

The World Bank  
1818 H Street, NW, Washington, DC 20433, USA

UNFCCC Secretariat  
P.O. Box 260124  
D-53153 Bonn  
Germany

Washington DC, July 30, 2007

Ref: Call for public input on non-binding best practice examples for the demonstration of additionality to assist the development of project design documents, in particular for small-scale project activities.

Honorable Members of the CDM Executive Board,

In response to the call referred to above, and based on the World Bank's operational experience with small-scale CDM project activities, we present examples to facilitate the development of guidance for the demonstration of additionality for small-scale project activities.

Yours sincerely,

Johannes Heister  
Carbon Finance Unit, The World Bank

## Non-binding Best Practice Examples for the Demonstration of Additionality in Small Scale Projects

Attachment A to Appendix B of the simplified modalities and procedures for small scale projects requires demonstration of additionality through analysis of technical, financial, prevailing practice and other relevant barriers.

In the context of the call for inputs, the World Bank's analysis of small scale projects, registered as well as projects under development and implementation, facilitated in the identification of a set of *characteristics* that could serve as the best practice examples and facilitate *single-step* demonstration of additionality for small scale projects and Programme of Activities.

### 1. "Renewable energy and energy efficiency projects for communities below the national poverty line<sup>1</sup>"

- Small-scale projects with more than 50% of the beneficiaries below the national poverty line. Such projects widely report investment, technology and capacity related barriers. Project proponents could use data from government or multi-lateral agencies.

#### Example

- Nepal Biogas (I.C.)<sup>2</sup>: Barriers at the national programme and the household levels with regard to investment and capacity to sustain and maintain the systems implemented.
- Bhutan Micro-hydro (I.A.)<sup>3</sup>: Financial barriers and additional costs of reaching beneficiaries in poor and remote regions.
- Community-focused initiatives including EE lighting, solar home systems, cook-stoves, waste management and other micro-systems.

### 2. "Private sector energy projects in low-income economies<sup>4</sup>"

- Private sector projects facing Investment barriers due to macroeconomic policies, including currency convertibility and high interest rates and infrastructure barriers. Such projects provide crucial sustainable development benefits to the host countries. Proponents could use data available from national government and multilateral agencies<sup>5</sup>.

#### Example

- Uganda hydro & rural electrification (I.D. & II.B.)<sup>6</sup>: The project is subjected to exchange rate risk, capital and infrastructure constraints.
- Costa Rica hydro (I.D.)<sup>7</sup>: Apart from technological barrier, this project faces poor load factor and a high turnkey cost.

3. "Introduction of energy efficient technology in small and medium enterprise (SME) business environment<sup>8</sup>, with or without investment"

- New Technology in small and medium enterprise (SME) faces additional barriers in terms of government approval, licensing and capacity development. Technology penetration rates could be collected from government agencies and industry associations<sup>9</sup>.

Example

- VSBK Technology (II.D.)<sup>10</sup>: Brick industry is a small-scale and traditional industry. The technology adopted in the project required prior government approval and faced cost increases of 400% over the existing technology and practice
- Small and medium enterprises in smelting, furnaces, re-rolling, glass, paper, plastic, including recycling and similar industries, food, hospitality, personal care industries

4. "Municipal, town, village authority; cooperative; other local public authorities with inadequate financing capabilities<sup>11</sup>"

- A public-sector proponent unable to bear the additional costs of efficiency improvement due to multiple competing priorities and restricted revenue generation opportunities, especially in poorer regions of a country. This could be assessed from the audited financial information of the project proponents.

Example

- Moldova Energy Conservation and Rural Heating (II.E. & III.B.)<sup>12</sup>: The project involves improvement of existing facilities using loans. The barrier is lack of financial strength to repay the loan.
- Energy efficiency in water pumping, buildings, heating, schools, hospitals and other facilities owned and operated by the proponents.

The set of above single-step criteria for demonstration of additionality could simplify and accelerate project design and also reduce the costs of project development and implementation of small-scale projects and programmes of activities.

---

<sup>1</sup> UNDP, Human Development Report (<http://hdr.undp.org/hdr2006/statistics/indicators/25.html>)

<sup>2</sup> Biogas Support Program - Nepal (BSP-Nepal) Activity 1 (CDM reference No. 0136)

<sup>3</sup> e7 Bhutan Micro Hydro Power CDM Project (CDM reference No. 0062)

<sup>4</sup> Low income economies are defined as countries with Gross Nation Income per capita of \$905 or less (<http://go.worldbank.org/K2CKM78CC0>)

<sup>5</sup> The World Bank Group, Private sector resources ([www.doingbusiness.org](http://www.doingbusiness.org))

<sup>6</sup> West Nile Electrification Project (CDM reference No. 0775)

<sup>7</sup> Cote small-scale hydropower plant, (CDM reference No. 0251)

<sup>8</sup> Small business development (<http://wbln0018.worldbank.org/networks/fpsi/rmfsmes.nsf>)

<sup>9</sup> For example: African Iron & Steel Association (<http://www.afristeel.org/>) etc.

<sup>10</sup> India - Vertical Shaft Brick Kiln Cluster Project (CDM reference No. 0582)

<sup>11</sup> IFC Sub-national Finance; World Bank Municipal Finance (<http://go.worldbank.org/A189J04XS0>)

Municipal Finance Task Force

(<http://www.mftf.org/resources/index.cfm?fuseaction=byCountry&CountryID=ZW>);

<sup>12</sup> Moldova Energy conservation and greenhouse gases emissions reduction (CDM reference No. 0173); and Moldova Biomass Heating in Rural Communities (CDM reference No. 0159 and 0160)