

THE STATE OF DEVELOPMENT OF NATIONAL CDM OFFICES IN CENTRAL AND SOUTH AMERICA

Barriers to the Deployment of CDM Potential

1. World Bank NSS-Andean Center
2. IADB-Andean center
3. Andean Center



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1. World Bank NSS – Andean Center *Capacity Building Needs for the Kyoto Protocol (JI and CDM)*

January 2003

Mohan Munasinghe, Asia and the Pacific;

Lubomir Nondek, Central and Eastern Europe;

Youba Sokona, Africa;

Andean Center, Latin America;

coordinated by Dr. Anne Arquit Niederberger

- 245 Surveys of decision makers in Asia, Africa and LAC;
- Sigrisvil Workshop: 65 knowledgeable participants discussed key outcomes and developed strategies.

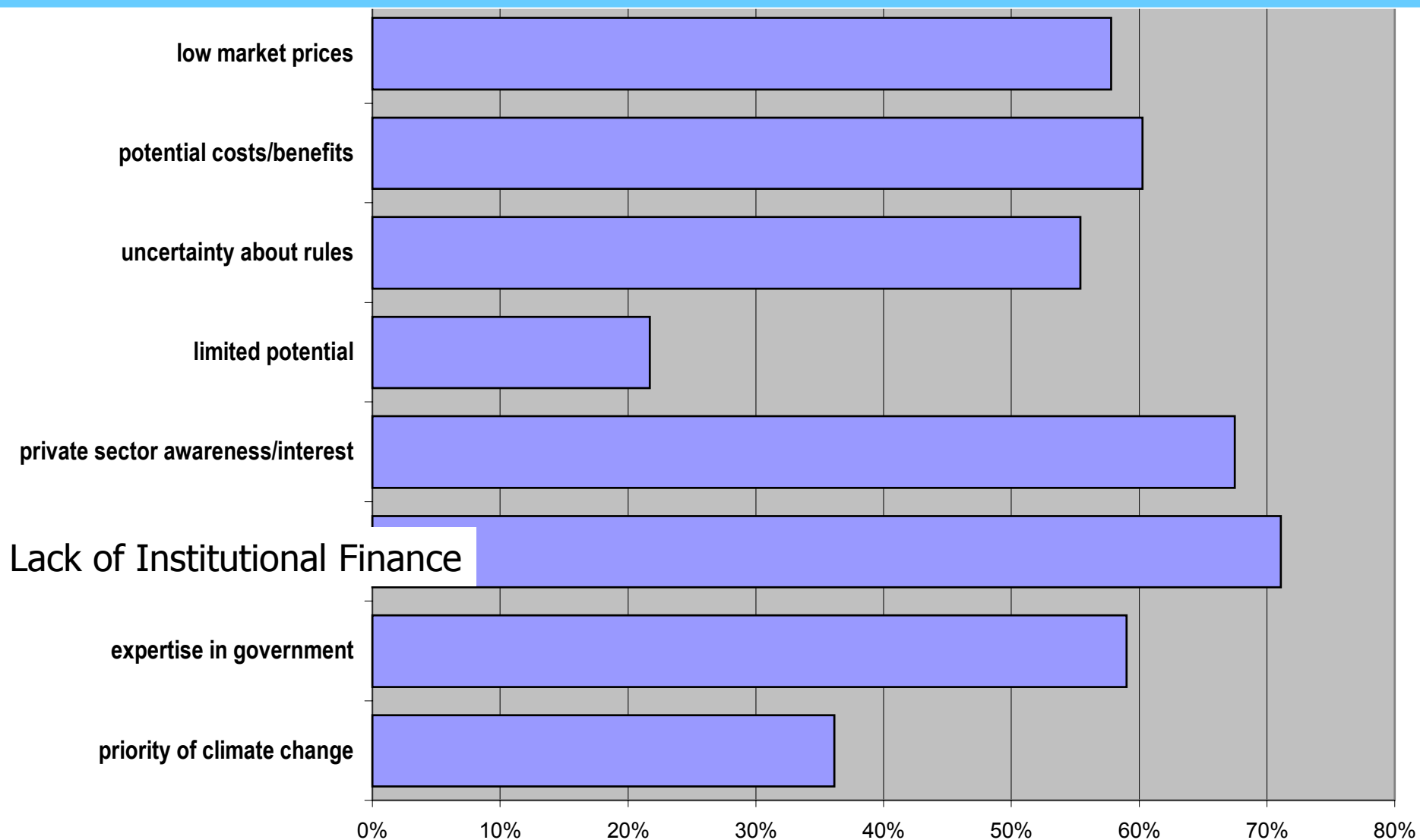
Private Sector Survey: Barriers to Implementation of the CDM

1. Lack of capital to finance baseline studies and Project Design Documents (73%);
2. Lack of debt or equity financing to execute investment projects; investment banks unfamiliar with CDM (67%);
3. Lack of transparent rules and procedures for domestic project approval (67%).
4. Low market prices don't provide incentive to participate in uncertain new market (60%)
5. Weak Benefit-cost ratio of projects reduces attractiveness of CDM (60%)
6. unclear property rights raise uncertainty (60%)

Private Sector Decision Makers avoiding entry into the Carbon Markets because of low understanding of:

- basic structure of Kyoto markets, (90%)
- the key variables that affect international price formation of CERs (90%)
- principal price scenarios that could develop in the short, medium and long term, (90%)
- The potential income stream from CERs as prices change over time, and how they could affect economic feasibility of projects. (95%)

Survey of Government Officials: Barriers



2. IADB – Andean Center

“Evaluation of the Potential of 3 Central American Countries to Participate in the CDM”

- December 2002
- Authors: Oscar Coto, Lucio Pedroni, Andean Center
- **SCOPE: 3 Central American Countries, 56 Projects**
- **Analysis of Portfolios and Project Data with CDM Offices and Project Owners**
- Evaluation of Key Variables in Projects Formulated and Submitted to CDM Offices
 - Competitiveness in expected market range
 - Quality of Project Formulation



Supply Side Barriers

- More than 90% of portfolios are simply IDEAS, not projects appropriately formulated under the CDM Marrakech rules.
- Project Quality Must be Improved at the Initial Formulation Level, using targeted capacity building and demonstration projects.
- However, many projects cannot afford high costs of design, formulation and approval. Most projects will drop out, unless CER price rises significantly.
- Interconnected energy project developers face serious barriers to baseline estimation, especially in electricity markets currently under reform.

Supply Side Barriers (2)

- CDM Service Providers are in Short Supply:
 - Project formulation services
 - Affordable support for emissions monitoring programs
- **Fragility** in CDM institutions: politically, technically, financially, limits ability to evaluate and approve projects
- High Risks and uncertainty due to lack of definition of CER property rights.

3. Andean Center for OECD

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- Date completed: February 2003
- Authors: The Andean Center for Economics in the Environment
- **Scope: 13 Latin American Countries**
- **Methodology: Surveys, Structured Interviews, Review of Legal and Institutional Documentation**



Table 1: Countries that Participated in this Study

Argentina		Nicaragua
Bolivia	El Salvador	Panama
Colombia	Guatemala	Paraguay
Costa Rica	Honduras	Peru
Ecuador		Uruguay

Institutional Issues that Will Affect the Supply of CDM Projects

- LEGAL FOUNDATIONS: 65% of CDM offices do not yet have a complete legal foundation that entitles them to confer the national approval required by Marrakesh.
- INSTITUTIONAL FINANCE: Although most of the offices have operating regulations that establish a specific administrative structure, *in general these offices have been unable to fully fund their technical positions.*
- POLITICAL FRAGILITY: The inability to establish an office in Mexico is a critical indicator.

Fragility of Institutions

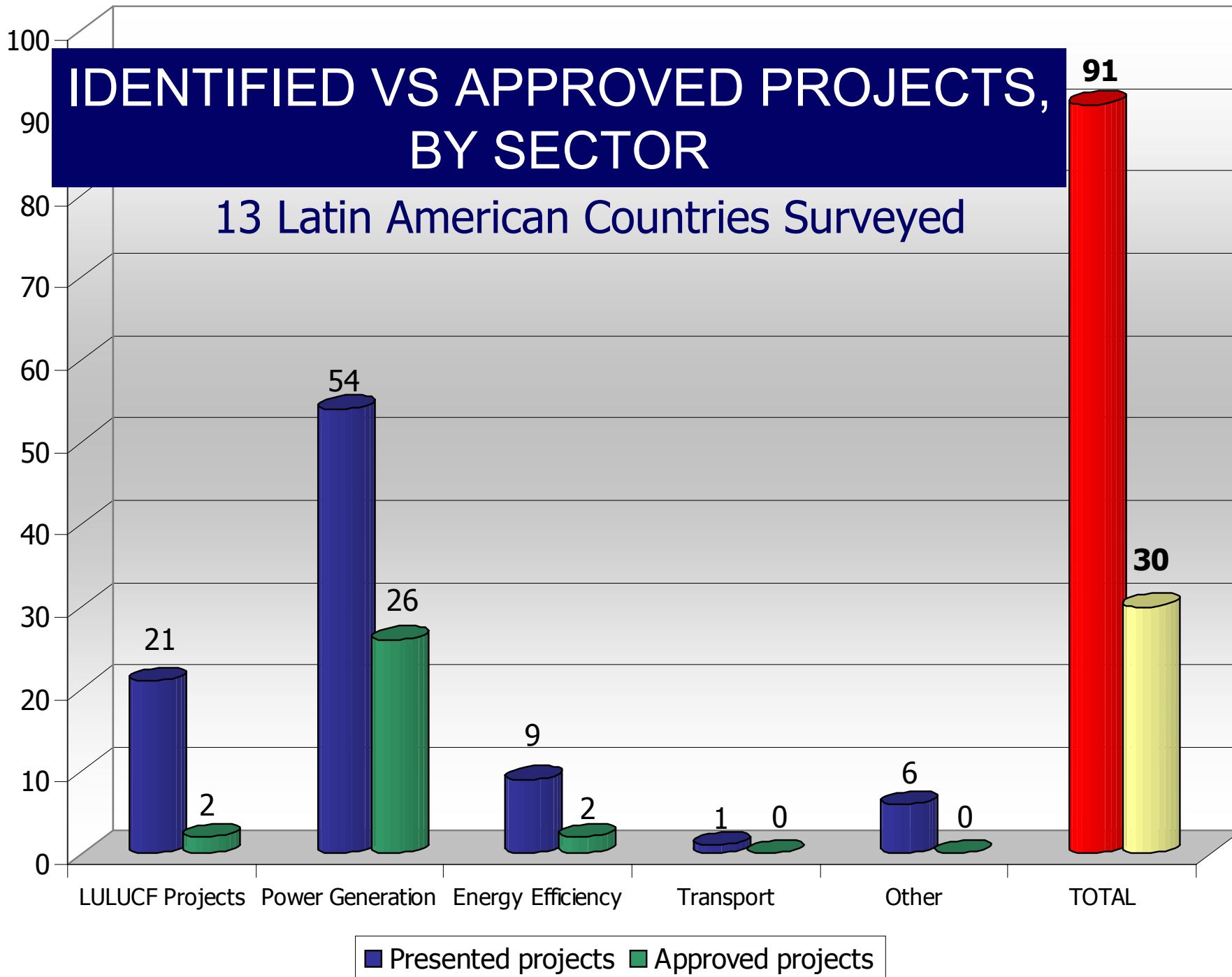
- Two-thirds of the countries surveyed report that they have mechanisms and/or institutions in place at the national level to coordinate, monitor and evaluate capacity building activities;
- however, 80% of those respondents believe these are inadequate and need to be strengthened politically, technically and financially.
- Paraguay; Honduras; have suffered political disruption of their CDM offices. Others are vulnerable to political disturbances.

Approval Regulations and Criteria Still Lacking

- Approval Regulations lacking: *only 38% have duly regulated evaluation and approval procedures and criteria.*
- Sustainable Development Criteria: Even though most offices will only apply projects' **contributions to sustainable development** as the sole approval criteria, to date few have been able to define concrete methods to implement the criteria.
- RESULT: the 13 Latin American CDM offices have on average, received 7 projects per office and approved only 2.3 since Marrakesh rules were established.
Will the rate of project approval increase?

IDENTIFIED VS APPROVED PROJECTS, BY SECTOR

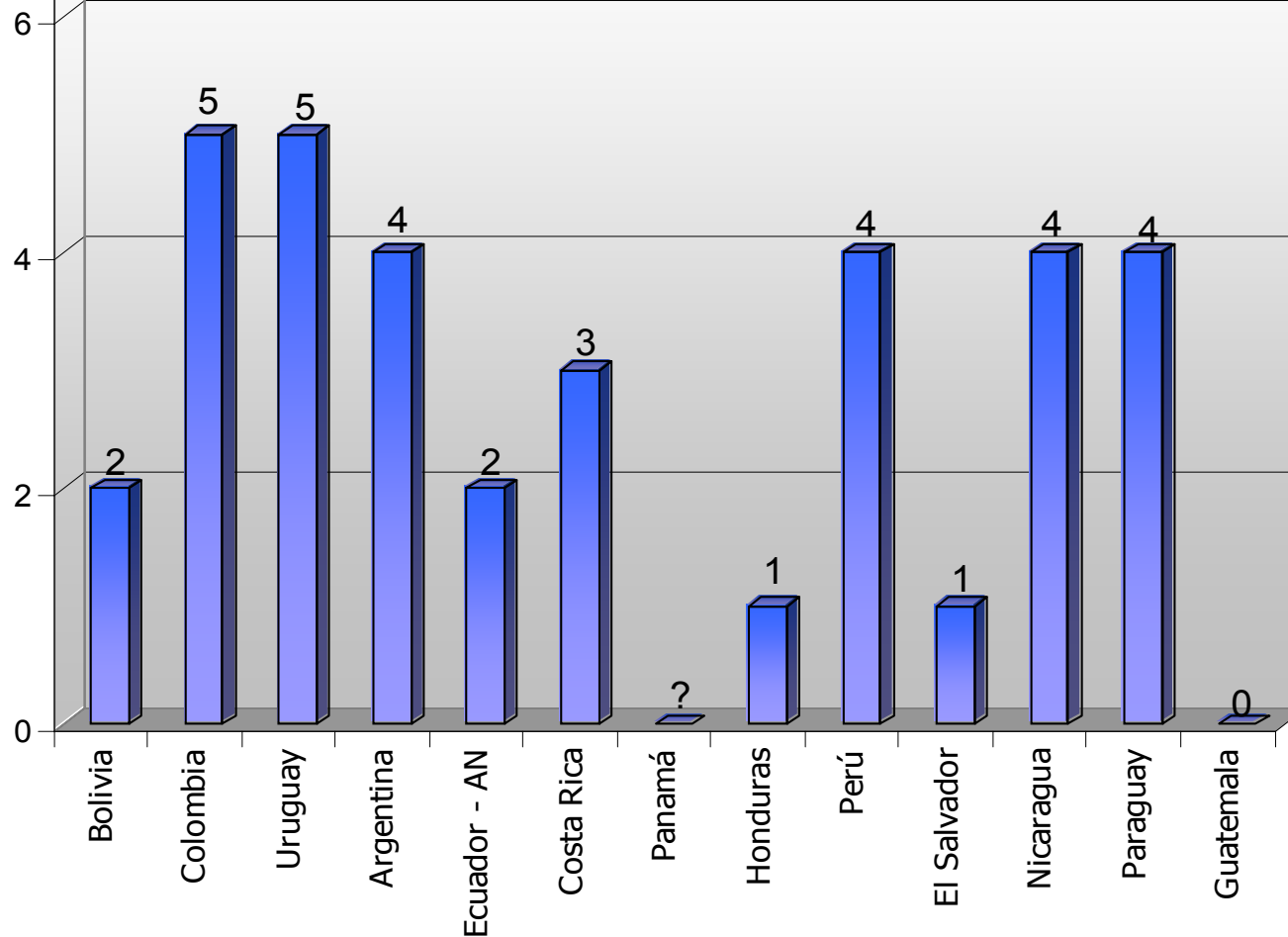
13 Latin American Countries Surveyed



Lack of Funding for CDM Offices Creating Problems

- Lack of institutional funding, staffing and expertise is resulting in an inability to approve projects, long evaluation periods, high transaction costs.
- Lack of institutional funding leading some NDACDMs to offer project formulation services and to charge fees: *should a national entity approve the same projects it has formulated?*

Insufficient Funding Affecting Technical Staffing at NDACDMs



Property Rights Undefined

- CER Property rights: In most cases, national policy seems to be that CERs will belong to the owners of the projects, but a clear legal basis for this is lacking in most cases.
- Note the Bolivian government, which intends to take ownership of part of CERs: 50-50 distribution in cases where the State furnishes resources such as land, and a 10-90 distribution (10% for the State) in other cases.
- In the absence of stable legislation, will future governments and political parties remain passive as CER revenues increase?

Summary and Conclusions

Barriers and difficulties from the Supply Side in CDM

1. Lack of Kyoto Market Development / Effective Demand and Prices
2. Weak Cost-Benefit Ratio of CDM
3. Lack of Local Financing for Project Formulation and Project Implementation
4. Lack of Financing to Establish Institutions in Stable Fashion
5. Lack of Project Identification Capacity in Key CDM sectors
6. Little Formulation Capacity available
7. Lack of duly regulated evaluation and approval procedures and criteria.
8. Political instability of CDM institutions.

Policy Implications

- Many Project Ideas, but few High Quality Projects will be approved and make it to market
- The Actual Supply of CERs will probably be relatively small.
- The Effect on Kyoto Market Prices may be to increase over time, as effective supply from developing world is less than expected.
- Significant support programs from Annex B to Developing Nations will be required to move the CDM forward in a significant fashion.

Overcoming Key Barriers and Difficulties for CDM

- Hope for rapid Russian Ratification and entry into force.
- Effective Demand and a significant price will create more interest in CDM from Project Developers and and more political support for national programs.
- **Success breeds success**: the first CDM projects must be successful.
 - Demonstration effect domestically should create support for NDACDM needs and create more interest from CDM sectors
 - Demonstration effect internationally will create confidence from investors, multilateral banks, regional investment banks, CDM funds

Institutional Requirements: Targeted Capacity Building

- **National CDM Offices:** project formulation and evaluation
- **Key Economic CDM Sectors:** high quality project formulation training
- **Local and regional investment banks:** CDM Markets, Prices, Institutions, CER PAs, Project Design Regulations

Institutional Strengthening and Financial Support Required in the Short Run

- Start-up Financing for NDACDMs could come from Annex B Development Assistance or Multilateral Agencies
- Greater Commitment from National Governments will be needed to Sustain NDACDMs
- Support from Private Sector
- Support from existing ministerial structures
- **After a few successful projects, when CERs and incomes begin to flow, domestic support should be easier to consolidate.**



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