

National AIJ/JI/CDM Strategy Studies Program

At the end of September 1997 the World Bank and Switzerland formally launched a collaborative initiative to assist potential host country governments in exploring the opportunities and potential benefits of participating in the AIJ pilot phase and in formulating their own positions regarding AIJ and JI.¹ Specifically, the host country would assess its role in the JI (economies in transition) or CDM (non-Annex I Parties) regime of the Kyoto Protocol, identify potential investment projects, and develop national policies regarding AIJ/JI and/or CDM, as appropriate (see box 1).

General description NSS program

Switzerland, the World Bank and other bilateral donors provide co-financing to the host countries to enable them to conduct the studies². The NSS Program is characterized by a low budget, with total costs of each study ranging between US\$150,000 to US\$400,000, depending on the size of the country. The World Bank serves as an advisor, assisting host country governments in drafting the Terms of Reference (TOR) for the studies, making arrangements for donor funding, administering contracts with consultants, and providing methodological guidance. The studies are conducted by host country experts in collaboration with experts from donor countries and the World Bank. National ownership of the NSS is promoted by establishing an interministerial Steering Committee (in which also the donor country(ies) and the World Bank are represented) and through the leading role of national consultants.

Each NSS is customized on the basis of the needs of the given country, including past analysis already undertaken. To facilitate the dialogue with host countries, the World Bank developed generic TOR. Through a process of discussion with national government and other appropriate stakeholders within the Steering Committee designated for each NSS, the study country is encouraged to evaluate its own specific needs and to adapt the content of the generic TOR, as necessary. Studies under preparation in developing countries, for

example, naturally place a greater emphasis on the technology transfer and development benefits of climate mitigation projects.

The NSSs generally begin with a review of existing studies with the purpose of consolidating and building upon completed

Box 1. NSS types of analyses

The National AIJ/JI/CDM Strategy Studies Program facilitates the following types of analyses:

- quantification of the potential for GHG emissions reductions and assessment of the related costs;
- assessment of the opportunities and risks associated with markets for AIJ/JI/CDM and other financing opportunities for GHG abatement projects;
- policy analysis regarding the country-specific choices in addressing climate change (e.g. linkage with domestic priorities, domestic vs. international measures);
- identification of key policy issues related to the Kyoto Mechanisms and development of policy options and strategies;
- analysis and recommendations regarding institutional, regulatory and legal measures to enable the host country to participate in AIJ/JI/CDM; and
- identification of possible climate mitigation projects that could be financed through different sources, including under the AIJ pilot phase.

and ongoing efforts. The GHG offsets potential is estimated or updated by modelling various scenarios for macro-level and sectoral GHG emissions. In order to estimate GHG offset markets, the sectoral GHG reduction options, their respective reduction potentials and the associated incremental reduction costs are also determined.

One of the important outputs from the NSSs is the identification of a selection of potential GHG abatement projects, together with an analysis of the appropriate financing mechanisms. With an understanding of the international demand

for GHG offsets, it is possible for the country to make a more informed decision on market options and opportunities. The results of each NSS are disseminated at national seminars and are being published by the World Bank. A National AIJ/JI/CDM Strategy Study generally takes between 10 and 12 months to complete, once the Terms of Reference for the study have been finalized.

The NSS Program is designed as a process with post-study follow-up activities focused on further strategic and policy issues (e.g. National Energy Saving Study in the Czech Republic, similar study under preparation in Slovakia), improvement of institutional capacities to participate in the JI/CDM and/or allowance trading process (e.g. Russian Federation) or the preparation of identified AIJ/JI/CDM projects (Russian Federation and Uzbekistan).

Phase I projects and results

AIJ/JI/CDM Strategy Studies have been recently completed in the Czech Republic (see *JIQ*, December '97, pp.5-6), the Slovak Republic, the Russian Federation (see *JIQ*, December '98, pp.5-6) and Uzbekistan. The results are available via the SWAPP (Swiss AIJ Pilot Program) and World Bank internet sites as soon as they are ready and will also be published by the World Bank in a special series. Additional studies are underway, being launched or under preparation in Columbia, Hungary, Kazakhstan, the Philippines, Romania, South Africa, Ukraine and Zimbabwe. A total of about 15-20 studies is expected for Phase I of the Program (through 1999/2000).

¹ Following CoP3 in Kyoto (December 1997), the Program was expanded to address AIJ/CDM in developing countries.

² Via its Trust Funds at the International Bank for Reconstruction and Development, Switzerland provided a total of US\$2.43 m (US\$1.7 m additional funds for studies in developing countries and US\$730,000 for studies in Central and Eastern European countries). Switzerland also finances the World Bank staff person charged with managing the NSS Program. The study countries provide co-financing for their respective studies (about 15% of the total cost) and the Bank provides in-kind support and a small financial contribution. For the NSS in the Russian Federation, the Government of Finland was the major donor; other bilateral donors have also contributed to selected studies.

In general, the studies have provided the following types of results and recommendations to the study countries:

- improved projections of future national emissions (disaggregated at the sectorial level);
- identification and analysis of various abatement/sequestration options, including estimates of the associated marginal abatement costs;
- estimates of the size of the global market for carbon offsets and analysis of the key factors that influence a country's competitive position;
- identification of key policy issues that the government should take into account when designing its national rules for AIJ and engaging in international negotiations regarding the design of JI, CDM, and IET;
- increased awareness and understanding of the UNFCCC and the Kyoto Protocol, the AIJ pilot phase and the Kyoto Mechanisms among governmental and non-governmental experts;
- recommendations regarding procedures and the establishment of institutions to facilitate involvement in the AIJ pilot phase and in JI or CDM under the Kyoto Protocol;
- identification of additional capacity-building needs;
- initial identification of promising sectors, project types and specific investment projects that could qualify under AIJ and JI/CDM, while supporting national priorities.

Evaluation & future evolution of the Program

Since the initiation of the NSS Program in September 1997, a number of considerations have led the World Bank to conclude that the NSS Program should be expanded into a second Phase. These considerations include the adoption of the Kyoto Protocol, the positive echo from both donors and host countries regarding the NSSs undertaken to date³, the recognition that capacity building activities are essential to the application of JI and CDM to mitigate climate change under the UNFCCC and the urgency of developing international modalities for the Kyoto mechanisms.

An independent evaluation of Phase I of the NSS Program, which was commissioned by the World Bank, Finland and Switzerland, was recently finalized. A preliminary synthesis of results of the initial studies was presented at a CoP4 side

event in Buenos Aires (November '98). Major outcomes are reflected in the previous section. In addition, the team of international consultants also evaluated the Program itself (in terms of its value added, the efficiency of its operations and its effectiveness in meeting the needs of host countries), and it concluded that the NSS Program has:

- improved the readiness of the study countries to participate in AIJ/JI/CDM;
- made important contributions to the political preparations of the study countries for CoP3 and/or CoP4;
- fostered a better understanding of key terms and derived a common set of definitions for them;
- advanced the analytical process regarding GHG emissions in the participating countries (e.g. modelling at the sectoral level, abatement cost curves);
- demonstrated that significant demand for carbon offsets is likely to arise already during the first commitment period 2008-2012 (at least 2200 Mt CO₂ of demand) and that each of the host countries that performed studies will have opportunities to participate in this market;
- raised a number of important policy issues that require further consideration by the study governments and at the international level (e.g. how can JI host country governments ensure compliance with international mitigation obligations while undertaking JI projects?);
- catalyzed some of the key institutions needed for the host countries to participate in JI/CDM (although much work remains to be done to complete the institutional, policy and regulatory frameworks);
- identified barriers to active participation of study countries in the AIJ pilot phase, many of which are not AIJ specific and will require decisive leadership from host country governments;
- identified 49 potential AIJ/JI/CDM projects in four countries, covering most of the IPCC emission inventory categories.

In response to the outcome of CoP4 in Buenos Aires, the NSS Program is planning to address issues such as technology transfer in the context of sustainable development or challenges associated with forestry and land use projects in more detail, as has been requested by some study countries. In addition, the World Bank is currently planning for a second Phase of the NSS Program for 1999-2001. Phase II of the Program would allow additional host countries to conduct basic NSSs and would offer support for follow-up activities to the Phase I NSS countries, in particular to expand the capacity building and implementation aspects of the Program. To efficiently meet these needs, the NSS Program will seek to network with international organizations with appropriate expertise. Phase II will require voluntary contributions from additional donor countries.

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³ During and since CoP4, the World Bank has been approached by nine additional non-Annex I countries with requests for NSS support.