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Wuppertal Institute for Climate, Environment and Energy

NEWSLETTER OF THE PROJECT "JOINT IMPLEMENTATION & CLEAN DEVELOPMENT MECHANISM: JIKO" · RESEARCH GROUP ENERGY, TRANSPORT AND CLIMATE POLICY

Editorial

Dear Reader!

In this latest issue of the JIKO Newsletter, we place the spotlight on the German Environment Ministry's CDM/JI Initiative, which was launched in 2008 to promote Germany's participation in the carbon market. In the market's current transitional phase, the initiative will primarily concentrate on pilot projects that test potential future market mechanisms (see adjacent article). Moreover, the country managers commissioned by the ministry as part of the initiative review the situation in selected developing countries.

The JIKO team also reports on the current status of the UN climate change talks, especially with regard to the flexible mechanisms. The authors draw a comparison between a football match in which everyone on the field plays for time so the match can go into extra time. With this in mind let us hope that the extra time gained brings satisfactory results!

On behalf of the team, I wish you an interesting and informative read.

Christof Arens

Content

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JIKO Analysis

Looking Ahead to the Climate Change Talks in Durban

Going into extra time

The latest round of climate change talks in Bonn was reminiscent of a slow-moving World Cup football match, where the score is 0:0 in the 85th minute: everyone on the pitch starts playing for time to stop the opponent from scoring a goal and to force the game into extra time. This was how things looked during the first week of talks focusing on processes. It was only in the second week that technical issues were addressed. However, no important fundamental decisions were made. This raises the question of whether delegates will step up the pace in Durban – just as footballers do once the whistle blows to kick-off extra time.

The basic positions have not changed since the climate talks in Cancún. Most developing countries and emerging economies, not least China, are calling for an additional Kyoto period beyond 2012 to continue the approach of no binding reduction commitments for Non-Annex I countries. By way of contrast, the USA, Japan, Canada and Russia reject commitments beyond 2012 unless the larger emerging economies also commit to binding emission reductions.

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JIKO Analysis

Market Mechanisms Old and New

BMU's CDM/JI Initiative: Outlook for the future

Boosting German involvement in the carbon markets is the declared aim of the CDM/JI Initiative launched by the German Environment Ministry (BMU). The PoA Support Centre and the country managers in the host countries (see article below) have been instrumental in achieving this goal. The current climate policy situation is, however, dictated by a wide range of open issues and choices. Pilot programmes for the hotly debated new carbon market mechanisms would be of great value, not least in respect of the climate change talks. The CDM/JI Initiative can play a decisive role in this process over the next few years.

The gap between the end of the first Kyoto Protocol commitment period and a yet-to-be determined successor agreement has long stymied any willingness to invest in the project-based carbon market. It remains to be seen whether the climate change talks in Durban and thereafter will breathe new life into the carbon market. This could well affect demand for CERs, including under the bilateral agreements between industrialised and developing countries provided for in EU climate change policy.

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The European Union sits on the fence: while preference is given to a new climate change agreement which replaces the Kyoto Protocol and includes developing countries in the reduction targets, the EU has signalled its willingness to reach a compromise. In a second commitment period, industrialised countries that have signed the Kyoto Protocol could commit to further emission reductions while other key actors like the USA and China agree to reductions under a separate agreement.

Many observers had hoped for a solution to the Annex I/Non-Annex I conflict, in which an alliance uniting both camps would drive the process forward. The role and the commitment of the European member states were the deciding factors. There is, however, no sign of a broad alliance with the key emerging economies. The Cartagena dialogue sparked last year between progressive parties is obviously not strong enough to bring about any real progress during the talks. Both the developing countries and many non-governmental organisations (NGOs) have repeatedly called for the European Union to show its commitment by issuing a unilateral statement in favour of the Kyoto Protocol and so open a path for truly committed climate change efforts. Europe is not willing to take on this role.

Looking at the decisions made in Cancún and at the processes implemented there, the next Conference of the Parties (COP) scheduled for the end of November in Durban, South Africa, will be measured against the successes achieved in three key areas:

- Agreement on the future of the Kyoto Protocol (with binding reduction targets for the period after the first commitment period ends in 2012)
- Advancements on a more far-reaching climate change agreement which takes in all large greenhouse gas emitters
- Progress in implementing new institutions such as the Green Climate Fund, the Technology Mechanism and the Cancún Adaptation Framework (see JIKO Info 01/2011).

Beating the bottlenecks: A typical day on the streets of Bangkok. With the flexible mechanisms as they now stand, the transport sector plays almost no role at all. Many observers therefore lay great store in the introduction of new mitigation instruments such as NAMAs.
Photo: © GIZ/Limanond

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Durban cannot be expected to bring any real breakthrough in the first two areas. What is more likely is that a non-binding 'pledge and review' approach will prevail as a minimum consensus: countries make voluntary commitments (pledges), and their compliance is regularly reviewed but no sanctions are applied if they fail to reach their targets (review). Reaching the 2° target with this type of approach is highly questionable. But compared with the current situation, it could lead to intensified climate change mitigation efforts, and to the approach being expanded to take in less proactive countries.

The third point – expansion of new institutions – is far more promising. Agreements can be expected here, and these could in turn support the climate negotiation process in general and create a better foundation on which to integrate both developing countries and emerging economies in a more meaningful way.

Overview of the proposals for new mechanisms: http://unfccc.int/meetings/ad_hoc_working_groups/lca/items/4578.php

Indeed, the first steps were taken at the Bonn conference towards creating the technology mechanism agreed on in Cancún and designed to provide a new basis for technology development and distribution. While the mechanism is still a long way from implementation, the debate on institutions and steering of the instrument is already under way. The Cancún Adaptation Framework (CAF) and the Green Climate Fund are also starting to take shape. By contrast, the talks on the standing committee on the financial mechanism of the UNFCCC, which was also agreed in Cancún, continue at their slow-moving pace.

Flexible mechanisms' future still uncertain

The lack of consensus on the legal form of a new climate change agreement also affects the flexible mechanisms. Most developing countries believe that not only the continuation of the Joint Implementation mechanism, but also of the CDM must be legally linked to the existence of targets under the Kyoto Protocol. In the event that there is no second commitment period, the CDM could not continue. However, industrialised countries think the CDM could be continued without a second Kyoto commitment period. They stressed that they would otherwise be forced to seek other options for offsetting by means of bilateral agreements.

Little progress was made in the debate on developing new mechanisms. In line with the decisions made in Cancún, many states submitted their position statements to the Climate Change Secretariat in spring. The development of new mechanisms is, however, just as controversial now as ever. While the EU still speaks out in favour of sectoral mechanisms, China would like to see new project-based mechanisms. In general, many developing countries fear that sectoral mechanisms will force them onto a slippery slope, ultimately leading to binding emission reduction targets. In Bonn, Parties presented the position papers they had submitted in spring, but without going into detailed debate or drafting of negotiation texts.

At the Cancún conference, Parties had decided to commission the Subsidiary Body for Implementation (SBI) with the development of a process for appeals against decisions made by the CDM Executive Board. This includes issues such as institutional structure and the question of how detailed the process should be, meaning who is entitled to appeal and what can be appealed against. The talks in Bonn produced little consensus in this regard.

In most cases, the delegates also made little progress when it came to substantive issues surrounding the flexible mechanisms. Once again, the talks focused on controversial project types such as HFC and the process of including CCS in the CDM, as well as on reform proposals such as the introduction of discount factors, a more accurate definition of the principle of supplementarity, and the expansion of the 'share of proceeds' from the CDM to JI and international emissions trading. No notable progress was made, however.

Dynamic debate on NAMAs

As agreed in Cancún, a Nationally Appropriate Mitigation Actions (NAMAs) register is to be developed, in which all NAMA proposals will be

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listed. There is broad consensus that a key function of this registry is to match NAMA proposals with appropriate financing options. Whether and to what extent the registry is to be used for other purposes, notably reporting and verification of achieved emission reductions, was hotly debated. The aim is, however, to develop the registry format and structure in time for the Durban conference.

At the side events in Bonn, and at other events organised around the conference, the atmosphere – in contrast to the talks themselves – was both creative and forward-looking. At a workshop on NAMAs in the transport sector, a GIZ representative encouraged delegates from developing countries and emerging economies to initiate pilot projects as quickly as possible. He explained that despite all the uncertainties on the potential structure of the green climate fund there were excellent financing options available which could be used to gain initial experience with NAMA projects. However, observers pointed to the well-known weaknesses of the CDM, warning that they should not be repeated with NAMAs. In the transport sector in particular, new approaches are needed to achieve greenhouse gas reductions.

It is hoped that together with the debate on the new mechanisms, the minor successes achieved in Bonn concerning the technical issues will breathe new life into the somewhat long-winded negotiation process. To put it into football terms: we hope that the match in Durban will not be a re-run of the pure tactics we have seen in earlier games. We want to see a lively start as the players go into extra time. But having said that, anyone hoping that South Africa will produce a quick resolution after a penalty shoot-out is likely to be disappointed.

TW/FMe

New JIKO policy paper on NAMAs

A comparative analysis of 16 NAMA proposals is contained in a new JIKO study on current developments in pilot NAMAs. The paper focuses on fundamentals such as emission calculations, measuring, reporting and verification (MRV), cost calculations, barrier and risk analysis, contributions to sustainable development, and the financing model. The paper is available for download at: **www.jiko-bmu.de/1044.**

JIKO Website: Tell us what you think

For the past four years, the JIKO website (www.jiko-bmu.de) has provided in-depth information on the CDM/JI mechanisms, current news and relevant publications. It also offers a service platform for project developers. To improve the website and better serve your needs, we are currently conducting a survey. Please take ten minutes out to answer the questions. This will help us improve our service and provide you with the information you seek.: **www.jiko-bmu.de/1036.**

Photo: thotti / photocase.com

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Die CDM/JI Initiative des BMU

The German Environment Ministry has promoted the use of the Clean Development Mechanism (CDM) and Joint Implementation (JI) since the start of the first commitment period under the Kyoto Protocol and the second trading period of the EU Emissions Trading Scheme in 2008. The original aim of the Initiative was to foster German involvement at both business and policymaking level. Along with a wide range of individual projects, two long-term international cooperation projects are also underway. One is the Country Manager Project with German development agency GIZ (see the article on page 10). The other is the PoA Support Centre Germany operated by KfW Bank (see JIKO-Info No. 02/2010), www.jiko-bmu.de/953

Bilateral agreements can only stimulate the carbon market if the industrialised countries mobilise demand today for emissions certificates that might be generated under a new international climate change agreement later down the line. But it is difficult to predict whether potential investors will take the bait, and with what aims and in what volume they will invest. Such agreements can only ever improve the existing framework conditions and provide an incentive. The investment is made by business. Experience such as that gained with the World Bank's Prototype Carbon Fund (PCF) underlines the benefits offered by such initiatives.

But this in turn raises the question as to whether financing such activity should come not just from the state, but from private stakeholders in the carbon market. Why should states, businesses, banks and individuals not share responsibility for carbon financing? The industrialised countries, which have pledged huge amounts towards carbon financing and believe there are huge benefits to be had from the carbon markets, could take the initiative here.

The state of the talks on the new market-based mechanisms is far from anything that could be put into practice. And there is also the question of how to manage advancements in CDM reform, the development potential of the Programmatic CDM, and the options for linking the carbon market with NAMAs. Thus, the huge range of open issues and structural possibilities would seem to speak in favour of using bilateral agreements to introduce pilot programmes for new carbon market mechanisms in the near future. The findings of and the experience gained with these pilot programmes would be invaluable in the climate change talks. The CDM/JI Initiative can contribute to this process in the coming years.

A balanced mix of old and new

In the debate on the new market-based mechanisms, there is an element of free license as regards the structure and design, the aim being to build something entirely new and to leave the mistakes of the past behind. This is understandable to a certain extent, but it ignores the success achieved to date along with the effort and cost involved.

A brief review: although the market-based mechanisms first entered the international climate change debate in the early 1990s, it took some 15 years for the first CDM project to be registered in November 2004. Less than seven years later, willingness to use the market-based mechanisms is constantly under question.
If things were to remain at the current status of the climate change talks, due to limited demand for certificates, the project-based carbon market would be restricted to marginal application in the least developed countries (LDCs).

Talks lasting one and half decades, establishing institutions, developing processes, mobilising industry stakeholders, setting them reduction targets, creating the market conditions and convincing host countries to enter into this form of cooperation: in this 'phasing out' scenario, all of this would bear no relation to a yield of around

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China, land of wind: The CDM has mobilised investment mainly in the biggest developing countries and emerging economies.
Photo: Nordex AG

five years for those who were ready to use the CDM from the outset – not to mention the extra time for participants from LDCs.

Of course, this scenario is based on residual demand in industrialised countries. The framework is shaped by the limited EU demand in the third trading period of the EU Emissions Trading Scheme (ETS) and the issue of how the CDM would have to change for Japan and/or the US to be willing to use it. But apart from that, the CDM has, in connection with the UN, its own status as a mechanism for transparent bilateral emission reduction projects. This applies irrespective of whether the Conference of the Parties (COP) agrees on a second commitment period under the Kyoto Protocol. Advancements in the current CDM reform process will underpin this option.

Nonetheless, the question arises as to how long the market can survive without scaling up demand for certificates using new global and national reduction targets. In other words: how long will project developers keep up their enthusiasm in the time and effort-intensive project development process?

No later than when the string of compliance projects has been completed will the market for CDM projects disappear outside the LDCs. Restricting the CDM in this way would not be a good basis for the introduction of new market-based mechanisms. To drive the introduction of new market-based mechanisms, thought will have to be given to the transition from the CDM to more comprehensive mechanisms developed from the market participants' standpoint. And the question must also be asked as to whether new market-based mechanisms should be built around the existing CDM structures, institutions and methodologies.

The effort involved in introducing new market-based mechanisms could be significantly reduced in this way. At the forefront of the additional development efforts would be MRV systems for sectoral and sub-sectoral emission reduction sectors, the adaptation and enhancement of respective national climate change policies (i.e. NAMAs), and the issue of credit allocations and burden sharing relative to the level of economic development in the respective host country. In reality, the role of the states involved, and particularly the host countries, increases in

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such a prescribed arena – as often stressed in the design documents on the new mechanisms. But what remains largely unaddressed is the question of how a market for private stakeholders can develop under such conditions and how it can be ensured that cost-effective emission reduction potential is exploited first.

Successfully implementing these steps in a large number of developing countries would take until the end of the current decade, subject, that is, to the necessary decisions from the UNFCCC. But perhaps some of the interested countries would be willing to begin work earlier because they already enjoy a sufficient level of economic growth and agree in principle engaging in climate policy and the development of a low-carbon economy.

Against this backdrop, it will be important in the immediate term to use and further develop the functioning mechanisms and the existing structures. The reform of the CDM and the programmatic CDM offer enough scope with which to scale up emission reduction potential. What was already achieved on the basis of the first commitment period, meaning an effective reduction commitment by the industrialised countries of three percent compared with the base year 1990, is not to be sniffed at: the CDM Executive Board will be issuing some one billion CERs.

It would thus be irresponsible to sit back and watch the carbon market fall apart, while expecting that under the international climate change regime from 2020 onwards, the carbon market makes a reasonable contribution to carbon financing. The industrialised countries' financing pledges of over USD 100 billion annually from 2020 would then have to be financed entirely from public coffers in the industrialised countries (this includes revenue from the auctioning of emissions trading certificates).

Germany and the CDM

When it comes to the CDM/JI Initiative, what counts is how it can accommodate the special needs in further development of the market-based mechanisms. The Initiative must structure its own projects in a future-focused way: this applies in particular to the CDM country manager project and the PoA Support Centre. In close dialogue and cooperation with the developing countries, both these projects could help highlight the opportunities to be had in the carbon market and spark suitable project development. The CDM/JI Initiative is not, however, the arena in which to foster demand for carbon credits. But it can help to expand the knowledge base by pinpointing the instruments that are suited to particular emission reduction sectors, and by highlighting policy frameworks that make investments feasible.

So how does Germany want to use the carbon market? A brief review shows that the German government uses emissions certificates generated in CDM and JI projects to achieve its national Kyoto Protocol emission reduction target by way of the EU Emissions Trading Scheme (ETS). But outside the ETS, the German government could use the CDM and JI to achieve reduction targets based on the EU effort sharing scheme. It does not do so, however: most emission reduction efforts are to be achieved within Germany, an aim that is more than achievable with the de facto restriction of the CDM and JI to the EU Emissions Trading Scheme in Germany.

The use of emissions certificates from third countries, especially from developing countries, has

Policy Paper: Germany and the CDM

The paper looks at German involvement in the CDM market. It places the spotlight on the time at which German businesses became involved in certain projects, regional distribution of the projects, the type of projects with German involvement, and German stakeholders who use the CDM. The paper is available for download at: **www.jiko-bmu.de/985**

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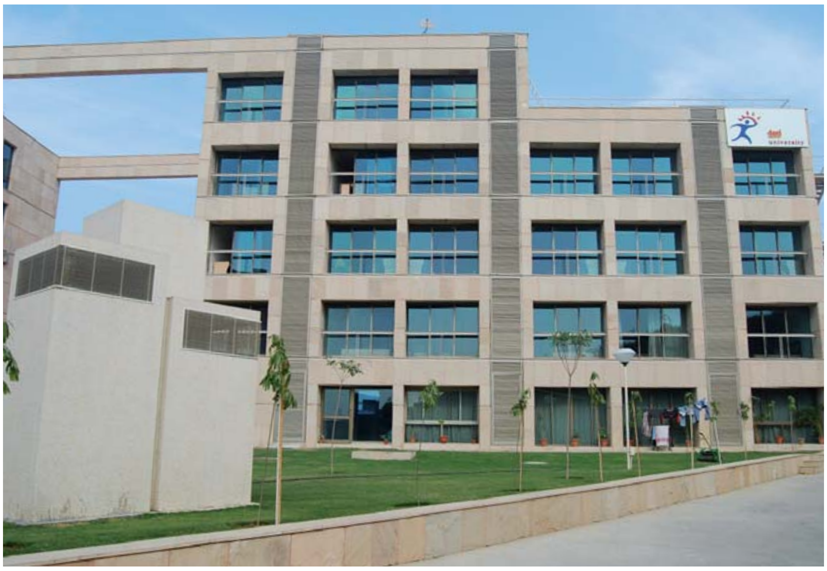
only attracted one-sided attention so far. Up to now, focus has been placed on the fact that industrialised nations could achieve their national targets by means of more cost-effective investment in developing countries and in the emerging economies in Eastern Europe. In return, the countries receive benefits in the form of cleaner technologies and the associated inflow of capital. This dual-purpose requirement is explicitly set out in the UN decisions on the introduction of the CDM. Looked at from a global standpoint, the Kyoto Protocol's flexible mechanisms, namely the CDM and JI, form the basis for cooperation between groups of states of differing economic strength. This is the underlying approach described at various points in the UN decisions as "common but differentiated responsibilities".



The forgotten half of the market: Energy efficient buildings are one of the sectors so far overlooked in the carbon market. The administration building at India's TERI University uses 60 percent less energy than the average building
Photo: TERI

For this reason, advanced climate change policy in the industrialised countries would always depend on adequate use of the CDM and JI in order to utilise the potential of the Kyoto Protocol for the developing countries and for the states in Central and Eastern Europe. The one-sided attention to the cost-saving function of the CDM and JI mechanisms for industrialised countries' emissions trading and reduction targets is too short-sighted. Despite the 300 plus CDM and JI projects in which German businesses have so far participated, the question still arises as to whether and to what extent further German involvement might be fit for purpose. The main focus up to now has been on the big industrialised emerging economies, notably China and India. Where these countries are concerned, there is no difference in the international distribution patterns for CDM projects. German involvement in the carbon market has thus contributed to the concentration of CDM projects in a small number of strong developing countries.

With regard to the project types used by German businesses, there are no surprising results. Apart from one or two exceptions, there appears to be no additional potential for further project types. Greater public sector involvement could help expand both the number of countries involved and the measures implemented: the public sector could promote the development of lighthouse projects in sectors that have so far been under-represented. These could then be replicated by businesses under market conditions.

Looking to the further development of the carbon market instruments and the reform of the existing mechanisms, additional financial commitment by the public sector could prove meaningful as long as the ultimate aims of creating a market and of recruiting private capital for emission reduction activities is not forgotten.

Further action on the CDM/JI Initiative

Coupled with standardised baselines, the programmatic approach to the CDM provides an excellent option for a new market-based mechanism that uses the existing UN institutions along with those of the industrialised nations and developing countries instead of throwing them completely overboard. The CDM procedure could easily be used in this way, while the agreement of standardised baselines could be made an integral part of bilateral agreements.

Where the CDM/JI Initiative is concerned, an important component of any strategic approach could be to couple the suitable programmatic approaches to the CDM with NAMAs development. In this regard, the Initiative favours not just the 'bottom up' approach, which spotlights the NAMA potential in existing PoAs. Great potential is also seen in 'top down' approaches in which certificate mechanisms supplementing unilateral NAMAs and supported NAMAs are used for credited NAMAs. The PoA to NAMA

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study presented by KfW Bank and South Pole at this year's Carbon Expo in Barcelona was a first step in this direction.

Introducing sectoral market mechanisms would be far more complex. These are far more difficult to design and implement than stand-alone mechanisms. The question is whether such an approach is fit for purpose when compared to a reformed CDM or to a programmatic approach, because both the latter options are immediately available in association with the standardised baselines and can readily be used. They would not involve a complex implementation process.

The study is available for download at: www.jiko-bmu.de/1043

The advantage of sectoral mechanisms can only be utilised if they are developed as part of a national measuring, reporting and verification (MRV) system. At the same time, they must be embedded in the respective host country's overarching climate policy. Plus, the host country must define both a national reduction target and a sectoral target to allow the desired simplification permitting additional emission reduction measures. After all, agreeing common but differentiated responsibility for global climate change mitigation is only possible with developing country involvement.

Least developed countries

Despite the uncertainties within the international climate change regime, and the issue of an agreement to follow the first commitment period under the Kyoto Protocol, the outlook for the CDM is secure in the least developed countries (LDCs) at least until 2020. CDM projects can be developed in these countries after 2012 and the certificates they generate can be used in the EU Emissions Trading Scheme. However, suitable project types and fitting methodological processes must be found for these countries.

In the non-emissions trading sector, there is public demand for certificates from LDCs due to the effort sharing decision. In Germany, the question of whether certificates from LDCs can be used other than in the emissions trading sector has yet to be discussed from an LDC perspective. Because of the difficult development situation in the LDCs, this option would have an entirely different political impact than the purchase of emissions certificates from large industrialised emerging economies. In can thus be said that, for the LDC sector, activities under the CDM/JI Initiative must support both project matching with businesses and enable exploitation of new CDM project potential. The basis for any action in this sector would be policymaking cooperation with the host countries in order to combine the use of programmatic approaches and NAMAs in LDCs.

Conclusion

Key CDM/JI Initiative points of focus for the future could lie in new instruments for cooperation between traditional developing countries and the large industrialised emerging economies. Both NAMAs and complex new market-based mechanisms like the sectoral approaches play an important role. While the global financing options are growing for the development, and hopefully also the implementation, of NAMAs in the near future, funding for the new market-based mechanisms remains unavailable. In the current transitional phase of the international carbon market, financing is urgently needed if the new mechanisms are to be tested. Such funding could be made available both by the state and by businesses interested in keeping the carbon market intact. But this can only be achieved if the new market-based mechanisms are seen to have both political and economic benefits.

This is reliant not just on the progress made in the climate change talks in Durban and beyond. What counts are the messages being passed between industrialised and developing countries. For a pilot phase to test new market-based mechanisms it is less the design effort that is needed and more the willingness to initiate larger pilot projects on the basis of bilateral agreements that govern the involvement of the respective industrialised and developing countries. While these bilateral agreements do not do away with the need for arrangements at UN level, they could ideally pave the way for them. *TF*

JIKO Report

CDM Country Managers: Promoters and Advisors

By Anselm Duchrow, Arnd Helmke, Dieter Mutz and Monika Rammelt (GIZ)

On behalf of the German Environment Ministry (BMU), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) manages the CDM country manager project in India and Brazil, the MENA Region and Uganda. The aim is to mobilise single and programmatic CDM projects, and to improve the framework for globally responsible climate change policies in the partner countries. This report looks at the ongoing activities in the different country units.

The CDM units in the respective countries directly support the promotion of carbon markets in the partner countries. They also provide country-specific information and establish networks to ease market entry for German businesses, technology providers and project developers. Along with conferences, the service includes training measures for specific sectors and project types, and one-on-one advice for both German and local stakeholders. An increasing role is played by the close cooperation with local institutions to develop innovative policy instruments and measures for use in the international climate change regime (i.e. Nationally Appropriate Mitigation Actions, or NAMAs). For example, experience gained with the CDM can be used to support partner countries in the development of policy instruments for far-reaching emission reductions. Because the CDM country managers are embedded in existing German development cooperation structures, key synergies can be used in climate change cooperation activities with partner countries and development cooperation agencies.

The MENA Region:
Late CDM successes incentivise NAMAs

Compared with its reduction potential, the MENA region (the Middle East and North Africa) is not well-enough involved in the CDM. While it is the source of some five percent of global emissions, only one percent of CDM projects are conducted there. There has, however, been significantly more market activity over the past two years – a situation in which the CDM/JI Initiative's CDM country manager project has been instrumental, at least in the pilot countries Tunisia, Egypt and Morocco.

Looking at these rather humble statistics, it has to be said that Egypt, Tunisia and Morocco are among the most successful countries in the MENA Region. Plus, more than half of the CDM projects listed in the table were either registered or validated in the past 12 months. This late start in the region can be explained by the final spurt put on before the first Kyoto commitment period ends in 2012.

Overview of CDM/JI projects in pilot countries in the MENA Region

Country	Registered Projects	In Validation	Approved by the DNA
Egypt	10	8	25
of which PoA	1		3
Tunisia	3	3	25
of which PoA	1		
Morocco	5	15	10
of which PoA		1	

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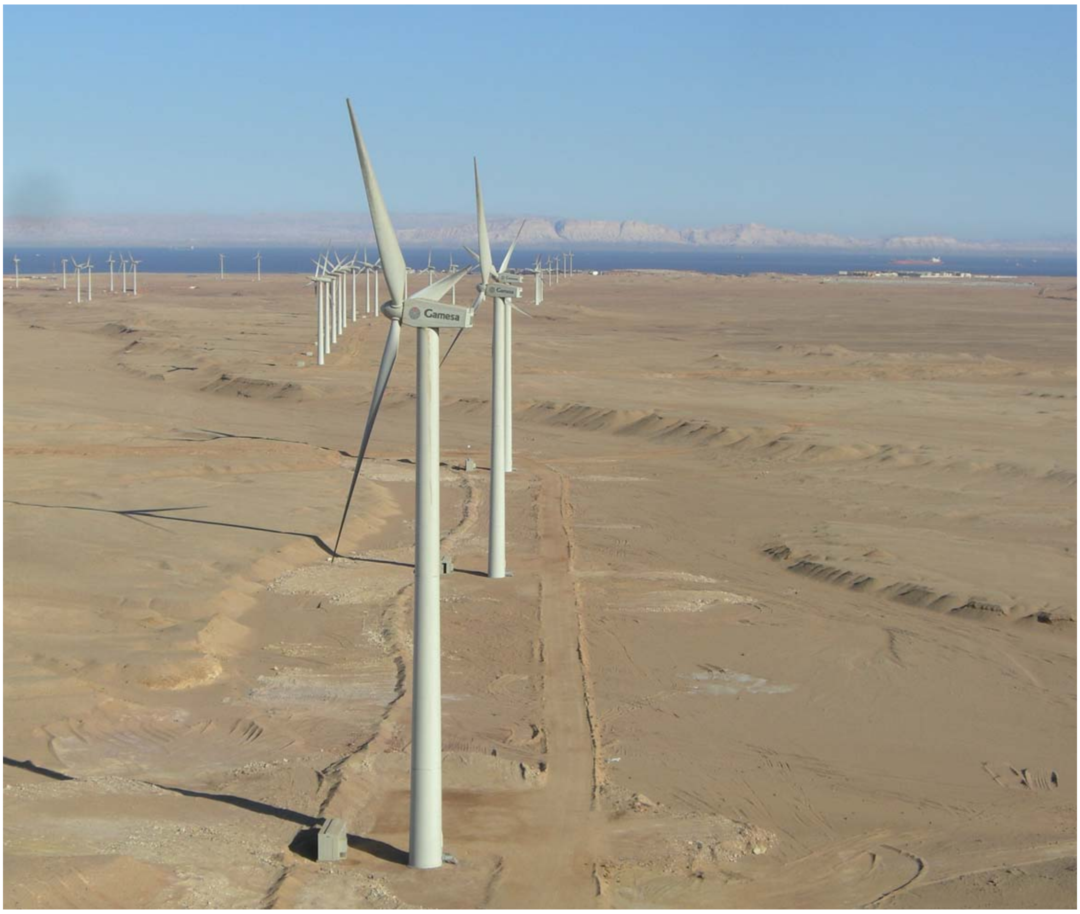

Electricity generated by desert wind: The Zafarana IV CDM project in Egypt is conducted jointly by Egypt's New and Renewable Energy Authority and Germany's KfW Bank. The 80 MW wind farm is expected to generate an annual 300 GWh of power.
Photo: KfW

There were a range of structural barriers that could only be overcome with time. Key sectors like energy, transport and construction are still dominated by relatively sluggish state-owned enterprises. These have little incentive to develop their own CDM projects, and their market position hinders project development by the private sector. It also hinders structural reform. Plus, the entire region lacks attractive feed-in tariffs for renewables-generated electricity. There is also a dearth of qualified people with knowledge of the CDM methodologies, so that state agencies like the Designated National Authorities (DNAs) find it difficult to carry out their work.

Since 2009, the CDM country manager project team has worked intensively on overcoming these hurdles. A pool of experts was formed. The CDM potential in the pilot countries was identified and key actors from the DNAs were trained during study trips, visits to specialist trade fairs and participation in regional exchange events. Feasibility studies and analyses on the additionality of projects helped kick-start new sectors like buildings, combined heat and power in the paper industry, and biogas to energy schemes.

Today, the DNAs have their own websites, which house portfolios of project ideas and provide other related information. Contacts have also been established with German investors and technology providers. Most recently, the project gave rise to a strategic partnership with the Regional Centre for Renewable Energy and Energy Efficiency (RCREEE), which allows the experience gained with the CDM and its instruments to be distributed across ten countries in the region (see www.rcreee.org).

A focal point of the work lies in the programmatic approaches to the CDM, for which great interest is shown by state-run agencies. Public programmes like the introduction of solar-powered hot water supply can be financed by the Programme of Activities (PoAs approach), in part using carbon credits. Tunisia and Egypt rank among

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the world's pioneers, each with a registered PoA in the solar energy sector and the transport sector respectively.

Because the MENA countries in the region have little chance of benefiting from the CDM beyond 2012, the CDM country manager project was used to foster the debate on new instruments like NAMAs at a very early juncture. In Tunisia, this process is relatively advanced. With support from the German Environment Ministry's CDM/JI Initiative, two NAMA design studies were developed for the energy and waste management sectors (see JIKO Info 01/2011). Some governments view the NAMA debate with scepticism, because they believe the obligation to implement far-reaching reduction efforts lies with the industrialised nations. But thanks to the progress made in the CDM sector, confidence is growing in respect of developing a differentiated position on technical issues such as measurement, reporting and verification (MRV), and baselines.

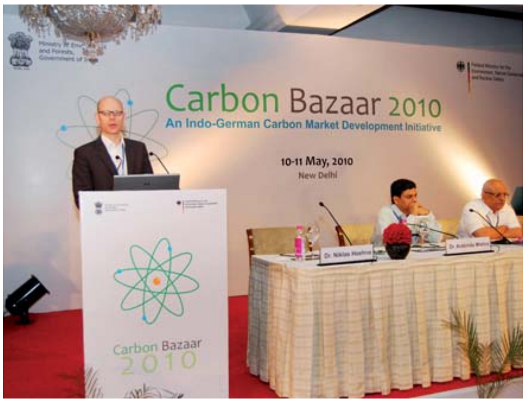
This is where the CDM country manager project provides workshops and exchange events to build bridges between local, regional and international stakeholders. At country level, the Initiative supports exchange between Focal Points and emitter sectors. And across the region, experience is exchanged and joint positions are developed on the negotiations at international level.

India: A CDM leader

After China, India is the second largest CDM market in the world. At the end of August 2011, some 2,069 CDM projects had been given Host Country Approval by the Indian Environment Ministry's Designated National Authority (DNA). The CDM country manager project supports the ministry in carrying out its DNA responsibilities. Now, the CDM registration process in India is the first in the world to be completely electronic, meaning completely paperless. This is good for the environment, and makes the entire approval process more efficient and transparent.

Around 90 percent of Indian CDM projects are in the energy sector (renewable energy and energy efficiency). Other sectors lag way behind their true potential. One aim of the CDM country manager project in India is thus to support sectors like waste management, transport, buildings and forestry in developing CDM projects.

In addition, project activities also focus on national climate change policy: the 2008 National Action Plan on Climate Change shows the way with eight separate 'missions'. As part of the National Mission for a Green India, an agreement was signed between the CDM country manager project team and the Madhya Pradesh Forest Department.



Success story in its third year: The Carbon Bazaar brings over 700 delegates from government and administration, private industry and civil society together annually.
Photo: GIZ

The department has since been actively supported in capacity building measures, partly to develop CDM projects in the forestry sector, and also to identify future potential to reduce emissions caused by deforestation and forest degradation activities in developing countries (REDD+). In conjunction with the Forest Department, informational events on the CDM and REDD+ were held in 23 districts in Madhya Pradesh state. These attracted over 5,000 farmers and state-employed forestry workers.

With the Carbon Bazaar, India has initiated a key event for both the Indian and the international CDM community. This year's bazaar, the third of its kind to be jointly organised by the Indian and

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German environment ministries, offers government delegates, representatives from industry and members of civil society an important platform for debate on issues involving the carbon market. The bazaar has also become a central business-to-business instrument in the Indian carbon market, providing a platform on which to match European demand with Indian supply.

Given the uncertainty surrounding CDM projects and Programmes of Activities beyond 2012, the Indian Environment Ministry recently asked the CDM country manager project team for support in the registration process for existing PoAs. India currently has two PoAs which have been successfully registered with the CDM Executive Board at the UNFCCC. Five PoAs have received Host Country Approval, and a further two are in the application stage. These PoAs must be registered by the UNFCCC before the first Kyoto Protocol commitment period expires. The CDM country manager project team will assist in this process.

In addition, the Indian Environment Ministry intends to build on the vast experience gained with the CDM and PoAs in the country, and will use it to develop NAMAs. The CDM country manager project team works closely with the environment ministry and also promotes much-needed national and international dialogue.

The CDM has been a success in India. An impressive carbon advisor market has developed, which the CDM country manager project team has assisted. At a conservative price of €6 per CER and with timely registration of all CDM and PoA projects by the UNFCCC, up to €4.9 billion are now expected to flow into India via the CDM by the end of 2012 (Source: DNA India, September 2011).

CDM projects in India

Registered Projects	In Validation	Approved by the DNA
714	999	2069
Energy sector (renewable/non-renewable energy)		1,590
Energy distribution		7
Energy demand		156
Manufacturing sector		210
Chemicals sector		15
Transport		10
Mining/mining production		4
Metal production		3
Fugitive emissions from fuels		2
Fugitive emissions from the generation and use of halogenated hydrocarbons and sulphur hexafluoride		6
Waste management		51
Afforestation and reforestation		13
Agriculture		2

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Brazil:
National reduction path rather than CDM

Since August 2008, the CDM/JI Initiative has been active in the Brazilian CDM market, which is organised exclusively by Brazil's private industry. While being the third-biggest in the world, the Brazilian CDM market has lost much of its power because of the uncertainties surrounding the post-2012 scenario. Around one-third fewer projects were submitted in the period 2009 to 2010. At the same time, Brazil has adopted ambitious emission reduction targets which are to be achieved using yet-to-be defined sectoral approaches.

Management of Brazil's climate change policy was recently assigned to the Office of the President. The Designated National Authority (DNA), which is based in the Ministry of Science and Technology (MCT) and the Environment Ministry (MMA) act in an advisory capacity. With this new line up, newly elected President Dilma Rousseff aims to show that Brazil has placed a new level of importance on climate change policy. Both MCT and MMA are partners in the BMU and BMZ-financed energy and climate project managed by GIZ.

When it comes to climate change technology, Brazil has declared Germany a preferred partner. As Carlos Nobre, the new MCT state secretary commented in a recent interview: "In partnership with Germany … Brazil can drive the notion of a low-carbon economy." BMU provides a platform for dialogue with Brazil, which can also be used in the lead up to the UN climate change conferences as well as to design and implement sectoral plans.

In close cooperation with the German-Brazilian Chamber of Commerce (AHK) in São Paulo, the country manager project team focuses on cooperation in CDM-related technology. The Chamber's excellent access to local business is combined with GIZ's sectoral knowledge and connections. Starting with jointly organised match-making events, the effort is on to initiate German-Brazilian business partnerships. For example, as part of the country manager project, an agreement was recently drawn up with local measuring and monitoring technology experts on a common approach to providing newly developed measuring technology for a biogas reference project.

Working with the renowned National Confederation of Brazilian Industry (CNI), the CDM country manager project team has successfully implemented training courses in the use of the CDM. Some 240 business representatives have since completed the training. The aim is to empower businesses to use the carbon market in a profitable way and to cooperate with German firms in the process.

The CDM process in Brazil is, according to Project Hosts, shaped by numerous exchanges with the Designated National Authority (DNA). In close cooperation with MCT and CNI, a Fast Track module is being designed to achieve the Letter of Approval – this is the final step in the Brazilian CDM process prior to submitting the project documents to the UNFCCC. This should increase the chances both of a project being registered before the end of 2012 and of exploiting CDM potential in Brazil to the full. Wind energy and small hydropower facilities have been identified as the first target sectors in this endeavour.

Brazil also harbours great potential for Programme of Activities (PoAs) projects, especially in the solar-thermal and biogas sectors. Where the solar-thermal sector is concerned, further use of PoAs is unlikely due to the uncertainties in the (international) registration process and with regard

CDM projects in Brazil

Registered projects	In validation	Approved by the DNA
194	159	266

As at: September 2011

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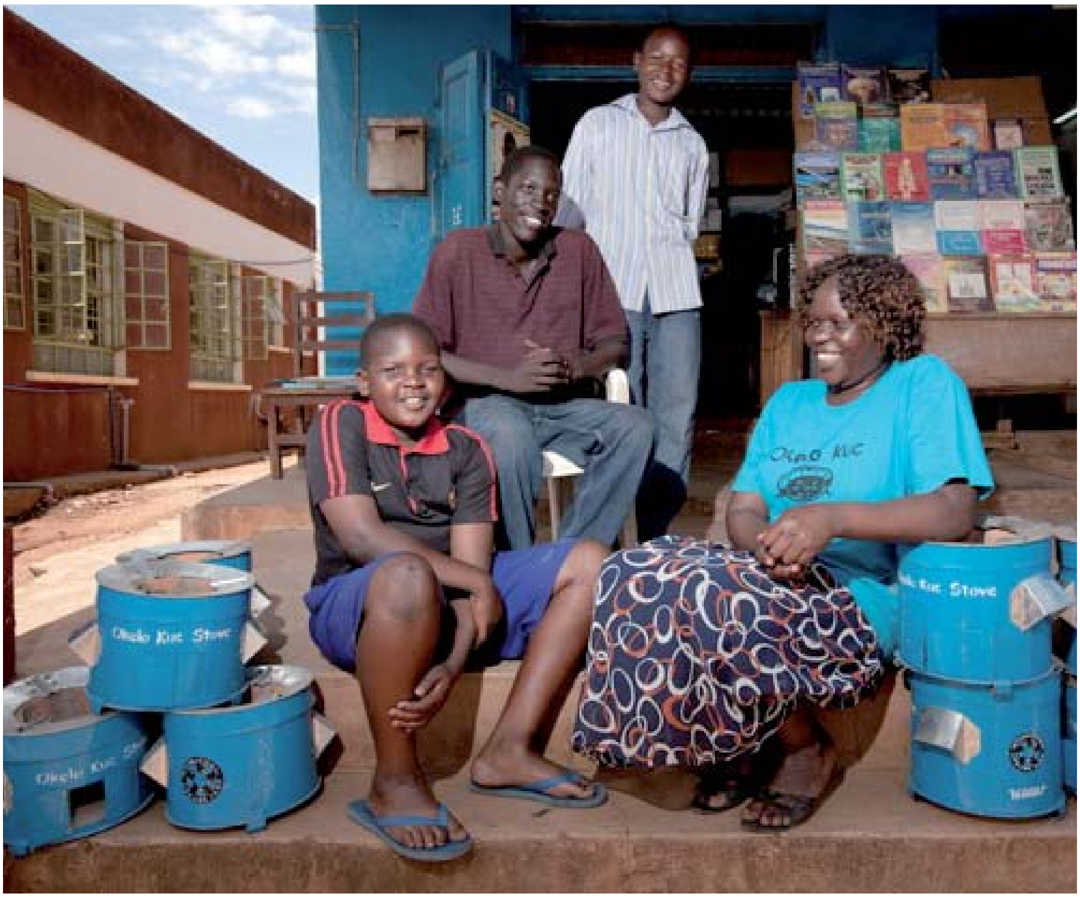
to the continuation of the Kyoto Protocol beyond 2012.

Given Brazil's national emission reduction targets, the CDM country manager project will concentrate on national instruments. The country's federal nature invites the development of either an internal emissions trading scheme or sectoral NAMAs. Preliminary talks are currently being held with MCT and with the regional governments. For example, against the backdrop of the Football World Cup in 2014 and the Olympic Games in 2016, talks with the State of Rio de Janeiro focus on transport. The Brazilian carbon market needs innovative technologies and offers excellent opportunities for German business even without the CDM. But to take up these opportunities, they need sectoral knowledge and the right business partners. AHK and GIZ can help on both counts.

Uganda: Developing local CDM expertise

The CDM country manager project has been up and running in Uganda since the end of 2010. Building on the results of a design study conducted in November 2010 on the state of Uganda's carbon market, in August 2011 the CDM country manager project began supporting the Carbon Foundation for East Africa, a non-profit arm of a local CDM project developer. The main focus of the work lies in developing a regional, cross-country Programme of Activities (PoA) to distribute energy-efficient cooking stoves in the region.

The study conducted at the end of 2010 showed that a large number of very different institutions have so far implemented a range of measures to support the carbon market in Uganda. Nonetheless, the country lacks CDM expertise and the ability to foster local project developers with bankable project ideas. Uganda's Designated National Authority is relatively weak, while other key government institutions lack the necessary technical and financial capacities. In line with one of the core recommendations to come out of the study, the CDM country manager project now backs an existing PoA idea. This will generate



Climate change mitigation with built-in social benefit. By using energy-efficient cooking stoves like those used by the Carbon Foundation for East Africa, fewer greenhouse gases are emitted, local biomass resources are spared and health risks from open fires are reduced.
Photo: estherhavens.com / theadventureproject.org.

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process knowledge, which the Carbon Foundation for East Africa will use to develop other CDM activities and to provide training to produce new project developers. The Carbon Foundation for East Africa receives support in developing legal requirements and forms for the managers and the Coordinating Entity of the cooking stove PoA, a monitoring methodology, and a commercialisation approach for the CERs generated by the regional PoA. In addition, training measures are financed to help build local expertise and staff the PoA coordination unit.

Glossary / Abbreviations

All CDM/JI-specific terms and abbreviations are explained in detail in a glossary on the JIKO website at **www.jiko-bmu.de/459**

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