

## Program of Activities - Business Arrangements for Success

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# Business Arrangements for Managing PoAs

## Key contracts and documentation

- Modalities of Communication (MoC)
  - Identify the Coordinating and Managing Entity (CME)
  - Identify the Project Participants
  
- Emission Reduction Purchase Agreement (ERPA)
  - Unilateral PoA vs. partnering with a buyer
  - At what level: PoA vs. CPA
  
- Contract with the Designated Operational Entity (DOEs)
  - Validation of PoA and CPAs
    - The issue of liability for erroneous inclusion of CPAs
  - Verification
    - role of entities for monitoring support (carbon asset “surveillance” support)
  
- Monitoring Plan

## Key Players in a PoA and CPAs

**Different assigned roles for players can have significant implication**

Type of PoA Activity	Promotion Instruments	Implementing Entity	Other Key entities
Efficient lighting	Discounts	Utilities, Manufacturer	ESCOs, NGOs
Energy efficiency in buildings	Financing, carbon revenues	Building owner, ESCOs	Management companies
Rural domestic appliances (stoves, biogas, etc.)	Discount, grants, finance	MFI, NGOs	Public agencies
Micro devices for rural areas (e.g. Solar lantern)	Discount, financing	Distributors, Manufacturer	NGOs, Public agencies
Cleaner production in small and medium industries, renewable energy devices	Discount, financing, carbon revenues	Manufacturer, Banks	Public agencies, aggregators

## Roles for key players

### Implementation, Monitoring, Reporting and Selling Carbon distinct

- Implementation role requires technical expertise and infrastructure
  - Mature technologies: Banks, NGOs, public entities and aggregators can be implementers (technology servicing infrastructure is in place)
  - For newer technologies: manufactures or distribution and servicing network needs to be created and maintained
- Monitoring and Reporting can be a challenge
  - Framework and systems need to be thought through and created
  - Can require significant technical inputs
  - Require training and investment in systems
- Implementer or aggregator can be the "Seller"
  - Seller has to "own" the monitoring and reporting system
  - Need for a clear emission reduction (ER) title transfer from the "user" to the Seller
  - Seller then transfers the ER title to the Buyer through the Emission Reduction Purchase Agreement (ERPA)

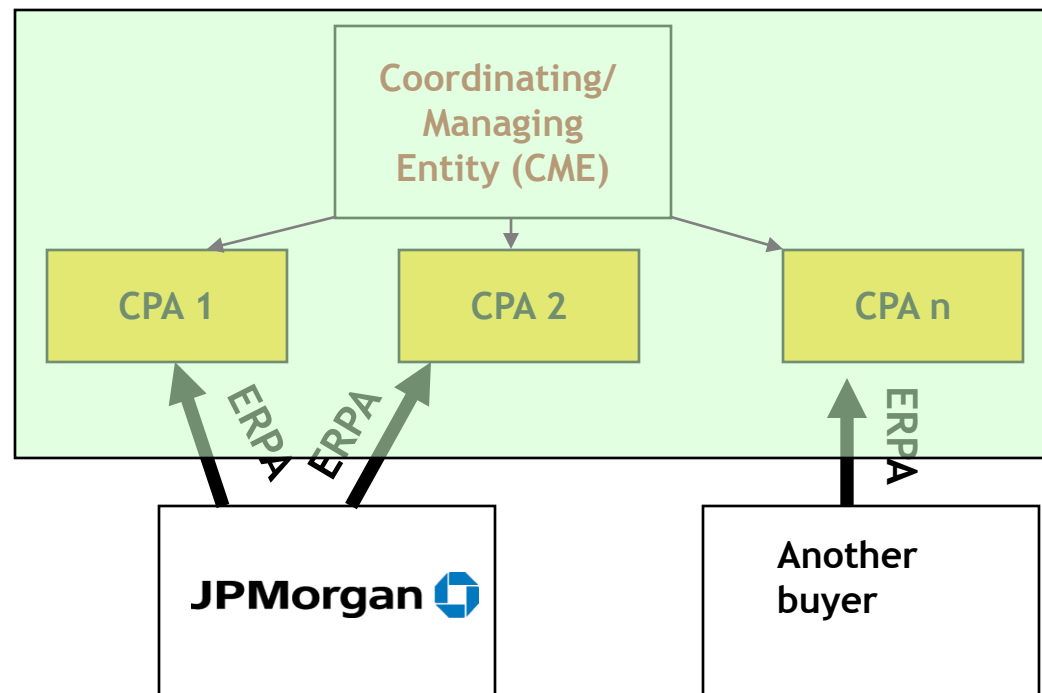
# Structuring Options for CDM PoA):

Buyer enters into agreement with projects (CPA) directly

## Steps

PoA is developed and Registered;  
CPAs are added by the CME

1. CME or Project entity identifies buyer
2. Buyer(s) Sign ERPA directly with CPA project entity
3. Buyer or CPA project entity Support the CME



## Advantages

- Simple structure with CME focussing on program implementation, particularly on Monitoring and Reporting
- Limited risk to CME

## Limitations

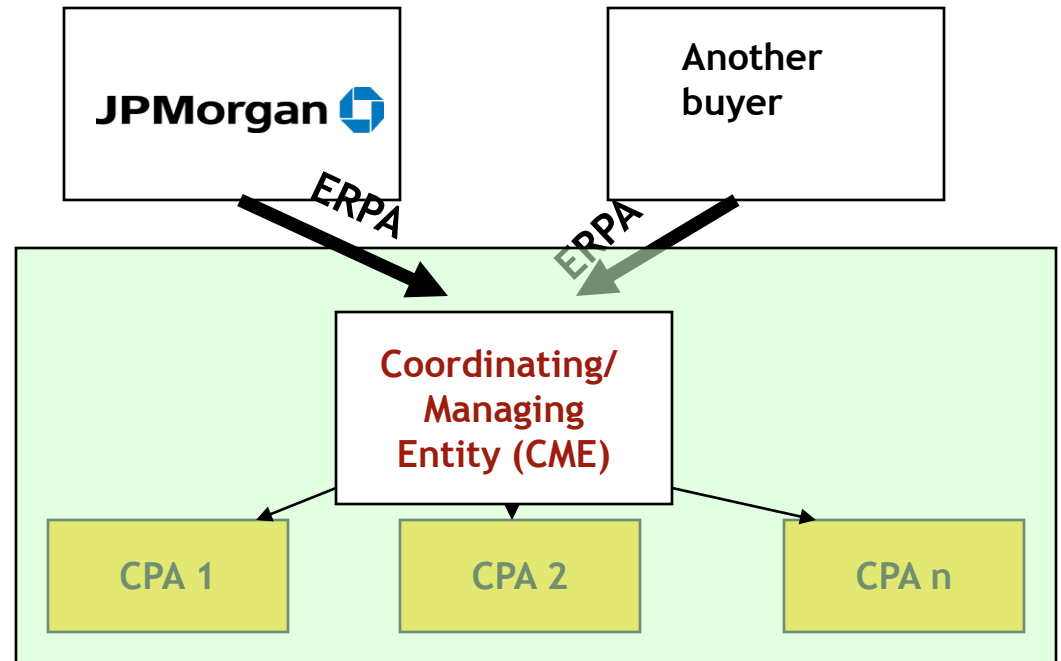
- Limited credit enhancement/ risk mitigation function by coordinating entity
- No direct experience with the carbon finance transactions and ERPAs for Coordinating entity
- Limited upside on revenues

# Structuring Options for CDM PoA: Buyer enters into agreement with CME

## Steps

PoA is developed and Registered;  
CPAs are added by the CME

1. CME or Project entity identifies buyer
2. Buyer(s) Sign with Cood. Entity  
Cood. Entity CPA project entity
3. Buyer or CPA project entity  
Support the CME



## Advantages

- CME provides risk management and credit enhancement function to buyer leading to higher prices
- CME provides the whole range of services and CPA project entity do not need to have expertise in the carbon market

## Limitations

- Limited by the capabilities of the CME
- Control by the CME

# Modalities of Communication (MoC) with the CDM EB

## Defines the communication protocol between CDM EB and the PoA

- Roles of the Seller and Buyer with respect to the CDM Executive Board is determined by the MoC.
  
- Three main matters (scope) of communication
  - Instruct the Secretariat and communicated with the CDM EB on Issuance and Forwarding of CERs
  - Request addition or withdrawal of Project Participants
  - Communicate with the Secretariat and CDM EB on Registration and Issuance
  
- The responsibility of the Project Participants in the MoC can be:
  - Sole: where only the named PP can authorize
  - Shared: where any of the named PPs can authorize
  - Joint: when all of the named PPs need to authorize

# Modalities of Communication (MoC) ... continued...

## Issues with the MoC

- CME (Coordinating or Managing Entity) shall be... “identified in the MoC as the entity which communicates with the Board, including on matters relating to the distribution of CERs.”
  - Other PPs can still protect their interest by asking for Joint focal point designation for the scope of interest
- Seller as a CME
  - For “Unilateral” CDM PoA
  - Will also need to obtain Annex I Letter of Approval (EB47:29:7)
  - May have issues with liability for erroneous inclusion with DOE in the case that the Seller does not have appropriate credit standing
- Buyer as a CME
  - Needs to own the monitoring and reporting system
  - Responsible for all issues arising from the PDD, including avoiding double counting, and liabilities

# Coordinating or Monitoring Entities (CMEs)

## Responsibilities of CMEs

- Additional Role for PoA CMEs
  - Opening new sectors and technological applications removing entry barriers
  - Risk management through delivering portfolio of projects to the market
- Potential role for financial institutions acting as CMEs, including those in Host Countries
  - Up-front financing or funding working capital of CDM Program Activity
    - Involving buyers for could lead to price discounts and lower returns for the CPA
  - Design of financially sound Program of Activities and CPAs
  - Design of new financial products such as partial risk guarantee facility
  - Upgrading risk management, governance and accounting practices
- The main regulatory role of CME is towards Validation, Registration, Issuance and Forwarding of CERs
  - Implementation and Monitoring are the key challenges
  - But the key outstanding issue remains addressing the liability for erroneous inclusion of CPAs

# Validation of CPAs

## Role and responsibilities of DOEs and the associated liability

- **Erroneous inclusion and liability: Validating DOE is liable for “any error... that disqualifies a CPA from inclusion in the PoA”**
  - Arises as DOE is expected to Validate the inclusion of the CPA based on a desk review in a short time with limited due-diligence process
  - Open-ended nature makes liability a difficult issue
    - “any error, within one year after the inclusion of CPA into a registered PoA or 6 months after the issuance of CERs for that CPA, whichever is the later, that disqualifies a CPA from inclusion in the PoA”
- **DOE have sought to limit its liability by transferring it to CMEs**
  - Implementing entity CMEs (e.g. NGOs, small aggregators, etc.) who do not have strong balance sheet (“deep pocket”) are not considered suitable for transferring liability as the DOE is ultimately responsible
  - Manufacturers or other CMEs with appropriate credit rating needed
  - Buyers can step-in and assume liability
    - In return for greater control of the project (usually with the CME role)
    - Better commercial terms
    - Closer attention to the monitoring and reporting framework

# Monitoring Plan and Reporting

## Key to managing liability and getting the most out of PoAs

- CME to develop operational and management arrangements the implementation of the PoA, including
  - a record keeping system for each CPA under the PoA
  - a system/procedure to avoid double accounting e.g. to avoid the case of including a new CPA that has been already included in another CDM project, PoA, or CPA
- This system also forms the basis of sampling during the Verification process
- A robust record keeping system will also prevent or reduce the risk of erroneous inclusion of CPAs
- This is a big challenge, particularly for large scale dissemination of micro-devices (CFLs, or Solar Lanterns or portable cookstoves, energy efficient water pumps, etc. )

## Conclusions...

### Business Arrangements for Successfully Managing PoAs

- Clearly defining the roles of different actors is important
- Finding the right Coordinating and Managing Entity (CME) is the key
  - Modalities of Communication (MoC) can be used effectively to protect other Project Participants interest
- Emission Reduction Purchase Agreement (ERPA) should be considered more than just a offtake agreement
  - It is important to use the ERPA to address new and unique risks in PoAs by including elements of the Monitoring and Reporting arrangements
- Contract with the Designated Operational Entity (DOEs), particularly for Validation is important.
  - Need to consider additional agreements to distribute liabilities unique to PoAs, for erroneous inclusion of CPAs
  - Monitoring Plans for successful verification is important but challenging, particularly for large scale dissemination PoAs