

Draft proposal for the
Implementation of
Programmatic CDM project activities
within the existing regulatory framework
of CDM project activities

This proposal is part of a broader study on the
eligibility, methodological requirements and implementation of
programmatic CDM project activities
prepared for the
Carbon Finance Business Unit of the World Bank

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A. Rationale

The CDM is not yet developed to its full potential. In particular, energy efficiency measures and fossil fuel switching activities by private households, in small enterprises and in transportation are underrepresented in the CDM. The single-site approach applied in most CDM projects has proven to be difficult to implement in these areas. A promising possibility for promoting these types of activities, but also others including renewable energies and climate friendly waste management systems, is to use measures such as grants, soft loan schemes, or voluntary/ mandatory efficiency standards for equipment or facilities. These kinds of measures are called programmatic CDM project activities if they are included in the CDM.

Programmatic activities are eligible as CDM project activities based on the definition in the CDM Glossary: *"A project activity is a measure, operation or an action that aims at reducing GHG emissions. The Kyoto Protocol and the CDM modalities and procedures use the term 'project activity' as opposed to 'project'. A project activity could therefore be a component/aspect of a project undertaken/planned."* Only a few projects in the CDM pipeline are of a programmatic nature. These projects face some special methodological issues that still need to be addressed. This proposal identifies the relevant methodological issues for programmatic CDM project activities and suggests clarifications and guidance where needed.

B. Definition

The following definition applies:

Programmatic project activity

A programmatic project activity is a CDM project activity where the emission reductions are achieved by multiple actions executed over time as a result of a government measure or a private sector initiative. Examples include grant or soft loan schemes to promote energy efficiency measures, climate friendly waste management, fuel switching activities or the use of renewable energies by individual households, in the transportation sector, or by small enterprises and voluntary or mandatory efficiency standards for equipment or facilities.

C. Characteristics of programmatic project activities

Programmatic project activities have the following characteristics:

- a. A programmatic project activity is a government measure or a private sector initiative that reduces greenhouse gas emissions. Programmatic project activities are restricted to measures or initiatives where the induced greenhouse gas abatement actions and sources of emission reductions can be identified, attributed to the program and verified. E.g.: A mandatory quota for the power generation sector to install a

certain amount of wind power allows the plants that were built under the program to be identified and the emission reductions they achieved to be verified.

- b. A programmatic project activity results in the implementation of dispersed emission reduction actions over time. The possible types and - if necessary for the selection of the relevant approved methodologies - also the sizes of the actions expected to be induced by the program shall be identified *ex ante* in the Project Design Document. However the type, size and timing of the induced actions may not be known at the time of registration.
- c. The project participants in a programmatic project activity must include the government or legal entity responsible for the program. The entities implementing the emission reduction actions need not be project participants.

D. Modalities and procedures for programmatic project activities

The modalities and procedures for CDM project activities apply *mutatis mutandis* to programmatic project activities except as explicitly decided by the Executive Board or the COP/MOP. This includes that policies or programs that have been implemented since 11 November 2001 may not be taken into account in developing a baseline scenario, that double counting shall be avoided, and that the CDM project activity should be submitted for validation by completing a single PDD form.

The following modalities shall also apply:

- (a) In programmatic CDM project activities a two level approach is required for the baseline selection and for the additionality assessment.
- (b) Double counting of emission reductions shall be avoided in accordance with rules adopted by the Executive Board.
- (c) Programmatic project activities shall use an appropriate approved baseline and monitoring methodology for each type of emission reduction action induced by the program.

E. Issues for further elaboration

The following issues should be elaborated further:

- (a) In many programs the individual emission reduction actions would be eligible for simplified methodologies for small-scale CDM project activities. The number of actions expected to be implemented by the program may cause it to exceed the relevant threshold for a small-scale project activity. The program could be submitted as a number of projects each covering actions implemented in a specific region and/or period. However, this is inefficient in terms of transaction costs. Project proponents should address this issue in the

proposed baseline and monitoring methodologies they submit for programmatic project activities.

- (b) If a program lasts several years and the lifetimes of the emission reduction actions are relatively long, it may not be possible to claim all of the emission reductions generated under the existing rules for the crediting period. The program could be submitted as a number of projects each covering the actions implemented during a specified period, so each group of actions would have its own crediting period. However, this is inefficient in terms of transaction costs. The Executive Board or COP/MOP could consider allowing programmatic projects to use distinct crediting periods for different vintages of actions if the program remains in effect for a number of years. E.g.: A soft loan program that promotes the use of wind power with a 12 year lifetime and where operations of the first wind turbines start in year 2 of the program the first vintage would be for the time period 2 to 10 for a 10 year crediting period, the second vintage from 3 to 11 etc. Wind turbines that get a loan in year 11 of the programs lifetime are outside the crediting period of the first vintage and cannot claim any CERs under that programmatic CDM project.