

Note on Policies, Programs and Bundles in the CDM*

In December 2005 the COP/MOP1 held in Montreal ruled on the consideration of policies, programs and large-scale bundles in the CDM. Without prejudging detailed clarification that may be emitted by the Executive Board, this note suggests some practical definitions and examples that could be used to distinguish among the three concepts.

In the COP/MOP 1 decision containing Further Guidance Relating to the CDM, paragraphs 20 and 21 state:

“... a local/regional/national policy or standard cannot be considered as a clean development mechanism project activity”

“...project activities under a programme of activities can be registered as a single clean development mechanism project activity...” provided that CDM methodological requirements are met.

“... large scale project activities under the clean development mechanism can be bundled”

1. Policies and Standards

Accordingly, policies and standards are not eligible as CDM project activities. Policies could be defined as governmental courses of action taken with the purpose of guiding or determining decisions and trends. Policies may be binding or non-binding (e.g. policy to increase share of renewable energy). Standards are government regulations to standardize some features of a product or of an activity. While policies and standards can lead to GHG reductions, the above decision renders them not eligible for the CDM possibly due to (i) the difficulty in attributing an observed GHG reduction to a particular policy or standard; and (ii) the difficulty in verifying the corresponding GHG impact (e.g. a tax on fossil fuels would likely not be eligible as a CDM project activity).

While a policy cannot be considered a CDM project activity, its adoption need not make an otherwise eligible and concrete CDM project activity non-additional. At its 22nd meeting the Executive Board ruled that policies that encourage lower emissions do not need to be taken into account in the baseline if the policy was implemented since the adoption of the CDM Modalities and Procedures in November, 2001 (i.e. the baseline scenario can refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place).

2. CDM program of activities

Paragraph 20 rules that a CDM program of activities is eligible as a CDM project activity, although it does not define a program of activities. A CDM program could be defined as one in which emission reductions are achieved by multiple verifiable activities executed over time as a result of a government measure or private sector initiative. Program characteristics could include the following:

- It is a deliberate program, public or private sector based, put in place in order to provide an incentive for GHG mitigating actions. The program results in a multitude of GHG reducing actions occurring in multiple sites. The sites could be located within one city, one region or one country, depending on the design of the program.

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- The GHG reducing actions do not necessarily occur at the same time, but rather throughout the life of the program.
- The type and the size of the emission reducing actions induced by the program may not be known at the time of project registration. However, possible types of expected actions have to be identifiable ex-ante for the purpose of selecting the appropriate baseline and monitoring methodologies, and all emission reductions must be verified ex-post to ascertain the actual reduction achieved by the overall program. CERs are not issued based on the ex-ante estimation, but rather on the ex-post quantification and verification.
- While GHG reducing actions can be implemented by one or more entities, the responsibility for designing the program and overseeing the execution of its various activities lies with the program agent or main project participant (e.g. NGO, governmental institution, federation, energy service company (ESCO), single company, financial intermediary, etc). The program agent can have agreements with other participants for the distribution of CERs.

2a. Examples of CDM programs

An example of a CDM program could be a soft loan program for renewable energy. A development bank, the public utility or an NGO could choose to set up a soft loan program accessible to those who purchase and install solar water heaters. A second example could be a private company that uses CDM revenues to finance a price discount on the energy efficient equipment it sells, or an energy service company (ESCO) that finances the purchase of energy efficient equipment to be paid back with the energy savings. A third example could be a labeling program for appliances. The Board of Standards, the energy efficiency agency or the public utility of a country could choose to set up a performance labeling and testing program, in order to incentivize the sale of higher efficiency appliances. In all cases, the program agent puts the program in place, and the GHG reducing actions are achieved by the end users (households/offices, etc) that purchase the more efficient appliances, solar water heaters or other energy efficient equipment, over a period of time as a result of the program. The level of GHG reductions will only be known once the equipment is installed and functioning, and CERs are not issued until verification has taken place.

2b. Reach of programs

The inclusion of programs in the CDM broadens the access to the CDM. The structure of programs can allow the CDM to reach out to households, small enterprises and the transportation sector, all of which are currently underrepresented in the CDM due to their dispersed nature and high transaction costs. Programs are particularly appropriate for energy efficiency and fuel switching activities, as many of these activities do not occur as stand-alone actions but rather as the result of a deliberate program that seeks to provide an incentive for a large number of activities executed over time at many locations. Programs can be incrementally applied to whole sectors, regions or countries, thus facilitating much needed systemic transformation in the energy and transportation sectors.

3. Bundle

Paragraph 21 defines that bundling of large scale project activities is allowed under the CDM. A bundle is distinct from a program. In a bundle each project could be undertaken individually as a CDM project activity (e.g. three wind power projects) and are only bundled together in order to reduce CDM-related transaction costs. The following table summarizes the differences that could exist between a bundle and a program.

	PROGRAM	BUNDLE
Role of main project participant	Program agent puts program in place in order to cause GHG mitigating actions, and then coordinates entire program.	Project participant bundles separate projects to reduce transaction costs.

Project activity	A multitude of GHG mitigating actions that occur under one program and because of the program.	Several individual projects that are independent of each other and do not occur because of a particular program.
Composition	Typically not known at time of registration and changes over time	Identified at registration- does not change over life of project

4. Need for EB clarification

The Executive Board has not emitted guidance on the modalities either for programs or for large-scale bundles in the CDM. Without making any changes in the modalities and procedures established by the Marrakech Accords, the Executive Board could ensure the environmental integrity of such CDM project activities by providing guidance on the following specific issues:

For programs exclusively:

- Definition of a program of activities.
- The program agent must be a project participant.
- The type and sizes of expected GHG reducing actions must be identified ex-ante for purposes of choosing the appropriate methodologies, but emission reductions of all actions must be measured and verified ex-post (inter alia through accepted sampling techniques) as the basis for the issuance of CERs.

For both programs and bundles:

- In the cases where there are different types of GHG reducing actions, each type must be quantified according to an appropriate approved baseline methodology, even if that means that several methodologies are included in the same PDD.
- In the cases where there are many small GHG reducing actions the project participant must propose appropriate sampling tools in the PDD.
- All CDM rules and clarifications, including those on national/sectoral policies, apply to programs and bundles.

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