

certainty associated with the overall fees that will be generated to cover management and administrative expenses.

Issue #8: How Could the CDM Provide Incentives for Private Sector Participation?

Issue: For the private sector to participate meaningfully in the CDM, the mechanism will need to be designed and operated in such a way that the transaction costs of participation are low, risks associated with CDM projects are minimized, and the CERs providing through the CDM have international credibility.

Options: This issue cuts across several of the issues previously discussed and cannot easily be dissected into stand-alone options. In each of the issues discussed above, elements of options have been noted as ways in which the participation of the private sector might be enhanced. The discussion below is therefore organized around each of the key issues identified above.

With regards to the administrative framework of the CDM (discussed under Issue #1), it will be critical for Canada to ensure that the processes governing the CDM are not overly bureaucratic or onerous. The project cycle of identification, proposal preparation, presentation for approval, approval, and project implementation must be transparent. The GEF Secretariat, for example, has been trying to enhance private sector participation in the GEF. It has held consultations with the private sector and prepared a working paper but to this date, the GEF has seen little involvement from the private sector. The Multilateral Fund under the Montreal Protocol has focused primarily on ensuring that suppliers of technologies that reduce or eliminate ozone-depleting substances are well recognized and that information about their products is widely available through the central information clearinghouse. If the Executive Board is designed to function as a Subsidiary Body with technical experts appointed to serve, it may be desirable to select some of the experts from the private sector. Similarly, if the Executive Board functions more as a Board of Directors with a Secretariat responsible for management tasks, it may be important to have one member of the Secretariat be appointed from the private sector and to be responsible for liaison with industry.

The approach to project identification and proposal development (discussed under Issue #2) must ensure that incentives are in place for private sector entities to prepare and submit high quality project proposals. Regardless of the option selected (i.e., whether international organizations function as Implementation Agencies or whether the national and regional institutional arrangements established under the AIJ Pilot Phase are preserved) the guidance to private sector entities must be clear. At the same time, public agencies involved in catalyzing project identification and proposal development should not favor technologies. Rather one of their roles could be to provide objective information about technologies that will enhance awareness about them in developing countries. In addition, information about the non-GHG emissions reduction benefits of specific technologies must be made available (i.e., the ancillary environmental, social, and economic benefits associated with proposed projects.) In the AIJ pilot phase, this was one of the critical needs identified by developing countries.

Regardless of the option chosen, the CDM must transfers CERs (see Issue #3) in such a way that transaction costs are minimized and the integrity of the CERs is maintained. Project investors typically quantify the resources required for participating in mechanism