Towards CDM reform:

Summary of IGES Report on the CDM Reform

8 September 2010

ADB-IGES-UNFCCC Workshop on Improving the Regional Distribution of CDM Projects in Asia and the Pacific

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3 Key Messages Towards CDM Reform

1. Needs to reduce “uncertainty”
   - The biggest barrier for the CDM is uncertainty.
   - When to register? When CERs will be issued?

2. Needs to reduce “manipulation”
   - Interpretation creates uncertainty
   - Setting default values reduce uncertainty

3. Needs to be concrete and be acceptable.
   - Acceptable to EB and UNFCCC
   - Comes from specific case
“Uncertainty” over registration

- Increased validation time up to almost 2 years
  - Approx. 800 million tons loss due to delays
- Approx. 25% are dropped out during validation
  - Approx. 413 million tons loss due to dropout

Average Days until Registration

CER loss due to validation delays

“Uncertainty” over issuance

- Issuance takes longer and continued to increase
- Issuance tends to be longer for small project
"Uncertainty" reduced CER Supply

IGES CDM Project Data Analysis & Forecasting CER Supply (27 August 2010)

Interpretation Created Uncertainty

Review for investment analysis continued to increase, while prior consideration on the CDM has decreased.
Why it reduced?

Typical Reason for Review

“It has not been demonstrated that real and continuing actions were taken to secure the CDM status for the project activity”

Guidance on prior consideration

PP Inform DNA UNFCCC

On or After August 1, 2008

Notification within 6 month of start date and limit 2 years

The guideline narrowed rooms to interpret by providing quantitative indicators.

Why it increased?

Typical Reason for Review

“the suitability of the tariff, benchmark, input value applied in the investment analysis” is not explained.

Guideline on investment analysis

◆ Mostly theoretical in nature
◆ Describe only approaches, not specific value

The guideline has many rooms to interpret.
National Grid Emission Factor reduced a Review Request.

Introduction of National GEF
- India (Nov. 2006)
- China (Dec. 2006)

Setting default values reduced “uncertainty”

Most of the Registered CDM projects utilize similar Benchmarks as a financial indicator

<table>
<thead>
<tr>
<th>Type of benchmark</th>
<th>Num</th>
<th>Country information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Code <em>(Published by Ministry of Water resources, NDRC, Ministry of Construction)</em></td>
<td>387</td>
<td>China 380, Other 7</td>
</tr>
<tr>
<td>Power Industry’s sector benchmark <em>(Published by State power corporation of China, etc)</em></td>
<td>358</td>
<td>China 356, Other 3</td>
</tr>
<tr>
<td>Weighted Average Cost of Capital (WACC)</td>
<td>78</td>
<td>India 45, Malaysia 9, Other 34</td>
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<tr>
<td>Government bond rate</td>
<td>51</td>
<td>Brazil 16, Other 35</td>
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<tr>
<td>Return on Equity (ROE)</td>
<td>28</td>
<td>India 19</td>
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<tr>
<td>Interest rate</td>
<td>18</td>
<td>India, Indonesia, Other</td>
</tr>
<tr>
<td>Required Rate of Return (RRR)</td>
<td>18</td>
<td>India 14, Other 4</td>
</tr>
</tbody>
</table>

Source: IGES CDM Investment Analysis Database (As of 23 August 2010)
Setting Benchmark reduced Uncertainty

China (Hydro Power)

- Benchmark rate

Request for review regarding benchmark rate decreased.
Benchmark rate published by government has its validity.

IGES Proposal Towards CDM Reform

1. Needs to reduce “uncertainty” from judging to checking.
   - Effective guidelines should contain specific actions with quantitative indicators.

2. Needs to reduce “manipulation” by introducing automation to the process.
   - Country/Global default values (i.e. GEF, CER price)
   - Positive list for specific project types (i.e. Simplified additionality test)
   - Automatic ER calculation sheet (i.e. IGES ER Sheet)

3. Needs to be concrete and be acceptable.
   - IGES Proposal to EB based on CDM CB.