP: OBJECTIVES, ACTIVITIES AND OUTPUTS**

UNDP's part of the funding made available for the project requires implementation in partnership with the WBCSD. The project has been designed with both UNDP and WBCSD objectives in mind and in consistency with the existing MoU between the two institutions. As such, the project is innovative in nature involving the private sector as a key partner in its execution.

Elaborated workplan containing further specification of the objectives, activities and outputs listed below shall be prepared by 31 March 2000. For the UNDP/WBCSD partnership, such

workplan including country selection will be fully coordinated with the respective regional bureaux and the internal Climate Change Task Force chaired by the Director of the Bureaux for Development Policy and comprising members of all regional bureaux within UNDP. The activities under the project will be developed in consistency with the UNDP mandate and policy approach to climate change and will be developed so as to create linkages and synergies across the global, regional and national levels of support to UNDP programme countries. The elaboration of the detailed workplan will be undertaken in close consultation and partnership with the WBCSD secretariat in Geneva and its local affiliates in the selected programme countries.

Operational coordination of the activities in the UNDP/WBCSD partnership under the project will within UNDP rest with the Energy and Atmosphere Programme (EAP/SEED/BDP) through an appointed staff. 50% of the costs for this staff will be met through the project budget. Additional costs will be met by UNDP from other sources. The WBCSD has designated a Program Manager responsible for coordinating the WBCSD's participation in the partnership.

As an overall objective, the experiences gained and lessons learned through the UNDP/WBCSD partnership exploring private-private and private-public collaboration in the context of the CDM, will be shared with the international community through the intergovernmental UNFCCC process, particularly in relation to operational modalities for the mechanism. The specific objectives, activities and outputs are defined below. Annexes 4, 5, 6, 7 and 8 concerns the UNDP-WBCSD partnership specifically and further sets out the modus operandi for the execution of this partnership.

### **D.3.1            Objective 1; Activities and Output**

Objective 1:    Enable local private sector to identify and configure suitable projects in a Kyoto Protocol/CDM context by addressing the following objectives:

- Assisting in achieving sustainable development at the local level, notably through contributions to economic growth, poverty alleviation and reduction of local air pollution;
- Assist in systemizing the internalization of costs associated with GHG emission abatement, e.g. quantifying GHG emission abatement effects and providing cost-effectiveness estimates.

#### Activities to meet Objective 1:

Project Development Forum organized on the basis of learning material prepared for project development in close collaboration with the WBCSD and its members. The learning material and forum will be the first output of the UNDP/WBCSD partnership and will aim at facilitating real “learning by doing” commercial projects by the private sector, serving as a practical laboratory for research and learning about the issues related to a viable CDM. A provisional methodology for identifying and selecting potential CDM projects will be developed. The objective is to provide a vehicle that will allow different constituencies to explore, understand and discuss private sector investment considerations (e.g. related to economic and project risk assessment, assessment of incremental impact of carbon revenue stream, materiality, strategic fit etc).

#### Output/Success Criteria:

Execution of interactive Project Development Forum producing models for identifying, configuring, selecting, administering, and attracting appropriate private sector investment in early start CDM projects. The two-day Project Development Forum will effectively demonstrate and discuss the process of identifying and configuring suitable projects.

### **D.3.2            Objective 2; Activities and Output**

Objective 2: Generate a portfolio of relevant projects in a CDM context to be available for investors

Activities to meet Objective 2:

UNDP/WBCSD will jointly issue a request for project proposals (for “early start CDM projects” or “CDM pilot projects”) in accordance with the process and methodologies developed through the Project Development Forum, in order to develop a portfolio/pipeline of relevant projects. The proposals received will be screened against the success criteria listed below.

Output/Success Criteria:

A portfolio of relevant projects established prior to COP6 effectively demonstrating how the two main objectives of the CDM (as defined by article 12 of the Kyoto Protocol) may be met on a project basis. An attractive pipeline of early start CDM project proposals will be consistent with national development strategies and will contain potentially bankable projects. Project screening criteria include:

- ⇒ Local ‘ownership’ of project needs be established (e.g. host country project partner within the private sector identified as co-sponsor of proposal);
- ⇒ Proposed project must promote established development priorities and strategies in the host country (for instance economic development plans, national Agenda 21 or the alike);
- ⇒ Proposed project must clearly demonstrate benefits in terms of avoided GHG emissions additional to what would otherwise occur and should entail environmentally sound application of technology;
- ⇒ Proposed project must be formulated consistent with the approach and methodologies developed and illustrated through the “prototyping” derived at the Project Development Forum;
- ⇒ Proposed project must have a sufficient internal rate of return to be viable from a private sector perspective after GHG considerations are internalized, i.e. be bankable.

### **D.3.3 Objective 3; Activities and Output**

Activity 3: Execution of investment grade feasibility study for 1-2 project(s) within the established portfolio as a practical demonstration of how to internalize GHG considerations.

Activities to meet Objective 3:

On the basis of the effective screening of project proposals under activity 2 above, the most suitable project(s) will be promoted for the undertaking of investment grade feasibility study(ies) for the further “learning by doing” as a CDM pilot project. The investment grade feasibility study will internalize the global benefits related to GHG emission reductions and consider the possible additional revenue stream stemming from Certified Emission Reduction Units (CERUs). CERUs will be treated as an additional project revenue stream. It is particularly important to sensitize local project proponents to the possibilities thus inherent in the CDM in order for host countries to participate under the CDM on equal footing with developed country partners.

Output/Success Criteria:

Suitable project selected and feasibility study launched prior to COP6. The project selection will need to be performance based, reflecting the quality of the proposal and the commitment of the proponent (demonstrated inter alia through a cost-sharing arrangement), the credibility and experience of the entity submitting it and the merits of the specific project. Detailed

criteria for the selection of demonstration projects will be developed. For consistency with the role as demonstration project(s), a premium will be placed on project(s) that are replicable and can deliver convincing results in a 1-2 year time frame.

#### **D.3.4            Objective 4; Activities and Output**

Objective 4:    CDM Early Start Project to be Executed by Private Sector Entity or Entities and verified by Independent Third-Party as timely follow-up to COP6

##### Activities to meet Objective 4:

On the basis of the relationships and methodology developed through the project development forum and the investment grade feasibility study undertaken under activity 3 above, the launching of an early start CDM project will be facilitated involving local private sector in collaboration with international WBCSD partner(s). There will be no capital subsidy for the project investments, which will be undertaken on commercial terms, i.e. the project take-up will rely completely on commercial viability under GHG emission abatement cost internalization. A third-party will be contracted to carry out independent verification and certification. The transaction costs related to GHG monitoring, verification and certification will be supported as may be required for making the project feasible as a CDM early start project from a private sector perspective.

##### Output/Success Criteria:

One or more CDM early start project(s) launched as a timely and expedient follow-up to COP6. The CDM early start project should successfully meet all the criteria developed through the UNDP/WBCSD partnership and be consistent with the project criteria established as part of the operational modalities adopted for CDM at COP6. Specifically, the CDM early start project should demonstrate how the criteria and operational modalities established by COP6 may be translated into a concrete project. In the event that no project criteria are established at COP6, the project would still serve as a test case for the methodology developed through the UNDP/WBCSD partnership and be reported upon accordingly to the intergovernmental process. GHG monitoring, verification, and certification processes that are cost effective and contribute to the approval of projects in line with national development priorities will be recorded and reported upon throughout the project duration.

### **D.4    UNIDO: OBJECTIVES, ACTIVITIES AND OUTPUTS**

#### **D.4.1   Strategy, Objectives, Outputs**

UNIDO's contribution to the project focuses on assisting potential CDM recipient countries to build the capacities required for launching CDM programmes and projects in the industrial and energy sector. The activities are designed to cover all the stages of the CDM project cycle, including the identification, formulation and design of CDM industrial projects, focusing in particular on the development of methodological options for the baseline and additionality analysis and on the project promotion and implementation tasks.

The promotional activities will be carried out through the UNIDO investment promotion network and through training and investment forum activities. UNIDO's Investment and Technology Promotion Offices are located in Athens, Beijing, Bahrain, Milan, Moscow, Paris, Seoul, Tokyo, UK and Warsaw. The network is uniquely positioned for promoting CDM investment opportunities in industry to potential investors in Annex B countries.

The project design phase will incorporate much of the data and analytical requirements for carrying out the implementation tasks of monitoring, reporting and evaluation (e.g.



determination of spatial and temporal boundaries, and dynamic effects due to market transformation). The MREVC issues are therefore closely linked with the calculation of baselines and should be addressed in the context of the baseline quantification work, which in the context of this component will be carried out as a capacity-building activity through training, workshops and seminars and as UNIDO's contribution to the development of the methodology and tools for project formulation. The development of these tools and methodological options is specifically targeted to energy-efficiency projects in the industrial and power sectors.

The activities envisaged in this context are also designed to provide comprehensive assistance with strengthening the capacities of recipient countries in the area of CDM investment promotion, with the aim of bringing commercial opportunities in the industrial sector to the attention of potential investors. Since such capacities can only be built when solid institutional structures are in place, UNIDO's activities are also aimed at strengthening the institutional capacities of the industrial sector required to carry out the various tasks of the CDM industrial project, including the methodological aspects of project design and the operational aspects of investment promotion and project implementation, monitoring and verification.

Elaborated workplan containing further specification of the objectives, activities and outputs listed below shall be prepared by UNIDO by 31 March 2000.

#### **D.4.2 Objectives and Outputs**

The capacity-building activities are designed to cover the entire project cycle, that is to say identification and design, investment promotion and project implementation. Because of the intricate linkages between the quantification of baselines and project monitoring and the verification of emissions reductions, the activities in monitoring, verification, reporting and certification are linked with the methodological work and will be carried out as capacity-building activities in the context of capacity-building for project design and implementation.

The immediate objective of UNIDO's component is to facilitate the building and/or strengthening of the capacities at the national level that will enable non-Annex 1 parties to lead the process of identification and priority-setting for CDM mitigation activities in the industrial sector. The longer-term developmental objective is to elaborate and test international methodologies, mechanisms and tools for the formulation, development and promotion of CDM investment opportunities in the industrial sector. The activities will be carried out in a sector-specific context, focusing on end-use and supply-side energy-efficiency projects in the industrial and energy sector and on some key energy-intensive subsectors (i.e. cement, pulp and paper, iron and steel, food, and fertilizers).

#### **The objectives:**

1. To strengthen the capacities of participating countries in the identification, formulation, assessment and promotion of CDM investment projects in the industrial sector;
2. To bring commercial opportunities for CDM industrial investment to the attention of potential investors;
3. To field-test and modify the existing UNIDO tools for investment project profiling and appraisal and to include baseline-setting and CO<sub>2</sub> emissions reductions quantification functions so as to provide standards for the formulation of CDM projects in the industrial sector;

4. Through the above, to support the reduction of the transaction costs of CDM operations in order to increase the efficiency and the volume of market activity in CDM in the industrial sector.

**Immediate Objective 1.** Strengthening technical and institutional capacities of participating countries in methodological applications for identification, development, promotion and implementation of CDM industrial projects, focusing particularly on construction of project-specific baselines and additionality and financial and economic appraisal of CDM investment options

**Output 1.1** Enhanced awareness and strengthened institutional mechanisms and linkages for CDM industrial project development and promotion.

**Activity 1.1.1.** Preparatory mission to participating countries to verify the project concept, to assess capacity building requirements for CDM project support and to brief the counterparts on project objectives and activities;

**Activity 1.1.2.** Workshop in each participating country with key stakeholders on methodologies for development and promotion of CDM industrial projects .

**Output 1.2.** National counterpart personnel designated for CDM project development trained in financial and economic appraisal of CDM investment opportunities and in issues related to defining and calculating project baselines.

**Activity 1.2.1** Technical training seminars with the view to strengthening capacities in CDM project, identification, formulation, appraisal and implementation.

**Activity 1.2.2.** The practical “learning-by-doing” project formulation work under the guidance of international expert(s) to enhance capacity building in project identification.

**Immediate Objective 2.** Identification and formulation of CDM projects portfolio and full assessment of the CDM investment opportunities in terms of their financial and economic viability and well as with regard to the additionality of the expected emissions reductions.

**Output 2.1.** Portfolio of CDM projects screened using UNIDO methodologies for economic and financial project appraisal (COMFAR) and the methodologies, techniques and algorithms for additionality assessment.

**Activity 2.1.1.** Identification and prioritizing of potential mitigation options for CDM project proposals with the view to creating a consolidated portfolio of project proposals in cooperation with key national stakeholders (e.g. national and regional government, industry, business associations).

**Activity 2.1.2** Selection of potentially viable CDM investment projects and preparation of detailed profiles of project the project idea and of the promoting enterprise (i.e. host country enterprise).

**Activity 2.1.3.** Appraisal of baselines and additionality and of the financial and economic viability of the identified CDM project options.

**Output 2.2.** Development of management tools (i.e. methodologies, guidelines, algorithms) for baselines and additionality assessment for energy efficiency projects.

**Activity 2.2.1.** Preparation of guidelines and algorithms for CDM project appraisal and screening, based on principles and criteria developed in the context of project appraisal envisaged under Activity 2.1.1.

**Immediate Objective 3.** To bring commercial opportunities for CDM industrial investment to the attention of potential investors;

**Output 3.1.** Potential CDM investors in Annex 1 countries made aware of CDM industrial investment opportunities in the three target (i.e. participating) countries through CDM investment promotion mechanisms and UNIDO networks for investment promotion.

**Activity 3.3.1.** Preparation of a CDM Investor Guide for each participating country, listing the institutions, regulations, procedures and opportunities for CDM industrial projects and providing a broad overview of a country's energy, environment, climate and investment policies/regulations;

**Activity 3.3.2** Placement of a "delegate" (i.e. a CDM investment Promotion officer from each participating country) to UNIDO's Investment and Technology Promotion Offices (ITPOs) located in financial centres around the world with the view to linking national CDM promotion offices to an international system of investment promotion;

**Activity 3.3.3.** Special promotion mechanisms developed with ITPO through a workshop;

**Activity 3.3.4.** Broad promotion activities carried out through UNIDO's international promotion network.

**Activity 3.3.5** A CDM project promotion investment forum - an investment promotion event with the view to introducing CDM investment opportunities and promoting business-to-business partnerships for CDM projects in the industrial sector.

## **E. INPUTS**

### **E.1 Inputs by UNFCCC Secretariat**

The UNFCCC Secretariat will convene the meetings of the Project Steering Group and will coordinate and prepare the financial and substantive reports to be submitted to UNFIP.

### **E.2 Inputs by UNCTAD**

UNCTAD will provide, in addition to in-kind contributions of its staff, the following:

- Stand-by Advisory Services on CDM Investment, driven by demand and providing assistance to governments, investment promotion agencies, private sector institutions and NGOs;
- International and/or national institutions and/or consultants who will be recruited directly;
- Cooperation with the World Association of Investment Promotion Agencies (WAIPA) for effectively utilizing its world-wide network;
- Training material, reports, information material in hard copy and in electronic form.

### **E.3 Inputs by UNDP**

- Partnership with the World Business Council for Sustainable Development (WBCSD) including through a sub-contract with its Secretariat;
- Services of UNDP's Country Office(s) in the programme countries that will host the project activities;
- The services of UNDP's CDM Programme Coordinator;
- International and/or national institutions and/or consultants who will be recruited either under subcontract or directly;
- Learning material: Reports, information sheets, handouts at workshops.

In providing the above, UNDP will work jointly with the WBCSD and seek co-operation with and participation of national and as relevant international organisations.

### **E.4 Inputs by UNIDO**

- Services of Project Manager (staff member) to manage UNIDO's participation in the project (section D3) involving:
- Administrative procedures including subcontracting, recruitment and the organisation of workshops.
- Monitoring progress with implementation over the period of project duration and (through the Project Steering Group) revising the workplan and schedule of activities as appropriate.
- Responsibility for financial management of UNF inputs to UNIDO's component of the project (with the support of UNIDO's financial services branch). Update project budget as required.
- Undertake monitoring missions and evaluate causes for any delays with implementation and initiate remedial action.
- Identification, competitive selection and recruitment of international and national experts.
- Finalize job descriptions, conduct briefing/debriefing of international experts Evaluate all experts' and consultants' reports prior to submission to the Project Steering Group.
- Assessment of all TOR, job descriptions and training programs with respect to their gender sensitivity.
- Organisation of training programmes and evaluation of training reports prior to submission to the Project Steering Group.
- Services of UNIDO's network of Investment Promotion Offices ( Athens, Beijing, Bahrain, Milan, Moscow, Paris, Seoul, Tokyo, and Warsaw ).
- Services of UNIDO's Field Offices in developing countries that will host the project.

### **F. RISKS**

A main risk associated with the project is that the activities of the respective agencies will fail to provide for synergies and represent extensive coordination requirements that do not provide for the sufficient value-added. The Project Steering Group will address this risk in a pragmatic and practical manner. With the view to minimize the coordination transaction costs, the immediate objectives of the project have been designed in such a way so as to complement one another while at the time allowing agencies to take leadership in their respective areas of expertise.

Another risk relates to the possibility that the project, which focuses on engaging the private sector, may be seen as insufficient in involving other stakeholder groups. The UNFCCC Secretariat, as chair of the Project Steering Committee, will have a particular responsibility in facilitating that a proper balance for involving other stakeholder groups are appropriately

reflected in the overall CDM capacity building work. The Project Steering Committee will continuously review the consistency of the project's activities with decisions related to the clean development mechanism adopted by the UNFCCC COP.

## **G. PRIOR OBLIGATIONS AND PRE-REQUISITES**

All participating countries in the proposed project should be Non-Annex I parties to the UNFCCC and must have ratified the Convention. In addition, as a pre-requisite, all activities under this project will be designed in such a way as to be consistent with relevant guidelines, modalities and procedures being negotiated under the framework of the UNFCCC and the Kyoto Protocol.

## **H. PROJECT REVIEWS, REPORTING, AND EVALUATION**

The UNFCCC Secretariat will be responsible for facilitating and meeting all reporting requirements, both substantively and financially for this project in accordance with its Basic Implementation Agreement (BIA) with UNFIP. UNCTAD, UNDP and UNIDO will forward all reports to the UNFCCC Secretariat in accordance with this project document and the MoU's governing the transfer and use of the UNF grant. In each case, regular agency monitoring and evaluation procedures and guidelines will apply. The respective agencies' focal points for reporting under this project shall be announced by the respective agencies as soon as the project is operational. A review of the scope and nature of the project activities will be undertaken, as need be, based on the outcomes of the COP6 meeting. Further evaluation of the project will not be required by the UNF/UNFIP.

All partner agencies shall provide to the UNFCCC Secretariat, for its compilation and submission to UNFIP with copy to all partner agencies, the following financial and substantive reports corresponding to their respective substantive and financial components as outlined in the project document (these reports shall be provided a minimum of 1 week prior to the due date, allowing for them to be consolidated into one report):

1) Quarterly Reporting: Unaudited financial utilisation (expenditure) reports should be delivered electronically to UNFIP with a copy to partner agencies four times a year in the standard format provided Annex 10, no later than

- 15 April (1<sup>st</sup> quarter report)
- 15 July (2<sup>nd</sup> quarter report)
- 15 October (3<sup>rd</sup> quarter report) and
- 15 January (4<sup>th</sup> quarter report)

each year.

These quarterly reports should show expenditure and obligations for the quarter being reported on, as well as the cumulative total of expenditure during the previous quarters.

2) The Cash Requirement Form: This standard form provided in Annex 11 is due at the same time as the 3<sup>rd</sup> quarter report, i.e. 15 October in any given year.

The form should be completed annually in order to ensure replenishment of funding by UNF for the following year.

3) Semi-annual report: This report is due by 15 July each year. The semi-annual report consists of:

- A progress report highlighting substantive progress to date;

- A personal statement by the project manager in the field closest to project implementation, or if managed from headquarters, from the respective project manager at headquarters;
  - A financial utilisation (expenditure) report. The 2<sup>nd</sup> quarter financial utilisation report noted in 1) above can be used for this aspect of the reporting.
- 4) Annual progress report: This report is due by 15 March following the year for which the report is made. The report consists of:
- A progress report highlighting substantive progress to date;
  - A personal statement by the project manager in the field closest to project implementation, or if managed from headquarters, from the respective project manager at headquarters;
  - A financial report. This financial report **should be certified or audited.**
- 5) Final report: A final report is due within 11 months after the completion or termination of the project. The final report should include an evaluation of whether and to what extent the project accomplished its purpose as set out in the project document, and all audited or certified financial statements and records related to the project.

## I. LEGAL CONTEXT

The funding for this project has been provided by the UNF through the inter-agency project coordinated by the UNFCCC Secretariat. The legal context for this project are embodied in the said inter-agency project (Annex 9), the Memoranda of Understanding to be agreed between the UNFCCC Secretariat and UNCTAD, UNDP and UNIDO, respectively governing the transfer and use of the UNF grant, and the Basic Implementation Agreement between the UNFCCC Secretariat and UNF (Annex 12).

## J. BUDGETS

### J.1 Consolidated Project Budget

Description	Total Amount
020	
021-01 UNFCCC Coord. Activities	50,000
021-02 UNIDO Activities	290,000
021-03 UNCTAD Activities	193,350
021-04 UNDP Activities	966,650
<b>029 Component Total</b>	<b>1,500,000</b>
<b>099 Project Total</b>	<b>1,500,000</b>

Note: Support Cost of 5% is included in the above amounts and reflected in each Agency's individual budget as presented below. The amounts in budget J.1 represent the aggregate amounts UNFCCC will remit to each agency.

### J.2 UNFCCC Secretariat Budget

Description	Total Amount

020	
021-01 UNFCCC Secretariat Coordination Activities	50,000
021-99 Line total	50,000
<b>029 Component Total</b>	<b>50,000</b>
<b>099 Project Total</b>	<b>50,000</b>

Note: The total amount of \$50,000 for UNFCCC Secretariat coordination activities has been deducted from UNCTAD, UNDP and UNIDOs original funding allocations on a prorated basis.

### J.3 UNCTAD Budget

BL	Description	Total		2000		2001	
		m/m	T\$	m/m	T\$	m/m	T\$
010	Project Personnel						
011	International experts						
011-01	Investment promotion experts	3.0	42.000	1.5	21.000	1.5	21.000
011-02	Legal experts	3.0	42.000	2.0	28.000	1.0	14.000
016	UNCTAD missions		20.000		12.000		8.000
017	National experts						
017-01	Investment promotion advisors	6.0	12.000	3.0	6.000	3.0	6.000
<b>019</b>	<b>Component Total</b>		<b>116.000</b>		<b>67.000</b>		<b>49.000</b>
030	Training						
032-01	Workshops, incl. organization and travel of participants		55.000		30.000		25.000
<b>039</b>	<b>Component Total</b>		<b>55.000</b>		<b>30.000</b>		<b>25.000</b>
040	Equipment						
040-01	Equipment		4,000		4,000		
<b>049</b>	<b>Component Total</b>		<b>4,000</b>		<b>4,000</b>		
050	Miscellaneous						
051-01	Publications		6.000		3.000		3.000
052-01	Reporting costs		1.500		500		1.000
053-01	Sundries		1.628		1.000		628
<b>059</b>	<b>Component Total</b>		<b>9.128</b>		<b>4.500</b>		<b>4.628</b>

BL	Description	Total		2000		2001	
<b>099</b>	<b>Total</b>		<b>184.128</b>		<b>105.500</b>		<b>78.628</b>
	AOS UNCTAD		9.206		5.300		3.906
<b>999</b>	<b>Total Project</b>		<b>193.334</b>		<b>110.800</b>		<b>82.534</b>



## J.4 UNDP Budget

Description	Total	2000		2001	
		w/m	Amount	w/m	Amount
010 Project Personnel					
011 Project Coordinator	108,000	8	72,000	4	36,000
011-01 Int'l. Consultancies	60,000		30,000		30,000
011-02 Admin. Assistance	36,000	8	24,000	4	12,000
011-99 Line total	204,000		126,000		78,000
016 Mission costs					
016-01 Mission costs	60,000		40,000		20,000
016-99 Line total	60,000		40,000		20,000
017 National Personnel					
017-01 National Professionals	60,000		30,000		30,000
17-99 Line Total	60,000		30,000		30,000
<b>019 Component Total</b>	<b>324,000</b>		<b>196,000</b>		<b>128,000</b>
020					
021-01 WBCSD Sub-Contract	350,000		300,000		50,000
021-02 Independent Verification Sub-Contract	150,000		50,000		100,000
021-90 UNOPS Subcontract	60,228		39,858		20,370
021-99 Line total	560,228		389,858		170,370
<b>029 Component Total</b>	<b>560,228</b>		<b>389,858</b>		<b>170,370</b>
040 Equipment					
045-01 Equipment	10,000		10,000		0
045-99 Line Total	10,000		10,000		0
<b>049 Component Total</b>	<b>10,000</b>		<b>10,000</b>		<b>0</b>
050 Miscellaneous					
052-01 Reports	10,000		5,000		5,000
053-01 Sundries	16,406		8,406		8,000
053-99 Line total	26,406		13,406		13,000
<b>059 Component Total</b>	<b>26,406</b>		<b>13,406</b>		<b>13,000</b>
<b>099 Project Total</b>	<b>920,634</b>		<b>609,264</b>		<b>311,370</b>
<b>UNDP Administrative Cost @ 5%</b>	<b>46,032</b>		<b>30,463</b>		<b>15,569</b>
<b>Total Project Budget</b>	<b>966,666</b>		<b>639,727</b>		<b>326,939</b>

## J.5 UNIDO Budget

BL	Descriptions	Total	2000	2001
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		m/m	T\$	m/m	T\$	m/m	T\$
11-50	Int'l Experts	8	81,500	5	53,250	3	28,250
15-00	Project Travel		11,000		9,000		2,000
16-00	UNIDO staff travel*		14,000		10,000		4,000
17-00	National Experts	9	18,000	5	10,000	4	8,000
31-00	Training/ Workshops		70,000		50,000		20,000
32-00	Delegates programme		30,000		15,000		15,000
35-00	Workshops/ Forum		40,000		20,000		20,000
51-00	Publications		8,000		5,000		3,000
	Miscellaneous		3690.5		2500.5		1190
	Total	17	276,190.5		174,750.5		101,440
	UNIDO support cost (5%)		13,809.5		0		0
	Total Budget		290,000				

\*including preparatory mission to 3 countries and staff travel to carry out training/workshops

## K. ANNEXES

<b>Annex 1</b>	CDM Capacity Building Needs for developing countries as identified by CoP5
<b>Annex 2</b>	Text as provided by the UNF Board in its Approval of Funding for the Project
<b>Annex 3</b>	Terms of Reference for Project Steering Committee (PSC)
<b>Annex 4</b>	Terms of Reference for UNDP-WBCSD Project Management Group (PMG)
<b>Annex 5</b>	Tendering Waiver for UNDP Sub-Contract with WBCSD
<b>Annex 6</b>	Elements for inclusion in the ToR for UNDPs Sub-Contract with WBCSD
<b>Annex 7</b>	Criteria for UNDP-WBCSD Activities: Country Selection
<b>Annex 8</b>	Criteria for UNDP-WBCSD Activities: CDM Early Start/Pilot Projects

<b>Annex 9</b>	Overall Inter-Agency Project (CBS/CDM)
<b>Annex 10</b>	Basic Implementation Agreement between the UNFCCC Secretariat and UNFIP
<b>Annex 11</b>	Standard Expenditure Report Format
<b>Annex 12</b>	Standard Cash Requirement Format

### **Annex 1**

#### **CDM Capacity Building Needs for Developing Countries as Identified by CoP5**

The following activities related to Capacity Building under the CDM are listed in decision 10/CP.5 adopted by the Parties to the UNFCCC in Bonn in November 1999. Activities followed by a \* will be addressed in the context of this project.

- Establishment of Institutional Linkages required for Implementation of the CDM;
- Project Identification, Formulation, and Design\*;
- Monitoring, Verification, Auditing, and Certification of Project Activities\*;
- Development of Criteria including for Sustainable Development Indicators\* (e.g - for adaptation)
- Development of Baselines\*;
- Project Negotiation Skills\*;
- CDM Demonstration Projects to enhance Capacity Building (learning by doing)\*,

- including assessment of costs/risks (long and short-term)\*;  
Data Acquisition and Sharing\*.

## Annex 2

### Text as provided by the UNF Board in its Approval of Funding for the Project

<b>Project Title:</b>	Capacity Building for the Clean Development Mechanism (CDM) under the Kyoto Protocol
<b>Agency Funded:</b>	UNFCCC with UNCTAD, UNDP, UNEP, and UNIDO
<b>Amount Funded:</b>	US\$1,500,000 over two years

UNF approved \$1,500,000 over two years for this project

The CDM is a new market mechanism created by the Kyoto Protocol, which may become the primary vehicle to encouraging investment by developed countries and their investors in sustainable energy projects in developing countries. The board acknowledged that this proposal represented a step forward in the integration of the climate change related activities of UN Agencies under the leadership of the UNFCCC. The proposal includes an intention to work in partnership with the private sector in identifying, planning, and carrying out pilot projects. The proposal also intends that the pilot activities inform other activities to be carried out in building CDM capacity. The Board approved the tasks contained in Part 2 of the project at the level requested - US\$1.5 million. The Board approval was subject to: an acceptable project document covering the activities approved; implementation of the proposed partnership with the private sector (World Business Council on Sustainable Development);

and inclusion, within the funding total approved, of relevant pilot project related activity of UNEP.

### **Annex 3**

#### **Terms of Reference for the Project Steering Group**

##### *Purpose*

The Project Steering Group will meet concurrently with meetings of the Parties of the UNFCCC, or via teleconferencing, as needed to coordinate activities under the Project. With respect to this sub-project, the objective of the PSG will be to:-

- Ensure information exchange and explore synergies with the view to maximize the effective use of resources and avoid duplication of efforts among the participating agencies in their project activities and within the framework of the overall CDM Capacity Building proposal of which this project is one component;
- Monitor and Review the progress of the project against its stated outputs including progress reports presented by the respective agencies;
- Ensure that the relevant decisions of the Parties of the UNFCCC are taken into account in the project activities and to ensure that project activities are implemented in such a manner as to be consistent with decisions of the UNFCCC;
- Ensure that the focus and activities of the project remain consistent with the UNF/UNFIP Board Approval (refer Annex 2)

##### *Membership*

The Project Steering Group (PSG) will be chaired by a senior staff member of the UNFCCC Secretariat. The permanent membership of the PSC will be as follows:

- \* UNFCCC Secretariat (Chair);
- \* United Nations Conference on Trade and Development (UNCTAD);
- \* United Nations Development Programme (UNDP);
- \* United Nations Environment Programme (UNEP);
- \* United Nations Industrial Development Organization (UNIDO).

In addition, representatives of countries participating in project activities and of the WBCSD, UNF and UNFIP will be invited to participate in meetings of the Project Steering Committee as appropriate with the view to ensure host country input into all project activities and in the planning of project activities as well as consistency with the UNF/UNFIP Board Approvals

#### *Authority*

With the agreement of its members, the PSG will have the authority to review and modify project activities, as necessary, to ensure consistency with decisions of Parties to the UNFCCC and with the UNF/UNFIP Board Approval.

### **Annex 4**

#### **Terms of Reference for UNDP-WBCSD Project Management Group (PMG-UNDP/WBCSD)**

#### *Purpose*

A Project Management Group (PMG) will meet, via teleconferencing, or where possible concurrently with meetings of the Parties of the UNFCCC, to examine how to best strengthen and make more effective the UNDP-WBCSD partnership and ensure that activities carried out under the UNDP-WBCSD partnership are consistent with the UNF funding decision. Specifically, the PMG will be responsible to:-

- Finalize the country and project selection in accordance with the established criteria;
- Monitor and Review the progress and performance of UNDP-WBCSD activities under the project against their stated outputs;
- Ensure that the UN Foundation (UNF) remains fully informed on the progress of activities carried out under the UNDP-WBCSD partnership and that the focus and activities of the project remains consistent with the UNF/UNFIP Board Approval (refer Annex 2);
- Examine other activities and possible areas of collaboration and mutual interest with a view to strengthening and making more effective the UNDP-WBCSD partnership;

#### *Membership*

The Performance Management Group (PMG) will be co-chaired by UNDP and WBCSD. Membership will include the:-

- \* United Nations Development Programme (UNDP);
- \* World Business Council on Sustainable Development (WBCSD);
- \* United Nations Foundation (UNF); and

\* UNFCCC Secretariat.

*Authority*

With the agreement of its members, the Performance Management Group will have the authority to review and modify activities under this project, carried out as part of the UNDP-WBCSD partnership.

**Annex 5**

**Tendering Waiver for UNDP Sub-Contract with the WBCSD**

Standard UNDP procedures which require tendering for sub-contracts of over US\$30,000 shall not apply for the sub-contract between UNDP and the WBCSD. The funding decision of the UNF Board (refer annex 2) was subject to: an acceptable project document covering the activities approved; implementation of the proposed partnership with the private sector (World Business Council for Sustainable Development). Based on the Board approval of the project requiring implementation of the proposed partnership with the private sector in close partnership with the WBCSD, a contract will be issued to the WBCSD.

## Annex 6

### **Elements for inclusion in the Terms of Reference (ToR) for UNDP Sub-Contract with the WBCSD**

#### **Introduction**

This annex outlines supporting activities and elements of the sub-contract with the WBCSD to be issued by the UNDP as an integral part of the inter-agency “*Capacity Building in Clean Development Mechanism (CDM) Project Activities under the UNFCCC/Kyoto Protocol Framework*”.

The project is innovative in nature and based on the skills, knowledge, distinctive competencies and unique contribution of both the UNDP and the private sector. The joint project is predicated on teamwork and joint project management. UNDP and WBCSD are jointly responsible for delivery of the project performance in its totality.

The sub-contract terms of reference will cover:

- Preparing, designing and implementing one or more Project Development Forums and arranging for the proper risk sharing arrangement with “learning-by-doing” project investor in the private sector;
- Project management and supporting activities by the WBCSD for the overall project, in collaboration with the UNDP.

#### **Context**

A successful CDM mechanism needs to be created - it is unlikely to happen as a matter of hypothesis and mandate. If a sense of possibility between the various constituencies and parties cannot be created over the next two to three years, the CDM may lose credibility, host country stakeholders and private investors may lose interest, dismiss it and focus attention elsewhere.

#### **I. There are barriers to the private sector investing in ‘learning by doing’ projects: A) Political and procedural barriers**

Assuming entry into force of the Kyoto Protocol and an operational CDM regime, there is the risk that “learning-by-doing” projects initiated before the rules, modalities and guidelines for the CDM are agreed and finalized, will be rejected for accreditation.



In addition to normal project risks, projects associated with an uncertain CDM regime carry additional methodological risks (additionality and baselines). They also incur higher transaction costs of verification, monitoring and certification, reflecting lack of experience in service provision, high visibility and public interest.

Investors may find less risky alternatives, such as internal investment in reducing GHG emissions in their Annex 1 based operations, and/or focus on Annex 1 Joint Implementation opportunities.

Administrative bureaucracy may raise transaction costs still further.

There is lack of confidence in the political process. Will it take into account practical project and commercial expertise in designing a market based mechanism?

## **II. There are barriers to the private sector investing in ‘learning by doing’ projects: B) Transaction costs associated with GHG considerations in the analysis, appraisal and implementation of CDM early start/pilot projects**

Investment by the private sector will depend upon finding projects that are commercially viable after the costs and revenues of GHG emission reductions have been internalized. This in turn relies upon CDM credits becoming a reliable market commodity. The two are closely related, and are connected by environmental integrity and the need to find a practical way to address project additionality and project baselines.

Sustainable development criteria, analysis of the incremental impact of GHG costs and revenues on relevant project economics, and the use of internally consistent baselines, may offer a viable, demonstrable and consistent approach rather than one based on assumptions about uncertain future trends and choices, and capital subsidy of uneconomic projects.

## **III. Work Programme**

A Project Development Forum, tentatively scheduled for April of 2000, will be a key first step for bringing forward and implementing viable learning-by-doing projects in a CDM context. A second Project Development Forum is envisaged later in the year 2000.

The Project Development Fora will build a practical methodology and model based on sustainable development priorities, GHG requirements and the private sector’s point of departure for identifying, bringing forward, selecting and implementing projects, explicitly addressing the risks and uncertainties perceived by governments, the private sector and environmental NGOs. On the national level, the know-how related to attracting foreign investment in a CDM context will be generated through the full process including project implementation with private sector participation. The process will illustrate how such investments can promote the sustainable development objectives of developing countries.

*a) Preparation: analytical tools, analogues and design of Forum ( 1Q 2000)*

Adapt private sector risk management and investment methodologies and prepare a simple and practical evaluation framework for incremental CDM project costs and revenues  
Identify and select a number of potential analogue projects. Review of market / country issues for selected ones. Model analogue projects  
"Road test" model, methodology and application to analogue projects. (peer review workshop with selected companies) Prepare Forum materials.  
Assess needs / concerns of participants, constituencies.  
Develop protocols for skillful discussion and generative learning processes.  
Evaluate/experiment with process options and integration of tools/analogues.  
Design process / use of forum inputs. Prepare supporting materials.  
Liaison with hosts

*b) Project Development Forum (2Q 2000)*

Manage logistics, invitations, local administration and conferencing support  
Venue and equipment hire  
Process management and facilitation (professional facilitation + subject expert)  
Subsidies (expense basis) for some delegates (not for private sector attendees)  
Travel expenses of facilitators and consultant.  
Report : Synthesis of Forum outputs. Review of process

*c) Project pipeline, investment grade feasibility study and project execution(2Q 2000 -)*

Refer section D2 of project document.

- All project budgets, including sub contracted work, will be subject to continuous revision by the PMG. Budgets are a basis for planning - economy will be sought by both organisations in all areas of the project to ensure funds are applied for maximum leverage in delivering project objectives. Actual project expenditures to be accounted for in a transparent manner. Tentative budget is attached.
- Under a performance contract and assurance process, UNDP/WBCSD will specify key performance milestones, agree performance criteria for each and conduct periodic performance reviews with Project Review Board members. In return there will be a "license to operate" - that is the freedom and authority to conduct the project without undue constraints
- Although compilations and communications of the concepts and ideas generated throughout the project may be composed and published separately by the two organisations under their respective mandates, it is recognised that such activities should be complementary and non-contradictory.
- It is intended that WBCSD and UNDP each own the copyright to any publications or documents that were prepared under this project, independently of the other, and that the copyright to any jointly prepared publications and documents be jointly owned by them, each giving the other an unlimited royalty-free license for their use.

Timetable (to be revised by the PMG once the project is operational)

ID	Task Name	August	September	October	November	December	January	February	March	April
1	One page project communique prepared	01/09								
2	Venue researched				LS / DM					
3	Target list of participants generated	15/09								
4	Survey of prospective participants									
5	Survey generated		LS / DM							
6	Survey sent		LS / DM							
7	Survey collected			LS / DM						
8	Invitations sent - 'inputs' workshop			LS / DM						
9	Analogues / tools / methodology etc				LS / DM					
10	Design of Project Development Forum					JOJ / LS / DM				
11	'Inputs' workshop					JOJ / DM				
12	Invitations sent re Project Forum					DM				
13	Pre-work designed and sent						JOJ / LS / DM			
14	Brazilian Forum held								JOJ / LS / DM	

## Organisation

<b>Performance Review Board</b>	<b>Bjorn Stigson Thomas Johansson Gary Nakarado Others TBA</b>	<b>President, WBCSD Director, UNDP UNF</b>
<b>UNDP Project management WBCSD Project management</b>	Geir Sjoberg Dave Moorcroft	CDM Programme Coordinator, UNDP Manager Climate & Energy, WBCSD
UNDP Technical Support WBCSD Technical Support	TBD Jasper Koch	Intern
WBCSD Advisory and Support Group	Simon Worthington Robert Kleiberg Jed Jones Others TBA	BP Amoco Shell Lloyds Register TBA
Process Consultants / Facilitators	Jane Owen Jones	Lloyd Masters Consulting UK
International Expert	Lee Solsberry	WBCSD Foundation
Local co-ordination	TBD	UNDP office
Local co-ordination	TBD	WBCSD affiliate
Local consultants	TBD	TBD
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Local co-ordination	TBD	TBD

## Tentative budget for WBCSD activities

ITEM

PROJECT BUDGET    WBCSD INPUTS

<b>Preparation: Analytical tools, analogues and project forum design</b>	<b>\$ 80,000</b>	<b>In kind support, company resources, data and expertise</b>
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Adapt private sector risk management and investment methodologies and prepare a simple and practical evaluation framework for incremental CDM project costs and revenues

Identify and select a number of potential analogue projects. Review of market / country issues for selected ones. Model analogue projects

“Road test” model, methodology and application to analogue projects. (peer review workshop with selected companies). Prepare Forum materials.

Assess needs / concerns of participants, constituencies.

Develop protocols for skillful discussion and generative learning processes.

Evaluate/experiment with process options and integration of tools/analogues.

Design process / use of forum inputs. Prepare supporting materials.

<b>Execution and follow-up of two Project Development Fora</b>	<b>\$ 90,000</b>	<b>In kind support</b>
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Manage logistics, including invitations, local administration and conference support

Venue and equipment hire

Process management and facilitation (professional facilitation + subject expert)

Subsidies (expense basis) for some delegates (not for companies)

Travel expenses of international facilitators and consultant

Report : Synthesis of Forum outputs. Review of process

Modify/adjust process design and materials for other regional context.

Assist and advise in the screening of project proposals and generation of project portfolio/pipeline

Assist and advise in project feasibility study arrangements

Assist and advise in project take-up and execution

<b>Facilitating investment grade feasibility study for internalizing GHG ...considerations and proper risk sharing arrangement with private sector investor</b>	<b>\$ 150,000</b>	<b>Cost-sharing to be determined</b>
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Ensure that private sector participant have proper incentive to participate in learning-by-doing project without providing capital subsidy for any investments, i.e cover only part of CDM-related transaction costs, such as baseline studies and validation

ITEM	PROJECT BUDGET	WBCSD INPUTS
<b>1<sup>st</sup> year project management and support costs</b>	<b>\$ 30,000</b>	<b>\$ 220,000</b>

Project Conception/Planning		40,000
Project Manager		150,000
Technical Support	\$ 12,000	12,000
Incremental travel, liaison with UNDP, companies, NGOs	\$ 12,000	12,000
Incremental administration and logistics support	\$ 6,000	6,000

## Annex 7

### Criteria for UNDP-WBCSD Activities: Country Selection

As part of the UNDP-WBCSD project activities, a country must be selected for the execution of a project development forum and facilitation of CDM early start/pilot projects. Bearing in mind the window of opportunity in which to substantially prepare, initiate and undertake learning by doing projects, key criteria for a practical ‘CDM laboratory’ to explore issues concerning absorbing private investment include:

- *Informed and pro-active host country government, favorably inclined towards early start CDM projects;*
- *Constructive dialogue between host country government and local private sector;*

- *Existing momentum and relevant processes to build upon in host country;*
- *Potential for relevant and material projects (i.e. interest of, and attractiveness to, private sector investors prepared to “gamble” on future ratification of the Kyoto Protocol and the emergence of a viable CDM from a private sector investment perspective).*

More specifically;

- \* Country selected must be a non-Annex I Party having ratified the UNFCCC;
- \* Country selected must have undertaken a body of technical GHG work related to national climate change plans and initial national communication to the UNFCCC;
- \* Country selected must have a significant potential to attract private sector interest in early start CDM projects;
- \* Country must have a local arm of the WBCSD ready to facilitate the activities under the project.

## Annex 8

### Criteria for UNDP-WBCSD Activities: CDM Early Start/Pilot Projects

Criteria for the CDM early start/pilot project(s) receiving funding of GHG transaction costs are established herewith. In general, the selection of prototype CDM projects should be performance based, reflecting the quality of the proposal and the commitment of the proponent, the credibility and experience of those submitting it and the merits of the specific project. Final Project Selection will be made by UNDP, WBCSD, and UNF through the Performance Management Group (PMG) in order to ensure that projects selected are consistent with UNDP and WBCSD procedures as well as the UNF funding intentions. Project criteria to be further refined through the Project Development Forum and in consistency with decisions of the Parties of the UNFCCC concerning operational modalities for the CDM include the following:

- 1. Ratification of and Consistency with the UNFCCC** – Any prototype CDM project selected must be in a country that has ratified the United Nations Framework Convention on Climate Change and is a Non-Annex I Party. In addition, any project selected must comply with all guidelines, procedures, and modalities adopted by the Parties to the UNFCCC, and in particular satisfy the requirement of “additionality”. This implies a preference for selecting projects in sectors where there is agreement over inclusion under the CDM (eg – not forestry and land-use change until such point in time as there is clear guidance).
- 2. Consistency with National Sustainable Development Priorities** – Any prototype CDM project selected must be consistent with and supportive of national environment and development criteria and strategies in host countries. These criteria for sustainable development will have been established by host countries and, where available, may be based upon information contained related to sustainable development priorities in national development plans, Agenda 21 plans, national environmental strategies and/or Non-Annex I national communications to the UNFCCC.
- 3. Consistency with Approach and Methodologies under the Project** - The proposed project must be formulated consistent with the approach and methodologies developed under the project as preparatory inputs to the Project Development Forum. This approach and methodology will be consistent with 1. above.
- 4. Sufficient Internal Rate of Return** – Proposed potential CDM-eligible projects selected must have a sufficient internal rate of return to be viable from a private sector perspective after GHG considerations are internalized, i.e. be bankable. As part of this assessment, projects should include a manageable level of technological risk.
- 5. Level of Cost Effectiveness and Involving Significant GHG Offset** – Any prototype CDM project selected must have the potential to significantly offset GHG emissions and to do so in a cost-effective manner, when compared to other potential prototype CDM projects. The proposed project must clearly demonstrate benefits in terms of reduced emissions additional to what would otherwise occur and should entail environmentally sound application of technology;
- 6. National and Local Environmental Benefits** – Any prototype CDM project selected must provide at least the same level of local and national environmental benefits as the “underlying project”. No potential project should lead to a situation of greater local and national environmental problems than in the case that the project was not implemented.
- 7. Reasonable Time Frame and Cost** – Any prototype CDM project selected must be able to start implementation within a reasonable time frame in order to allow for feasibility

studies, monitoring, certification, verification activities to be carried out and completed within two years of the date of project selection. Any prototype CDM project selected must include costs for feasibility studies that are within the scope of the Project Budget.

**8. Cost-Sharing** – Any prototype CDM project selected must involve cost-sharing and/or some form of payback (in the event that project goes ahead) with the project investors. Further details and procedures will be worked out during the course of the project.

**Annex 9**

**Overall Inter-Agency Project: Capacity Building Support for a CDM: *Attached***

**Annex 10**

**Basic Implementation Agreement UNFCCC Secretariat/UNFIP: *Attached***



**Annex 11**

**Standard Expenditure Report Format: *Attached***

**Annex 12**

**Standard Cash Requirement Format: *Attached***