Submission by the Gambia on behalf of the Least Developed Countries (LDC) Group

Views on the matters referred to in paragraphs 79 and 80 of the outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (Durban), *including their experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.*

With agreement on the Kyoto Protocol in 1997 and its ratification by 192 Parties, an unprecedented framework for actions towards addressing climate change has been established. The Kyoto Protocol's flexible mechanisms have been used as a way to promote sustainable development as well as support countries to undertake projects to reduce greenhouse gas emissions. The group of 48 Least Developed Countries (LDCs) believes that many lessons can be learned from the process and experiences of the mechanisms under the Kyoto Protocol to ensure an efficient and effective outcome for the negotiations under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), which encompasses the needs and involvement of the LDCs.

The end of the first commitment period of the Kyoto Protocol in December 2012 is approaching, Parties agreed at COP 17 in Durban on the second commitment period of the Kyoto Protocol and on urgent actions required for a new protocol to be negotiated and completed by December 2014. Therefore the LDC group welcomes the opportunity to submit their views on the matters referred to in paragraphs 79 and 80 [1] of the decision 2/CP.17,[2] including the experiences, positive and negative, with existing approaches and mechanisms as well as lessons learned.

This submission first presents the experiences by the LDCs as a group with the Clean Development Mechanism (CDM). It then briefly indicates pathways outlining possible directions for the post-2012 climate negotiations related to the current flexible mechanism, in particular, the current CDM procedures under the KP. These recommendations will serve as a basis for the second submission referred into paragraph 85 of the LCA outcome from Durban, regarding new flexible mechanisms under ADP.

1. LDC experiences with the CDM

The CDM, established as part of the Kyoto Protocol, created an institutional framework aiming to achieve emissions reductions through Annex-I country investment in projects in non-Annex I countries. However, due to limited capacity, high transaction costs, political and economic risks, and technical

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[1] Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries.

[2] Durban outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

characteristics of LDCs, the CDM has failed to reach many of its intended beneficiaries in the LDCs.

The Nairobi Framework, adopted in 2006, attempts to address some of the limitations that LDCs are facing with respect to CDM by building capacity.. In 2007, the adoption of the "Program of Activities" (PoA) created an additional mechanism to facilitate LDC participation in the CDM.

As of 11 October 2011, only 2% of CDM projects were registered in Africa, while 16 % in Latin America and the Caribbean, and 82% in Asia and the Pacific.. Despite the many programs put forth to address the CDM's asymmetries in participation, further steps are needed.

2. The special situation of LDCs

LDCs characteristically have low emissions profiles. Mitigation potential is often scattered and requires a large number of small and micro-scale activities and is rarely available in individual medium to large-scale projects.[3] As recent research shows, together with the fact that project developers and buyers of CERs often have minimum thresholds for investment this leads to significant hurdles for LDCs' participation in the CDM.

The lack of CDM projects in LDCs may also be attributed to the economic and political risks associated within countries. A majority of LDCs rank below the 30th percentile on the World Bank's governance indicators.

In addition to the issues above, transaction costs associated with the CDM project cycles are nearly insurmountable for most mitigation projects within LDCs.

3. Current status of CDM projects in LDCs

The adoption of the Nairobi Framework in 2006 was a first step in addressing some of the limitations of the CDM. The framework outlines the following objectives:

- Build and enhance capacity of Designated National Authorities (DNAs) to become fully operational;
- Build capacity in developing CDM project activities;
- Promote investment opportunities for projects;
- Improve information sharing, outreach, exchange of views on activities, education and training; and;
- Inter-agency coordination.

With the Nairobi Framework, substantial funds moved towards capacity building aiming to establish Designated National Authorities (DNAs) and subsequently CDM project development. A study undertaken in 2010 found that so far 22

[3] Mitigation opportunities are often associated with household businesses

countries were not able to benefit from such capacity building. Additionally, of the countries that received support, half of the capacity building programs did not provide evident or outstanding results. Thus, there are many LDCs that have not benefited from CDM projects.

In 2007, the CDM Executive Board adopted regulations relating to "Programs of Activities" (PoA). This allows registering emissions reductions activities for many smaller-scale projects under a managing entity and thus facilitating the CDM cycle as a group. A PoA may contain projects from different locations and across various emissions reductions project types. It serves to reduce transaction costs. Additionally, PoA durations are extended to 28 years (or 60 years for an afforestation/reforestation).

Rules for PoAs were subsequently clarified, standardized baselines established, and the procedures for small-scale project activities further simplified. Five methodologies specifically suited to projects in underrepresented regions and small communities were developed with the view to increasing the CDM potential in underrepresented regions.

LDCs welcome the efforts of the secretariat to complete its work to identify an agency to implement a loan scheme, as agreed at CMP6, to support the preparation of project design documents in underrepresented countries and urge a swift implementation of the scheme.

In a further step the Executive Board agreed to adopt guidelines for "suppressed demand" that allow project developers setting up projects in underrepresented countries to assume levels of expected future development that would lead to higher emissions in the absence of a project, and hence be considered avoided by the project. These guidelines incentivize the introduction of clean development technologies, thereby helping to bypass the use of dirtier technologies in the development of a host country.

Further improvements are currently under way and should be finalized with all possible speed relating to: standardized templates for validation and verification reports; the digitalization of project information; reports on the potential for CDM project development in underrepresented regions, including profiles of greenhouse gas emission and reduction potentials in non-Annex I countries and a targeted action plan for outreach and capacity-building; and three more small-scale methodologies targeted specifically at underrepresented areas.

The last annual CDM report indicated a growth in the number PoAs to 17 registered PoAs in 15 countries (as of 27 February 2012). Not all of these PoAs are located in LDCs. These figures are still low and indicate that more improvements need to be done before the CDM mechanism works for the LDCs as a group.

The two CDM institutions created, the designated operational entities and the designated national authorities to increase participation have yet to fulfill their expectations. As such, continued improvements are necessary. The next section addresses recommendations, some of which improve upon the former institutions.

Recommendations for market-based approaches

In order to ensure LDCs are not left out of the process, there is a need to include the incorporation of a micro-scale category to complement the small-scale methodologies, in addition to extending the crediting periods.

The Nairobi Framework should invest efforts into researching and highlighting successful projects. Despite the capacity building activities provided, much remains to be done as coordination problems continue to exist. However, successful CDM projects do exist. It is beneficial to focus on successes in order to reduce investor's concerns about investment in LDCs. Given the risk profile of LDCs, such publicity will go a long way towards highlighting overlooked regions.

In relation to PoAs, they present an opportunity for small-scale CDM ventures to become reality. However, they still contain high transaction costs, which hinder the managing entity as they bare high upfront costs. Subsidies should be considered in order to offset transaction costs.

A micro-scale CDM category must be established for projects outside of PoAs. Currently, CDM projects are classified under full-scale or small-scale methodologies. These two classifications are limiting with the largest CDM project within an LDC just barely surpassing the small-scale threshold. This option would create a more simplified set of rules and procedures for smaller-scale producers.

The extension of the crediting period from 7 years (with option for 2 renewals, 21 year total) to an outright 21year period with no renewals must be considered. Projects will then be able to generate carbon revenue longer-term without immediate risk of abrupt changes to the carbon market.

Furthermore, from the LDC perspective, it is important to ensure the eligibility criteria of the mechanism remains and not allow countries that are not part of the second commitment period of the Kyoto Protocol to continue using CDM activities in the post 2012 regime. These eligibility criteria should also be implemented for any new mechanisms under the Convention.

While the overall post-2012 CDM is in question, it has been widely recognized as one of the strongest mechanisms of the Kyoto Protocol. Regardless of options taken, the CDM remains a mechanism that will undoubtedly continue in some form. As such, it is critical to address its weaknesses with relation to the LDCs.

Implementing the recommendations listed above will ensure that the CDM continue to be a mainstay market mechanism for emissions reductions.