

**EXECUTIVE SUMMARY OF THE**

**Study on**

**PROGRAMMATIC CDM PROJECT ACTIVITIES:  
ELIGIBILITY, METHODOLOGICAL REQUIREMENTS  
AND IMPLEMENTATION**

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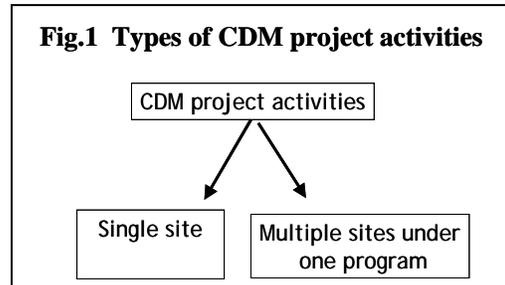
Econergy International Corp.  
Margaree Consultants Inc.

A programmatic CDM project activity is a CDM project activity where the emission reductions are achieved by multiple actions executed over time as a result of a government measure or a private sector initiative. Examples include grant or soft loan programs to promote energy efficiency, fuel switching activities or the use of renewable energies by private households, in the transportation sector or by small enterprises, as well as voluntary or mandatory efficiency standards for equipments or facilities.

Programmatic project activities are restricted to measures or initiatives where the induced greenhouse gas abatement activities and sources of emission reductions can clearly be identified and verified. Thus a policy that abolishes a subsidy on fossil fuels or implements a national or sectoral cap-and-trade system is not considered a programmatic project activity unless the induced actions are clearly identifiable, attributable to the measure and verifiable ex post.

This study proposes to include programmatic CDM project activities during the 2008-2012 commitment period and within the constraints of the existing CDM regulatory framework, to strengthen the CDM in the short term without re-negotiating the basic architecture of the Protocol. Programmatic project activities are most promising in the areas of energy efficiency, fossil fuel switching and the use of renewable energies, particularly in private households, small enterprises and transportation.

Article 12 of the Kyoto Protocol defines the CDM as a mechanism based on "project activities". A "project activity" can be an individual investment or action implemented in one clearly delineated geographical location, and most current CDM project activities are of this nature. However, CDM project activities can also be "programmatic", where emission reductions are achieved not by one single investment but rather by multiple actions executed over time as a result of a government measure or private sector initiative.



The core characteristics of programmatic CDM project activities are:

- They occur as the result of a deliberate program, that is either a public sector measure (voluntary or mandatory), or a private sector initiative.
- The program results in a multitude of dispersed actions that are induced by the program and would not occur but for the enactment of the program.
- The GHG reducing actions do not necessarily occur at the same time.
- The type, the size and the timing of the emission reducing actions induced by the program may not be known at the time of project registration. However, the types and sizes of the expected actions have to be identifiable ex ante, attributable to the program, and verifiable ex post.
- While programmatic project activities can be implemented by one or more entities, they have only one enacting agent, responsible for providing the incentives or obligations to stimulate the individual actions under the program.

- The enacting agent must be one of the “project participants”, and can be either a private or a public entity.
- The program is the project: the mitigation actions that are implemented under the program do not constitute individual projects in and of themselves, but must be measured and monitored according to approved methodologies to ascertain their contribution to the emission reductions achieved by the program.
  - The programmatic project activity is submitted to validation and registration through one single Project Design Document.

This study assesses the eligibility and methodological requirements of programmatic CDM by analyzing the following documents: Kyoto Protocol, Marrakech Accords, PDD format, relevant Executive Board (EB) decisions, relevant Methodologies Panel reports, Meth Panel recommendations on relevant proposed new baseline and monitoring methodologies, and the 13 projects in the UNFCCC project pipeline<sup>1</sup> that have programmatic characteristics.

### Eligibility

The study finds that there are no provisions in the Kyoto Protocol or the Marrakech Accords that would make programmatic project activities ineligible under the CDM. In fact, programmatic project activities meet all of the regulatory requirements for CDM project activities, and should therefore be eligible for the Kyoto commitment period 2008-2012. The EB has already registered one small-scale programmatic project activity enacted by a public sector entity.<sup>2</sup> With numerous other programmatic project activities from both the public and private sectors at the validation stage, the EB has implicitly indicated a willingness to consider programmatic project activities based on voluntary programs. Only the eligibility of programmatic project activities based on mandatory government policies remains under consideration on the part of the EB. The study argues that there is no regulatory impediment to the eligibility of programmatic project activities based on mandatory policies, as long as they fulfill the basic methodological requirements discussed below.

### Methodological requirements

The study suggests that existing modalities and procedures for CDM project activities can be applied *mutatis mutandis* to programmatic project activities. The following provisions can be applied in an identical manner to current CDM practice:

- **Boundary.** Even though the location of induced actions may not be known at the outset, the boundary of a programmatic project activity can be delineated ex ante and considered fixed for the duration of the crediting period. The exact locations where actual emission reductions occur over time can be determined ex post, and constitute the project boundary, as in other CDM project activities. If the programmatic project activity uses an approved methodology that does not include appropriate boundary definitions for multi-site project activities, section B4 of the PDD should introduce the necessary boundary definitions.

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<sup>1</sup> According to the CD4CDM website, the UNFCCC project pipeline consisted of 406 projects on November 3, 2005.

<sup>2</sup> Kuyasa energy upgrade project activity in South Africa

- **Leakage.** Any CDM project activity can have leakage if there is a net change in GHG emissions outside the project boundary that is measurable and attributable to the CDM project activity. As in other CDM project activities, a programmatic project activity can be designed to minimize leakage and identify and estimate any remaining sources of leakage.
- **Double counting.** In programmatic project activities, emission reductions achieved at the action level must contribute to the emission reductions of the overall program. Certified emission reductions can only be claimed at the program level. Even so, as is the case with other CDM project activities, some programmatic project activities may involve the risk of double counting. Project participants using approved methodologies should indicate in sections B3 (additionality) and D2 (choice of the monitoring methodology) of the PDD, as well as in the Monitoring Plan, appropriate measures that will prevent double counting. Project participants proposing new methodologies must include tools to prevent double counting. Possible ways to prevent double counting include:
  - Agreements between the project participants and all other potential claimants of the emission reductions resolving ownership and undertaking not to claim the reductions.
  - Requiring the DNA (national government) to ensure that the project activities it approves do not create a risk of double counting. Written confirmation of this undertaking could be an explicit requirement for registration of relevant project activities.
  - Specifying the project activities to which an approved methodology would apply in such a way that double counting is prevented.

The Meth Panel and Executive Board are currently considering ways to reduce the risk of double counting, and programmatic project activities will need to be consistent with that guidance when it is emitted.

Given the particular characteristics of programmatic project activities, some methodological adjustments would have to be made in the following provisions:

- **Baseline.** Programmatic project activities operate at both the program level and the induced action level. In selecting a baseline scenario a two-level approach must be used, establishing the baseline for the program and for the induced actions according to approved baseline methodologies. For example, in establishing the baseline scenario for a program involving a federation of industries that implements efficiency standards for electric motors, the baseline must identify the relevant alternatives of the federation as a decision-maker for the program (program level), as well as the relevant alternatives of the companies covered by the program (induced action level). Consistent with the EB's decision on the treatment of national policies in the baseline, policies or programs that have been implemented since 11 November 2001 need not be taken into account in developing a baseline scenario at the program level. The EB has yet to decide on the consideration of mandatory policies in the baseline, which would apply to single-site as well as to programmatic project activities. The baseline for the induced actions should reflect the baseline selected for the program. For both voluntary and mandatory measures, plausible alternatives to the baseline can apply the modalities specified in paragraph 48 of the Annex to Decision 17/CP.7.

- **Additionality.** A two-level approach must be used to establish the additionality of the program and of the induced actions using the optional additionality tool or other approved means. For example: a grant program promoting energy efficiency measures for private households should show that the CDM is essential in facilitating the program and that the rehabilitation of the households covered by the program would not happen without the program (no free riders). The current approach to determining additionality in single-site project activities is applicable to programmatic project activities at the program level. The additionality of the induced actions could be assessed individually if the actions are large in size and few in number, or through a combination of eligibility conditions and estimation of free riders if the actions are small in size and many in number.
- **Crediting period.** In a programmatic project activity induced actions may start at different times. The project participants could register actions implemented during specified periods as separate projects to ensure that they earn CERs for all of the emission reductions achieved by the program. Alternatively, the COP/MOP or the Executive Board could agree to allow a programmatic project activity to cover multiple vintages of actions each with its own crediting period.
- **Monitoring.** Under a programmatic project activity, induced actions occur in multiple sites. The current approved methodologies for monitoring apply to programmatic project activities in the case where the programmatic project activity involves implementing a few large actions, such as industrial fuel switching. Where the programmatic project activity involves implementing many small actions, such as motor replacement, section D2 of the PDD should introduce the necessary sampling procedures.

### Small-scale project activities

In the case of small-scale project activities, a programmatic approach can be used if the implementing actions under the program respect the relevant limits for small-scale CDM project activities for the type of small-scale project activity. In such a case the programmatic project activity can use an approved small-scale baseline and monitoring methodology.

In the case where a large size programmatic project activity program includes actions covered by the approved small-scale methodologies, the EB could consider allowing the use of approved small-scale CDM methodologies.

### Conclusion

Programmatic CDM project activities, including those based on mandatory policies, have no impediment under the current regulatory framework. One *de facto* programmatic project activity has already been registered, and others are at the validation stage. Programmatic project activities that meet all relevant methodological requirements should continue to be eligible as CDM project activities for the Kyoto commitment period 2008-2012.

While the regulations allow for the inclusion of such projects in the CDM, there is an obvious vacuum in the provision of appropriate methodological guidance for the

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submission of programmatic project activities. The Board should provide relevant methodological guidance for the submission of programmatic project activities as soon as possible. The multi-dimensional nature of programmatic project activities demands a more intricate application of existing methodologies, but it does not require new conceptual approaches. Through the deliberate inclusion of programmatic project activities in the CDM, the Board can do much to improve the development impact of the CDM in the short term.