



Module 1

CDM Investment: A Multi-Stakeholder Simulation Exercise "Can We Make a CDM Deal?"



Developed



by

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2002

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Introduction

The simulation exercise "*Can we make a CDM deal?*" is an initiative of the Center for Socio-Eco-Nomic Development. It was conceived as a learning tool to help deepen the understanding of CDM deal making among developing country government officials, private sector entrepreneurs and civil society representatives, in order to assist these host countries in attracting foreign investment (however, other institutions involved in the emerging CDM regime and markets might also find the tool useful). As such, it is intended to be a core component of capacity building efforts in non-Annex I countries to bridge the gap between multilateral climate change negotiations and domestic implementation of the Kyoto mechanisms, where communal concerns, business interests and national commitment converge.

Due to the resource requirements for developing a comprehensive multi-stakeholder simulation exercise, a *modular* approach was chosen; each module in the overall exercise will capture various aspects of the complete dynamics of a CDM negotiation environment. This Synopsis describes Module 1¹, a FDI negotiation between two companies with CDM potential. This simulation is a modelling tool that can be easily used in the context of capacity building and of creating enabling environment in the host countries for CDM projects.

Participants learn from discussion of the substantive matters of CDM and through actual application of their newly gained knowledge in a simulated negotiation process. It is expected that through this type of experiential learning, participants will be better acquainted with the CDM mechanisms and its implementation, as well as the business negotiation aspect of such deals.

Synopsis

This negotiation exercise simulates a complex negotiation situation of international CDM investment, akin to that of FDI investment situations that host countries are facing today. In essence, this negotiation exercise will simulate the competitive environment and decision-making process regarding overseas investment in CDM projects.

This simulation focuses on the deal making aspect of the Clean Development Mechanism (CDM), a sub-section of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol (KP). In this simulation, participants are asked to negotiate a CDM project in a virtual developing country.

CDM rules allow companies to generate tradable certified emission reduction (CER) credits by undertaking climate protection projects that are additional to the *status quo*. Once issued by the CDM Executive Board, the investing company can use the CERs to comply with any relevant domestic GHG emission regulations or can trade them in emerging carbon markets.

Players involved in this simulation consist of government representatives from a virtual industrialized country (Industria) and a virtual developing country (Xinado), a private sector

¹ This simulation was developed under the auspice of the NSS programme of the World Bank with partial financing from the Government of Canada and completed in 2002

investor from Industria (InCo LLC) and the private sector project owner from Xinado (SuCo Ltd.). Participants receive background information and public and confidential briefs, and will have the opportunity to negotiate different aspects of the deal making associated with setting up a CDM project.

Learning Objectives

- ☑ To engage and build capacity and capability within multiple stakeholders to formulate, shape and implement CDM projects *
- ☑ To inform stakeholders on Kyoto mechanisms and emission trading concepts, CDM deal-making and CDM project preparation
- ☑ To engage stakeholders in joint learning that will raise awareness for the key strategic, institutional and operational capacities needed to implement the CDM effectively
- ☑ To provide *hands-on* experience in deal making negotiation at the project level
- ☑ To provide means of disseminating know-how on the Kyoto mechanisms to a broader audience, in particular by facilitating know-how transfer to local institutions that can implement the simulation exercise domestically

Roles (4)

1. *Xinado, a small developing country*

- Government Official from CDMO (Clean Development Mechanism Office)
- Representatives of SuCo Ltd., a cement manufacturer

2. *Industria, a highly industrialised Annex II country*

- Representative of InCo LLC, a multi-national conglomerate
- Representative of CDM&JI Office, a governmental agency that facilitates CDM and JI investments

Duration

Duration of the simulation will be minimum three days, divided between information dissemination, skill building and practices. The simulation exercise itself will last 1-1/2 days (including debriefing on the simulation experience). The actual time required for the whole workshop could be lengthened to one week, depending on the level of competence regarding the general context of climate change convention and negotiation techniques. An initial analysis of the training needs could be useful in determining the actual needs of the learners.

Target Audiences

1. Stakeholders from non-Annex I countries with basic understanding of the UNFCCC, Kyoto Protocol and CDM that are considering engaging in CDM project activities (e.g. government authorities across ministries, DNAs, project developers, NGOs).
2. Stakeholders from non-Annex I countries who need to be informed of the business potential offered by Kyoto Protocol and CDM (business associations and/or private sector companies in sectors with CDM potential; local financial institutions; regional development banks)

* The simulation could be modified to meet the needs of clients interested in joint implementation transactions.

3. Stakeholders from non-Annex I countries charged with building CDM capacity (providers of CB services, private sector associations, DNAs, government authorities)
4. Stakeholders from non-Annex 1 countries who represent interest of the community and need to understand the Kyoto Protocol and CDM potential

Participants

The design of the simulation exercise can accommodate various numbers of participants (from as few as 16, up to a maximum of perhaps 100 persons). The optimal size for a given application will depend on the existing capacity of the target audience, the client's objectives, the number of moderators, the need for and availability of translation services, and the space available for the simulation. The amount of resources available might place some bounds on the exercise.

The working language for the moment will be English. Upon request, the workshop could be conducted in French, Spanish, German and Chinese (Mandarin).

About CSEND

CSEND

The Centre for Socio-Eco-Nomic Development (CSEND) is an independent, project-financed, non-profit foundation, registered with the Geneva (Switzerland) Chamber of Commerce. Recent CSEND projects have been funded by international organisations, such as the World Bank, the United Nations Development Fund (UNDP), the European Bank for Reconstruction and Development (EBRD), World Trade Organisation (WTO) and the International Labour Organisation (ILO), as well as by bilateral development co-operation agencies, for example Swiss Agency for Development Cooperation (SDC), the State Secretariat for Economic Affairs (SECO) of Switzerland, Canadian International Development Agency (CIDA) .

CSEND specialises in the various fields of organisational reform and institutional development, project start-up and team building, management development and training seminar, international negotiations and mediation, quality management (ISO10015), and cultural exchanges. CSEND works to strengthen public administrations and public-sector enterprises through the use of an interdisciplinary, socio-economic approach.

In the field of international negotiations, CSEND designs and conducts seminars for government officials, diplomats and others on international trade, diplomatic, environmental negotiations. Participants are provided with concepts and techniques needed for an effective mastery of diverse negotiation situations with different contexts.