

SUMMARY REPORT

Skillshare Workshop:



**Regional Institutional Capacity Building
in the Implementation of the CDM
in ASEAN Member Countries**

Jakarta, March 18-19, 2004

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Abbreviation

ACE	ASEAN Energy Centre
AWGMEA	ASEAN Working Group on Multilateral Environment Agreement
APKASI	Association of Indonesian Regency Government
ASEAN	Association of Southeast Asian Nations
CD4CDM	Capacity Development for Clean Development Mechanism
CER	Certified emission reduction
CDM	Clean Development Mechanism
CoP	Conference of Parties
DENR	Department of Environment and Natural Resources
DNA	Designated National Authority
DOE	Designated Operational Entities
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i> or the German Technical Cooperation
ESCAP	Economic and Social Commission for Asia and the Pacific
EAEF	EU-ASEAN Energy Facility
EB	Executive Board
GHG	green house gases
IGES	Institute for Global Environment Strategies
LULUCF	Land Use, Land-Use Change and Forestry
MoE	Ministry of Environment
PDD	Project Design Document
SSN	SouthSouthNorth
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

Summary Report

A. Introduction

In 1992 at the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, the United Nations Framework Convention on Climate Change (UNFCCC) was adopted as a global effort to slow-down climate change. The Convention has identified parties of Annex I countries (those responsible in reducing their GHGs emission compare to their total emissions in 1990) and non-Annex I countries. Then at the third session of the Conference of the Parties to the UNFCCC (COP-3) in 1997, the Kyoto Protocol was adopted.

The Kyoto Protocol, if enforced, will oblige all Annex I countries to reduce their total GHG emission by 5.20% below their 1990's emission level, during the commitment period of 2008 to 2012. Developing countries of the Association of Southeast Asian Nations (ASEAN) does not have such obligation. However, these countries have the commitment to undertake policies and measures on voluntary basis that lead to the ultimate objective of the Convention, which is to stabilize the concentration of GHG in the atmosphere.

The Clean Development Mechanism (CDM) is one of the three flexible mechanisms of the GHG emission reduction offered in the Kyoto Protocol. This mechanism provides a mechanism for non-Annex I countries to achieve sustainable development, and in addition benefit through the sale of Certified Emission Reduction Units (CERs) from projects that reduce GHGs emissions. ASEAN member countries have potentials in developing CDM projects. However, the experience and

skill -in developing CDM policies, setting up institutions, and implementing the procedures- varies from one country to another. Thus the exchange of experience on development of CDM projects, institutional mechanisms, and policy instruments is crucial to explore possible modes for regional co-operation.

Capacity building is also needed in the ASEAN region to empower stakeholders with the knowledge and skills. Capacity building of the Designated National Authority (DNA) is of high importance, as they are responsible for facilitating the implementation of CDM projects at the national level.

On March 18, 2004 the Skillshare Workshop titled "Regional Institutional Capacity Building in the Implementation of the CDM in ASEAN Member Countries" took place. The workshop was followed by a Roundtable Meeting for DNA or focal point of CDM implementation in the ASEAN member countries, on March 19, 2004. The workshop was a collaborative event of the Ministry of Environment Republic of Indonesia, the ASEAN Secretariat, the Institute for Global Environmental Strategies (IGES) Japan, the CDM-ASEAN Project of the ASEAN Center for Energy (ACE) through the EC-ASEAN Energy Facility (EAEF), *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ, the German Technical Cooperation), and Pelangi Indonesia.

B. Objective

The Skillshare Workshop aims to facilitate the exchange of experience on CDM project development, institutional mechanisms, and policy instruments; and to explore possible modes for regional co-operation.

The objectives of this workshop were:

1. to exchange experience on institutional establishment and arrangement concerning CDM development, especially the establishment, operation and funding of DNA;

2. to exchange experience on CDM project development and lessons learned;
3. to identify regional cooperative mechanisms in ASEAN, related to CDM development; and
4. to find a common approach for baseline establishment, capacity building, and others.

C. Workshop Activities

The workshop consists of a 2 (two)-day meeting:

- a. Day I, is a Skillshare Workshop on:
 - (1) International Market Development in CDM and implications for ASEAN Member Countries
 - (2) Baseline, Appraisal and Procedure of the Energy Sector
 - (3) Regional Policy on Energy
 - (4) Capacity Building needs in the ASEAN member countries
- b. Day II, is a Roundtable Meeting on:
 - (1) The development of DNA (Designated National Authority) in the ASEAN member countries
 - (2) Recommendation of coordination and capacity building for the ASEAN member countries

D. Summary of Workshop

Day One: Skillshare Workshop, March 18, 2004

The first-day workshop brought together 87 participants representing 8 (eight) ASEAN member countries (not including Viet Nam and Myanmar). The participants represent:

- Policy makers in the field related to CDM;
- Institutions involved in the implementation of the CDM;
- Potential project developers or intermediaries;

- DNA members or representatives of national focal point of climate change from ASEAN countries;
- International or regional organizations that can play a role in regional co-operation and co-ordination of CDM implementation in ASEAN.

The workshop was opened with a speech from the Minister of Environment of the Republic of Indonesia, read by Arief Yuwono, Executive Secretary to the Minister of Environment, Republic of Indonesia, mention the need for strong coordination and the willingness for the strong countries in the development of CDM in ASEAN to assist other countries, and to increase the competitive position of ASEAN member countries as CDM host countries.

His speech was followed by a welcoming remark from H.E. Ong Keng Yong, Secretary General of ASEAN. In his speech, His Excellency regarded this workshop as an important aspect of capacity building in the region

Opening Sessions

The opening ceremony was followed by an opening session. Liana Bratasida of the Ministry of Environment Republic of Indonesia presented her idea of an ASEAN Climate Change Initiative. ASEAN countries are vulnerable to the impact of the climatic change. This Climate Change Initiative will elaborate strategy and action plan focusing on climate change issues, and provide step-by-step action.

Ms. Bratasida's presentation was followed by a presentation by Axel Michaelowa of the Hamburg Institute of International Economics (HWWA), representing the GTZ Capacity Building Program in Indonesia.

The target groups of the GTZ Capacity Building project are policy makers and private sector. The barriers that GTZ encounter in the institutional capacity building in Indonesia are political, technological and knowledge-related.

Agus P. Sari of Pelangi presented slides of the CDM-ASEAN Project supported by ACE through EAEF. The objective of the CDM-ASEAN Project is to support the implementation of CDM in the energy sector in ASEAN member countries by regional institutional capacity building and by improving the competitive position of ASEAN among CDM host countries. After the opening ceremonies, the participants were divided to attend three parallel discussions (break-out sessions) on the following topics: CDM market developments; energy baseline issues in ASEAN and regional energy policy; and lessons learned from CDM institutional capacity building in ASEAN. Below, the results of the discussion are summarized.

Break-out Session 1: "CDM Market Developments"

The year of 2004 represents the true beginning of the CDM's transition from a policy concept to an international market. However, as has been the case for some years now, there continues to be imbalance between supply and demand. There are still a great deal more potential suppliers than demand, though many of the current buyers in the market would disagree and state that the relative quality of most of the suppliers is quite low – and therefore non-credible.

What are the factors that determine the attractiveness of one country versus another in the CDM? To be fair, the institutional CDM aspects of most countries are so incomplete that it would be inappropriate to assert any particular country as being attractive from that perspective. Rather, the best a country can do – at this juncture - is to avoid being cast as being negatively predisposed towards CDM, which occurs when countries propose policies such price fixing or significant CER sharing requirements (i.e. tax) with developers. A further negative aspect is when the CDM authorities suffer constant personnel turnover, in that this is a business that truly does require some degree of continuity and aggregate knowledge base.

On a country level, buyers and investors are attracted to countries where there are significant number of opportunities and where investment risk appears manageable. The key concern is whether the country and or project risk profile can support the requisite investment based on conventional analysis.

On a project level, buyers are attracted to project developments that involve credible counterparties, where the seller is willing to take on significant portions of the transaction based risk.

For future discussion, ASEAN financial institutions, some with regional presence, should be educated to the project enhancement aspects of CDM.

Break-out Session 2: "Energy Baseline Issues in ASEAN – Finding a Common Approach"

One aim of the CDM is to generate emission credits (Certified Emission Reductions, CERs) that can be used by Annex B countries (developed countries) to reach their emission targets under the Kyoto Protocol. CERs are calculated by comparing emissions of the CDM project with emissions of a hypothetical "baseline scenario". The baseline shall reflect the business-as-usual scenario. There is a strong international discussion that the CDM project should have to prove that it would only be happened due to the extra incentives given by the possibility to generate and sell CERs. This is known as the "additionality" question. Both the host and the investor have an incentive to overstate the amount of emission reduction achieved by the CDM project as they can then enhance revenues (Michaelowa 1998).

The international community has taken these concerns seriously and developed a complex international process to determine baselines and have them independently checked.

Within ASEAN member countries, CDM projects that have been developed so far fall into similar categories. Thus project developers could profit from a regional approach in developing baseline and additionality methodologies.

A host country will become more competitive for CDM if it has the relevant electricity data publicly available. This avoids that each project developer has to start anew to collect these data. The DNA could arrange for a continuous updates of these data and publish them on its website.

In countries with several grids, the data should be available for each sub-grid. Emphasis should be on those grids that are likely to see many CDM projects.

A regional economic integration organisation such as ASEAN could reduce transaction costs further by providing data for the entire region. As it has to collect data anyway, the additional burden would be lower and consistent quality standards could be achieved. With an increasing integration of the electricity grid in ASEAN, this would become imperative.

The experiences made so far show that the availability of data to calculate baseline emission factors is a huge barrier for CDM project developers. A centralised collection of such data and their continuous updates and publication on the web would remove this barrier. The ASEAN Secretariat or the ASEAN Centre for Energy would be an obvious candidate. The DNAs would publish the data on their websites. Moreover, coordinated arguments for the existence of barriers would reduce the transaction costs of project developers and validators.

Break-out Session 3: "Lessons learned from CDM institutional capacity building in ASEAN member countries; exchanging experiences in ASEAN"

Recognising the potential benefits of CDM, some countries in ASEAN already have experience in developing CDM policies, setting up institutional arrangements and implementing CDM procedures. On the other hand, local capacity and experience is limited in other countries. Within the region, therefore, the exchange of experience and co-ordination can support the implementation of CDM.

The following remaining needs for capacity building in ASEAN countries have been identified:

- Operational skills of DNA
- Technical CDM project assessment
- Establishment local Operational Entities
- Awareness raising in longer term
- Project development:
 - CDM life cycle or preparing proposals
 - Financing or transactions

Many capacity building projects are ongoing in the ASEAN region currently, including:

- CDM-ASEAN (ASEAN region)
 - o Energy sector, institutional)
- Japan IGES-MOE (Indonesia, Cambodia, Thailand, Vietnam)
 - o all levels of capacity building
- WB/ESCAP (Northeast, Southeast and South Asia)
 - o all levels of capacity building
- CD4CDM/UNEP (Vietnam, Cambodia, Philippines)
 - o Awareness building, project development, institutional
- GTZ project on CDM institution building (Indonesia)
 - o Procedures, DNA, project clearing house

- Danish CDM capacity building (Thailand)
 - DNA, procedures, project development, awareness
- UNDP (Philippines)
 - Institutional, project development, awareness
- SouthSouthNorth (Indonesia)
 - Project development, sustainability criteria
- Asia Pro-Eco (Cambodia, Laos, Vietnam)

By and large, these projects are successful. Some problems, however, have been identified which limit the effectiveness of the projects:

- Some overlap exist in scope and content
- Projects do not sufficiently build on results of previous projects
- The target group is sometimes not specific enough
- Capacity building should start by raising awareness on the general issue on climate change since most people have very limited knowledge on the issue, then relate it to the more specific CDM issues.
- The project activities are often limited to workshops and do not involve (on-the-job) training.
- The role of local government in CDM is not clear and not adequately targeted in the capacity building projects

Several recommendations have been made to increase the effectiveness of capacity building:

- Improved evaluation of past projects
- Stricter assessment of proposals by the recipient country and organisations beforehand
- Capacity building should not be limited to transfer of knowledge but also include transfer of skills (on-the-job training)
- Improved coordination of activities. This is mainly the responsibility of the recipient (host) country.
- Better exchange of information or results between projects

A suggestion was made to make use of existing body or cooperation, such as the ASEAN Secretariat, complementary to the activities on the national level. A future ASEAN Climate Change Initiative could facilitate the transfer of best practice and the exchange experiences within ASEAN.

The ongoing CDM-ASEAN Project can be seen as a first step (or pilot) towards establishing a regional framework for exchange of experience. The CDM-ASEAN Project has set up a CDM information desk to facilitate any questions on CDM.

Day Two: Roundtable Meeting, March 19, 2004

The second day discussions were more focused and limited to participants who work closely on the establishment of DNA. Thirty seven participants attended the roundtable meeting representing:

- DNA or national focal point of climate change from ASEAN countries
- International or regional organizations that can play a role in regional co-operation and co-ordination of CDM implementation in ASEAN.

The session commenced with the country presentations on experience of establishing CDM institutions by representatives from Indonesia, Malaysia, The Philippines, Thailand and Cambodia. Brunei, Laos and Singapore reported the recent progress of CDM implementation in their countries.

The followed roundtable discussion highlighted the results of the previous day breakout sessions and the morning country presentations. At the end of the day, the roundtable meeting has recommended future actions.

E. Recommendations of the Workshop

During the workshop, experiences were exchanged on the implementation of CDM in ASEAN countries. On the basis of the conclusions of the workshop, the roundtable meeting has recommended the following actions to be taken.

Technical

1. To investigate the feasibility of a regional repository or knowledge center of methodologies and data needed to develop baselines, taking into account the regional integration of grid development, for instance in cooperation with the ASEAN Center for Energy.

Institutions and exchange of information

1. To propose to the ASEAN Working Group on Multilateral Environmental Agreements (AWGMEA) to explore the possibility of establishing regional expert group on CDM.
2. To further elaborate the establishment of a forum to exchange experience and information.
3. To further elaborate the establishment of a forum for DNAs to meet regularly to exchange information.
4. To promote the identification, exchange, and transfer of "good practices".
5. To further elaborate on capacity building program for specific actors or audiences and international negotiations.
6. To further promote the establishment of local Designated Operational Entities-DOE.

CDM Markets

1. To carefully consider the disadvantages and advantages of regional activities to influence the CDM markets, such as bottom prices for CERs.

2. To promote the involvement of financial institutions in the region to assist CDM development.
3. To investigate the establishment of an ASEAN CDM Fund to fund CDM projects.

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additionality	Reduction in emissions by sources or enhancement of removals by sinks that is additional to any that would occur in the absence of a Clean Development Mechanism (CDM) project activity as defined in the Kyoto Protocol. This definition may be further broadened to include financial, investment, and technology additionality (IPCC, 2001).
Annex I countries	Group of countries included in Annex 1 (as amended in 1998) to the United Nations Framework Convention on Climate Change (UNFCCC), including all the developed countries in the Organization of Economic Co-operation and Development and Economies (OECD) in transition. By default, the other countries are referred to as Non-Annex I countries (IPCC, 2001).
Asia Pro-Eco	The Asia Pro Eco Programme is one of a series of initiatives by the European Union designed to promote mutual benefit and understanding between the Member States and Asia. The Programme aims to improve environmental performance and technology partnership in economic sectors, and promote sustainable responsible investment.
baseline	A non-intervention scenario used as a base in the analysis of intervention scenarios (IPCC, 2001).
capacity building	In the context of climate change, capacity building is a process of developing the technical skills and institutional capacity in developing countries and economies in transition to enable them to participate in all aspects of adaptation to, mitigation of, and research on climate change, and the implementation of the Kyoto Mechanism, etc. (IPCC, 2001).
certified emission reduction (CER)	Equal to 1 tonne (metric ton) of CO ₂ -equivalent emission reduced or sequestered through a CDM project, calculated using Global Warming Potentials (IPCC, 2001).
Clean Development Mechanism (CDM)	Defined in Article 12 of Kyoto Protocol, the CDM is intended to meet two objectives: (1) to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the convention; and (2)

	to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments (IPCC, 2001).
commitment period	Is the time frame of CERs payment of the Kyoto Protocol that is between 2008-2012.
Conference of Parties (CoP)	The supreme body of the UNFCCC, comprising countries that have ratified or acceded to the Framework Convention on Climate Change (IPCC, 2001).
crediting period	The crediting period for a CDM project activity is the period for which reductions from the baseline are verified and certified by a DOE for the purpose of issuance of CERs. Project participants shall choose the starting date of a crediting period to be after the date the first emission reductions are generated by the CDM project activity. A crediting period shall not extend beyond the operational lifetime of the project activity.
Designated National Authority (DNA)	The modalities and procedure of CDM requires parties participating in the CDM to designate a national authority for the CDM. With the approval letter from the DNA, a proposed CDM project activity can be registered (http://cdm.unfccc.int/DNA).
Designated Operational Entities (DOE)	An entity designated by the COP/MOP, based on the recommendation by the Executive Board, as qualified to validate proposed CDM project activities as well as verify and certify reductions in anthropogenic emissions by sources of greenhouse gases (GHG). A designated operational entity shall perform validation or verification and certification on the same CDM project activity (http://cdm.unfccc.int/DOE).
Executive Board (EB)	Is the official establishment to supervise the CDM under authority and guidance of the COP and fully accountable to COP. (http://cdm.unfccc.int/EB)
green house gases (GHG)	Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelength within the spectrum of infrared radiation emitted by the earth's surface, the atmosphere, and clouds. This property causes the greenhouse effect. Beside carbon

	dioxide, nitrous oxide and methane, the Kyoto Protocol deals with the greenhouse gases sulphur hexafluoride, hydrofluorocarbons, and perfluorocarbons (IPCC, 2001).
Land Use, Land-Use Change and Forestry (LULUCF)	Any activity or practice that changes the biomass in a land area that has an effect on its capacity to sequester carbon (Pelangi, 2000).
Project Proposal Documents (PDD).	Are documents of CDM activity that provides information on evaluating the project as a CDM project.
United Nations Framework Convention on Climate Change (UNFCCC)	The Convention was adopted on 9 May 1992 in New York and signed at the 1992 Earth Summit in Rio de Janeiro by more than 150 countries and the European Economic Community. Its ultimate objective is the "stabilization of greenhouse gas concentration in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system". The convention entered in force in March 1994. (IPCC, 2001)
validation	Is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM, on the basis of the project design document (http://cdm.unfccc.int)



Ministry of Environment Republic of Indonesia
<http://www.menlh.go.id>



ASEAN Secretariat
The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999.
<http://www.aseansec.org>



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