



This newsletter is published as part of the project JIKO – Development phase 2005-2007 at the Wuppertal Institute for Climate, Environment, Energy – Energy, Transport and Climate Policy Research Group

Editorial

Dear readers,

we are pleased to present a special issue of our newsletter on CDM & JI on the occasion of the Nairobi climate change conference. The issue comprises two interviews, one with Prof. Klaus Töpfer, former Head of UNEP, and the other one with Sigmar Gabriel, German Environment Minister, who both look at climate policy (in Africa) from their different perspectives. The issue further contains a contribution by Dr. Peter Pembleton of Climate Business Network outlining the current situation of the CDM in Africa and the problems and barriers that hamper the development of CDM projects in the region, especially in Sub-Saharan Africa. Glenn Hodes of UNEP Risoe complements this broader perspective by describing the concrete work of the capacity building project CD4CDM. The coverage is supplemented by a quick overview on what is on the agenda in Nairobi.

We wish you an interesting read and a successful conference in case you are attending the summit.

*The Editor*

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## JIKO Interview

### “The Kyoto Mechanisms Have Been a Success”

**Sigmar Gabriel, German Environment Minister, on the efficiency of the flexible mechanisms, Germany’s options to fulfil its obligations, and on tasks for non-Annex I countries.**

*JIKO Info:* Minister Gabriel, the Kyoto Protocol’s flexible mechanisms appear to be a success story. By Nairobi, well over 350 CDM projects with more than 90 million CERs will be registered. With the COP/MOP 2 decisions, the second track will provide the necessary security for JI projects. But to put it pointedly: does this also contribute to climate protection, or is it just a more cost-effective option for Annex I countries to comply with their Kyoto reduction commitments?

*Sigmar Gabriel:* First of all, the most important thing is to recognise the success of the Kyoto mechanisms. With over 1200 CDM projects in the “project pipeline” (list of the Climate Change Secretariat) with an estimated emission reductions contribution of 1.4 billion CERs, effective and efficient climate protection is being put into practice. From the perspective of Annex I countries this is also economically efficient and should be seen as an advantage.

*To be continued on page 2.*

## JIKO Interview

### “The Developed Countries Must Prove that They Are Honest”

**Ex-UNEP chief Klaus Töpfer on his experience with climate change in Africa, what needs to be done for this continent and which signal needs to come from the Climate Summit in Nairobi.**

*JIKO Info:* Professor Töpfer, Africa is the continent that will probably be most severely hit by climate change. What is your perception of climate change in Africa, in particular from your perspective of having spent the last eight years there as head of UNEP?

*To be continued on page 4.*

JIKO Interview

**“The Kyoto Mechanisms Have Been a Success”**

*Continued from page 1.*

I see this in particular with a view to the reduction commitments for the post-2012 period. The outlook for Joint Implementation, in contrast, is somewhat different. I consider the introduction of emissions trading (binding cap and trade system) to be more significant for climate policy in the medium term. JI would then play a supplementary role.

*JIKO Info:* If we look at the marginal role that Germany currently plays in the use of CDM and JI, it raises funda-

mental questions on climate policy strategy. Is Germany aiming to fulfil its Kyoto reduction commitment exclusively at domestic level? Minister Gabriel, if so, surely there is then only little room for CDM and JI projects?

*Sigmar Gabriel:* I see things very differently. Of course you are right that Germany is clearly underrepresented in the official CDM and JI statistics. This is why, directly after COP/MOP 1, one of my first actions as the new Environment Minister was to call for a CDM initiative in Germany. We now have a range of bilateral activities on developing project portfolios and the project pipeline. Here, demand for emission credits comes from enterprises, not the German government. The dimensions that CDM and JI will take on in German climate protection policy only become clear against the background of EU emissions trading. German enterprises with installations covered by emissions trading, which account for approx. 55% of all CO<sub>2</sub> emis-

*Nairobi: What Is on the Agenda*

**The annual United Nations Climate Change Conference this year takes place in Nairobi from 6 to 17 November. Key issues will be adaptation to the impacts of climate change and the future of the Kyoto regime after 2012. The conference will also give further guidance on CDM and JI. It is the 12<sup>th</sup> Conference of the Parties to the Framework Convention on Climate Change (COP 12) and the 2<sup>nd</sup> COP serving as Meeting of the Parties to the Kyoto Protocol (COP/MOP 2). JIKO Info outlines the key issues at stake.**

The Nairobi summit will be the first UN Climate Change Conference in Sub-Saharan Africa. The venue thus puts Africa in the spotlight of climate policy. The continent emits relatively few greenhouse gases but is already today severely hit by the impacts of global warming, for example in the form of accelerating desertification. Having the conference in Nairobi therefore raises the expectation that the industrialised countries will lend stronger support to Africa and Southern countries in general in adapting to the impacts of global warming. In particular, delegates will further elaborate the Buenos Aires programme of work on adaptation and response measures.

Moreover, the summit will see the continuation of the negotiations on the future of the climate regime after the expiry of the first commitment period of the Kyoto Protocol in 2012. The last climate change conference in Montreal in 2005 launched three negotiating processes that will be continued in Nairobi:

- The Parties to the Kyoto Protocol started negotiating **new emission targets** for the industrialised countries for the time **post 2012**
- Montreal launched a “dialogue” under the Framework Convention on Climate Change in the hope of thus also integrating the United States, who have refused to ratify the Kyoto Protocol, in constructive **discussions on the future of the climate regime.**
- Negotiations started on the issue of **deforestation**, a critical issue especially in Southern countries: deforestation causes about a quarter of global CO<sub>2</sub> emissions, but so far there are no instruments to tackle this issue within the climate regime (see also the Wuppertal Institute’s report “The Montreal Climate Summit”).

Parties will also take key decisions on the project-based mechanisms CDM and JI: the Montreal conference had given the **CDM Executive Board (EB)** a whole catalogue of tasks to complete this year (see JIKO Info 1/06). Among the key issues are

- the EB’s work on additionality,
- its methodological guidance on “programmes of activities”,
- the geographical distribution of CDM projects (see also the article by Peter Pembleton in this issue),
- small-scale projects that avoid the use of non-sustainable biomass,
- whether to include Carbon Capture and Sequestration projects in the CDM.

The conference will also continue deliberations on projects that destroy hydrofluorocarbon-23 (HFC-23).

As for **JI**, the Montreal conference had established the JI Supervisory Committee (JISC) and given it the even more ambitious task of making “JI Track 2” operational within one year. JISC met this target, elaborated all necessary documents and formally launched the JI verification procedure on 26 October (see also JIKO Info 4/06). COP/MOP 2 is going to review the work of the JISC and give guidance for its further work.

Four researchers of the Wuppertal Institute are going to attend the conference and convene a side event on transport and the CDM on 14 November (Contact: [wolfgang.sterk@wupperinst.org](mailto:wolfgang.sterk@wupperinst.org)). The Wuppertal Institute’s analysis of the negotiations will be made available on the Institute’s Nairobi website shortly after the conference; it will also be featured in the next issue of JIKO Info which will be published in early 2007.

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**Further information:**

The past issues of JIKO Info can be downloaded at <http://www.wupperinst.org/Sites/Projects/rg2/jiko-info/index.html>

The Montreal summit report is available at <http://www.wupperinst.org/download/COP11/MOPI-report.pdf>

The Wuppertal Institute’s COP-Website can be found at [www.wupperinst.org/cop](http://www.wupperinst.org/cop)

sions in Germany, have to make significant reductions. The National Allocation Plan permits these enterprises to use 60 million CERs or ERUs every year, in other words 300 million credits in the first commitment period of the Kyoto Protocol. And to come back to the first part of your question: as a party to the Kyoto Protocol, Germany expects to comply with its reduction commitment 100% through national emission reductions. In doing this, we will not only live up to our international responsibility as an industrialised country, we will also demonstrate that, even under circumstances of difficult economic competition, Annex I countries have sufficient options for emission reductions at their disposal.

*JIKO Info:* Regarding “regional distribution” of CDM projects: 9 registered projects, i.e. 2.6% of all CDM projects, are being carried out in Africa, while the big four Brazil, China, India and Korea account for a total of 82%. Minister Gabriel, is this merely a reflection of the market economy workings of CDM? What can be done to counteract this if desirable for political reasons?

*Sigmar Gabriel:* Firstly, in addition to the four CDM countries you mentioned, there is a whole range of other non-Annex I countries that already actively use CDM or are preparing for it. This is also true for the African continent. The statistics don’t tell the full story – it is important not to generalise about the whole continent. At this point I would like to focus on those countries that want to use CDM, but obviously still have barriers to overcome (*cp. the article “Realizing the CDM Potential in Africa” in this issue - Ed.*). One of the primary causes can be internal capacity problems in the political system. Officially establishing a DNA (Designated National Authority) and creating the legal basis are the first step. Adequate personnel and financial capacities for the DNA, the operative inclusion of CDM in political development strategies and clear decision-making processes are also key components, but as a rule all these aspects tend to be underdeveloped. The economic basis of countries also plays a role. The option of obtaining emission credits with CDM projects will strengthen locations that are already internationally attractive. Other locations will have to show initiative and develop their own potential. However, experience of “unilateral CDM” shows that only limited progress is possible in this way. A shortage of capital and a lack of technology transfer are tough factors that hinder the integration of these countries into the CDM

market. Annex-I countries are called on to enter into more intensive economic cooperation, but also to provide greater assistance for the development of suitable framework conditions.

*JIKO Info:* Regarding “a more intensive economic cooperation” and “greater assistance for the development of suitable framework conditions”: Minister Gabriel, what do you see as starting points for Annex I countries and what are the tasks for non-Annex I countries? And equally importantly, do you think that the current legal structure of CDM is in any way adequate for achieving this objective?

*Sigmar Gabriel:* I have already outlined the key starting points: shortage of capital, a lack of technology transfer and country-specific potential. A lot can be achieved bilaterally here. However, in countries where there is no relevant market, or the market is still in its early stages of development, institutional forms of cooperation will have to be found that facilitate market-compatible economic commitment. This will only be possible if there is collaboration between the climate, environment, development, economic and finance policies in the investor country. In my view, the deficits here lie above all in offsetting the lack of capital and the security of investments. In the case of a non-Annex I partner, it is essential to place greater focus on the implementation and enforcement aspects of CDM and to make the CDM issue a political priority as a national development instrument, in addition to the tasks I mentioned earlier. At the moment I do not see any need for action at Kyoto Protocol level. Here, too, the primary focus has to be on making use of existing options. The discussions on methodologies and so-called “programmatic CDM” show that these options are far from exhausted.

*JIKO Info:* Minister Gabriel, thank you for this interview.



**Sigmar Gabriel** is Germany’s Federal Minister for the Environment, Nature Conservation and Nuclear Safety (since 2005). From 1999-2003, he served as Minister-President of the German Federal State Lower Saxony. He was Chair of the SPD parliamentary group in the Landtag of Lower Saxony from 2003-2005.

Interview: Thomas Forth

Photo: SPD parliamentary group

JIKO Interview

**“The Developed Countries Must Prove that They Are Honest”**

*Continued from page 1.*

*Klaus Töpfer:* Africa is already now a victim of climate change. There are lots of consequences, if you see the development concerning extreme weather conditions, if you see the problems of desertification. The latter are of course caused by a number of factors, but climate change nevertheless plays an important part. We see it without any doubt in other indicators as well; all this is especially severe because Africa hasn't contributed to climate change until now. Africa's population has a share of about 15% of the global population, but it is only contributing 3.5% of the global CO<sub>2</sub> emissions. We have to be aware of these interrelations. Africa needs our full backing in adaptation, integrated in its development policy to fight poverty. In those eight years you mentioned I saw a lot of possibilities to integrate Africa much more intensively in the overall fight against climate change. Let me take one example, the Rift Valley in Kenya: our assessment proved that there are outstanding chances for geothermal power generation in this area of the Rift Valley. There are other examples: if you go to some parts especially in Northern Africa, what can be done with regard to really revolutionary cooperations in solar energy? What can we do with regard to wind power? We must also come to a much better integration of carbon sinks in the CDM project portfolio. Land use and land use change projects can be linked with agricultural production, can be linked with afforestation and reforestation. All these are good chances to give a signal for Africa on this COP in Nairobi: the full backing for adaptation policies.

*JIKO Info:* Africa has not benefited very much from the policy instruments like the CDM so far. What do you think are the reasons and what could be ways to overcome these obstacles and make Africa benefit more from the Kyoto mechanisms?

*Töpfer:* We have to do a lot for this continent in terms of capacity building. Capacity building is the key to remove a lot of bottlenecks for development possibilities for Africa; it is the key for the climate agenda, too (*cp. the article “Capacity Development for CDM in Africa” in this issue - Ed.*). Take the Bali Strategic Plan for Technology Support and Capacity Building we developed at UNEP (*a plan to promote technological cooperation and capacity building in order to support the implementation of international environmental agreements, the Ed.*). This program will be a central part of all activities, especially in Africa, intensively coordinated with all partners in the United Nations family. Capacity building must be broad-based. The consequences of climate change must be an integral part in the whole development agenda, in agriculture, in land use, in the energy field. There shouldn't be any Poverty Reduction Strategy Paper developed in climate blindness. Climate development policies are absolutely necessary.

*JIKO Info:* You said initially that in fact climate change is already happening. At the moment, the IPCC is finalizing its fourth assessment report. From what has so far been made publicly available, what would you say are the most important results and outcomes of this new report?

*Töpfer:* There is no need for any speculation on the results of the scientific work of the IPCC. My good friend Pachauri and all the members of IPCC are doing their job in a very solid way. I believe there is one signal in this report that we have to take very seriously: there is not an overestimation but an underestimation of climate change; there is a risk of non-linear developments. There is now much more need and urgency for action, for cooperation and for broadening our climate agenda –

especially to integrate, in a reasonable manner, the very fast developing countries in Asia and other parts of the world. Of course we have to keep in mind that there is a common but differentiated responsibility. The authors of this report will be ringing the alarm bell for action, for action, for action.

*JIKO Info:* Looking at the political discussion, we have a sort of three way blockade at the moment: on the one hand,

**“The IPCC report will be ringing the bell for action”**

the developing countries mostly say that the industrialised countries have to go ahead with combating climate change. On the other hand, the United States in particular are saying the developing countries also need to do their part, otherwise the US will be disadvantaged economically. And then also now the EU, who has so far been the front-runner, says, if the US doesn't come along and if there is no participation from developing countries, we can't go too far ahead either. Do you think there is a way out of this impasse and what could it look like?

*“We must not forget the Rio Principle that there is a common but differentiated responsibility”*

*Töpfer:* The topic of climate change is linked with the whole energy agenda, which is at the centre of economic development. So it is not surprising that there are different interests and different reactions to common action. With regard to developing countries, I believe that we cannot restrict the negotiation to the mitigation topic. We have to do much more in the adaptation field to be credible to the developing countries. We have to integrate the climate change agenda in the development agenda, in the agenda for fighting poverty, that is absolutely clear. And we have to integrate those fast, rapidly developing countries in technology cooperation. That is the best chance to bring their development process in line with the climate necessities.

I am also not sure that your assessment is correct with regard to the United States. We see now that there are a lot of initiatives related to climate change going on in the US: the keywords are California and Schwarzenegger, the keywords are linked with the New England states where a comparable policy is being developed, and with the big cooperation of cities and mayors in the United States. There are lots of companies which are very climate conscious and they are acting exactly in line with those needs. Therefore I am not so convinced that the picture in America is as bleak as you mentioned it.

It is a must for the global community to integrate the different interests. Again and again: taking into account the Rio Principle that there is a common but differentiated responsibility. Quite a number of people and the public have forgotten that this is a reasonable decision also coming from the “Earth Summit” in 1992.

*JIKO Info:* You talked about the change of mind going on in the US. Do you see a similar change of mind going in the developing countries? So far, at least publicly most still have the position ‘no obligations whatsoever of whatever kind’. And I think even the progressive voices in the US still have the caveat that their future actions and in particular their level of ambition also depend on what the developing countries do.

*Töpfer:* This is for sure an understandable interest. Nobody will question that the need for a less carbon intensive energy infrastructure in the fast developing countries is in our common interest and also in the interest of the developing countries themselves. You know that fossil fuels, especially of course oil and gas, are very limited. The fast developing countries have to import those resources. Technology progress is necessary to reduce carbon emissions: we have to combine efforts in the development of a clean coal strategy because both India and China are very rich in coal. There is a need for technology cooperation in the fields of all renewable energies and in energy efficiency. This is backing the economic development as well as the ecological stability. All what is possible with regard to clean coal, with regard to carbon capture and sequestration, with higher efficiency of the coal power stations – all this is a most important contribution in backing these countries, it is necessary in our fight against climate change.

The dispute on commitments is understandable in a time where we are at the start of negotiating what has to come after the first commitment period. The countries with huge poverty problems are very convinced they must overcome poverty with the solidarity of the developed world, having in mind that those countries in their development process destroyed the atmosphere. We must be aware that this interrelation is the key to all other understandings, also with regard to commitments of what kind ever.

*JIKO Info:* Do you think that these changes within developing countries, in their energy infrastructure, could be brought about within the Clean Development Mechanism? Do you think the CDM is a sufficient instrument or do we need additional instruments to promote these changes?

*Töpfer:* The CDM is a most important instrument, without any doubt. Right now Africa is only by chance a part in the CDM portfolio. This must be changed. We know that the African projects will most probably be smaller projects, which have higher transaction costs. Without any doubt: CDM and also GEF projects are important instruments, but they are not the solve-all-possibilities: there is the need to integrate private business and direct investment which can help to bring better technologies to Africa. There is the bilateral cooperation between Africa and the developed world, where we have a lot of those possibilities to create a robust climate structure.

Coming back to the very beginning: This COP in Nairobi must prove that the developed countries are honest. If they cannot prove this, if they are not really honouring their commitment with regard to adaptation and to mitigation, then it will be extremely difficult to convince others. I know how difficult it is for a number of developed countries to fulfil their obligations. But if we are not able to meet the expectations agreed upon in the Kyoto Protocol, then we cannot expect that others will not completely focus on their own interest as well. I believe we have to start at home, in the developed countries, we have to give the clear signal that we are honest in the implementation of the commitments we made in the Kyoto Protocol and beyond. This will create another atmosphere. Maybe this is too optimistic, maybe there is some wishful thinking – but we cannot go to Africa with a resignative position. There is a clear need for action, and we must start acting now. That is the signal, I believe, that must come from Nairobi.

*JIKO Info:* Thank you very much, Professor Töpfer.



**Prof. Dr. Dr. Klaus Töpfer**, an economist, was executive director of the United Nations Environment Programme (UNEP) from 1998 to 2006. He served as German Federal Minister for the Environment, Nature Conservation and Nuclear Safety from 1987 to 1994. Today, he works as an independent advisor and lecturer.

Interview: Wolfgang Sterk

Photo: S. Michaelis, Wuppertal Institute (VisLab)

**JIKO News**

## **Realizing the CDM Potential in Africa**

**by Peter Pembleton, Climate Business Network (CBNet)**

Globally seen, Latin America led activities to create CDM-relevant capacity and portfolios of projects but was quickly followed and overtaken by Asia; a handful of countries (India, Brazil, China, Mexico) in those two regions are now well ahead of the rest of the world. In other regions and countries the CDM is slowly gathering steam but there are still a large number of Parties to the Kyoto Protocol that do not yet have projects in the official CDM pipeline. In these cases, especially in Least Developed Countries (LDCs) and in Africa, local capacity to identify and develop CDM project opportunities is limited as there has been relatively little spread of awareness and even less CDM-specific assistance provided beyond the regular UNFCCC Party representatives; private sector business and industry, that would be the generator and host of CDM projects, has not had much chance to become involved in or benefit from the CDM so far.

Africa is rich in potential for CDM projects given its huge natural resource base and associated processing/beneficiation-oriented industries. There is also a huge potential for alternative and decentralized energy; yet Africa remains one of the most under-privileged regions in terms of modern energy services for its population. Given this potential, one would think that there would be a much larger number of CDM projects in the official pipeline; especially considering that one objective of the CDM is sustainable development.

However, the number of projects coming from African countries is comparatively small at the moment. Out of a total of 358 registered CDM projects, five countries generate 259 (72.4%), while Africa has 9: 4 South Africa, 3 Morocco, 1 Egypt and 1 Tunisia, see chart (numbers as of 23 Oct 2006).

The picture is more disturbing when one looks at the statistics of the projects in the official project pipeline where, out of a total of 911 those same five countries generate 723 (79.4%)! However, there is a slight improvement in the number of African projects at the stages of validation

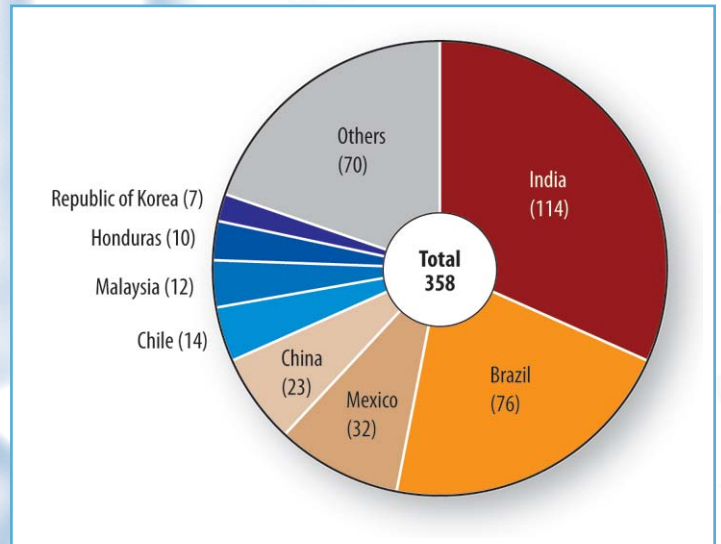
through to requests for registration: Côte d'Ivoire (1), Egypt (4), Equatorial Guinea (1), Morocco (1), Nigeria (2), South Africa (9), Tunisia (1), Uganda (1), and United Republic of Tanzania (1). While it is clear from the numbers that Sub-Saharan African countries are slowly coming into the picture, it is still a disturbing situation for the remaining countries, and this is most of Sub-Saharan Africa!

But the numbers only show the tip of the Sub-Saharan Africa CDM iceberg! The registered projects from South Africa already indicate what types of project lie under the surface: renewable energy, photovoltaic and biogas to energy, energy efficiency and fuel switching in industry – those at earlier stages of approval add activities in landfill gas to energy, capture of flare gas, N<sub>2</sub>O, coal bed methane, biomass, and hydropower.

**Project bundles with development benefits**

Apart from projects in the mineral processing industry, which one would expect from Africa, there is much that can be done in those mentioned above as well as in other sectors that would also have developmental benefits. For instance, there is a significant amount of small-scale agro-processing industry (usually in ‘clusters’ that would make natural project ‘bundles’) and large volumes of biomass wastes that could be used for energy generation; this would help improve the processing capacity of small-medium sized enterprises as well as the lives and livelihoods of neighbouring communities. In addition, there is an abundance of other renewable energy potential across the region that could be harnessed for the many off-grid rural communities. After all, 53 biomass, 42 wind and 11 hydro CDM projects have already been registered from other regions! This would help to achieve the targets set under the Millennium Development Goals—poverty and hunger reduction, education and health—by simply providing energy for some basic human needs.

There is also significant potential for demand side energy management, energy efficiency and fuel switching to natural gas or biomass (already appearing from the region); the power and construction industry sectors as well as small to medium scale industries could benefit from changing their energy use patterns in this way. In addition to utilizing alternative forms of energy, larger industrial facilities could target single energy efficiency measures (e.g. for electric motors and boilers)—these could be



Registered CDM-projects by host country

Source: Wuppertal Institute, based on data of the UNFCCC as of 23 Oct 2006

bundled across different facilities. They could also adopt multiple measures in a single facility (good housekeeping, measures with minimal investment and/or investment in new equipment). Biomass-based fuels in the transport sector will offer another area in the future. As can be seen from the emerging projects in the region, landfill gas to energy is another CDM activity that has wide applicability.

Despite the potential of the sub-region, there are constraints to effective mobilisation of the institutional and business communities that hinder their ability to compete with other regions in attracting CDM investments. The ‘Kyoto community’, both Annex I and non-Annex I countries, have already recognized the way that the CDM market was evolving and, at COP/MOP 1, requested Parties to submit their views on barriers to the equitable distribution of CDM projects as well as on means to address them to the CDM Executive Board (EB). The Board subsequently solicited additional views from the public and requested the UNFCCC Secretariat to compile a summary of the submissions that was considered at its 26th meeting in September 2006.

Both the Parties’ and public submissions recognized that the CDM is a voluntary, market-based mechanism and that private sector participants would naturally go where business is easiest with the most benefits. In addition, they highlighted two major ‘financial’ obstacles: insufficient funds for building requisite capacity and the lack of “innovative”

means of project financing/risk management, such as: increasing access by project hosts to (low-rate) capital, gaining acceptance by national financial institutions of carbon finance and related instruments as valid ‘currency’, and inclusion of Official Development Assistance (ODA)/grant financing for some of the early stages of the CDM project cycle.

The perceived barriers from both sets of submissions were grouped into three categories of issues in the Secretariat summary:

- **Weak structural and institutional** capacity, fragmentary strategies and policies, poor information base, lack of stable legal and financial frameworks and absence of financing possibilities;
- **Lack of awareness**, absence of CDM experience and **capacity**, low levels of industrial development and energy production, types of project (small-scale and the sectors covered (e.g. need to include land use); and
- **CDM processes** – DNAs not in place/functional, complexity of system, data requirements, inappropriate methodologies.

#### **Language as a barrier**

One should add that the high perceived risk for foreign investment and lack of reasonably-priced project financing, as well as the comparatively small size of projects and related higher transaction costs per unit of emissions reduced, are significant factors that deter many private sector investors. Another, perhaps not so obvious barrier is language: a large number of Sub-Saharan African countries are Francophone or Lusophone (Portuguese speaking) and the CDM is carried out in English!

The recommendations from Parties and the public to address the structural and capacity issues were mainly:

- The public sector could, *inter alia*, establish an “enabling environment and framework”, operationalize their DNAs and related procedures, and mainstream climate change and CDM into their development plans as well as provide incentives, e.g. remove fossil-fuel subsidies, reform the energy sector, allow grant/ODA funding;
- The private sector could, *inter alia*, improve access to capital and finance, more widely accept carbon finance as collateral, bring more risk management/insurance products to market, increase assistance to local developers, and improve data quality and availability.

The recommendations on the CDM process included the usual calls for: post-2012 clarity; programmatic CDM; reducing additionality criteria; and simplifying data requirements for existing methodologies and/or agreeing on more appropriate methodologies. In addition, some ‘variations’ to the CDM were mooted. These included suggestions to ensure or incentivize more equitable distribution through, for example, having non Annex I quotas (“Carbon Emission Reduction Permits”), i.e. equitably distributed quotas that have a tradable value, the surplus of which could be sold on the market. The revenues would be ‘earmarked’ for development initiatives. This would be combined with a matching system of “Carbon Emission Reduction Obligations” for Annex I countries as part of their commitments, i.e. a commitment to obtain a certain number of the proposed Carbon Emission Reduction Permits. Yet these ideas would require a decision by the COP/MOP as they would constitute either new mechanisms or adaptation to existing ones.

The CDM Executive Board will conclude its consideration of the topic of equitable geographic distribution of CDM projects at its 27<sup>th</sup> meeting at the end of October and will submit its findings to COP/MOP 2.

What is clear to the author is that, in order to take advantage of the CDM, host countries *inter alia* must:

- ratify the Kyoto Protocol;
- ensure adequate capacity of its institutions and personnel;
- establish an effective DNA;
- develop an appropriate cross-sectoral policy framework.

#### **Africa needs more than capacity building**

In addition, they will need to provide the sort of conditions that will make them competitive and attractive for foreign direct investment, conditions that will also sustain the projects and technologies once transferred. This requires that a larger number of national participants, especially from the private sector, be mobilized for the CDM so awareness needs raising and capacity building in business and industry and their support and financial service organizations **as well as** in government agencies. Technical assistance should be structured in an integrated fashion with all key stakeholders involved from the start – one must note that Annex I countries’ CDM consulting companies tend to do most of the work themselves, in countries and for projects where the most benefit will be obtained. All of this requires a significant increase in development assistance

and this, in turn, requires more funding for capacity building. While training CDM project developers (a recent trend) is necessary, it is not a sufficient condition for the success of CDM in host countries; without the right enabling environment, beyond CDM-specific requirements, there will still be difficulties in bringing up and sustaining CDM project initiatives.

In addition, Sub-Saharan Africa would benefit from taking a pro-active, sub-regional or regional approach to the development and marketing of CDM projects rather than waiting for the private sector in Annex I countries to come in. This is also briefly mentioned in the public submissions to the EB that call for more unilateral CDM projects and development of “continent-wide emissions trading systems”. Why not find some means of generating African portfolios ‘in-continent’ and taking them up to the level of issuance of CERs? This would be one way of overcoming some of the barriers and of becoming more competitive and therefore attractive to investors.

Given that, for the first time, the COP/MOP is being held in Africa, the time is ripe for addressing these issues as all negotiators will have the region at the top of their agenda and there will be several Africa-centric side events in Nairobi and plenty of reading material on the issues.

**Further information:**

The CDM project pipeline is available at [www.cd4cdm.org/Publications/CDMpipeline.xls](http://www.cd4cdm.org/Publications/CDMpipeline.xls)

The analysis of the submissions on the “Equitable distribution of CDM projects” paper compiled for the EB can be downloaded at <http://cdm.unfccc.int/EB/026/eb26annagan4.pdf>

The Climate Business Network (CB Net) has also published a newsletter on Africa and the CDM (Issue 4/2006), which can be obtained from the download section of the website [www.climatebusiness.net](http://www.climatebusiness.net)



**Dr. Peter Pembleton** has provided many years assistance on energy and environment, including on the CDM since 1999. He recently prepared the paper on equitable distribution for the EB. Currently he is Managing Editor of the CDM Investment Newsletter.

Photo: UNFCCC

**JIKO News**

**Capacity Development for CDM in Africa**

by **Glenn Stuart Hodes, UNEP Risø Centre**

Developing CDM projects in Africa is challenging business, but hardly impossible. In almost every country in the region, one can find a number of potential deals in the making, particularly in sectors such as bio-energy, hydrocarbons and minerals extraction, waste management, land-use change and forestry, energy efficiency, and electricity generation, transmission and distribution. On a continent known for harbouring troves of precious stones, it is ironic that all too many projects remain like diamonds in the rough, when just a bit of money, technical know-how, and elbow grease could render them fine CDM investments. Moreover, one would be hard pressed to find another region where the collateral benefits of environmental finance would be greatest in terms of its human and social impact. Fortunately, some buyers are beginning to realize Africa’s latent potential, wagering that the potential reward and first-mover advantages accruing to those able to manage the risks in places where others have feared to tread outweigh the known challenges.

With financial support from the Netherlands, UNEP Risø Centre has been implementing the Capacity Development for Clean Development Mechanism or ‘CD4CDM’ Project since 2003. CD4CDM has forged partnerships to build human and institutional capacities for exploiting CDM opportunities in all regions, but has been particularly active in Africa. Fully half of the dozen countries engaged in the project’s first phase were in Africa, including Ghana, Mozambique, Cote d’Ivoire, Morocco, Egypt, and Uganda. A recently launched second phase will engage nine additional countries, with Tanzania, Algeria, and Mauritius expected among them. In each participating country, the project’s core objectives include:

1. Improved regulatory frameworks and functioning Designated National Authorities (DNAs)
2. A pipeline of CDM projects with clearly defined baseline parameters
3. A cadre of technical experts formed who can identify projects and formulate basic CDM documentation

As elaborated by other contributors in this issue, advancing the CDM in Africa is hampered by a number of policy, legal, technical, and, above all, financial barriers. Donor-funded capacity development initiatives such as CD4CDM are wise to distinguish between those factors under its potential influence, and those that are not. For example, no amount of capacity can transcend the relatively small size of most projects, the general lack of private project finance, the limited equity base, or the high returns/short payback periods expected of commercial banks and investors in the region. However, the level of engagement, strategies, and service coverage of local financial institutions in the carbon market can be improved through targeted training and investment forums where bankable deals are brought to the table. UNEP Risø has co-sponsored many such events, including an investment forum in Jerba, Tunisia, and an Africa banking roundtable on CDM in Johannesburg slated for February 2007. Likewise, investors have been discouraged by some countries that lack specific institutions and incentives for promoting foreign investment in cleaner development, or entirely unwilling to bet on CDM investments in countries whose DNAs lack clear legal

legitimacy or sufficiently transparent processes for project approvals. UNEP Risø has advised countries such as Ghana and Uganda on such issues, including specific regulations for the DNA's operation and project approvals, sharing good practice and workable models internationally, while respecting state sovereignty. Finally, as important as institutional and policy reforms may be, human beings must lie at the core of any capacity development activities. Without the existence of strong local competencies in project design, GHG accounting, technical, economic and environmental impact assessment, and financial engineering, future CDM projects are unlikely to materialize and be implemented. One of the best successes of the project has been the intensive training and empowerment of local intermediaries that have the technical skills to identify, appraise, and develop CDM projects on a sustainable basis. These comprise, for example, how to translate traditional engineering know-how into being able to fairly quickly size up CDM opportunities, develop baselines and potentially new methodologies, or how to work through the additionality arguments.

Photo: Mima Nedelcovych, Schaeffer Global Group



Exploring CDM opportunities: members of the CD4CDM team in Markala, Mali, where a green field sugar cane plantation and a new bagasse cogeneration facility "SoSuMar" is being developed. CDM is viewed as a potential source of project co-financing for the project.

Still, after three years of efforts, an enormous amount of awareness and capacity still needs to be developed to fully exploit Africa's untapped CDM potential. Indeed, a key barrier has been limited awareness of the benefits of carbon finance among the private sector, and limited capacity among policymakers to advance supportive regulatory and investment frameworks for cleaner production and infrastructure. For this reason, human skills development has always been the major thrust of the CD4CDM Project. In addition to a 'curriculum' of in-country and regional training workshops, the project uses other mechanisms to achieve such objectives, including:

- A **guidebook** series that comprises 'how-to' reference manuals on topics for which public information is available, but insufficiently oriented to developing country audiences. CD4CDM has addressed the following topics: how to assess the sustainable development impacts of projects, how to develop an emissions baseline, how to develop a Project Design Document (PDD) with a high chance for third-party validation, how to navigate legal and contractual issues, and how to develop CDM wind power projects.
- A **working paper** series that harnesses cutting-edge research to tackle policy and methodological constraints to carbon market development. For example, a study on strategies for integrated LULUCF/bio-energy projects was launched at COP-11 in 2005, and, in 2006, two additional working papers are underway, one on promoting modern bio-energy projects and one on innovative programmatic CDM approaches.
- An annual **Perspectives** feature publication devoted to sharing the insights, analyses and visions of leading actors in the market on a topic of pivotal importance to developing countries. The first in this series, to be launched in early 2007, will focus on determining a fair price for carbon in CDM transactions.
- **Newsletters** and the popular **CDM Pipeline Update**, which provide free statistics and market intelligence on projects and methodologies under development, thereby improving information symmetry and market efficiency.

Through partnerships such as the CD4CDM Project, and other CDM capacity development activities, UNEP Risø Center believes that increasing the supply of quality CDM projects offered to the global carbon market from Africa is not only possible, but urgent, and that relatively modest investments in capacity development can yield important results.

Further information can be found on the internet: [www.cd4cdm.org](http://www.cd4cdm.org).



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