

Opportunities and challenges of a regional climate change mitigation programme - the role of the CDM

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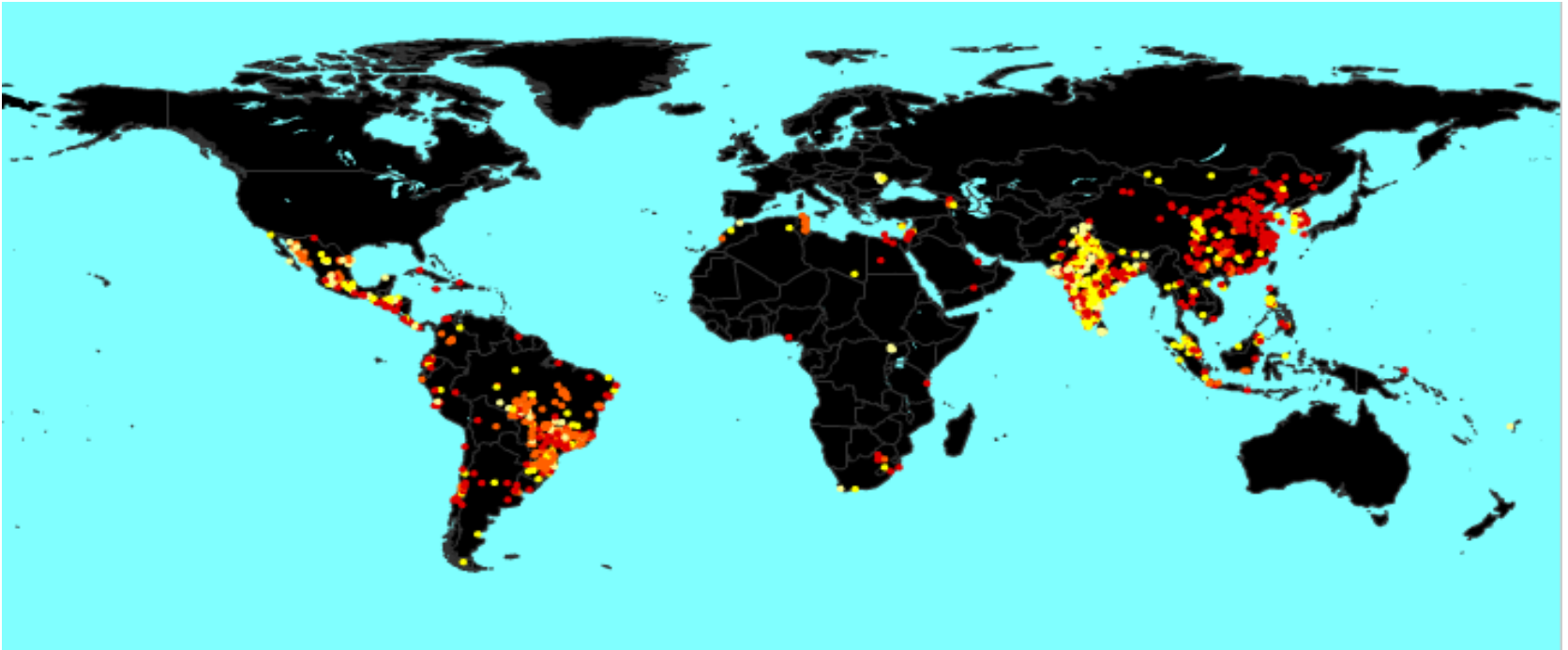
The Clean Development Mechanism (CDM)



1. CDM STATISTICS – Global Reach

7649 + registered projects in **80+** countries
10 000 + projects in pipeline
1.6 billion + CERs issued to date

>1.7 billion certified
emission reductions
expected by 2020



Challenges: **Less than 10 projects:** 47 countries (19 in Africa)
 No projects: 48 countries (17 in Africa)
 No DNA established: 20 countries date



Current situation of carbon market: CDM

- Kyoto as source of CER demand: exhausted
 - New pools of demand emerging: small in proportion; or oversupplied
- ➔ Problem of insufficient demand for units and projects
- ➔ Demand rising but mainly for LDCs and African CERs

- Low CER prices hinder new PAs/PoAs and put existing ones at risk of being discontinued

- Potential for emission reduction is not mobilized despite the “ambition gap”

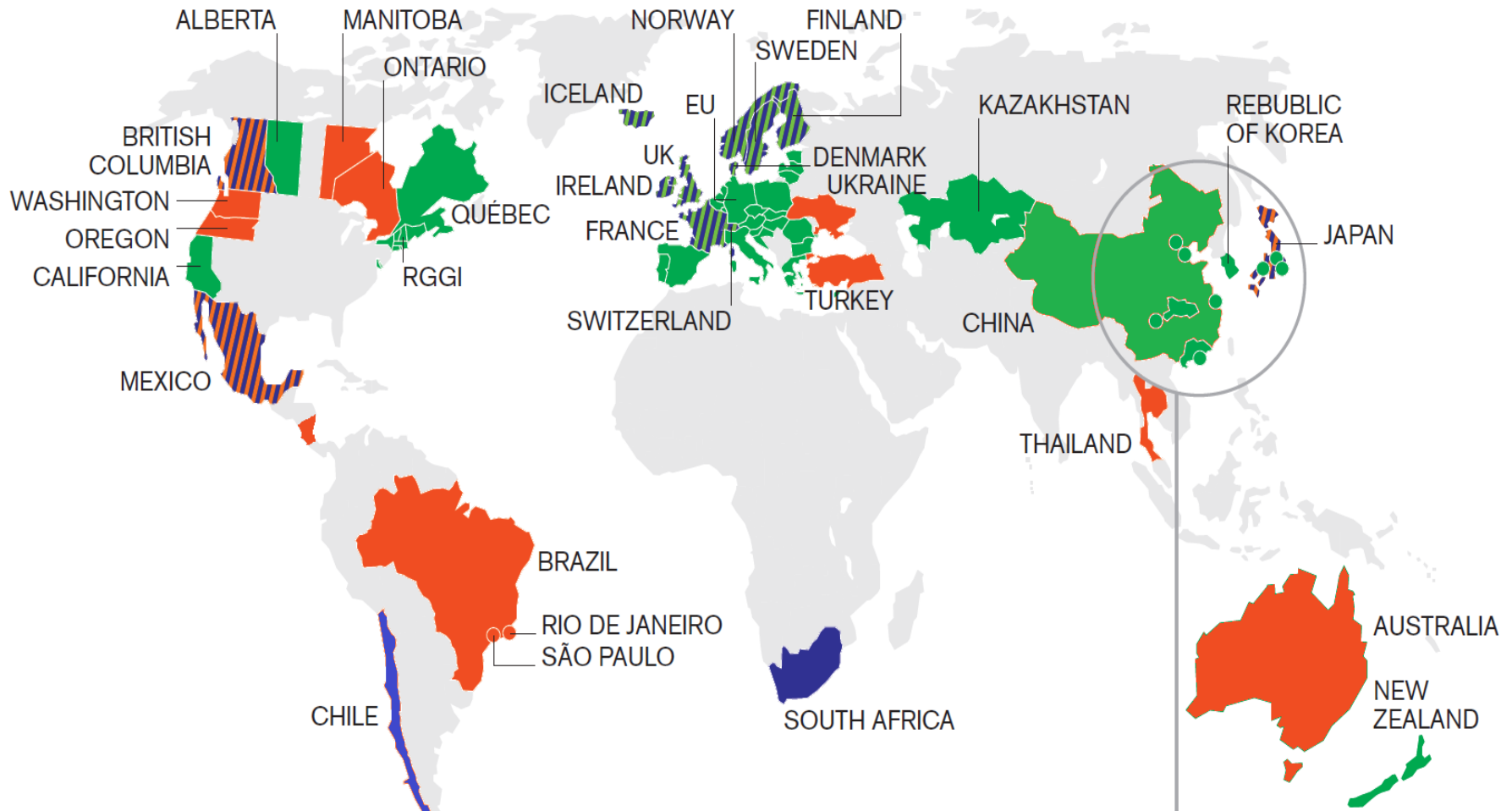


Growth in carbon pricing



Current trend: carbon pricing mechanisms growing

Carbon pricing mechanisms growing: mostly developing countries.



- ETS (implemented or scheduled)
- Carbon tax (implemented or scheduled)
- Carbon pricing considered (ETS or tax)

Source: WB state and trends of carbon pricing 2014

What is the big picture?



The big picture – a mid 2015 perspective

- Collective effort: → 40-70% emission reduction by 2050. Such mitigation efforts need financing.
- Parties are negotiating to reach a new agreement “with legal force for all parties” to be adopted in Paris – implementation from 2020
- Strong bottom-up development of climate markets and policies

Ground reality as of July 2015:

- Low ambition before 2020 (post-2020 unclear)
- Poor coordination / collaboration → fragmentation
- Uncertainties on future carbon markets
- Low emissions resilient development must continue



Current situation with markets

Expanding in future coverage with rapid evolution

Existing markets

- Low ambition level
- Overlaps with other instruments
- Flaws in design
- Contradictory objectives (transformational change vs. cost containment)
 - Surplus of units
 - Limited appetite for flexibility

New markets

- Not started (thus no immediate demand)
- Uncertainties on the mobilization of “early action”
- Focus on domestic action
- Attempts to replicate rather than improve
 - Limited appetite for flexibility

Fragmentation: smaller, less efficient, higher transaction cost, more vulnerable to policy changes...

Recreating instruments (rather than collaboratively improving them)



Negotiation Status

- the road to, and from Paris

Key issues at negotiations – (non-)markets

Technical discussion guided by three questions on market and non-market-based mechanism regarding:

- Elements of an accounting framework and arrangements needed for ensuring integrity, transparency and avoidance of double counting, such as **bookkeeping for international transfers, issuance of mitigation outcomes/units, recording and tracking of mitigation outcomes/units, quantification of policies**
- Standards and MRV needed to ensure the quality of mitigation outcomes and interpretation of each **real, permanent, additional and verified** mitigation outcomes
- Interpretation of net decrease and avoidance of GHG emissions, its applicability to different types of approaches and ways to achieve it



FVA, NMA, NMM – VIEWS AND OUTCOME

- No countries opposed having a technical discussion
- Differences mainly on whether to capture the issues discussed in the conclusions and on the way forward
- Brazil, China, Bolivia and the Arab group wanted to close the work programmes with the view to decision-making and fresh mandates under the ADP in Paris
- Japan, Canada, USA, New Zealand, Norway, European Union, Environmental Integrity Group, AOSIS, LDCs, African Group, India, Panama, Colombia, Ecuador and Guatemala wanted to continue the discussions both under the SBSTA and the ADP
- Countries could not find common ground, including on the Co-Chairs' compromise proposal to continue the discussions in June 2016. Therefore the issues have been forwarded to SBSTA 43 in Paris



The key questions



Back to the the big picture

CDM: How to
continue financing
mitigation action?

Parties: How to
increase ambition and
collaboration? (while
limiting cost)

Climate finance: How to
transform money into
verified mitigation
outcomes? how to
mobilize/select projects?

Current opportunities



Climate finance – current opportunities

Climate finance through the CDM



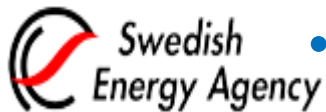
- World Bank Pilot Auction Facility: Target \$100 million for ~ 775 “stranded” CDM methane projects



- Ci-Dev initiative: \$100 million for CER purchase from low income countries through results-based financing



- Norwegian Government: purchase 60-100 CERs 2014 – 2020. 10-16 million CERs/year. New and vulnerable projects only. In addition to NEFCO programme.



- Swedish Programme for International Climate Change Mitigation, renewed in May 2015

CDM LOAN SCHEME

- CDM Loan Scheme: Recent window for verification



Climate finance – opportunities

Climate finance with or without the CDM: unknown



- EU climate aid of 3 billion as grant to developing countries over the next 7 years. Expect to mobilize 15-30 billion investment.



GREEN
CLIMATE
FUND

- GCF: USD 10.2 billion pledged; Start of project selection: second half of 2015. First 7 intermediaries in April 2015. CDM proposals may be submitted by NDAs/IEs.



- South-South Cooperation Fund on Climate Change: assist developing countries including the small island developing/the least developed/African countries to address climate change



Markets in the 2015 agreement: prospect



The post-2012 global carbon market

Markets are very likely to be a key component of *Paris Agreement* because they:

- Contribute to sustainable development, tech transfer and other development objectives of the host countries
- Minimize the cost of climate action
- Empower the private sector by creating economic reasons to reduce emissions through the creation of tradable assets (units)

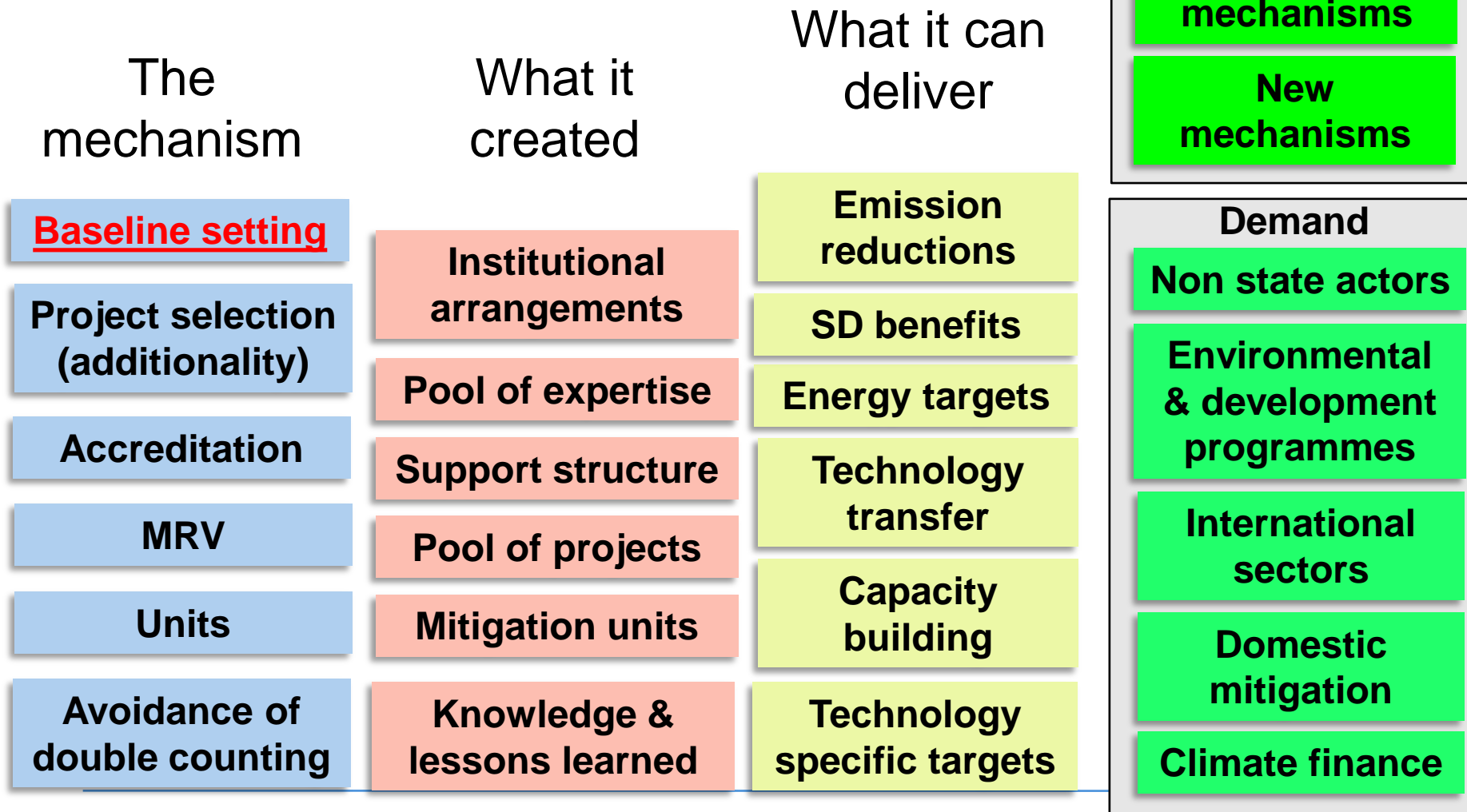


So what does it mean?

- Paris agreement is almost certain to happen. The question is how ambitious
- Use of markets is necessary and should continue (including the use of CDM)
- Other new markets unlikely to operationalize (principles, accounting, units, work between 2016 and 2020, takes a long time)
- Need for ambition
 - Internationally – Governments negotiating
 - And also nationally!
 - → national mechs driving short-term demand
 - → role of the CDM in national policy



What the CDM has to offer



Opportunities for ECCMP

- INDC perspective

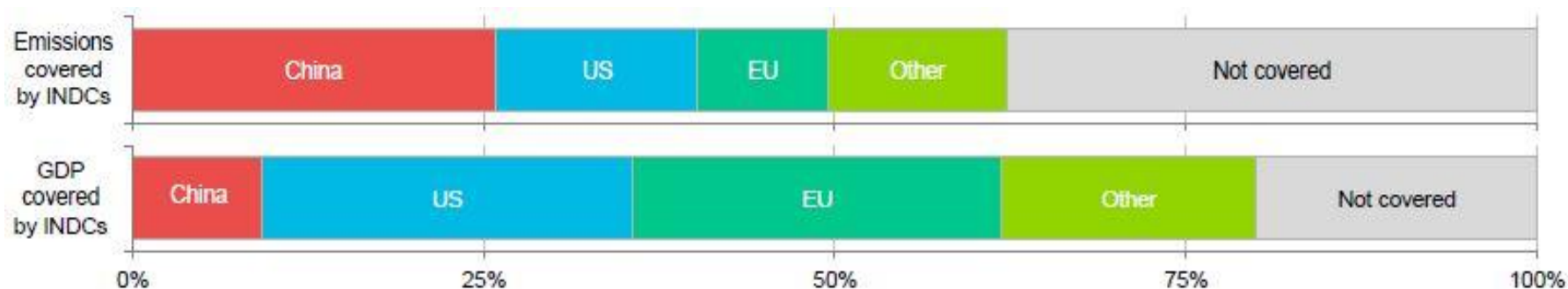


INDC submission – 1 July 2015

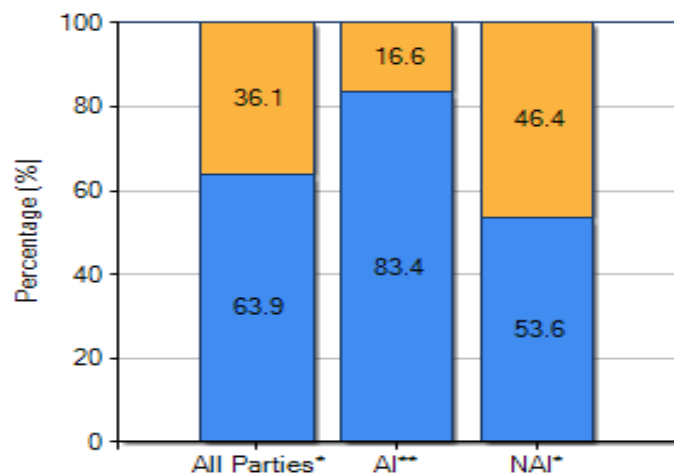
16 of 169
INDCs
submitted*



INDC submission – 1 July 2015



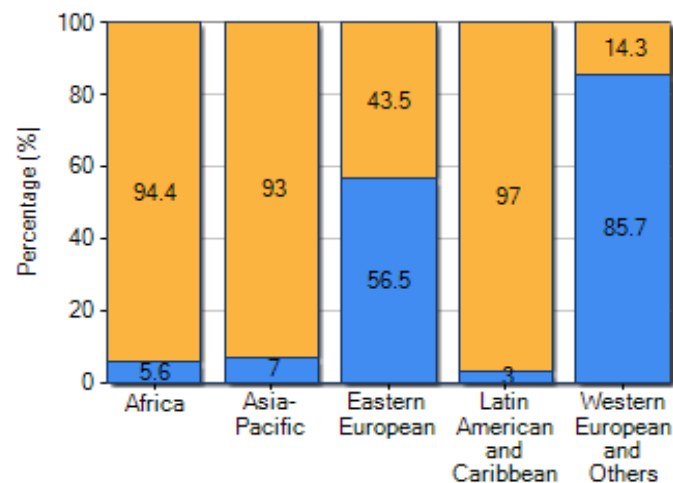
Share of emissions covered by INDCs



Legend

Not Covered by INDC Covered by INDC

Regional participation



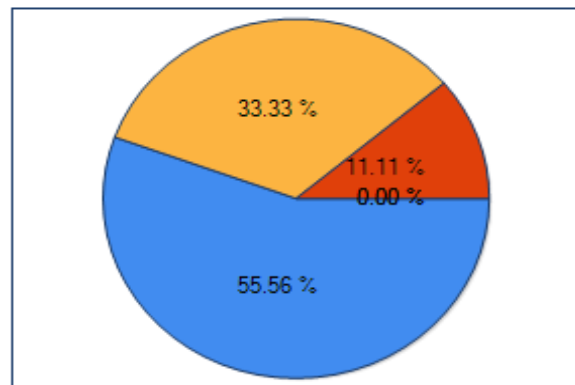
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No INDC Communicated INDC Communicated



INDC submission – 1 July 2015

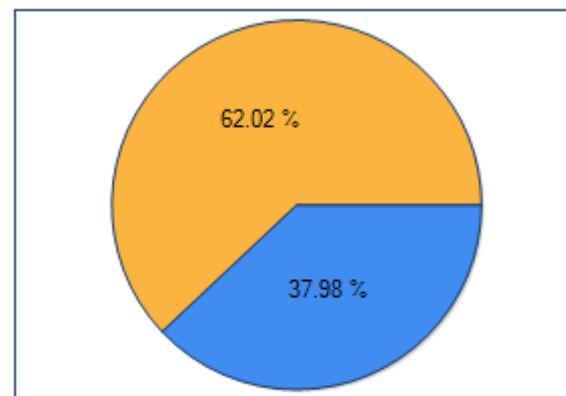
Share of INDCs by type



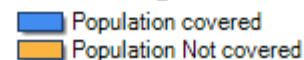
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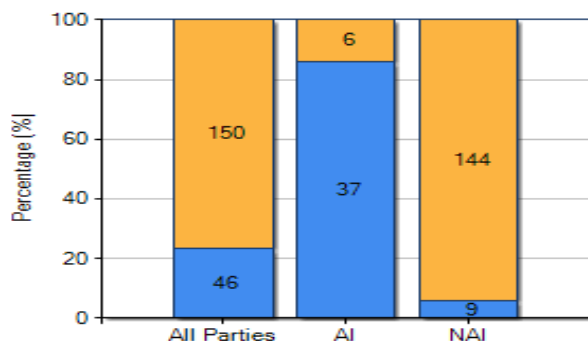
Share of global population covered by INDCs



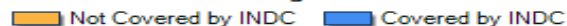
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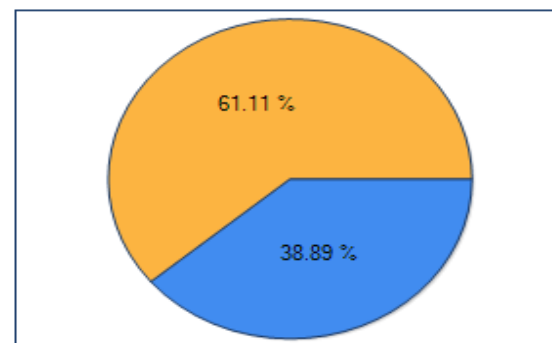
Share of Parties to the UNFCCC who have communicated INDCs



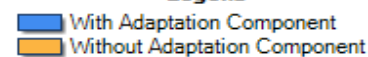
Legend



Share of INDCs with adaptation component



Legend



INDCs – an ECOWAS perspective

Heavy focus
on adaptation

Demands:

Finance, technology,
capacity building

REDD+

**Transport
NAMA1**

CDM-PoA1

CDM-PoA2

Solar NAMA2

CDM-PoA3: street
lighting

CDM-PoA4
Solar kits

**Bio-gas
NAMA3**

CDM-PoA5
Biodigester
Programme

CDM-PoA6:
Animal waste
management

**Efficient Cooking
NAMA4**

CDM-PoA7

CDM-PoA8

**Renewable
NAMA5**

CDM-PoA3:
street lighting

CDM-PoA4
Solar kits

**Other (CDM)
Projects and PoAs**

(CDM)-PA01
Biodigester
Programme

(CDM)-PoA02:
Animal waste
management



Opportunities for ECCMP- Green Climate Fund perspective



Institutional Setting

Capacity Building

Standardized
Baselines, Pre-
Feasibility
Studies

New pipeline of
MRVable
projects and
programmes

(CDM) projects,
PoAs, NAMAs

A case study for ECCMP



A Cape Verde example



Background:

- Population of 500,000.
- in 2009 97% of electricity came from fuel oils.
- Between 2003 – 2009 power generation increased by 8% annually.
- Greater increases in electricity demand caused higher levels of power outages.
- Exceptional conditions for wind energy production (constant and predominantly mono-directional winds with average of 10m/s).
- Prior to Cabeólica only 2.4 MW wind capacity connected to
national grid network – less than 2% of installed capacity.
- Government sought expansion of wind energy capacity for over 10 years (first grid connected wind farm 1994).



Source: <http://www.noscasacv.com/page/3.aspx>



Cabeolica - a Cape Verde pioneer

Background of the company:

- The aspirations of the Government of Cape Verde and the need for foreign investment and technical and business know-how, resulted in the dynamic Cabeólica PPP.
- A strong PPP was established comprising GoCV and Electra, Africa Finance Corporation, Finnish Fund for Industrial Cooperation and InfraCo Africa Ltd. with the purpose of implementing an economically feasible alternative for the rapidly growing energy sector.
- European Investment Bank and African Development Bank entered as long-term Lenders in 2010.
- The result was Cabeólica – a Cape Verdean company that constructed and currently operates four wind farms, with a total installed capacity of 25.5 MW.
 - Santiago – 9.35 MW;
 - São Vicente – 5.95 MW;
 - Sal - 7.65 MW;
 - Boa Vista – 2.55 MW.



A Cape Verde example

Economic Benefits:

- Tariffs stable and lower than current conventional production costs.
- Substantial savings for the utility company/country.
- Reduced oil imports for energy production reduces the Country's sensitivity to commodity prices and improves the trade balance.
- Investment made with no public funding thus avoiding additional public debt.



A Cape Verde example

Environmental and Social Benefits:

- Currently contributing with 25% of total electricity consumption in Cape Verde.
- Cabeólica wind production offsets diesel imports by over 16,000 tons/year.
- Curbed significant amounts of GHG emissions to date thus aiding country in achieving international environmental obligations.
- Project is staffed entirely by locals thus ensuring retention of know-how.
- Environmental education work in schools.
- Various studies financed by Cabeólica on relevant endemic species.



A Cape Verde example

- Process of Registration
 - Development of a Project Design Document (PDD)
 - Key technical document describing the project
 - Contains calculation of estimated carbon credits according to CDM methodology
 - Submission of approval letter by the Designated National Entity (DNA)
 - DNA of Cape Verde is Ministry of Environment
 - DNA must approve the project as in accordance with the country's sustainable development
 - Validation from the Designated Operational Entity (DoE)
 - DoE = An independent auditor accredited by the UNFCCC
 - Validation assures the project meets requirements of the UNFCCC
 - Final analysis of the CDM Executive Board



A Cape Verde example

Clean Development Mechanism:

- Advantages:
 - Additional funds for projects
 - First CDM project in Cape Verde –structure is set which is an attraction for other CER and VER Projects.
- Disadvantages
 - Long registration periods – **took Cabeólica 3 years to register**
 - Great resources associated with validation such as costs
 - Highly volatile market
- Company has curbed over 186,000 tons of GHG emissions to date thus aiding in achieving international environmental obligations.
 - 120,000 tons CO₂ reductions eligible to become CERs.



Challenges for ECCMP



Challenges for ECCMP

- Low emissions profile: relatively low existing emissions
- Lack of awareness, capacity: institutional, human resources
- Finance: access to capital, PPA, additionality, etc. GCF can make a difference
- International system: fast changing, fragmented, lack of coordination
- A robust Monitoring, Reporting, Verification system
- Regional coordination and operations – multi-country, multi-level, multi-stakeholder, multi-sectoral



Recommendations for ECCMP



Recommendations for ECCMP

The role of the CDM/climate finance:

- CDM offers the infrastructure and tools (e.g. standardized baselines, private sector involvement) to overcome most of these challenges and scale up countries' mitigation efforts and should be considered as a component in the ECCMP
- Present the projects/programmes in line with national strategies and seek international funding (e.g. GCF).
Where possible, use CDM to prove the mitigation outcome.
- Focus on building capacity and on key sectors (REs, waste, EE) – link to INDCs, GCF, and other instruments
- Take a programmatic and multi-stakeholder approach to promote paradigm shift
- Seek to be an integrated/complementing pillar (a RE&EE capacity arm!) of a comprehensive ECOWAS Climate Change Programme



Thank you for your attention!

