

TABLE 8:HOW COULD THE CDM PROVIDE INCENTIVES FOR PRIVATE SECTOR PARTICIPATION

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.

With regards to the administrative framework of the CDM, 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. 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 must ensure that incentives are in place for private sector entities to prepare and submit high quality project proposals. Regardless of the option selected 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.

The CDM must also transfers CERs 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 such as the CDM and thus the indirect costs imposed by the CDM must be kept to a minimum to ensure wider participation. If the Carbon Fund option is selected, the investor's confidence in the mechanism will depend upon the credibility of the fund manager chosen.