

The World Bank

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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May 20, 2009

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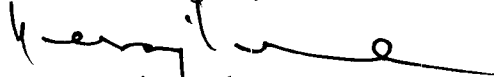
Honorable Members of the Joint Implementation Supervisory Committee,

We would like to express our appreciation for the opportunity to submit our views and inputs for the texts of contents in line with the draft *Scope of Determination and Verification Manual* (JISC Fifteenth Meeting Report, Annex 4) for JI projects under the JISC verification procedure. In our views, the *Scope of a DVM* agreed by JISC provides adequate framework for further discussions on the determination and verification procedures with the objective of safeguarding full flexibility and specific features of the JI as they are defined in the *JI Guidelines*¹, *JISC Guidance on Criteria for Baseline Setting and Monitoring* and as it is reiterated by the *CMP Additional guidance on the implementation of Article 6 of the Kyoto Protocol* (Decision 5/CMP.4).

Our inputs (provided in the template prepared by the Secretariat) consist of comments and suggestions on selected key sections of a DVM. In addition, some suggested modifications are provided for your consideration of terms used to define DVM sections (e.g. “JI “new” methodologies/approaches” to be substituted by “JI-specific baseline setting and monitoring approaches” or “JI-specific approaches”²).

We look forward to the opportunity to comment on the first draft text of a DVM when available. We would be happy to provide clarifications and contribute to further discussion on the first draft of a DVM if the JISC finds this helpful.

With kind regards,



Neeraj Prasad
Carbon Finance Unit
The World Bank

¹ Decision 9/CMP.1 *Guidelines for the implementation of Article 6 of the Kyoto Protocol*, and its Annex B *Criteria for baseline setting and monitoring*.

² In accordance with *JISC Guidance on Criteria for Baseline Setting and Monitoring* (paragraph 20b).



Your information

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Experience in JI (brief summary, no more than three sentences)	Methodology and policy expert on JI projects in the Carbon Finance Unit of the World Bank. Since 2006, directly involved in methodological work on the CFU JI projects (e.g. in Ukraine, Russia, Bulgaria, Czech Republic, Poland) and follow-up of the JI rules and procedures.

Please provide your input that is in line with the “Scope of determination and verification manual” agreed by the Joint Implementation Supervisory Committee (JISC) at its fifteenth meeting (annex 4 to JISC 15 report).

Input (1): General remarks (optional)

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Input (2): Suggested texts of DVM (It is not necessary to fill out all sections.)

Section	Input (text)
1. Background	<ul style="list-style-type: none"> • It is suggested that a JI DVM should recognize the following specific JI features¹: <ul style="list-style-type: none"> ○ Environmental integrity of international ERU transfers under JI that are ensured by the “capped” Annex I context. It should be properly recognized that countries with JI projects have an incentive (as well as the capacity) to ensure environmental integrity of JI Track 2 activities and emission reductions under their respective Kyoto emissions targets or caps, having established a full set of compliance tools and met all JI eligibility requirements set out in the Decision 9/CMP.1. ○ DVM should ensure full compliance with and priority, as applicable, of national guidelines and procedures for approving Article 6 projects, including the consideration of stakeholder’s comments, as well as monitoring and verification (as per paragraph 20(b) of the <i>JI guidelines</i>). ○ Each option listed by the JISC Guidance² in terms of baseline setting and monitoring, as well as of demonstration of additionality, should be equally available to the project proponents. ○ DVM should ensure that simplified and innovative approaches, transparently and conservatively demonstrating that the emission reductions by the project activity are additional to those that would otherwise occur, are not overburdened by requirements that are not relevant to the JI context during the determination process.
2. Objectives	<ul style="list-style-type: none"> • A DVM should provide clear definition and interpretation of key terms and features of the procedures relevant for determination and verification such as defined in the <i>JI guidelines</i> and in the JISC Guidance.³ Illustrative examples could improve clarity of a DVM, however the inclusion of perspective requirements (e.g. nature of documented evidence), could restrict the applicability and usefulness of a DVM. • A DVM should reinforce and ensure the distinctive nature of JI projects and provide suitable guidance to support development of the simplified procedures for JI projects, as well as guidance clarifying the interpretations and procedures for the determination of multi-project baselines and monitoring procedures. • A DVM should also attempt to establish a transparent detailed description of the process of

¹ Please see the WB submission to the JISC from January 14, 2009 in response to the Call for public input on determination and verification manual.

² JISC *Guidance on criteria for Baseline Setting and monitoring*, Version 01.

³ Please see the WB submission to the JISC from January 14, 2009.

	<p>determination and verification, e.g. explanation on the relationship and interactions between project, proponents, designated focal points and AIEs, as well as between AIEs and JISC.</p> <ul style="list-style-type: none"> • A DVM should remain an evolving document that should be timely updated to maintain its usefulness. • Clear acknowledgement and treatment in a DVM of multi-project baseline setting and monitoring, aligning with the specific sectoral context and procedures/practices may significantly reduce uncertainties of project proponents and support further development of multi-project approaches. Such approaches may lead to establishing of a simplified set of rules and baselines (e.g. based on default values, on energy indicators; positive sector-specific list of automatically additional technologies/activities based on benchmarks etc.) and may further increase the attractiveness of JI for the project proponents and host countries.
<p>3. Definitions</p>	<ul style="list-style-type: none"> • A DVM should provide clear definition and interpretation of key terms and features of determination and verification procedures and methodological approaches such as defined in the <i>JI guidelines</i> and in the JISC Guidance⁴: <ul style="list-style-type: none"> ○ <i>Appropriate, reasonable, transparent, relevant, conservative</i> etc. ○ <i>Accuracy, comparability, combination of multiple measures in complex projects, complex project boundary</i> etc.
<p>4. Principles of determination and verification</p>	<ul style="list-style-type: none"> • Provided that the AIE plays crucial role of determining new JI-specific approaches acting as a methodology expert, it is suggested that the following generic principles should be defined: <ul style="list-style-type: none"> ○ Ensure priority of JI guidelines and JISC decisions, as well as of the applicable national guidelines and procedures for approving Article 6 projects, including the consideration of stakeholder's comments, over the established practices and decision making process under the CDM that may lead to a preference for the CDM approaches. ○ It is suggested that a DVM clarifies the requirements for the AIE in providing adequate feedback and justifications when considering a PDD and/or a Monitoring report (in particular, in case of determination of new JI-specific approaches). This would increase transparency and clarify the issues raised for the project proponents to facilitate proper and effective response. ○ It is suggested to establish procedures for redressal in case of competence/expertise

⁴ Please see the WB submission to the JISC from January 14, 2009.

failure of AIEs such as insufficient local expertise in regard to the national policy and regulatory context, established practices and rules in terms of operational and accounting procedures (i.e. energy audits/surveys practices), investment decision making practices, etc. The responsibility for a generic set of local sectoral expertise may ensure higher confidence in the AIE ability to determine new JI-specific approaches and help to avoid expensive delays and risks in the final determination or issuance of credits resulting in serious financial losses for project proponents.

- It is suggested that a DVM establishes a clear **step-wise determination and verification procedure** to be followed by AIEs to avoid multiple submissions of documentation for determination and significant delays (and revenue losses) due to the observed practice of raising significant new corrections/clarification requests by the AIE in later stage of determination process.
 - The determination/verification process should address the significant CARs/CLs as a priority in a first step and clarify minor issues in a second step. This approach should help to ensure efficient and rational advancement of determination process and build confidence of project proponents in the credibility and predictability of the determination process.
- It is suggested that a DVM provides clear guidance for **modalities of communication of a AIE with the third party technical and sectoral expert(s)** and/or recognized local/national industrial associations and institutions that may facilitate clarification of technical and/or other issues of a new JI-specific approach. The unavailability of technical or sectoral experts at the AIE level should not create delays in determination of new JI-specific approaches for base setting and monitoring. Recognized industrial research institutions and industry associations have the benefit of their outputs supported by a broader set of expertise as opposed to a single consultant (expert) engaged by the AIE.
 - It should be recognized that the determination of new JI-specific approaches for baseline setting and monitoring may require highly technical experts. The time and uncertainties associated with the process may lead to high transaction costs for project proponents.
 - It is suggested that the possibility of using of such expert opinions during the determination and verification should be clearly mentioned in a DVM (after being procedurally established by the JI-AP and JISC).
- It is suggested that a DVM clarifies that the **level of accuracy** required at the determination/verification process should be in consistence with the accuracy of the official national practices (taking into account the context of “capped” environment for JI transactions).

	<ul style="list-style-type: none"> o A DVM should recognize a priority of the official, commonly used national practices for energy audits, energy efficiency codes and standards in order to simplify the procedures for emission accounting and monitoring under JI projects.
5. Determination steps	
(a) Project approval by Parties involved	<i>Further comments will be provided for the first draft of a DVM if applicable</i>
(b) Project participants authorization by Parties involved	<i>Further comments will be provided for the first draft of a DVM if applicable</i>
(c) Project boundary	<ul style="list-style-type: none"> • It is suggested that a DVM clarifies and allows simplified treatment of a <i>project boundary</i> if it is in compliance with national approval requirements of Article 6 project and taking into account the “capped” context of JI transactions.
(d) Leakage	<ul style="list-style-type: none"> • It is suggested that a DVM clarifies and allows simplified treatment of <i>leakages</i> if it is in compliance with national approval requirements of Article 6 project and taking into account the “capped” context of JI transactions.
(e) Baseline setting	<ul style="list-style-type: none"> • It is suggested that a DVM specifies each option listed by the JISC Guidance⁵ in terms of baseline setting and monitoring, to ensure that these options are equally available to the project proponents. • A DVM should clarify that using a CDM methodology or methodologies for a JI project can be based on the (i) consistent use of a specified CDM methodology; or (ii) establishing a baseline that in accordance with Appendix B of the JI Guidelines. In doing so, selected elements of combination of elements of approved CDM methodology(-ies)/tools may be used, as appropriate. • It is suggested that a DVM clearly indicates that using relevant elements of CDM methodologies should not be interpreted by the AIE as a way of “deviation” from a CDM methodology(-ies). Such as using of “elements” should not lead to a requirement to demonstrate and justify the reasons of not applying the CDM methodology(-ies) for a project given that this is not required by JI Guidelines. To ease this interpretational issue for the AIE and project proponents, the term “deviation” should be defined by a DVM. • The AIE should determine whether the selected elements of CDM methodology(-ies) are transparently described, are relevant to the project activity(-ies) and are leading to a conservative and accurate ERs estimates.
(e)-1 Project specific basis	

⁵ JISC Guidance on criteria for Baseline Setting and monitoring, Version 01.

<p>(e)-1-1 Projects establishing <u>JI-specific approaches for baseline setting “new” methodologies/approaches</u></p>	<ul style="list-style-type: none"> It is suggested that a DVM clarifies the requirements of the <i>Guidelines for Users of JI PDD forms (Version 03)</i>, in particular the relevance of the detailed theoretical description for establishing of a new JI-specific approach. In our views, a clear definition of such a requirement should help to avoid different interpretations by AIEs overburdening the determination of new approaches. In general, however, this requirement may raise questions about the ability of AIEs to properly assess and determine such detailed theoretical descriptions.
<p>(e)-1-1-1 Description of the <u>JI-specific approach for baseline setting “new” methodology</u></p>	<ul style="list-style-type: none"> It is suggested that a DVM requires an AIE to assess and determine the suggested new approaches in close alignment to the specific context and internal characteristics of a project activity. In particular, the reference to the precedents should not become a barrier to the development of new approaches, provided that project proponents may have different risk aversion level and different level of expertise in regard to the project activities and methodological issues in general. <ul style="list-style-type: none"> It is suggested that in case of argument, an opinion of the DFP may be requested (e.g. in case of alternative calculation of the emission factor of the grid) by the project proponent and/or by the AIE.
<p>(e)-1-1-2 Application of the <u>JI-specific approach for baseline setting to a project activity “new” methodology</u></p>	<ul style="list-style-type: none"> It is suggested that this sub-section clarifies that the JI-specific approach for baseline setting does not have any mandatory requirement to be widely applicable to a range of projects with similar types of activities/source of emission reductions. Thus, the application of the approach should be limited to a specific project activity unless otherwise is suggested by project participants.
<p>(e)-1-2 Projects using approved CDM methodologies</p>	<ul style="list-style-type: none"> It is suggested to structure the section (e)-1-2 in two following sub-sections in consistency with the section (e)-1-1: <ul style="list-style-type: none"> Description and applicability of approved CDM methodology used; Application of the CDM methodology to the project-specific situation.
<p>(e)-1-2-1 Application of of the methodology</p>	<ul style="list-style-type: none"> A DMV should provide guidance in terms of applicability of the versions of the CDM methodology and/or elements from CDM methodologies. <ul style="list-style-type: none"> It is suggested that a DVM clarifies that the project proponent using CDM methodology or elements of methodologies are required to demonstrate and ensure transparent, realistic and conservative estimates of ERs for a specific project. However, they should not be required to comply with the modifications of CDM methodologies and tools as per decisions of the CDM regulatory bodies. This could

	<p>significantly reduce uncertainty as to the integration of JI contribution into a project.</p> <ul style="list-style-type: none"> ○ It is suggested that in case of using an approved CDM methodology, the version of the methodology(-ies) should be frozen at the moment of PDD submission for stakeholders consultation as it will reduce cost and time of adjustments and reduce uncertainties for project proponents. ○ It is suggested that in case of use of elements of CDM methodology(-ies) and/or tools, the version of methodology(-ies) and/or tools should be clearly indicated in the PDD and should refer to the version effective (e.g. applicable under the grace period) at the starting date of a PDD development. ○ It is suggested that a DVM clarifies the requirement of the <i>JI Guidelines for users of PDD forms</i> (Section B.1.) to state, in case of deviations, <i>how uncertainties are taken into account and conservativeness is safeguarded</i>. In our view, a DVM should ensure that priority is given to national standards and procedures as opposed to eventual pressure from the AIEs to adopt unnecessarily conservative parameters that may not be relevant for the project context. ○ In addition, the simplified treatment of uncertainty/materiality should be allowed in a DVM to help avoiding delays in determination and/or verification related to the issues leading to insignificant variations of ERs estimates.
<p>(e)-1-2-2 Compliance with the methodology</p>	<ul style="list-style-type: none"> • Please see our suggestion on the structure of the section (e)-1-2 above.
<p>(e)-1-2-3 Deviation from approved CDM methodologies</p>	<ul style="list-style-type: none"> • It is suggested that a DVM clarifies that different types of “deviation” may be used by project proponents to help avoiding difference in interpretations by the project proponents and AIEs, for instance: <ul style="list-style-type: none"> ○ <i>Insignificant or minor deviations</i> should not require any comprehensive justification by the project entity and should just be noted in the determination report by the AIE. ○ <i>Using elements of approved CDM methodology(-ies) or tools</i> should not be treated by the AIE as a deviation and should be interpreted as “new JI-specific approach” to allow higher flexibility of new approaches. • National/ sectoral/ industry practices and approaches commonly used to estimate fuel consumption/allocation, default factors, norms and requirements should prevail as compared to the generic approaches that may be incorporated into the approved CDM methodology(-ics) applied. <ul style="list-style-type: none"> ○ The AIE should use its local knowledge and expertise to determine whether such elements are established, commonly used and applicable to the project specific

	situation.
(e)-2 Projects using multi-project emission factor	<ul style="list-style-type: none"> Please see above (section 2) for general comment of multi-project baselines.
(f) Monitoring	
(f)-1 Projects establishing new JI approaches for monitoring	<p>“new” methodologies/approaches</p>
(f)-1-1 Description of the new JI approach for monitoring	<p>“new” methodology</p> <ul style="list-style-type: none"> The AIE should determine whether the monitoring approach is in compliance with the applicable national, regional and/or sectoral norms, regulation and standards. A DVM should provide clear guidance on the priority of the national statistical procedures for surveys and sampling for projects (small scale and large scale) and programs. The accuracy of surveys (sample size and statistical significance) should take into account the rational level of the monitoring costs in order to facilitate project implementation and increase predictability of the emission reduction estimates at the stage of determination and verification. <p><i>Further comments will be provided for the first draft of a DVM if applicable</i></p> <p><i>Further comments will be provided for the first draft of a DVM if applicable</i></p>
(f)-1-2 Application of the new JI approach for monitoring	<p>“new” methodology</p>
(f)-2 Other cases	
(f)-2-1 Identification of indicators, constants and variables	
(f)-3 Collection and archiving of data	<p><i>Further comments will be provided for the first draft of a DVM if applicable</i></p>
(f)-4 Quality assurance and control procedures	<p><i>Further comments will be provided for the first draft of a DVM if applicable</i></p>
(f)-5 Responsibilities and authorities of monitoring activities	<p><i>Further comments will be provided for the first draft of a DVM if applicable</i></p>
(g) Additionality	<ul style="list-style-type: none"> It is suggested that a DVM reiterate that each option for additionality demonstration made available to the project proponents by the JISC <i>Guidance on Criteria for baseline setting and monitoring</i> (Annex I <i>Additionality</i>) are equally available. In our view, a DVM would need to clarify the requirement to justify the applicability of the additionality demonstration approach indicated in the Section B of the <i>Revised guidelines for users of the JI PDD form</i> (V.03). In our view, this requirement is unnecessary and contrary to the JISC <i>Guidance on Criteria for baseline setting and monitoring</i> (Annex I <i>Additionality</i>), which clearly indicates no prioritization among the different approaches, making them freely and equally available for project proponents. Instead, the AIEs should verify that, regardless of the approach used, the argumentation is traceable, transparent

	<p>conservative and verifiable etc</p> <ul style="list-style-type: none"> • Simplified approaches for additionality demonstration could be based on increased scrutiny of baseline definitions (as per paragraph 2b(iii) of Annex I of JISC <i>Guidance</i>), using a simplified common practice test (for example, passing a common practise test could be viewed as sufficient additionality demonstration without need for any further steps), or using a positive list of technologies or types of activities prioritised by host country's climate policy. • A DVM should reiterate that the requirements of the CDM additionality tool are not mandatory to JI projects to avoid selective interpretation of DVM guidance by AIE that is contradictory to the spirit of simplified procedures.
(g)-1 Projects using approved CDM methodologies	
(g)-2 Application of the most recent version of the CDM “Tool for the demonstration and assessment of additionality”	<ul style="list-style-type: none"> • Please see above the suggested treatment of the “version” issue in the section (e)-1-2-1.
(g)-3 Application of any other method approved by the CDM Executive Board	
(g)-4 Application of any other method	
(g)-4-1 Provision of information demonstrating additionality	
(g)-4-2 Provision of information of positive determination of a comparable project	
(h) Environmental impact	<i>Further comments will be provided for the first draft of a DVM if applicable</i>
(i) Stakeholder consultation	<i>Further comments will be provided for the first draft of a DVM if applicable</i>
(j) Determination regarding small-scale projects (highlighting only the areas different from regular projects)	<i>Further comments will be provided for the first draft of a DVM if applicable</i>
(k) Determination regarding LULUCF projects (highlighting only the areas different from regular projects)	<i>Further comments will be provided for the first draft of a DVM if applicable</i>
(l) Determination regarding projects under programme of activities	<i><To be developed once the JISC adopts the definitions, forms, guidelines and procedures of programmes of activities.></i>
(m) Determination report (incl. elements to be included, suggested structure)	<ul style="list-style-type: none"> • It is suggested that the determination report should be JI-specific and fully take into account and accommodate the options that are made available to the project proponents by the <i>JI Guidelines</i> and by the <i>JISC guidance</i> in terms of baseline setting and monitoring approaches as well as in regard to the additionality demonstration. • Consistency and use of step-wise determination (and verification) procedures should

	<p>be adopted by the AIE to avoid multiple submission of documentation for determination and significant delays (and revenue losses) due to the eventual practice of raising significant new corrections requests by the AIE in later stage of determination process.</p> <ul style="list-style-type: none"> o It is suggested that a Determination report should indicate the recommended order of addressing CARs/CLs both for the project proponent and for the AIE starting from significant and going to minor issues, to ensure efficient and rational advancement of determination process and build confidence of project proponents in the credibility and predictability of the determination process.
6. Verification steps	< Further comment will be provided for the first draft of a DVM >
(a) Project in accordance with the final determination	
(b) Compliance with monitoring plan	<ul style="list-style-type: none"> • As per JISC decision at its Eleventh Meeting, JI project may achieve emission reductions during a monitoring period starting before the date of positive determination regarding the PDD. In this context, the AIE shall assess whether the emission reductions were monitored and calculated in accordance with the determination regarding the PDD. o It is suggested that a DVM clearly address cases of possible modification(s) of the monitoring procedures from the original PDD/Monitoring plan submitted for determination. In such cases, the AIE should verify whether elements of “back-up” desktop calculations (“compensating” for possible modifications of the monitoring procedures) are implemented in a transparent and conservative way.
(c) Revision of monitoring plan	
(d) Data management	
(e) Verification report (incl. elements to be included, suggested structure)	
Appendix: Determination and verification checklist	<p><Please attach to this form if already developed.></p> <ul style="list-style-type: none"> • It is suggested that the determination and verification check lists should be separate in order to clearly distinguish the different objectives of determination of a PDD and Monitoring Plan from the objectives of verification of a Monitoring Report. At the same time, it should be clearly stated in a DVM that the Check Lists are not creating any mandatory requirements additional to the <i>Jl guidelines</i> and to the decisions by JISC and are not in any way providing prescriptive requirements in terms of the nature of the documented evidence. o The objective of the Determination Check List should be to provide a recommended set of proofs and data supporting and evidencing main assumptions, statements and data used in the PDD. However, the content of the Determination Check List should

remain sufficiently generic in order to take into account the specificity of projects and of the available sources of information.

- The objective of the Verification Check List should be to provide recommended set of elements to be submitted to the AIE for verification by the project entity as per a finally determined Monitoring Plan contained in the PDD.

Please submit the form through the call web page.