UNITED NATIONS

Framework Convention on Climate Change

Distr.
GENERAL

FCCC/CP/1998/INF.3
28 October 1998

ENGLISH ONLY

CONFERENCE OF THE PARTIES
Fourth session
Buenos Aires, 2-13 November 1998
Item 4 (f) of the provisional agenda

REVIEW OF THE IMPLEMENTATION OF COMMITMENTS AND OF OTHER PROVISIONS OF THE CONVENTION

ACTIVITIES IMPLEMENTED JOINTLY: REVIEW OF PROGRESS UNDER THE PILOT PHASE (DECISION 5/CP.1)

Update on activities implemented jointly

Note by the secretariat

I. CONTACT AND ACTIVITY INFORMATION

1. The secretariat continuously updates information on activities implemented jointly (AIJ) on the United Nations Framework Convention on Climate Change (UNFCCC) Web site under CC:INFO products. The section "CC:INFO/AIJ" thus contains a short history of the negotiations, a list of relevant documents (hotlinked if available), a summary of methodological work, the list of activities implemented jointly under the pilot phase and contact information of designated national authorities.[1]

[1] The direct address is http://www.unfccc.de/fccc/ccinfo/defaij.htm. If access to the World Wide Web is not available, the secretariat may provide, on request, updated information in electronic or printed form.

II. WORK ON METHODOLOGICAL ISSUES

2. In order to advance the understanding and development of practical options on methodological issues related to project-based mechanisms, including activities implemented jointly under the pilot phase, the secretariat organized two workshops in Abidjan, Côte d'Ivoire, from 14 to 16 and from 17 to 18 September 1998.[2]

3. The first workshop addressed issues related to baselines, monitoring, verification and certification, while the second examined the requirements of capacity building as well as ways to realize additional capacity, in particular on the part of hosts and investors. The workshops brought together over 50 participants from governmental, intergovernmental and non-governmental institutions, including private sector representatives, from Annex I and non-Annex I Parties. The expertise provided was based on a range of experience, such as participation in the design and implementation of projects under the AIJ pilot phase, project development under the Global Environment Facility and the Prototype Carbon Fund as well as through bilateral projects. It was acknowledged that while projects under a clean development mechanism (CDM) (Article 12 of the Kyoto Protocol) and projects referred to in Article 6 of the Kyoto Protocol had distinct characteristics of their own, important lessons could be learnt from the AIJ pilot phase. Participants particularly reflected on environmental, economic and sustainable development criteria and put forward a list of such criteria for assessing the applicability of various baseline approaches. They further elaborated definitions of terminology related to the assessment of project eligibility, and the monitoring, verification and certification of project results. Special attention was paid to the range of capacity building needs - and to ways of addressing them, based on positive (and negative) experiences in project development and implementation in particular during the AIJ pilot phase.

4. The following paragraphs provide a summary of the state of the discussion on five key topics, which were as follows:

(a) Determination of baselines, including the selection of the most suitable approach, to allow calculation of the quantity of greenhouse gas (GHG) emissions reduced or avoided through a given project;

(b) Assessment of the sustainable development contribution of a project;

(c) Requirements for the monitoring, verification and certification processes, including the clarification of definitions;

---

[2] At its fifth session, the Subsidiary Body for Scientific and Technological Advice (SBSTA) requested the secretariat to develop practical options with regard to an indicative list of methodological issues related to activities implemented jointly under the pilot phase. The preliminary findings based on previous work conducted in 1997 in collaboration with a number of partners on the issue of the determination of environmental benefits are contained in document FCCC/SBSTA/1997/INF.3 and are available on the UNFCCC Web site.

(d) Key elements of building capacity to design and implement projects, including areas for further research; and,

(e) Possible inputs for furthering the work on the development of practical options related to project-based mechanisms.

Determination of baselines

5. The need for projects to bring about real, measurable and long-term environmental benefits related to the mitigation of climate change that would not have occurred in the absence of such activities is the driving force behind the elaboration of baselines and the discussion of options on additionality. The challenge is to ensure that baselines are as precise, transparent and comparable as possible, but also workable in practice. The importance of ensuring the environmental credibility is amplified by the possibility of obtaining emission reduction units (ERUs in the context of Article 6 projects) and certified emission reductions (CERs in the context of Article 12) which can be used by Annex I Parties to meet their commitments referred to in Article 3 (and Annex B) of the Kyoto Protocol. The key methodological issue is, therefore, to avoid systematic overestimation of the GHG reductions. This point is of added importance in the case of the CDM which provides that the equivalent of certified emission reductions resulting from projects in non-Annex I Parties - which have no quantified emission limitation and reduction commitments - can be used by Annex I Parties to achieve compliance.

6. Three major approaches to the determination of baselines are being discussed: the project-specific, the matrix/benchmark and the top-down approach.[3] Each one of these approaches, as well as hybrids emanating from them, can be the optimal one, depending on the circumstances. The three approaches should, therefore, be seen as complementary, rather than as being substitutes or competitors. Over time, there could be a gradual evolution from, for example, a project-specific to a matrix/benchmark and eventually a top-down approach.

7. In order to determine which approach is likely to be most practicable in a given situation, each of these approaches should be tested against a set of 12 major criteria. They include: (i) the homogeneity and replicability of projects; (ii) the share in national production and/or emissions of a project; (iii) the potential that benefits of one project may have a negative impact elsewhere, be it, for example, within the same or another economic sector, or in the same or another region (leakage potential); (iv) the macro- (societal) and micro- transaction costs associated with a project at its various stages (from conceptualization to certification of credits); (v) the role of externalities (social, environmental and economic), such as the impact on employment, non-GHG emissions or the foreign exchange position of a country; (vi) robustness over time of a

---

[3] The project-specific approach is based on some combination of engineering judgement and site-specific analysis to generate a customized estimate for each project or activity; the matrix/ benchmark or reference case approach often relies on an engineering approach to set standard baseline values for a particular technology, land-use practice or industrial sector; finally, the top-down approach seeks to set a generalized baseline for a country or a major sector of the economy and often relies on a form of macroeconomic analysis.

baseline in light of technological and economic development; (vii) the potential for systematic overestimation of emission reductions; (viii) the basket of uncertainties for the investor, the host and the international community; (ix) the political sensitivity; (x) the time required to make the approach operational; (xi) potential errors (probability, variation, systematic versus non-systematic); and, (xii) the capacity requirement concerning, for example, the availability of data, which varies across approaches, and stakeholder involvement.

8. The experience gathered in the practical, and, where warranted, comparative application of approaches will be critical for increasing the precision and confidence in the determination of baselines and additionality. The existing technical and institutional capacity on the part of project hosts and investors at national and regional levels will be a further important element in selecting an approach. A project-based approach, coupled with thorough knowledge of feasible technological options, may prove to be the most practical in at least the initial phase of the CDM provided that special attention is paid to issues such as the leakage potential. On the other hand, Annex I Parties hosting projects under Article 6 provisions may wish to opt for the matrix/benchmark or top-down approach, in particular as the latter one is based on a national baseline and may imply comparatively lower transaction costs. In order to arrive at systematic and practical concepts for the determination of baselines and additionality, further work should include the development of sample project scenarios and simulation exercises.

Assessment of the sustainable development contribution of a project

9. In the context of the CDM, the incorporation, in an operational manner yet to be determined, of the contribution to sustainable development was considered. This included approaches to its assessment at the stages of project design (such as through the involvement of stakeholders), project registration/validation and subsequent monitoring and evaluation. The rigidity of the process may play a role in the attractiveness of a given host as compared to another. The exchange of information and experience among Parties within a subregion or region may help to reduce conceptual and operational uncertainties and maximize the sustainable development benefits for hosts.

Requirements for monitoring, verification and certification

10. With special reference to the CDM, five major areas/phases would need to be addressed during the project process. These are: (i) the inception and approval by each Party involved; (ii) the registration/validation of a project by the Executive Board; (iii) the monitoring, (iv) the verification, and (v) the certification of emission reductions resulting from the project activity. Elements for approaching each of the five stages are spelled out below.

11. The following working definitions are suggested: (i) “inception”: the conceptualization and development of a CDM project; and “approval”: the requirement that the voluntary participation in a project is approved by each Party involved; (ii) “registration/validation”: the approval by the Executive Board of a project design that meets the principal objectives of the CDM, i.e. assisting in achieving sustainable development and in reducing/avoiding emissions;

(iii) “monitoring”: the periodic systematic surveillance/ measurement of the performance of the project; (iv) “verification”: the evaluation of results that have been achieved against preset criteria; and (v) “certification”: the procedure by which an independent accredited body gives written assurance that the sustainable development objectives and emission reductions/avoidance that are claimed have indeed been achieved.

12. In the context of the project inception and approval process, the CDM project idea and design would be developed, in particular describing how key criteria would be met (sustainability; emission reductions which are real, measurable and long-term as well as additional to any that would occur in the absence of the project, i.e. proposed baseline and additionality determination); confirming local stakeholder involvement; describing externalities within and beyond the host country borders and the potential for long-term climate change mitigation; confirming secured financing (except in cases where assistance referred to in Article 12, paragraph 6, is sought); presenting modalities for implementing the monitoring protocol; and specifying the time-frame for verification and certification (in accordance with standards). Finally, the voluntary participation in the project activity would be approved by each Party involved.

13. While Article 12 refers to ‘certified project activities’, this provision is proposed to be satisfied through a process of project registration/validation by which the Executive Board confirms that a proposed project qualifies under the CDM by meeting its key criteria.

14. In the context of periodic monitoring, the actual emissions would be assessed using the agreed methodology included in the monitoring protocol, as would be the progress in achieving the sustainability criteria set out in the proposal (by internal or external agents).

15. Through verification and certification, a third party, according to a verification protocol to be formulated and adopted for use under the terms of Article 12, paragraph 7, would periodically verify the results of the monitoring set out above. An accredited certifying authority would then certify the verified performance according to a certification protocol to be formulated and adopted for use under the terms of Article 12, paragraph 7. A certificate would be issued stating the achievement of the emission reductions or emissions avoided and of the agreed sustainable development objectives. Procedures for monitoring the performance of verifying, certifying and accreditation bodies would need to be established.

16. The Executive Board will undertake the qualified registration of the CERs resulting from a project. The CERs thus obtained could then be used to achieve compliance, be banked or traded in the same way as assigned amounts. It is foreseen that CERs obtained during the period 2000-2007 can be used to assist in achieving compliance in the first commitment period.

17. The frequency and stringency of monitoring or verification that should be applied to CDM projects and those under Article 6 require further discussion. Also, the three approaches for setting baselines may imply different choices of methods and stringency of project monitoring, verification and certification. One of the key challenges for the project-based

mechanisms is to choose methods and frequency of monitoring, verification and certification that lead to a high standard of credibility of the resulting emission reductions units/certificates while minimizing related costs.

Elements for building capacity

18. Priority areas for capacity building - a process which identifies needs and enhances knowledge and the ability to engage in project-based mechanisms - were identified with a special focus on requirements related to the CDM. Existing capacities and needs vary among developing countries due to differences in the environment for investment, policy and project development, the level of infrastructure development, and administrative structures. Some countries have gained experience through being involved in general climate change related activities and in the AIJ pilot phase. Among the key elements for increasing the likelihood of success of projects are the existence of local promoters which are catalysing government action; the awareness of climate change issues by policy makers and the provision of an enabling environment.

19. Initial action on the part of potential project hosts may include the following:

(a) The establishment or strengthening of national focal points with specified qualifications based, for example, on experience gained in the context of the AIJ pilot phase or other climate change related projects;

(b) The facilitation of the enabling environment through local/regional networks in order to disseminate information, provide training, facilitate policy dialogue and development, identify potential projects, share experience, perform research and provide services required under the CDM; such networks can also encourage cooperation among national focal points; full use should be made of existing institutions and information channels;

(c) The provision of information to local stakeholders about the possible opportunities under the CDM; promotion may be undertaken by governments in cooperation with the media and non-governmental organizations; and,

(d) The facilitation of operations by local promoters of the CDM.

20. At the second stage of designing a national policy for CDM the following steps could be considered:

(a) Outlining the process and procedure (including the responsibilities of the entities involved) for project approval and investor guidance; an inter-agency task force could be effective at this stage;

(b) Setting out national criteria (sustainable development indicators) and prioritizing sectors for CDM projects based on national development policy; sub-regional and regional

entities (inter-governmental and/or non-governmental) could provide guidance for policy formulation at this stage;

(c) Analysing and understanding the implications of various credit-sharing schemes (involvement of research institutions where necessary); and,

(d) Establishing a one-window operation for investors, which could be conducive to the CDM development; this capacity could be built around the national focal point.

21. The third stage, project identification and design, may involve the following action:

(a) As start-up, the government could identify project opportunities and solicit local developers as well as international investors. This would require basic knowledge of carbon quantification, baseline setting, determination of additionality, knowledge about access to technical support and basic project development expertise; again, a sub-regional or regional entity could provide technical support;

(b) This start-up could lead into a more informed second phase where the local project proponents, such as the local private sector or NGOs, approach the government with projects in order to seek the support of international investors; government would need to evaluate these projects (sustainable development content and credible emission reductions); a regional entity could be used as a marketing platform.

22. A matrix describing capacity requirements of project-based mechanisms - using a CDM example - is contained in the annex to this document. It provides an illustrative framework for identifying actors and tasks as well as for depicting relations between various stakeholders/actors (both nationally and between hosts and investors).

23. While some of the capacity building requirements and needs described above also pertain to the adaptation component of the CDM, details will need to be elaborated upon as provisions concerning paragraph 8 of Article 12 are being worked out. Ongoing capacity building and work for assessing vulnerability and adaptation options may be drawn upon.

24. There are a number of additional issues which require further research, in particular concerning the market infrastructure for credits. Among them are the relationship and possible competitiveness between the mechanisms; the design, implications and impact of credit-sharing arrangements; and, the implications of the possibility of early banking in the case of the CDM.

Possible inputs for furthering work on the development of practical options

25. Progress on methodological issues related to project-based mechanisms can be made, including on the most complex ones of determining credible baselines and the additionality of projects under Articles 6 and 12 of the Kyoto Protocol. A systematic process of learning from

the experience of the AIJ pilot phase and of other project-based endeavours needs to be further developed. Types of projects which are likely to fulfil key criteria, such as contributing to sustainability and reducing/avoiding emissions as is required under the CDM, may be identified in this context. The choice of approaches for determining baselines and additionality could, over time, proceed along a continuum. During an initial phase, it is likely that a project-specific approach will be considered as the most practicable. As the empirical basis develops, there may, however, be a gradual move towards integrating aspects from the matrix/benchmark approach.

26. On monitoring, verification and certification, the critical issues will be the development of standards of procedure or protocols so that the criteria of transparency, efficiency and accountability through independent auditing and verification can be translated into operational activities.

27. Capacity building is essential and urgent. It is required on the part of hosts and investors. Existing structures and ongoing activities (such as national focal points on climate change issues and the preparation of national communications) should be drawn upon. Additional insights can be gained from the range of experience acquired by countries which participated in the AIJ pilot phase (regarding, for example, project design, in particular the determination of baselines and additionality, and the reporting format). While national efforts are essential, subregional and regional cooperation structures could be strengthened in order to optimally use scarce resources and benefit from a wider range of experience. Capacity requirements related to the integration of sustainable development criteria into project design need to be considered.

28. In summary, further work required to develop the methodological options to the stage of applicability includes the following:

- Carrying out an in-depth analysis of 10-12 AIJ projects (as well as of other projects) which focusses on (i) the determination of baselines and additionality by discussing, case-by-case, the feasibility and limitations of applicable methodological approaches (simulation exercise based on the 12 criteria); and (ii) requirements for preparing eligible projects, including the reporting format;

- Specifying the range of options for setting a project baseline (for example by applying the project-specific approach), including the resulting emission reductions, and to move the concept of additionality to an operational level by incorporating technical input/engineering expertise;

- Developing draft protocols for monitoring, verification and certification and options for setting standards (based on specialized technical input); and,

- Developing a draft manual for hosts and investors engaging in project-based mechanisms, initially with a special focus on the CDM, in order to provide a tool for capacity building and practical operational guidance.

Annex

Capacity building matrix - CDM example

Actor / Task	Host country (HC) Political, administ.	HC Business	HC Science support	HC NGO	HC Local community	Investor/ investing country	Operational entity	Int'l CDM regime
(A) Enabling environment	(1) Laws, policies, procedures, criteria (2) Awareness raising	--	(1) Scenario and policy analysis (2) Mitigation adaptation research	(1) Awareness (2) Networking (3) Lobbying	E.g. zoning laws	Technical assistance	--	--
(A) Project design	Create CDM office	Project design services	Methodology research	Local input	E.g. licensing	Funding for project development	--	Decide on criteria
(B) Mobilization of funds	yes	yes	no	yes	no	yes	no	yes
(B) Project implementation	yes	yes	no	yes	no	no	no	no
(B) Operation	yes	yes	no	no	no	no	no	no
(B) Monitoring	yes	yes	yes	yes	yes	yes	no	no
(B) Verification	no	no	yes	no	no	no	yes	no
(B) Certification	no	no	no	no	no	no	no	yes
(B) Project evaluation	yes	no	no	yes	yes	yes	no	no
(B) Further research	yes	yes	yes	yes	yes	yes	no	no
(C) Actors' needs (shopping list)	*Info exchange* *Equipment* *Training*	*Awareness* *Training*	*Awareness* *Training* *Equipment*	*Awareness* *Training* *Equipment*	*Awareness* *Training* *Equipment*	*Awareness* *Clearinghouse for projects* *Incentives*	--	--

Notes: Priority areas are shaded. - (A) Capacity building activity (example) which an actor (see row) can undertake to support a given task (see column) - (B) Which actor (row) performs which task (column)? - (C) What are capacity building needs of actors?

- - - - -