

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

Mr. Jose Domingos Miguez
Chairperson
CDM Executive Board

Mr. Hans Jurgen Stehr
Vice Chair
CDM Executive Board

Members of the CDM Executive Board

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

Washington DC, June 15, 2006

Dear Mr. Miguez,
Dear Mr. Stehr,
Honorable Members of the CDM Executive Board,

the World Bank appreciates the opportunity to submit views on the definition of policy and programme of activities, within the guidance provided by COP/MOP1 on CDM project activities under a programme of activities. The submission is offered in response to the Executive Board's call for public inputs on definition of policy and programme of activities for consideration of the Board at its twenty-fifth meeting.

Yours Sincerely,

Johannes Heister

DEFINITION OF POLICY AND PROGRAMME OF ACTIVITIES
Submission of the World Bank
June 15, 2006

1. Definition of a policy

COP/MOP1 has ruled that a local, regional or national policy cannot be considered as a CDM project activity. This raises the question what the term "policy" should mean under CDM regulation. In common parlance a policy is *a plan or course of action taken with the purpose of guiding or determining decisions or courses of actions*. Accordingly, governments can adopt a policy (a plan or course of action) with the intent of reducing GHG emissions. Yet, experience has shown that such plans or policies do not necessarily result in measurable GHG reductions, due to lack of financing, lack of enforcement capability, institutional weakness, lack of public support, or simply lack of on-the-ground implementation. An example could be regulation that is not enforced. The GHG impact of policies without concrete, verifiable implementation can neither be measured nor attributed to the policy. Therefore COP/MOP1 ruled policies ineligible under the CDM.

Governments can also implement concrete projects that do result in verifiable GHG reductions, e.g. direct public investment in a fuel efficient bus fleet. Governments (or private entities) can also implement programmes that indirectly generate concrete project activities e.g. a public subsidy programme that results in the use of renewable energies or a labeling program that leads consumers to buy energy efficient appliances. Such projects, being the results of a direct or an indirect (via a programme) public investment decision, are different from non-verifiable policy. Public investment project activities or activities under a public (or private) programme of activities are eligible under the CDM, as the GHG reducing activities can be clearly identified, measured, and attributed to the public or private measure. The borderline between non-eligible policies and eligible activities under a programme of activities is therefore defined by the possibility of identifying concrete and measurable GHG reducing project activities that result from the programme, and by the possibility of attributing them to a public measure or to a private initiative in a verifiable way.

2. Definition of a programme of activities

A CDM programme of activities could be defined as a project activity in which *"emission reductions are achieved by multiple verifiable activities executed over time as a direct response to a government measure or private sector initiative"*. A programme is typically the concrete and verifiable implementation of a series of GHG reducing activities that as a whole meet the GHG reducing aim of a government policy or a private sector initiative. A programme can be designed as an incentive structure to achieve the goals of a voluntary initiative, or an enforcement scheme to implement a specific public

regulation. It is, however, not a CDM programme of activities unless the GHG reducing activities that occur under it are verifiable and attributable to the programme.

The design principles of a programme of activities could include the following:

- a. Multiple sites: The programme results in a multitude of GHG reducing activities occurring in multiple sites over a period of time. The sites could be located within one city, one region or one country, depending on the design of the programme.
- b. Entity implementing the program as CDM project participant: The entity implementing or administering the program does not necessarily execute all GHG reducing activities but does provide the necessary incentive or structure for others to achieve the reductions. This can be a public sector entity, a private company, a NGO, a financial intermediary, or a combination of these. Entity(ies) running the program is/are participant(s) in the CDM project, while entities acting under the program are not CDM project participants.
- c. Types of activities: A programme can have one type of GHG reducing activity, or several types of activities (e.g. for a building energy efficiency program: efficient lamps, efficient water heaters, efficient air conditioners).¹ Each type of activity must use the appropriate approved CDM methodology.
- d. Predictability: The programme design allows for an ex ante estimation of the potential emission reductions it can achieve. This ex ante estimation of the size of the program allows to determine whether the programme of activities is registered as a small or a large scale project activity. As in all CDM project activities, ex post verification of the activity and the resulting emission reductions must occur in order to demonstrate accurate quantification of reductions prior to the issuance of CERs.

3. Difference between programmes and bundles

As suggested by the separate paragraphs in the COP/MOP 1 decision, a bundle is distinct from a programme. In a bundle, each activity could be undertaken individually as a CDM project activity (e.g. three wind farms) and the various project activities are only bundled together in order to reduce CDM-related transaction costs. The individual GHG reducing activities in a programme are not in and of themselves CDM project activities, but rather the entire package of activities constitutes a single CDM project activity under the programme of activities. In a bundle, the composition does not change over time and the exact type and site of each project activity must be identified ex ante, whereas in a programme the project activity area is clearly delineated ex ante, but the exact type and site of each GHG reducing activity may not be

¹ Type is in this context defined in relation to approved methodologies (e.g. if a programme needs to use three approved methodologies for full coverage it includes three types of activities).

confirmed until monitoring and verification have taken place. In a programme only the targeted types of activities are predetermined but not the physical activities in and of themselves. In a bundle, each project participant executes a GHG reducing project activity, while the entity implementing the programme does not necessarily achieve the reductions but rather promotes others to do so. Each entity participating in a bundle is a CDM project participant. In a programme, the entity running the programme is a project participant, but the multiple entities (people, households, firms) achieving the reductions are not individual CDM project participants. The following table summarizes the differences between a bundle and a programme.

Table: Bundles versus Programmes

	BUNDLE	PROGRAMME
Sites	Ex ante identification of exact sites.	GHG reductions must be estimated ex ante. Exact sites may not be known, but types of activities and expected volume of emission reductions are known.
Project participants	Each single activity is represented by a CDM project participant.	Only the entity/ies implementing the programme represent(s) the project activity as a CDM project participant.
	Project participants and entities achieving reductions are identical.	A project participant does not necessarily undertake the GHG reducing activities but rather promotes others to do so.
Project activities	Each activity in the bundle is an individual CDM project activity.	The sum of all individual activities under the programme is the CDM project activity.
	Composition of activities does not change over time.	Targeted types of activities are predetermined but not the physical activities in and of themselves.
	All projects in a bundle must be submitted at the same time	A programme is submitted with identification of targeted activities. Actual activities are not confirmed until verification.

Bundles and programmes are two different options for registering CDM project activities. In practice, bundling is most appropriate for cases where a CDM project participant executes several similar project activities at the same point in time. Programmes are relevant if a CDM project participant provides a structure or an incentive for others to undertake GHG reducing activities over

time. Typical examples can be found in the areas of demand side energy efficiency, fuel/technology switching at the household or small enterprise level (e.g. solar energy), vehicular fuel switch, and improved construction materials and practices.

Both, bundles and programmes, use approved CDM procedures and modalities. They both use approved CDM methodologies including relevant clarifications and the same CDM document formats for registration, monitoring and verification.

4. Need for EB clarification

The basic CDM modalities for baseline, additionality, project boundary, crediting period, monitoring, and so forth apply to programmes as much as they do to bundles. Programmes can use approved methodologies as much as bundles can. For programmes not yet covered by approved methodologies, new methodologies need to be developed and submitted for approval following the existing CDM procedures. Our experience shows that there are no generic methodological issues that are endemic only to programmes.

From a methodology point of view, there is no need for the Executive Board to emit additional guidance for programmes of activities. We therefore suggest that the Executive Board simply provide a definition of a programme of activities under the CDM, and guidance on the registration modalities, including:

- One PDD for one programme.
- Entity/ies implementing the program are project participant/s and entities acting under the programme are not.
- Ex ante estimation of emission reductions and ex post verification of the individual GHG reducing activities under the programme and of the calculation of reductions.
- Use of approved CDM methodologies.