

Clean Development Mechanism (CDM)

National Operational Strategy

**GOVERNMENT OF PAKISTAN
MINISTRY OF ENVIRONMENT**

(January, 2006)

CONTENTS

| | | |
|------------|--|-----------|
| 1.0 | INTRODUCTION | 1 |
| 2.0 | DESIGNATED NATIONAL AUTHORITY FOR CLEAN DEVELOPMENT MECHANISM (CDM) | 1 |
| 2.1 | Prime Minister’s Committee on Climate Change | 1 |
| 2.2 | CDM Steering Committee | 2 |
| 2.3 | Technical Committees | 2 |
| 2.4 | CDM Secretariat | 3 |
| 3.0 | CRITERIA FOR CDM PROJECTS | 3 |
| 4.0 | TAX AND CREDIT SHARING POLICIES | 5 |
| 5.0 | HOST COUNTRY APPROVAL | 5 |
| | ANNEXES | |
| | Annex-A: Introduction to Kyoto Protocol and CDM | 6 |
| | Annex-B: Criteria for Host Country Approval of CDM Projects | 8 |
| | Annex-C: CDM Project Cycle | 10 |

1. INTRODUCTION

Pakistan deposited its Instrument of Accession to the Kyoto Protocol (Annex-A) in the UN Secretariat on 11 January 2005 and an important condition for becoming eligible for Clean Development Mechanism (CDM) projects was fulfilled. This Operational Strategy has been developed to fulfill the requirements of establishing a Designated National Authority (DNA) and ensuring transparent, participatory and effective management of CDM process in the country. The strategy describes the functions and powers of the DNA and the national approval process. It builds on preliminary studies for initial projects including Asia Least Cost Greenhouse Gases Abatement Strategy (ALGAS)¹ and Pakistan's Initial Communication on Climate Change² which provides a general framework for operating CDM in Pakistan.

2. DESIGNATED NATIONAL AUTHORITY (DNA) FOR CLEAN DEVELOPMENT MECHANISM (CDM)

The Government of Pakistan will establish the Designated National Authority (DNA) in the Ministry of Environment in order to manage the CDM process in Pakistan efficiently and transparently and in line with national sustainable development goals. The DNA, which will be guided by the Prime Minister's Committee on Climate Change, consists of the National CDM Steering Committee, Technical Committees and the CDM Secretariat. The organogram of the Authority is shown in Figure 1. The composition and functions of the Committees and the Secretariat are described in the following sections.

2.1. Prime Minister's Committee on Climate Change

This Committee is a policy and review forum focusing on the challenges related to the climate change. The Committee is chaired by the Prime Minister. Its members include Minister for Environment, Minister for Food, Agriculture and Livestock, Minister for Science and Technology, Minister for Water and Power, Minister of State for Environment, Deputy Chairman, Planning Commission and Special Advisor to the Prime

¹ ADB/GEF/UNDP (1998). Asia Least-Cost Greenhouse Gas Abatement Strategy (ALGAS) -Pakistan. Manila, Philippines. Asian Development Bank, Global Environment Facility, United Nations Development Program. October 1998.

² Government of Pakistan (2003). Pakistan's Initial National Communication on Climate Change, Ministry of Environment, Islamabad (available at <http://unfccc.int/>)

Minister. The Global Change Impact Studies Center of the Ministry of Environment serves as the Secretariat of the Committee.

2.2. CDM Steering Committee

The CDM Steering Committee will be chaired by the Secretary, Ministry of Environment. Its members include representatives (not below the level of Joint Secretary) from Planning and Development Division (two members: Senior Chief Energy and Chief Environment), Ministry of Finance, Ministry of Petroleum and Mineral Resources, Ministry of Food and Agriculture, Ministry of Science and Technology, Ministry of Foreign Affairs, Ministry of Industries, Ministry of Commerce, Ministry of Water and Power, Board of Investment, Chairman, Alternate Energy Development Board, Managing Director, National Energy Conservation Center (ENERCON), Provincial/AJK/Northern Areas Additional Chief Secretaries and representatives of NGOs and the corporate sector.

The functions of the CDM Steering Committee are:

- (i) To provide necessary policy advice and guidance to the CDM Technical Committees and CDM Secretariat;
- (ii) To review the implementation progress of CDM projects; and
- (iii) To ensure inter-ministerial coordination for effective management of CDM process in Pakistan.

The Committee will report to, and seek policy guidance on CDM related matters, from the Prime Minister's Committee on Climate Change.

2.3. Technical Committees

Three technical committees including "Technical Committee on Energy Efficiency/Renewable Energy", "Technical Committee on Waste Management" and "Technical Committee on Agriculture, Forestry and Livestock" will be constituted. Additional Technical Committees may be constituted, if required. These committees shall promote and advise on CDM projects and assist project sponsors in developing CDM projects.

2.4. CDM Secretariat

The CDM Secretariat will be headed by the Joint Secretary (International Cooperation), Ministry of Environment. A CDM facilitation office will be established and attached to the Secretariat. The functions of the Secretariat are as follows:

- (i) To act as the national focal point for the CDM program;
- (ii) To issue official approval for CDM projects on behalf of the Government of Pakistan;
- (iii) To draft CDM related policies and operational strategies, in consultation with stakeholders;
- (iv) To assess projects against the National Sustainable Development Criteria and extend approval to projects;
- (v) To provide necessary support to stakeholders in identification, development, marketing and management of CDM projects;
- (vi) To act as secretariat to the National CDM Steering Committee and CDM Technical Committees;
- (vii) To develop and maintain a database with a view to provide CDM related information to project developers and other national and international stakeholders;
- (viii) To raise awareness on CDM in Pakistan;
- (ix) To undertake activities for enhancing the capacity of local stakeholder organizations to effectively design and implement CDM projects; and
- (x) To prepare and submit annual report on CDM activities in Pakistan for in house use of the Ministry of Environment.

3. CRITERIA FOR CDM PROJECTS

Pakistan shall allow unilateral, bilateral and multilateral CDM projects preferably in the following areas:

- (i) Energy including renewable energy, energy efficiency, energy conservation and fossil-fueled cogeneration;
- (ii) Land use, Land use Change and Forestry (e.g. biodiversity protection, soil conservation, watershed maintenance and sustainable forest/rangeland management);
- (iii) Agricultural and livestock practices;
- (iv) Waste Management (e.g. landfills, solid waste management, recycling, animal/livestock wastes);

- (v) Transportation (e.g. alternative fuel vehicles, mass transit systems, cleaner engines, Compressed Natural Gas); and
- (vi) Industrial processes.

The CDM Steering Committee may, however, include any other sector on the request of local / foreign investor provided it is in line with the objectives of the CDM. To be eligible for national approval under CDM, the project in the above listed areas must meet the National Sustainable Development Criteria (Annex-B).

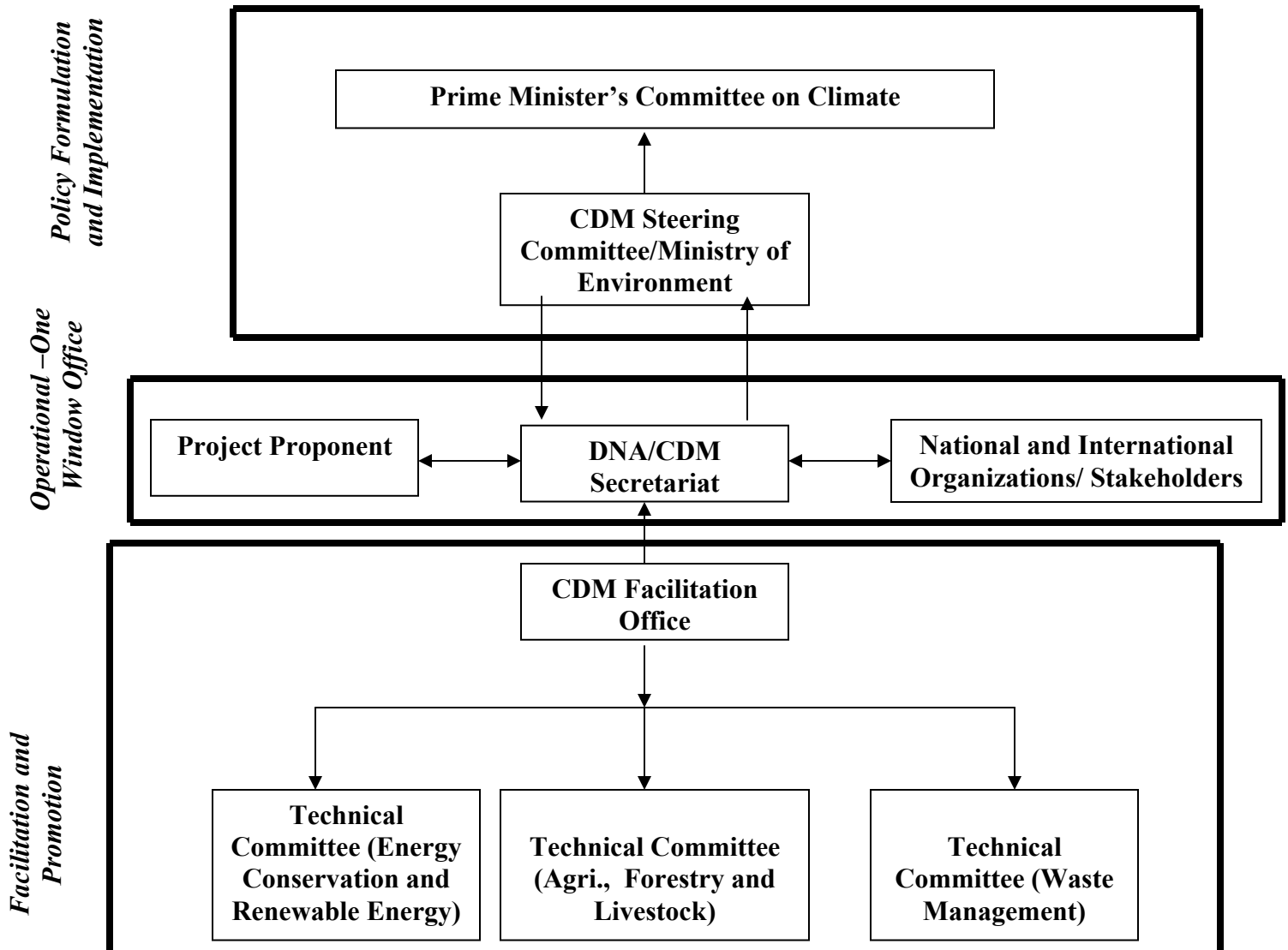


Figure 1. Organogram of the National CDM Authority

4. TAX AND CREDIT SHARING POLICIES

No income tax or duty shall be levied on transfer/sale of CDM emissions credits (i.e Certified Emission Reductions, Verified Emission Reductions etc). Similarly, credits shall be awarded fully to the project sponsors. Banks and other financial institutions shall also be encouraged to provide special incentives to the investors.

5. HOST COUNTRY APPROVAL

The Project Proponent (PP) shall submit to the National CDM Secretariat 10 copies each of (i) the complete “Project Design Document (PDD)”, prepared as per CDM format and guidelines (Annex-C) and (ii) Environmental Impact Assessment Report of the Project (if so required).

The Secretariat shall undertake primary screening of the PDD to see whether it supports sustainable development and to ensure that the participation in CDM is voluntary and otherwise meets the Criteria for Host Country Approval (Annex-B). The Secretariat shall inform the PP in case the project meets the CDM criteria or otherwise within 15 days of receipt of PDD. The projects not complying with the CDM criteria shall be returned for reformulation along with a brief screening report.

In case the PDD conforms to the CDM Criteria, the Secretariat shall issue a Letter of Approval within 30 days of receipt of the PDD.

The above procedure shall be applicable to all unilateral, bilateral and multilateral projects.

ANNEXES

Annex-A

Introduction to Kyoto Protocol and Clean Development Mechanism (CDM)

In order to achieve stabilization of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system, 154 countries, including Pakistan signed the United Nations Framework Convention on Climate Change (UNFCCC) at the “Earth Summit” held in Rio de Janeiro in 1992. The Convention contains a non-legal binding by the industrialized countries for stabilizing their emissions at 1990 levels by 2000 in order to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner³.

The Kyoto Protocol to UNFCCC was adopted at the 3rd Meeting of the Parties held in Kyoto, Japan, in 1997. Under the Protocol, developed countries (also referred to as Annex-1 countries), agreed to reduce their combined green house emissions by 5% below the 1990 level during the period 2008-2012. The Protocol came into force on ratification of the treaty by 55 countries, jointly responsible for 55% of the GHG emissions, on 16th February 2005.

The Protocol establishes the following three market-based cooperative mechanisms designed to help Annex-I Parties reduce the costs of meeting their emissions targets by achieving emission reductions at lower costs in other countries than they could domestically⁴:

³ <http://unfccc.int/>

⁴ Figure, C (2002). National Authorities for the CDM - A Guide for Developing Countries, International Institute for Sustainable Development, Manitoba, Canada. Web site: <http://www.iisd.org>

- International Emissions Trading permits countries to transfer parts of their 'allowed emissions' (assigned amount units).
- Joint Implementation (JI) allows countries to claim credit for emission reduction that arise from investment in other industrialized countries, which result in a transfer of 'emission reduction units' between countries.
- Clean Development Mechanism (CDM)

CDM is the only instrument that is available for developing countries to assist them in achieving sustainable development and contributing to the ultimate objective of the Convention. It aims to assist Annex-I Parties to implement project activities that reduce (or subject to constraints removes) GHG emissions in non-Annex-I Parties (i.e. most of the developing countries), in return for certified emission reductions (CERs). The CERs generated by such project activities can be used by Annex-I Parties to meet their emissions targets under the Kyoto Protocol

Criteria for Host Country Approval of CDM Projects

To be eligible for approval under CDM, the project in the areas listed in Section 3 will be assessed against the National Sustainable Development Criteria as defined by the following:

1. General Criteria

The project should:

- (i) be consistent with the national laws and sustainable development policies, strategies and plans including Pakistan Environmental Protection Act-1997, National Conservation Strategy, National Environment Policy, National Forestry Policy, National Renewable Energy Policy, Medium-term Development Framework and other relevant policies and plans of the Government; and
- (ii) not result in any obligation towards the investor country other than Certified Emission Reduction (CER) authorization.

2. Environmental Criteria

The project should:

- (i) result in significant reduction in the emissions of Greenhouse Gases;
- (ii) result in conservation of local resources and improvement of the local environment; and

3. Social Criteria

The project should:

- (i) result in poverty alleviation;
- (ii) result in creation of new jobs;
- (iii) result in creation of new economic activities;
- (iv) have positive impacts on local communities;
- (v) improve equity; and
- (vi) take gender concerns into consideration.

4. Economic Criteria

The project should:

- (i) result in positive impact on balance of payment;
- (ii) not result in net increase in external debt burden; and
- (iii) be cost effective.

5. Technological Criteria

The project should:

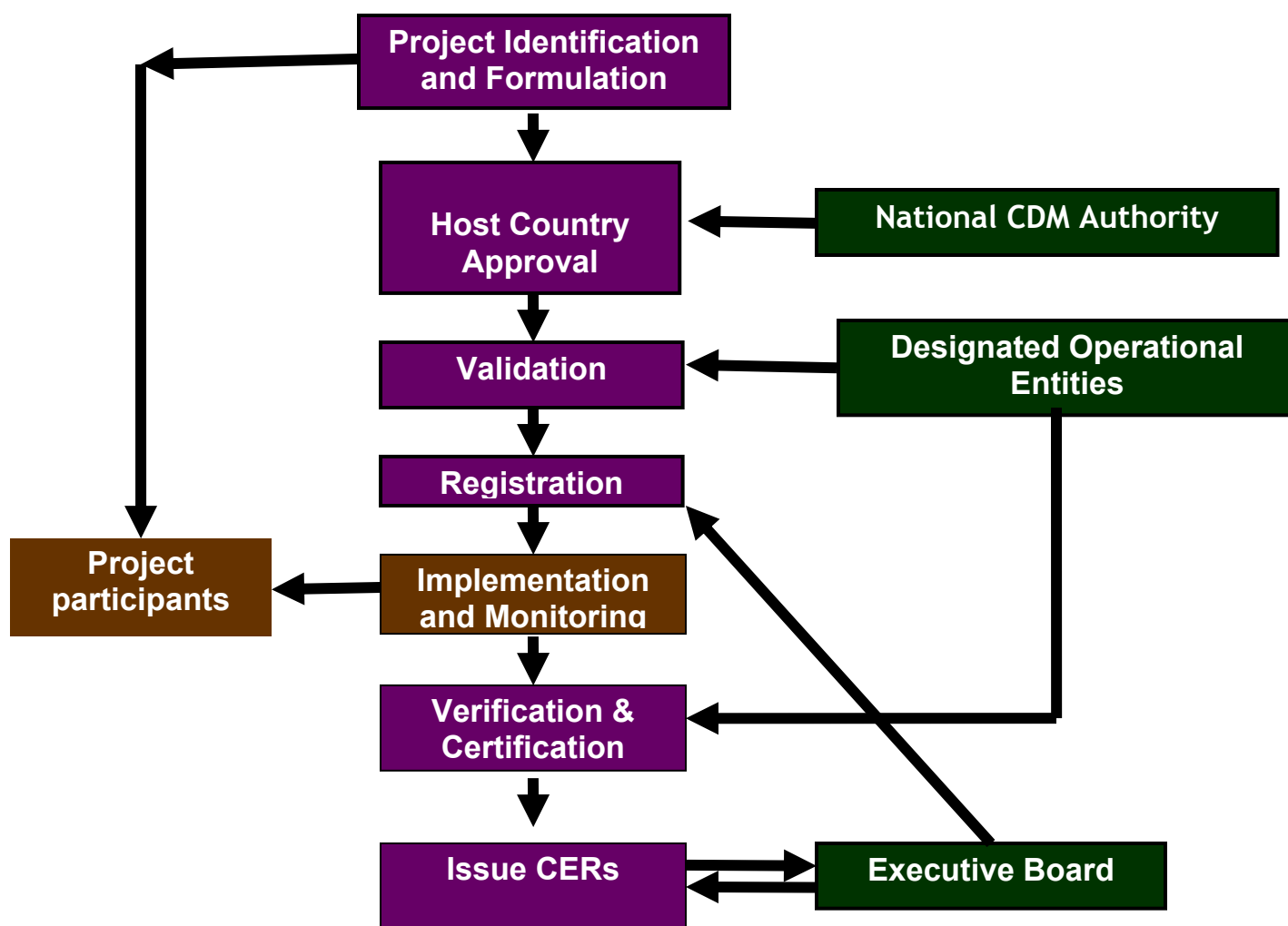
- (i) result in technology and know-how transfer; and
- (ii) not result in import of obsolete technology.

The CDM Secretariat will assess the projects for sustainable development against the above criteria and extend necessary approval based on a qualitative assessment. The key consideration would be that no project proceeds that is detrimental to sustainability.

CDM Project Cycle

The CDM project cycle is shown in Figure 2 while a brief description of the key steps in a typical CDM project is presented in the following sections ^{5, 6, 7}.

Figure 2. CDM Project Cycle⁸



⁵ CDM Watch (2003). The Clean Development Mechanism (CDM) Toolkit - A resource for stakeholders, activists and NGOs, (<http://www.cdmwatch.org>)

⁶ Japan Ministry of Environment (2004). CDM Manual for project developers and policy makers, http://www.cec.jp/gec/gec.nsf/en/Publications-Reports_and_Related_Books-CDM-Manual-2004

⁷ <http://www.cdmguide.net/cdm15.html>

⁸ www.climatechangecentre.org/docs/cdmprj.ppt

1. Project Identification and Formulation

The projects to be implemented under CDM should be identified taking into account the CDM Project Criteria (Section 3). Potential investors and verification bodies may also have their own screening procedures and the same should also be kept in mind while identifying the project.

The project participants can prepare a CDM project in any of the sectors outlined in Section 3. The Project Design Document (PDD) shall be prepared as per the format and guidelines approved by the CDM Executive Board. Outline of version 02 of PDD Form, which is being used currently, is as follows:

- A. General description of project activity
- B. Application of a baseline methodology
- C. Duration of the project activity
- D. Application of a monitoring methodology and plan
- E. Estimation of GHG emissions by sources
- F. Environmental impacts
- G. Stakeholders' comments

Annexes

- Annex 1: Contact information on participants in the project activity
- Annex 2: Information regarding public funding
- Annex 3: Baseline information
- Annex 4: Monitoring plan

Project participants are, however, advised to check with the CDM web site (<http://cdm.unfccc.int>) for the most current version of the CDM-PDD for small and normal scale projects.

2. Host Country Approval

See Section 5 (Page 5)

3. Project Validation

Validation is the process of independent evaluation by one of the CDM Executive Board's approved Designated Operational Entity (DOE) against CDM requirements. DOEs are accredited by the Executive Board and perform two functions: validating CDM projects, and verifying and certifying emissions reductions from projects. The same DOE cannot perform both functions for one project unless it is a small-scale project. A list of accredited DOEs is available on the UNFCCC CDM website (<http://cdm.unfccc.int>).

The PP shall select and contract a DOE from the list of DOEs available on CDM website and submit the written approval of the PDD along with the approval of the National CDM Authority. The DOE will undertake detailed scrutiny of the institutional capacity of the project stakeholders, the evidence underlying the calculations of carbon benefits, the systems to be used for monitoring and, after seeking public comments within thirty days, decide whether or not the PDD should be validated. In case the decision is in the affirmative, the DOE shall inform the project participants about the confirmation of validation and date of submission of the validation report to the Executive Board. The DOE shall also notify the project participants an explanation of reasons for non-acceptance in case the project is not accepted for validation. Immediately after completion of validation, the DOE will submit to the Executive Board a request in the form of validation report including the PDD, the written approval of the National CDM Authority and an explanation of how it has taken due account of comments received.

The process of Validation and Host Country Approval can happen 'in parallel' but the Host Country Approval is required before a project can be submitted for registration to the Executive Board.

The PP will directly negotiate with the DOEs and no transactions regarding the cost of validation will be made through the National CDM Authority. The National CDM

Authority, however, will facilitate PP in finding these sources such as ADB's CDM Facility, which provides supports for validation and registration processes.

4. Registration

Registration is the formal acceptance by the Executive Board of a validated project as a CDM activity. The DOE, after validating a project, shall submit the validation report and Project Design Document to the CDM Executive Board. The Board will finalize the registration of the project within 8 weeks from receipt, unless a review is requested. The review of a proposed CDM activity may be requested by one of the countries involved in the project or at least three members of the Board. In such a case, the Board will open PDD to the public on official website of CDM for four weeks for seeking comments and suggestions.

5. Financing, Implementation and Monitoring

The PPs implement the project as per the project schedule. Registered projects are required to maintain an internal monitoring system to monitor the reduction of emissions according to the plan they presented in the registered PDD and compile a monitoring report for submission to DOE.

6. Verification and Certification

Verification is the independent assessment of emission reductions that have occurred from a CDM project during a specific period of time while certification is the written assurance that during a specified time period, the project has achieved the stated level of emission reductions. Periodically a DOE (which has to be different from the one that did the validation) must verify results of monitoring and resulting emission reductions from the project. The DOE compiles the verification report which is made available to the public. If the DOE's assessment confirms that the reductions have occurred, they certify this aspect in writing to the Executive Board which issues Certified Emission Reductions (CERs) to the project developer within 15 days, unless a review is requested. The process of verification and certification will continue throughout the period during which the project is claiming credits.