THE CDM PROJECT CYCLE

INTRODUCTION

All Clean Development Mechanism (CDM) projects must go through a "project cycle". Some steps in this cycle are the same as for any other investment project - such as raising finance and implementing the project. What is different for CDM are the special requirements of qualifying and overseeing the project as a bona fide CDM project. Each of the steps in the project cycle is explained in detail - particularly the various approval processes through which a project must pass before it can become an official CDM project.

CDM projects must also involve specific elements of public consultation. Information on this is provided towards the end of this page.

STEPS IN THE PROJECT CYCLE

1: Project Identification and Design
The project owner identifies an opportunity for a CDM project and develops a Project Design Document (PDD) that includes a baseline estimate and an analysis of the net carbon emissions reductions.

2: Host country approval
This is carried out by the Designated National Authority. Note: The process for host country approval can happen "in parallel" with the validation process but it is required before a project can be submitted for registration to the Executive Board.

3: Third-party validation of the Project Design Document
This step is carried out by a Designated Operational Entity.

4: Registration
Once a project is validated and approved by the host country, it is registered by the CDM Executive Board.

5: Financial structuring
Finances are then secured. The investors provide capital investment in the form of debt or equity. These investors may or may not be the carbon buyers who will pay for certified credits on delivery.

6: Implementation and operation
The project is built, commissioned and begins operation.

7: Monitoring
Project performance, including baseline conditions, is measured by the project developer in the commissioning process and during on-going project operation.

8: Third-party verification of project performance
An independent third party (a Designated Operational Entity or DOE) verifies project performance against the validated design and baseline in order to approve certification.

9: Certification and issuance
Based on the host-country approval, the validated project design and baseline, and the verified project performance, CERs are certified by a DOE and issued by the CDM Executive Board.
APPROVAL STAGES

It is up to the project developer to initiate the above process and to follow this cycle. However, within the cycle, there are four key points at which official consideration of the project is carried out and various types of approval given.

It is important to note that the South African DNA has a role in only one of these (host country approval) - and plays no part in any of the other approval stages of a CDM project.

Other bodies are also involved and the following table provides a brief introduction to the roles and responsibilities of each.

HOST COUNTRY APPROVAL

Who is responsible? Designated National Authority (DNA) of South Africa

What is examined and approved? Fulfilment of South Africa's sustainable development criteria.

VALIDATION

Who is responsible? A Designated Operational Entity (DOE). This is a third party (ie not the project developer or the DNA) accredited by the Executive Board of the CDM on the basis of its technical expertise and experience with carbon mitigation and relevant technologies. For more information on DOEs as well as a list of accredited DOEs, visit the UNFCCC website

What is examined and approved? Validation that the project meets international rules of the CDM. Important components of this are validating the baseline of the project and checking that the project fulfils additionality criteria. The formal document validated by the DOE is termed a Project Design Document.

REGISTRATION AS AN OFFICIAL CDM PROJECT

Who is responsible? The CDM Executive Board

What is examined and approved? Registration as a CDM project takes place following successful approval by the host country and validation by an operational entity.

VERIFICATION AND CERTIFICATION OF PROJECT PERFORMANCE

Who is responsible? Independent third party - typically not the same operational entity as validated the project

What is examined and approved? Each project requires a monitoring and verification protocol (contained within the PDD). The performance of the project is checked against this protocol. Carbon reductions generated are verified and certified. Once this step has been carried out CERs can be issued by the Executive Board
PUBLIC CONSULTATION

CDM projects require specific and extensive consultation with stakeholders - most of what is required is laid down within the rules of the CDM. Stakeholders in this sense are defined as: the public, including individuals, groups or communities affected, or likely to be affected, by the proposed clean development mechanism project activity.

The various stages of consultation required for CDM projects are:

PROJECT DESIGN AND PREPARATION OF PDD

Who is responsible? Project developer or owner

The project developer or owner must:

- Follow a statutory EIA process where required - including the consultation elements of this process;
- Invite comments and inputs from communities and other stakeholders;
- Document all comments received; and
- Report (within the PDD) on how comments received were addressed within project design. This report is submitted to the DOE as part of the validation process.

HOST COUNTRY APPROVAL

Who is responsible? Designated National Authority

There is no requirement in terms of the CDM rules for public consultation by the DNA in relation to the host country approval process. However, the DNA in South Africa has decided to make all PDDs publicly available for comment by posting them on this website. PDD documents will also be made available to any interested parties on request. All comments received during this time will be considered by the DNA when making a decision as to whether host country approval should be granted.

VALIDATION

Who is responsible? Designated Operational Entity

The DOE must:

- Make the PDD publicly available for comment. The method used must ensure that international parties and stakeholders have access to the document;
- Receive comments from parties, stakeholders and accredited NGOs over a 30 day period. If a new methodology is received as part of a PDD - the DOE must submit this to the Executive Board for review (and the board will carry out its own consultation on this).

Once the DOE has carried out the above, the DOE makes a validation decision on the basis of the information provided and taking comments received from consultation into account. The DOE then informs the developer of its decision and submits the result in the form of a validation report to the Executive Board. The validation report must contain a note of actions taken to address comments received.

REGISTRATION

Who is responsible? Executive Board

The Executive Board must:

- Make the application available for review to parties involved and members of the Executive Board. Note: Registration by the board is deemed final eight weeks after the date of receipt of the request for registration, unless a party involved in project activity or at least three members of the board request a review of the proposed project activity
CONTACT US

If you have any questions about the promotion of the CDM in South Africa, or if you would like to find out how to invest in a project, please contact the DNA directly.
Phone: (012) 444 4116 / DNA secretary (012) 444 4111
Alternatively, the project developer can simply provide the DNA with a PIN for information purposes.

Initial evaluation and letter of no objection The DNA, with the support of the advisory committee, will then conduct an initial evaluation of the likely sustainable development impacts of the project against a set of sustainable development criteria.

The DNA will inform the developer of the results of the initial screening within 30 days of submission of the application form and PIN. If the initial screening is favourable and the developer has requested it, the developer will receive a letter of no objection from the DNA. This letter will include a summary of the results of the initial screening of the performance of the project against the abovementioned sustainable development criteria. The letter itself is a statement from the DNA that, on the basis of the information received, the project under preparation does not show any violations with the project approval criteria. The provision by the DNA of this letter shall in no way compromise the opinion, independence or transparency of the DNA when subjecting the project to the later formal evaluation process required for the granting of the formal approval required from the DNA.

Important note: The purpose of the initial screening process and the letter of no objection is to improve the quality of CDM projects and to facilitate contact between prospective partners and investors. In no way do comments provided during this process affect the DNA’s decision when subjecting projects to the later formal (mandatory) approval process. Thus, no final approval decision by the DNA is precluded through the issuance of a letter of no objection.

MANDATORY SUBMISSION

The project developer then submits the project details to the DNA in the form of a Project Design Document (PDD). This must be accompanied by a completed application form. Note that the PDD should already have been validated by the Designated Operational Entity at this stage. See the UNFCCC website for further details of the validation process.

The DNA will post the submitted project PDD on this website under Documents for Public Comment. These are posted for public consultation for a period of 30 days. PDD documents will also be made available to any interested parties on request.

The DNA will then evaluate the project on the basis of the information received and included in the PDD and on the comments received during the consultation period. It may ask for supplemental information.

The DNA then sends its recommendation and comments received during the public consultation period to the advisory committee of the DNA for consideration. The committee then submits its comments back to the DNA.

Based on comments from the committee, the DNA makes its final decision on the approval of the project. If successful, the developer will be given a letter of approval. This will be prepared to be signed by the Director General of the Department of Minerals and Energy.

- Visit the project design documents currently open for public comment

TIME FRAMES

Project developers will be guaranteed a maximum time for each step of the approval procedure.

- Initial screening: The DNA will provide the project developer who has submitted the PIN with the results of the initial screening within 30 working days of submission of the application form and PIN.
- Final approval: In total, the period between submission of the PDD and receipt of a decision from the DNA should not exceed 45 working days.

APPEALS

Project participants will also have the right to appeal against the final decision taken by the DNA. In a first step they may appeal the decision with the Minister of Minerals and Energy. The minister will verify the decision taken by the DNA and determine whether it has been produced in accordance with the approval procedures. The Minister will notify the project participants within 60 days of her decision.

Project participants have the right to appeal the determination of the minister before the administrative courts of South Africa.
GENERAL REGULATORY AUTHORITY

If a project is deemed by the DNA to be contrary to the spirit of the Kyoto Protocol or contrary to the intention of stated government policy, the DNA reserves the right to refuse project approval until such time as suitable alterations are made to the project design.

In such instances clear reasons for the rejection of a project must be provided by the DNA. The DNA will be informed by consideration of the project indicators provided below.

ENVIRONMENTAL IMPACT

Impact on local environmental quality

- Impact of the project on community access to natural resources;
- Impact of the project on water pollution;
- Impact of the project on the generation or disposal of solid waste; and
- Any other positive or negative environmental impacts of the project (such as impacts on noise, safety, visual impacts, or traffic).

Change in usage of natural resources

- Impact of the project on community access to natural resources;
- Impact of the project on the sustainability of use of water, minerals or other non-renewable natural resources; and
- Impact of the project on the efficiency of resource utilisation

Impacts on biodiversity and ecosystems

- Changes in local or regional biodiversity arising from the project.

ECONOMIC

Economic impacts

- Impact of the project on foreign exchange requirements;
- Impact of the project on existing economic activity in the area;
- Impact of the project on the cost of energy; and
- Impact of the project on foreign direct investment.

Appropriate technology transfer

- Positive or negative implications for the transfer of technology to South Africa arising from the project;
- Impacts of the project on local skills development; and
- Demonstration and replication potential of the project.
SOCIAL

Alignment with national provincial and local development priorities

- How the project is aligned with provincial and national government objectives;
- How the project is aligned with local developmental objectives;
- Impact of the project on the provision of, or access to, basic services to the area;
- Impact of the project on the relocation of communities, if applicable; and
- Contribution of the project to any specific sectoral objectives (for example, renewable energy targets).

Social equity and poverty alleviation

- Impact of the project on employment levels? (Specify the number of jobs created/lost; the duration of time employed, distribution of employment opportunities, types of employment, categories of employment changes in terms of skill levels and gender and racial equity);
- Impact of the project on community social structures;
- Impact of the project on social heritage;
- Impact of the project on the provision of social amenities to the community in which the project is situated; and
- Contribution of the project to the development of previously underdeveloped areas or specially designated development nodes.

GENERAL

As well as the above indicators, the DNA also uses a general indicator that encompasses social and economic factors

- General project acceptability: are the distribution of project benefits reasonable and fair?

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