Overcoming Barriers to Clean Development Mechanism Projects

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Outline

- Current status - geographical distribution, mitigation costs
- Identifying and overcoming barriers to CDM:
  - National barriers: general institutional framework
  - National barriers: CDM-related
  - Donor countries/other international barriers
  - Project finance
- How can these barriers be overcome?
- Case studies in South Asia, Middle East, South & SS Africa.
Current Status:
The Regional Distribution Challenge

Jan 2006
Expected credits 163 Mt/y

Mar 07
Expected credits 302 Mt/y
Wide variations in CDM return on investment

- CER return on investment
  - High investment costs
    - Natural gas power
    - Associated gas recovery
  - Low investment costs
    - Energy efficiency
    - Biogas
    - Bagasse co-generation

- Wide variations in investment costs
  - Industrial N2O
  - HFC23 reduction
  - Coalmine CH4
  - Manure mgmt
  - Landfill gas
  - Fuel switch
  - Wind power
  - Hydro
  - Geothermal

Annex I Expert Group on the UNFCCC
Key Findings: National-level Issues

- Enabling factors – general policy framework:
  - Stability/predictability of investment laws
  - Tax incentives, import tariff reductions for CDM technology
  - Reduced ownership restrictions on foreigners
  - General institutional framework/ governance
  - Undistorted energy pricing policies
National issues (2)

- Enabling factors – *CDM-specific framework/institutions*:
  - Clear CDM policy framework
  - CDM awareness
    - (govt, industry, consultants, financial intermediaries)
  - CDM institutions and effectiveness
International issues

- International decisions can also affect geographical distribution of CDM:
  - International decisions
    - e.g. on eligibility (A/R, new HFC23, CCS), temporary credits
  - Regional decisions e.g. EU ETS and LULUCF
  - Buyer criteria, e.g. minimum project size
- DOE capacity
- CDM process
  - Cost/time to develop methodology
Conclusions (1)

- Equal regional distribution should not be expected from a market mechanism:
  - Host countries have different cost-effective CDM potential
  - Many national-level actions possible to increase attractiveness as a CDM "destination"
  - CDM institutions, investment climate ... 
  - CDM ≠ FDI (unilateral projects important)

- International-level actions/decisions could also change regional distribution
Conclusions (2)

- National-level measures:
  - Simple, timely & transparent CDM project approval process
  - Mainstreaming investment guarantee & insurance products into standard project structuring
  - Reduce participation/ownership restrictions on foreigners. Clear CER ownership laws
  - Build national capacities for CDM project identification, design, approval, financing & implementation to reduce transaction costs
  - Mainstream CDM into existing energy sector, reform technical assistance programs of international development agencies
Conclusions (3)

- International-level measures:
  - Modify ER buyers’ criteria to allow more projects into their pipeline
  - Large institutional ER buyers with development agendas should increase operations in less developed countries
  - Clarify post-2012 climate regime to allow for CDM projects with long lead-time in some countries
  - Expedite decisions on CCS
  - “Bundling” agents can help
Thank You

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