Clean Development Mechanism (CDM) Investors' Guide

Republic of Vanuatu

October 2012
Front Cover Photo: Glimpse of Vanuatu Culture and Nature

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Abbreviations

ACP  African, Caribbean and Pacific countries
CDM  Clean Development Mechanism
CER  Certified Emission Reduction
CO$_2$e  Carbon Dioxide equivalent
CPA  Component Project Activities
DNA  Designated National Authority
EB   CDM Executive Board
EC   European Commission
ER   Emission Reduction
GDP  Gross Domestic Product
GHG  Greenhouse Gas
LDC  Least Developed Country
LOA  Letter of Approval
LON  Letter of No-objection
MEAs Multilateral Environmental Agreements
MW  Megawatt
NACCC National Climate Change Coordination Committee
NAPA National Action Plan for Adaptation
PDD  CDM Project Design Document
PEA  Preliminary Environmental Assessment
PIC  Pacific Island Countries
PNG  Papua New Guinea
PoA  CDM Programme of Activities
SIDS Small Island Developing State
UNELCO Private Power Company
UNEP United Nations Environment Programme
UNFCCC United Nations Framework Convention on Climate Change
UNOPS United Nations Office for Project Services
URC  UNEP Risoe Centre
VT   Vatu (currency)
1. Introduction

1.1 About the CDM Component of the ACP MEA project

Since 2009, the UNEP Risoe Centre (URC) has been implementing the Clean Development Mechanism (CDM) as part of an umbrella EU-funded UNEP four-year project on “Capacity Building related to Multilateral Environmental Agreements (MEA) in African, Caribbean and Pacific (ACP) Countries”. The purpose of the CDM Component of the ACP MEA project is to develop capacity for CDM project development in the ACP countries.

In the Pacific, based on discussions at the inception workshop held in May 2009, the CDM component has been designed as a regional programme with Fiji and Vanuatu as focal countries. It also includes some DNA capacity building support in Samoa and Tonga and Solomon Islands and Papua New Guinea (PNG) representatives are also invited to the regional workshops.

Under the project, a series of capacity building activities are being carried out to support participating countries in establishing and operationalizing their DNAs (Designated National Authority), creating business-friendly environment for the development of CDM projects, and developing a portfolio of CDM projects. As part of the project activities, four CDM capacity building workshops have been organized.

1.2 Aim of this Investors' Guide

This investor guide book is being developed with the aim of supporting potential investors and project developers with the basic knowledge on the environment surrounding CDM project development in Vanuatu. In addition to general demographic information for Vanuatu, the investor guide will provide country specific information from a practical aspect of identifying and developing CDM projects in the host country. The investor guide contains information such as the country profile; potential CDM projects; CDM related institutional framework; project approval procedures; related regulatory framework; relevant simplified rules under the CDM and contact details for project developers and investors.
2. Country Overview

Vanuatu is an archipelago of volcanic islands and submarine volcanoes located between latitude 12° and 23° south and longitude 166° to 173° east, some 1,300 km from north to south in the Western Pacific Ocean. It comprises over 80 islands with land area of 12,336 km² and a maritime exclusive economic zone of 680,000 km². The two largest islands, Espiritu Santo and Malekula comprise nearly 50 percent of the total land mass. The total coastline is about 2,528 km long.

Figure 1: Map of Vanuatu

Table 1: Quick Facts

<table>
<thead>
<tr>
<th>Region</th>
<th>Oceania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Port Vila</td>
</tr>
<tr>
<td>Climate</td>
<td>Tropical; moderated by southeast trade winds</td>
</tr>
<tr>
<td></td>
<td>- English</td>
</tr>
<tr>
<td>Languages</td>
<td>- French</td>
</tr>
<tr>
<td></td>
<td>- Pidgin English</td>
</tr>
<tr>
<td>Currency</td>
<td>1 Vatu (VT) = 100 centimes</td>
</tr>
<tr>
<td>Holiday</td>
<td>Independence Day is 30 July (1980), Unity Day is 29 November</td>
</tr>
</tbody>
</table>
Vanuatu is considered a Small Island Developing State (SIDS) and a Least Developed Country (LDC). Over the last several years, Vanuatu has become one of the fastest growing economies in the Pacific region driven primarily by agriculture, tourism, construction, and aid inflows. The economy of the country comprises a large smallholder subsistence agricultural sector and a small monetized sector.

### Table 2: Vanuatu - Macro-economic data

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Gross Domestic Product (GDP) (VT billions)</td>
<td>34.951</td>
<td>36.104</td>
<td>37.188</td>
<td>38.596</td>
</tr>
<tr>
<td>Real GDP Growth Rate (%)</td>
<td>-1.6730</td>
<td>3.300</td>
<td>3.000</td>
<td>3.787</td>
</tr>
<tr>
<td>Inflation Rate (from GDP Price Deflator) (%)</td>
<td>5.793</td>
<td>4.520</td>
<td>3.699</td>
<td>-0.8870</td>
</tr>
<tr>
<td>Exchange Rate US Dollars (VT/$)</td>
<td>101.330</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Figure 2: GDP Share by Sector (Data released on February 2012)

In Vanuatu commercial energy consumption is entirely dependent on imported petroleum. Transport accounts for about 52 percent of total internal petroleum consumption; power generation, 33 percent; the domestic sector (9 percent), while the commercial/industrial sector accounts for only 5% of commercial energy.
An estimated 27 percent of the Vanuatu population has access to electricity. Access rates in the main urban centres of Port Vila and Luganville are relatively high at about 75 percent, dropping off considerably in rural areas. Power is supplied to the main urban areas of Port Vila, Luganville, East Malekula and Tanna under a concession arrangement to a private power company UNELCO (subsidiary of the SUEZ group). The power generation in Vanuatu is predominantly from diesel fired generators. Since Vanuatu does not have indigenous sources of fossil fuels, cost of power generation is high.

### 2.1 Climate Change and Vanuatu

Vanuatu is among the countries in the Pacific region that are most vulnerable to the risks of climate change, climate variability and sea level rise. The livelihood of people and economy are inter-woven, shaped and driven by climate sensitive sectors. The effect of climate and sea level change are already very real and pose a tangible threat to the future socio-economic well-being of Vanuatu.

Climate change is likely to impact all sectors that are pertinent to the sustainable development of Vanuatu. As a Least Developed Country (LDC), the country will be severely constrained financially and in terms of human and institutional capacity, to meet the challenges of this additional stress. For the people of Vanuatu, their livelihood and social structure are inextricably linked to the natural environment and its resource base. Any perturbations to this availability of natural resources will have a direct bearing on the poverty levels and the very survival of the people. Changes to the traditional social system, coupled with any decrease in food security and water availability, could lead to deterioration of social systems and law and order.

### 2.2 National GHG Inventory

Graph below summarises the shares of GHGs from different sectors identified by the National GHG Inventory¹.

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¹ [http://unfccc.int/resource/docs/natc/vannc1.pdf](http://unfccc.int/resource/docs/natc/vannc1.pdf)
There are significant gaps in Vanuatu's first GHG inventory due to the lack of relevant statistical data that can be fed into calculation models. Refinements of the quoted emission estimates will require data collection to characterise the use of firewood; burning of forest, scrub and grassland within subsistence and commercial agriculture, to improve hunting and accessibility; non-commercial forest activities; conversion of land use; waste inventories; and emissions from industry and manufacturing.

Nevertheless, it is reasonable to conclude that the transport sector is the major source of GHG emissions in Vanuatu, followed by energy industries. Any efforts to significantly mitigate GHG emissions will appropriately target emissions from these activities. Yet given the national need for human and social development, and the small proportion of the population with good access to transport and energy services at present, emissions are likely to continue to increase for the next decade.

### 2.3 Mitigation Options

The following sectors are considered strategic to GHG reduction in Vanuatu:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Industries</td>
<td>23.0%</td>
</tr>
<tr>
<td>Manufacturing Industries and Construction</td>
<td>1.7%</td>
</tr>
<tr>
<td>Transport</td>
<td>66.7%</td>
</tr>
<tr>
<td>Other Industries (commercial, residential, agricultural/forestry/fishing)</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

**Figure 3: Share of GHG Emissions from Different Sectors in Vanuatu**

Source: *First National Communication Report*, Vanuatu
Energy

At present electricity in Vanuatu is produced predominantly by diesel generators, supplemented by a variety of other sources including hydroelectric, wind, solar and copra. Alternative sources are being investigated and there is increasing domestic usage of solar power and heating systems.

Electricity in Port Vila is supplied under a private concession by UNELCO. In addition to a bank of diesel generators, the output is supplemented by a wind farm to the north west of Port Vila. Overall the wind turbines provide about 25 percent of the total output. Small contributions also come from solar and copra oil. UNELCO supplies 10,000 customers within its concession area, which is the municipal boundary plus 15km. Not all households in informal settlement areas are on the grid. UNELCO anticipates an annual increase of 4 percent in its number of consumers. This is planned to be facilitated by the addition of one new diesel generator and by two additional wind turbines.

Vanuatu is keen to reduce its reliance on diesel for electricity generation. The country is well endowed with renewable energy sources such as hydro, solar, biomass, wind, coconut bio-fuel, and geothermal. These resources offer considerable potential to provide Vanuatu with diverse energy supply sources and reduce its dependence on imported fossil fuels. It is expected that the forthcoming Vanuatu Energy Road Map will set out a clear strategy and action plan for the use of alternative, sustainable energy sources.

Drainage and Sanitation

There is no waterborne sewerage system in any part of Vanuatu including main urban areas. In urban areas the majority of households use latrines that flush to septic tanks. Almost 50 percent of rural households have a pit latrine, many of which are open pits. In the urban areas the proximity of unhygienic sanitation facilities to both formal and informal water sources is a significant concern.

In the Port Vila area, generally most of the liquid waste produced is disposed of on the same site as its origin using either septic tanks or simple soak away pits. This is generally the case for all classes of construction from informal housing to luxury villas in residential areas.
Sludge collection and disposal, for all of Efate Island, is done by commercial operators. The collected sludge is transported by tankers and discharged into a pit within Bouffa sanitary landfill to the east of Port Vila. Potential mitigation opportunities exist through avoiding methane emissions by anaerobic decomposition of sludge through methane capture and utilisation.

**Solid Waste Management**

Although the Vanuatu Government is in the process of putting through legislation aimed at strengthening environmental controls, there is little regulation or management of solid waste in the country. Outside the two main urban areas (Port Vila & Luganville) there is very little organised collection and around 50 percent of households burn their rubbish. Even within urban areas, collection is not comprehensive and poor methods of disposal present an increasing threat to water sources and the environment in general.

In Port Vila, the Port Vila Municipality (PVM) operates a collection service. The collection service is erratic due to resource constraints. Around 50 tons of waste is collected every day. Households pay for the collection service through property taxes, but inefficient and incomplete tax collection means that costs are not being recovered.

The Department of Environmental Protection and Conservation (DEPC) is now becoming more actively involved in waste matters. In April 2011, the Vanuatu National Waste Management Strategy and Action Plans 2011-2016 document was prepared by DEPC with international support from JICA and SPREP. Environmental legislation has been drafted in the last two years that will provide stronger regulation for the management of solid waste.

Similar to Sanitation sector, mitigation opportunities exists through development of a well-designed and managed closed landfill with methane capture and utilisation.

**Transport**

Vanuatu is heavily dependent on petroleum fuels for all its transportation needs. An efficient, affordable, reliable and environmentally clean transport system is the key requirement of the country. Government of Vanuatu under National Energy Policy aims to promote and encourage research, development and sustainable use of biofuels in transportation.
Forestry

According to the National Forest Inventory from 1993, approximately 74 percent of the land area (about 900,000 hectares) are covered with different types of forest, or considered as other wooded land. Although about 890,000 hectares of this is still natural forests, the production forest occupies only 36 percent of Vanuatu's land area, and only about 20 percent of it are of commercial use - mainly due to inaccessibility, low tree density, cultural reasons, or because it has already been heavily logged during the eighties and nineties. While this logging led to severe degradation of the forest, about 50 percent of the deforestation in Vanuatu is due to subsistence land use.

The rural population of Vanuatu also receive their domestic fuel from forests. Forests also play an important spiritual role in Vanuatu's traditional societies and provide materials for ceremonies. In the year 2000, the forestry sector contributed VT295 million, or approximately 0.9 percent, to the GDP, but the share has declined since then. The development of Vanuatu's forest sector is clearly influenced by outside forces. Forests are converted to agricultural land due to the need for small-scale subsistence farming, or for cattle grazing as a response to the international demand for Vanuatu's high-quality beef. Infrastructure and tourism development as well as large scale agriculture along the coastlines force the former occupants to move inland and convert more forests for their livelihoods.

The combined impacts of climate change, population growth and soil fertility declines is envisaged to exert a growing and cumulative pressure on the remaining lowland forests of Vanuatu to be converted to agricultural land. The country however has opportunities to manage its forest resources in a sustainable manner through forest plantation and timber milling. The climate is suitable for growing high value tropical hardwoods to replace the depleting natural forest resource.

Agriculture & Livestock

In Vanuatu, agriculture (including forestry and fisheries) accounted for approximately 15 percent of GDP and almost all merchandise exports in 2006. Agriculture consists of two sub-sectors: subsistence smallholder farming, and large commercial farms and plantations. Coconut oil, copra, kava and beef contribute about 20 percent to total exports. The GDP share of agriculture and fishing however, understates the contribution of these sectors to the living standards in Vanuatu. Around 76 percent of
the population live in the rural areas and grow food for subsistence and cash needs. Potential mitigation opportunities exist through avoiding emissions by utilisation of agricultural waste for thermal/electrical energy needs through biomass based direct combustion, co-generation and biogas capture and use.

The beef-cattle farming is an important part of the economy. The livestock sub-sector contribution to GDP and exports is significant, with cattle exports (beef and hides) being valued at VT365 million in 2006. The waste water and other wastes resulting from processing of beef and hides have a high organic content and can be used to generate methane through anaerobic digestion. Methane has a high calorific value and can be used for thermal/electrical energy requirements.
3. Overview of the Clean Development Mechanism (CDM)

The Clean Development Mechanism, or CDM, (established under Article 12 of the Kyoto Protocol) allows Annex I Parties to obtain emissions credits for projects that reduce emissions in non-Annex I countries; provided that the projects also help the non-Annex I Parties achieve their sustainable development goals. The credits are known as Certified Emission Reductions (CERs), and can be used by Annex I Parties to help meet their emissions targets.

According to the Kyoto Protocol, CDM projects must have the approval of the Parties involved, and must lead to real, measurable and long-term benefits related to the mitigation of climate change, in the form of emission reductions or GHG removals that are additional to any that would have occurred without the project. The CDM is intended to generate investment in developing countries, especially from the private sector, and promote the transfer of environmentally sound technologies. However, the finance and technology transfer commitments of Annex II Parties under the Convention and the Kyoto Protocol are separate and remain binding (Institute for Global Environmental Strategies 2008; United Nations Framework Convention on Climate Change, 2003).

![Figure 4: Concept of CDM](source: Institute for Global Environmental Strategies, 2008)
The six GHGs are not equal in terms of global warming potential (GWP), which measures the relative radiative effect of GHGs compared to CO₂. For example, one tonne of methane has a GWP as potent as 21 tonnes of CO₂.

Table 3: Six greenhouse gases addressed under the Kyoto Protocol

<table>
<thead>
<tr>
<th>Greenhouse gas</th>
<th>Global Warming Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon Dioxide (CO₂)</td>
<td>1</td>
</tr>
<tr>
<td>Methane (CH₄)</td>
<td>21</td>
</tr>
<tr>
<td>Nitrous Oxide (N₂O)</td>
<td>310</td>
</tr>
<tr>
<td>Hydrofluorocarbons (HFCs)</td>
<td>140−11,700</td>
</tr>
<tr>
<td>Perfluorocarbons (PFCs)</td>
<td>6,500 − 9,200</td>
</tr>
<tr>
<td>Sulphur Hexafluoride (SF₆)</td>
<td>23,900</td>
</tr>
</tbody>
</table>

3.1 The Clean Development Mechanism – How does it work?

Article 12 of the Kyoto Protocol sets out the legal framework for the operation of the CDM. This is also supported by the Marrakesh Accords consisting of the decisions made by the Parties to the Protocol and the rules developed by the CDM Executive Board. Under this framework, there are two key prerequisites for developing countries that wish to participate in the CDM by hosting a CDM project:

- Host countries must have ratified the Kyoto Protocol
- Host countries must have a designated national authority for the CDM, which has adopted a CDM approval process.

The CDM is a voluntary mechanism wherein each country or the Parties can assess the potential costs and benefits of developing such projects under the mechanism and may decide to participate or not. The mechanism has a provision to include all the stakeholders such as governments, private entities, international organisations, NGOs and so on in designing, development and implementation of CDM project in the host countries.

Even though it is not required under the Kyoto Protocol, some developing nations have endorsed appropriate legislation to incorporate the underlying legal concepts of CDM into their domestic national law. Annex I countries must fulfil other requirements to participate in the CDM activities such as to invest in CDM projects to trade the Certified Emission Reductions (CERs). These requirements relate to their own national GHG inventories, emissions reporting and compliance.
The CDM allows emission-reduction (or emission removal) projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO₂ (United Nations Framework Convention on Climate Change 2003). These CERs can be traded and sold, and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol. The UNFCCC believes that the mechanism stimulates sustainable development and emission reductions, while giving industrialized countries some flexibility in how they meet their emission reduction limitation targets (United Nations 2008).

The projects must qualify through a rigorous and public registration and issuance process designed to ensure real, measurable and verifiable emission reductions that are additional to what would have occurred without the project. The mechanism is overseen by the CDM Executive Board, answerable ultimately to the countries that have ratified the Kyoto Protocol.

Operational since the beginning of 2006, the CDM has already registered more than 4600 projects and is anticipated to produce CERs amounting to more than 2200 million tonnes of CO₂ equivalent in the first commitment period of the Kyoto Protocol, 2008–2012.

### 3.2 The Objectives of CDM

The key objectives of CDM include:
- Contributing to sustainable development goals of the host country.
- Supporting developed countries to meet their emission reduction obligation under the Kyoto Protocol at the least overall cost.

The Protocol provides no clear definition of sustainable development as it is left to the host countries to determine whether or not a project will assist in meeting its sustainable development objectives as determined by national policies and plans (Decision 2/CMP.1 para 5 and Decision 3/CMP.1 Annex para 31-32). A general criterion that is being used by many countries includes whether a proposed project:
- Is capable of providing net benefit to the environment
- Can contribute towards economic and social development of the host country
  (Article 12(2) Kyoto Protocol)

When compared on a per ton of CO₂ emission reduction basis, it is imperative that the emission reduction projects implemented in developing countries will yield cheaper emission reduction options compared to the cost to the developed nations of domestic emission reductions. It is also agreed by Parties under the protocol that
Annex I countries need to carry out domestic actions along with utilising the flexibility mechanisms under the Protocol in order to achieve their emission reduction targets.

### 3.3 CDM Project Requirements

Apart from contributing to the sustainable development objectives of the host country, the CDM projects should be able to meet three other requirements as agreed at the international level, which are:

1) The CDM projects should yield real, measurable and long-term emission reductions

2) The projects should be ‘additional’ i.e. not business as usual projects. The additionality for a project can be established comparing the baseline emissions with that of post project implementation scenario (Decision 3/CMP.1 ‘Modalities and Procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol’ Annex para 43-44).

![Figure 5: Overview of the Additionality Tool](image)

**STEP 1. Identification of alternatives to the project activity consistent with mandatory laws and regulations**

**STEP 2. Investment analysis**

Does sensitivity analysis conclude that the proposed CDM project activity is unlikely to be the most financially attractive or is unlikely to be financially attractive?

**STEP 3. Barrier analysis**

(1) Is there at least one barrier preventing the implementation of the proposed project activity without the CDM; and
(2) Is at least one alternative scenario, other than proposed CDM project activity, not prevented by any of the identified barriers?

**STEP 4. Common practice**

(1) No similar activities can be observed?
(2) If similar activities are observed, are they essential distinctions between the proposed CDM project activity and similar activities that can reasonably be explained?

The Project is additional

The Project is NOT additional
3) The projects should not result in diversion of existing Overseas Development Assistance (ODA) (Decision 17/CP.7 preamble and Decision 3/CMP.1 Appendix B para 2(f)). This requirement mandates that even though ODA can be utilised for host country capacity building for participating in the CDM as a whole, it is not allowed to use the ODA for project investment and CER payments.

3.4 Role of Private Sector

The CDM is innovative in the sense that both private and public sectors are envisaged to participate in the mechanism activities. It is believed that major investment for implementation of CDM projects will be from the private entities investing in environmentally benign projects in order to capitalise on the opportunity to participate in the developed country markets in trading emission reductions (Article 12(9) Kyoto Protocol - Decision 3/CMP.1 Annexe para 33).

The main implications from private and public sector participation are that cost effective implementation of the market based mechanism justifies the investment for emission reduction. In addition, rigorous monitoring and verification requirements are set for CDM project activities at the international level in order to keep the process as transparent as possible including ensuring that the CERs reflect the real and actual emission reductions.

It is also crucial to keep a constant vigil on the CDM projects as projects in developing countries will allow for an equivalent ton of additional emissions in a developed country with a Kyoto target.

3.5 Key Concepts in the CDM

Project Design Document (PDD)

The Project Design Document (PDD) specifies the key data and information about the proposed CDM project and the PDD format is specified by the CDM EB. The project developer will usually prepare the PDD which generally includes the methodology used to establish baseline emissions, a monitoring plan, an analysis of the environmental impact of the project, and a certification from the host country that the project is undertaken voluntarily and will assist it in achieving sustainable development.
As seen in Figure 6, the proposed CDM project is required to go through a CDM EB specified CDM project cycle which includes project preparation, registration and monitoring. The PDD also includes carrying out project stakeholder consultation as part of the CDM design process. The project proponents are obliged to invite local stakeholders for comment, summarise those comments and report on how relevant concerns were addressed (Decision 3/CMP.1 Appendix B).

Approved methodologies from the CDM EB can be readily used by the project developers for development of baseline emissions and the potential emission reductions. In case a new methodology needs to be developed, the project proponents may do so thorough a Designated Operational Entity (DOE) to the CDM EB for consideration and approval if appropriate (Decision 3/CMP.1 Annex para 38 and Appendix C).

**Crediting Period**

The crediting period for the CDM project activity can be 10 years or 21 years (three renewals after 7 years each). The project developer can choose the most appropriate crediting period for a CDM project activity. Once the project has commenced, the project participants are required to implement the monitoring plan contained in the registered PDD (Decision 3/CMP.1 Annex para 56).

**CER Issuance**
Based upon the verification report and a request to issue CERs received by the DOE, the CDM EB will instruct the CDM registry administrator to issue the CERs and distribute them to the project participants (Decision 3/CMP.1 Annex para 66).

**Small-scale CDM Project Activities**

The CDM EB introduced ‘small-scale’ CDM project activities to encourage the development of smaller CDM projects, which typically would be less attractive in terms of the volume of CERs generated relative to transaction costs (the cost of preparing the PDD, validation, registration, and verification). Small-scale project activities can utilise simplified modalities and procedures that do not require the rigorous and expensive approval and assessment processes as required for larger scale projects.

A CDM project activity qualifies as small-scale, if:

- It is a renewable energy project activity with a maximum output capacity equivalent of up to 15 megawatts.
- It is an energy efficiency improvement project activity that reduces energy consumption by up to the equivalent of 60 gigawatt hours per year.
- It is any other project activity that both reduces anthropogenic emissions by sources and directly emits less than 60 kilotonnes of CO₂ per year.

The small-scale CDM project activities can take advantage of:

- A simplified PDD
- Simplified methodologies for determining a baseline and creating a monitoring plan.
- The ability to bundle project activities (discussed later).
- Simplified procedures for the demonstration and assessment of additionality.
- Simplified provisions for environmental impact analysis.
- Lowered registration fee.
- The ability to utilise the same DOE to validate and verify emission reductions for a single project.

Small scale projects have the potential to contribute substantially to sustainable development objectives, particularly those associated with the deployment of energy technologies that will improve the livelihoods of rural communities. However, the transaction costs associated with developing small scale projects under the CDM are relatively high relative to the direct emission reduction benefits that may be available.
Bundling

Bundling is a concept that allows a large number of small projects to be combined within one PDD, thereby reducing potential transaction costs. Projects may be bundled as long as the total size of aggregated projects is below the threshold levels for a single project as outlined in the section earlier.

![Diagram of Bundling Organisation]

Figure 7: CDM Project Bundling

Bundling can include multiple technologies, i.e. a number of small solar, hydro and biomass projects could be bundled together in one PDD. Due to the size of many potential projects across the globe, bundling has great potential throughout the world.

The key benefits of bundling include:

- Reduced project development costs
- The project implementation costs are reduced due to lower procurement costs
- Reduction in operation and maintenance costs
- Lower transaction costs when compared to individual CDM projects.

3.6 Organisations involved in CDM

Designated National Authority

Parties participating in the CDM must designate a National Authority to approve proposed CDM projects. The DNA is the person or body within the host country responsible for oversight of CDM project activities.
The role of DNA in a host country involves:

- Development of host country CDM project approval criteria, including assessment of CDM projects contributing to sustainable development.
- Assessment of CDM projects with respect to national policies and development activities.
- Issuing letters of approval for CDM project activities i.e. 'Host Country Approval'.

DNAs may also be involved in other activities including promoting and marketing CDM investment opportunities in the host country, providing technical assistance to project developers and attracting donors and financing. Some DNAs are also involved in the on-going monitoring of project activities.

Currently 161 countries, including 129 developing countries, have established a DNA for facilitating active participation in the CDM processes. The establishment of a DNA in a host country depends on the legal and administrative culture and structure, funding availability and the potential and expected number of CDM projects. It may also be noted that active participation and inclusion of private entities and NGOs in the activities of DNA will provide an opportunity for diverse stakeholders to participate and influence national politics on DNA decision making.

The size and scope of activities undertaken by these bodies varies depending upon the needs and resources of individual countries. The DNA need not be a new government entity or dedicated department. In Fiji and PNG, for example, DNA functions are carried out within the broader mandate of the Department of Environment and Department of Natural Planning and Rural Development respectively. In contrast, China’s DNA, which oversees hundreds of CDM project activities, is large. Legislation has been passed which sets out the DNAs mandate and provides criteria for participation in the CDM.

The host country authority on CDM, i.e., DNA, is required to have continuous liaison with all the key stakeholders within the host country including the UNFCCC. Therefore, it is essential that a dedicated point of contact within the DNA needs to be established. It is also apparent that the DNA should have the necessary expertise to assess potential projects against host country criteria, through the expertise that can be found within existing departments or ministries or externally. The DNA should be accessible, able to facilitate effective and efficient CDM approval, and able to facilitate coordination between government departments to avoid delays in approvals.
**Designated Operational Entity (DOE)**

The Designated Operational Entities (DOEs) are the organisations/agencies which are accredited by the CDM EB and are responsible for reviewing the PDDs against all the requirements under CDM. DOEs are responsible for approving the technical and legal aspects of a proposed CDM project including the project’s justification for additionality, its greenhouse gas emissions baseline and its monitoring plan.

The DOEs will also validate the CDM project activity based on the sectoral scope of the proposed project activity (see Table 4), upon which the PDD for the project will be submitted to the CDM EB for registration. Once the project is registered and implemented, a DOE will also verify the emission reductions resulting from registered CDM project activity.

**Table 4: CDM Sectoral Scope**

<table>
<thead>
<tr>
<th>Scope No.</th>
<th>Sectoral Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Energy industries (renewable - / non-renewable sources)</td>
</tr>
<tr>
<td>2</td>
<td>Energy distribution</td>
</tr>
<tr>
<td>3</td>
<td>Energy demand</td>
</tr>
<tr>
<td>4</td>
<td>Manufacturing industries</td>
</tr>
<tr>
<td>5</td>
<td>Chemical industries</td>
</tr>
<tr>
<td>6</td>
<td>Construction</td>
</tr>
<tr>
<td>7</td>
<td>Transport</td>
</tr>
<tr>
<td>8</td>
<td>Mining/mineral production</td>
</tr>
<tr>
<td>9</td>
<td>Metal production</td>
</tr>
<tr>
<td>10</td>
<td>Fugitive emissions from fuels (solid, oil and gas)</td>
</tr>
<tr>
<td>11</td>
<td>Fugitive emissions from production and consumption of halocarbons and sulphur hexafluoride</td>
</tr>
<tr>
<td>12</td>
<td>Solvent use</td>
</tr>
<tr>
<td>13</td>
<td>Waste handling and disposal</td>
</tr>
<tr>
<td>14</td>
<td>Afforestation and reforestation</td>
</tr>
<tr>
<td>15</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>

Source: http://CDM.unfccc.int

The CDM EB also specifies that not all the DOEs will be able to validate all the projects as many DOEs are proficient in dealing with certain selected sectors only, such as energy industries, energy demand, construction, transport, waste, afforestation and reforestation, or agriculture. Depending on the type and nature of
the project it might also be necessary to select a different DOE for each of the validation, verification and certification functions.

As a general rule, in order to avoid conflicts of interest, different DOEs will be selected for different steps in the process. However, for small scale projects, in order to minimise costs and simplify the process, a single DOE can perform both validation and verification.

**CDM Executive Board (CDM EB)**

The CDM Executive Board is the entity which registers a CDM project activity under the norms of the Kyoto Protocol. The CDM EB consists of ten members and ten alternate members, and represents a regional balance of developed and developing countries (Decision 3/CMP.1 Annex para 7-9) (United Nations 2008).

The key activities of the CDM EB include (Decision 3/CMP.1 Annex para 5):

- reviewing modalities and procedures for CDM activities and making recommendation to the COP/MOP
- approving new methodologies (e.g.: for establishing baselines, project boundaries and monitoring)
- accrediting and designating operational entities
- maintaining the CDM project registry
- reviewing project validation and verification reports prepared by designated operational entities and
- issuing verified CERs.

Once a project is registered with the CDM EB it is considered that the board has accepted the validated project as a CDM project activity. Registration is a prerequisite for the verification, certification and issuance of CERs (Decision 3/CMP.1 Annex para 36). Unless a participating party or three EB members request a review of the project, its registration becomes final after eight weeks (Decision 3/CMP.1 Annex para 41).

### 3.7 Programme of Activities (PoA)

**Programme of Activities (PoA)**

A Programme of Activities (PoA) is a voluntary coordinated action by a private or public entity which coordinates and implements any policy/measure or stated goal (i.e. incentive schemes and voluntary programmes), which leads to anthropogenic GHG emission reductions or net anthropogenic greenhouse gas removals by sinks
that are additional to any that would occur in the absence of the PoA, via an unlimited number of CPAs\(^2\).

CDM PoA makes it easier for project developers to create smaller projects in dispersed locations and facilities, which is typical the situation in most of the Pacific Island Countries (PICs). An unlimited number of activities can be registered under one PoA which helps in reducing transaction costs. CDM PoA provides an opportunity to PICs to overcome the barriers of low economies of scale & high transaction costs to the volume of CERs.

A Programme of Activities (PoA) provides the organizational and methodological framework for component project activities (CPAs) with the same stated goal to operate within a single registered CDM programme activity

**Multi Country PoA**

The physical boundary of a registered PoA can be extended to more than one country provided that each participating non-annex I Host Party provides confirmation that the PoA, and thereby all CPAs, assists it in achieving sustainable development (EB 32, Annex 38)\(^3\).

**Multiple technology/measure**

It is possible to develop a PoA which implements various combinations of technologies/measures and/or approved methodologies. This will help reduce the transaction cost, especially in LDCs, as the PoA can cover a combination of technologies/measures and the PoA boundary can be expanded to more than one country.

**Key Advantages of PoA**

- Drastically shorter time to market for project implementers who wish to secure CER revenues since the inclusion of CPAs in a registered PoA no longer require approval from the CDM Executive Board in Bonn.
- Substantially lower transaction costs because the registration and verification processes for CPAs are streamlined.

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\(^2\) A CPA is a project activity under a PoA. A CPA is a single, or a set of interrelated measure(s), to reduce GHG emissions or result in net anthropogenic greenhouse gas removals by sinks, applied within a designated area defined in the baseline methodology/ies.

\(^3\) [http://cdm.unfccc.int/EB/032/eb32_repan38.pdf](http://cdm.unfccc.int/EB/032/eb32_repan38.pdf)
- Full scalability since, in contrast to a standard CDM project, a PoA does not need to define ex-ante the scale and location of each project activity. Thus, they can serve as the first step towards establishing sectoral approaches for reducing GHG emissions and can be seen as the CDM tool for implementing government policies.
- Opportunities to convert future carbon revenues into upfront carbon finance by reducing the risk of non-registration and shortening the lag before CDM income is realized.

3.8 Simplified CDM Rules Applicable for Pacific Island Countries (PICs)

Micro scale additionality

As per ‘Guidelines for Demonstrating Additionality of Microscale Project Activities’ (EB 68, Annex 26) the following projects are considered additional if implemented in Least Developed Countries and/or Small Island Developing States (LDCs/SIDS)

- Project activities up to five megawatts that employ renewable energy technology.
- Energy efficiency project activities that aim to achieve energy savings at a scale of no more than 20 gigawatt hours per year.
- Type III project activities that aim to achieve emission reductions at a scale of no more than 20 ktCO2e per year.

Most of the PICs are categorized as LDCs/SIDS and normally consist of activities that fall under the above categories.

No registration fees

As per the current guidelines (EB54, Annex 29)

- No registration fee must be paid for proposed project activities hosted in least developed countries
- No registration fee must be paid until after the date of the first issuance of certified emissions reductions in countries with fewer than 10 registered CDM project activities. (Note that all the PICs have less than 10 registered CDM project activities)

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The CDM Loan scheme

A new loan scheme was launched in April 2012, which is aimed at helping to support Clean Development Mechanism (CDM) projects in least developed countries (LDCs). The CDM Loan Scheme will provide interest-free loans for CDM projects to LDCs as well as countries that have fewer than 10 registered CDM projects. The scheme is run jointly by the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Environment Programme (UNEP) Risoe Centre and the United Nations Office for Project Services (UNOPS). The scheme aims to support the following activities:

- To cover the costs of the development of Project Design Documents (PDDs);
- To cover the costs of validation and the first verification for these project activities.

The recipients must start repaying their loan from the first year of issuance of CERs. The loan scheme is to be funded by the interest accrued on the principal of the Trust Fund of the CDM, as well as any voluntary contribution from donors.

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4 CDM in Vanuatu

Overall, Vanuatu is extremely vulnerable to natural disasters. According to the Commonwealth Vulnerability Index, Vanuatu ranks as the world’s most vulnerable country out of 111 developing countries assessed. Due to this high vulnerability, Vanuatu is still accorded UN-listed least developed country (LDC) status despite a per capita GDP above the LDC threshold.

Vanuatu is classified as a non-Annex I country under the United Nations Framework Convention on Climate Change (UNFCCC). The country has ratified the Kyoto Protocol in 2001. The Republic of Vanuatu has appointed a Designated National Authority (DNA) to fulfil its obligations under the Kyoto Protocol, thereby supporting the implementation of investment projects in Vanuatu under the Clean Development Mechanism (CDM) that will lead to the reduction of greenhouse gases regulated by the Kyoto Protocol.

The DNA is established in the Vanuatu Meteorological & Geo Hazards Department, with the National Advisory Committee on Climate Change (NACCC), an interdepartmental committee made up of senior officers from across government and mandated by the Council of Ministers, Government of Vanuatu as overseeing body to issue binding recommendations for the DNA when answering requests for issuing of Letters of No Objection (LON) or Letter of Approval (LOA). More information on Vanuatu DNA and LON and LOA approval process is discussed further in this report.

4.1 Kyoto Protocol and Ratification Status

- Ratification of the Climate Change Convention: 25 March 1993
- Ratification of the Kyoto Protocol: 17 July 2001
- Establishment of the Climate Change Office at the Vanuatu Meteorological & Geo Hazards Department: 2005
- Establishment of NACCC: 1989

4.2 UNFCCC Related Works

- Vanuatu Initial National Communication Report: 30 October 1999
4.3 Potential CDM Projects Identified in Vanuatu

1) **Port Vila Biogas Project** - aims at providing safer sanitation services to all the residents of greater Port Vila; estimated 138,000 m³/year of biogas; estimated generation of 275 MWh/year; Estimated emission reduction (ER) of 4200 tCO₂e/year; meeting the criteria of Micro Scale Project, therefore it is automatically additional.

2) **Brenwei River Mini Hydropower Project** – aims at providing electricity in Malekula to promote local industry and stimulate economic development; capacity- 1200kW; ER- 4,241 tCO₂e/year; meeting the criteria of Mirco Scale Project, therefore it is automatically additional.

![Brenwei River Mini Hydropower Project proposed Site in Malekula, Vanuatu](image)

3) **Wampu Hydropower Project** – aims at supplying electricity to Luganville town, Santo; Generating capacity-4MW; Energy production 18.35 GWh/year; ER-11,569 tCO₂e/year; meeting the criteria of Mirco Scale Project, therefore it is automatically additional.

4) **Efate Geothermal Power Project (Phase 1)** – aims at boosting Vanuatu’s economy through the provision of reliable and affordable electricity; Generating capacity – 5MW; ER –19,237 tCO₂e/year; meeting the criteria of Mirco Scale Project, therefore it is automatically additional.

5) **Efate Geothermal Power Project (Phase 2)** – aims at boosting Vanuatu’s economy through the provision of reliable and affordable electricity; Generating capacity – 5MW; ER - 19,237 tCO₂e/year; meeting the criteria of Mirco Scale Project, therefore it is automatically additional.
4.4 Potential PoA Identified in Vanuatu

1) Disseminating Solar lamps in Pacific Island Countries – Multi country PoA, aims to replace kerosene lamps with portable solar lightning systems. ER- 3,200 tCO$_2$e during the crediting period. Meets criteria’s of Programme of Activities (PoA).

2) Disseminating Efficient Cook Stoves in Pacific Island Countries – Multi country PoA, aims to replace inefficient open fire cooking system with efficient cook stoves. Estimated CER generation: 34,315 tCO$_2$e during the crediting period. This PoA can generate high sustainable development benefits in the form of reducing indoor air pollution, protecting local forest, and improving the living conditions of poor residents.
4.5 Recent CDM Activities in Vanuatu

Three Clean Development Mechanism (CDM) capacity building workshops under the EC ACP CDM Capacity Building Project were organised in 2012 in Vanuatu. The workshops were organized by Climate Change Unit under the Department of Meteorology and Geo-hazards, Ministry of Infrastructure and Public Utilities, Government of Vanuatu in collaboration with UNEP Risoe Centre (URC), Denmark.

Table 3: Recent CDM Related developments in Vanuatu

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third National Capacity Building</td>
<td>4&lt;sup&gt;th&lt;/sup&gt; -5&lt;sup&gt;th&lt;/sup&gt; September 2012</td>
<td>Hotel Melanesian, Port Vila</td>
</tr>
<tr>
<td>Workshop</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vanuatu DNA established</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt; September 2012</td>
<td>Port Vila</td>
</tr>
<tr>
<td>Second National Capacity Building</td>
<td>18&lt;sup&gt;th&lt;/sup&gt; -19&lt;sup&gt;th&lt;/sup&gt; June 2012</td>
<td>Hotel Melanesian, Port Vila</td>
</tr>
<tr>
<td>Workshop</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First National Capacity Building</td>
<td>6&lt;sup&gt;th&lt;/sup&gt; -7&lt;sup&gt;th&lt;/sup&gt; March 2012</td>
<td>Hotel Melanesian, Port Vila</td>
</tr>
<tr>
<td>workshop</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Climate Change Unit under the Department of Meteorology and Geo-hazards, Ministry of Infrastructure and Public Utilities, Government of Vanuatu.
5. CDM Institutional Framework in Vanuatu

5.1 Designated National Authority (DNA)

The Climate Change unit under Vanuatu Meteorological & Geo Hazards Department is hosting the DNA supported by the National Climate Change Coordination Committee (NACCC), which is an interdepartmental committee made up of senior officers from across government and mandated by the Council of Ministers, Government of Vanuatu. The organizational structure of the DNA consists of the following:

- UNFCCC Focal Point is the DNA for Vanuatu.
- The DNA Secretariat is hosted by the Climate Change Unit, Vanuatu Meteorological & Geo Hazards Department and
- The National Advisory Committee on Climate Change (NACCC), an interdepartmental committee made up of senior officers from stakeholder ministries will provide support and direction to the DNA.

5.2 National Climate Change Coordination Committee (NACC)

The National Climate Change Coordination Committee (NACCC), an interdepartmental committee made up of senior officers from across government and mandated by the Council of Ministers, Government of Vanuatu is the key decision making body on climate change related issues in Vanuatu. The NACCC oversees the implementation of the Kyoto Protocol and any related plans of action on the climate change front in Vanuatu. The NACCC consists of the following members:

- UNFCCC Focal Point (who is also the DNA)
- Chair of the NACCC
- Director of Meteorology
- The Director of Civil Aviation Authority
- The Director of Quarantine & Inspection Services
- The Director of Forestry
- The UN Desk Officer, Foreign Affairs
- The Food Security Officer, Agricultural Department
5.3 CDM Project Approval Procedure

- Document 1 is the request for issuance of a LoN from the DNA by the Project Proponent. The request is to be sent from the Project Proponent to the DNA Secretariat (Climate Change Unit, Vanuatu Meteorological & Geo Hazards Department) according to the indications on the DNA/NACCC homepage using the format and including the required attachment Document 2.

- The DNA Secretariat sends a notice of meeting with attachments including the request for a LoN, to all members of the NACCC, including a proposal for a recommendation by the NACCC for issuing or not of the LoN.

- The NACCC meeting is held and the decision for a recommendation is logged in the Protocol of the NACCC and brought in to the DNA Secretariat (Climate Change Unit, Vanuatu Meteorological & Geo Hazards Department) for drafting of minutes of meeting to be posted to all NACCC members for signing before issuing a response to the request for LoN.

- In accordance with DNA Secretariat (Climate Change Unit, Vanuatu Meteorological & Geo Hazards Department) administrative procedures, the DNA may during or after the NACCC meeting sign the LoN or refusal to issue such document in accordance with the binding recommendation stated by the NACCC.

- Based on the recommendation of the NACCC, the DNA Secretariat shall dispatch the signed LoN to the project proponent.
**Letter of No Objection (LON)**

The Letter of No Objection is a statement by the DNA that the proposed CDM project is expected to receive a Letter of Approval once a Project Design Document (PDD) for the proposed CDM project has been developed by the project proponent and the PDD has been validated by a Designated Operational Entity (DOE).
The LON is a non-binding statement that does not serve any operational purpose in the UNFCC CDM registration procedures. However, the LON can be a very operational document when it comes to attracting an international buyer of the CERs, which is the main purpose of implementing the project as a CDM project.

**Letter of Approval (LOA)**

The Letter of Approval is the host country approval of a CDM project, which is a requirement for a project that is seeking registration as a CDM project with the CDM Executive Board. The LOA is to be attached together with the PDD when the DOE submits a request for registration of the CDM project to the EB CDM. The LOA shall fulfil the requirements of the Kyoto Protocol and the rules and modalities of the CDM as they are adopted by the Parties to the Protocol.

The Project Proponent needs to submit a request for issuance of a LOA (or LON) to the DNA Secretariat (Climate Change Unit, Vanuatu Meteorological & Geo Hazards Department) using the LOA/LON request template as per the DNA manual guidelines. Upon receipt of the request, the DNA Secretariat will send a notice of meeting with attachments including the request for a LOA/LON, to all members of the NACCC, including a proposal for a recommendation by the NACCC for issuing or not of the LOA/LON.

The NACCC is envisaged to meet regularly or on a case by case schedule, depending on the amounts of requests received by the DNA Secretariat. The NACCC meeting decision for a recommendation is logged in the Protocol of the NACCC and brought in to the DNA Secretariat for drafting of minutes of meeting to be posted to all NACCC members for signing before issuing a response to the request for LOA/LON.

In accordance with DNA Secretariat administrative procedures, the DNA may during or after the NACCC meeting sign the LOA/LON or refusal to issue such document in accordance with the binding recommendation stated by the NACCC.

In case of LoN, based on the recommendation of the NACCC, the DNA Secretariat dispatches the signed LON to the project proponent. In case of LOA, based on the
recommendation of the NACCC, the DNA Secretariat submits the signed LOA to the Council of Ministers for Cabinet endorsement.

Upon endorsement by the Council of Ministers, the DNA Secretariat will then dispatch the LoA to the Project Proponent.

5.4 CDM Project Approval Criteria

Each CDM project will be reviewed by DNA against its compliance with national sustainable development goals and objectives. In particular, each proposed CDM project should enable:

a) Economic Sustainability - deliver a net contribution to economic development (including the transfer of more efficient and environmentally friendly technologies, improved employment, decreased dependence on energy imports, positive financial flows), or at least not result in net economic loss;

b) Environmental Sustainability - provide a net environmental benefit to Vanuatu or the local community in which it is located (reduced GHG emissions, air quality, waste reductions), or at least not result in a net adverse environmental impact;

c) Social and Cultural Sustainability - contribute to an improvement in social conditions and host country cultural aspects (poverty alleviation, more equitable distribution of benefits), or at least not result in a net adverse social impact.

For each of the three sustainability categories, the following parameters will be evaluated. The indicators and criteria are being guided by the Priorities and Action Agenda 2006-15, Planning Long Acting Short 2009-12, Vanuatu National Assessment Report, Vanuatu Energy Road Map.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Services and Social Development</td>
<td>➢ Improve the health status of the people;</td>
</tr>
<tr>
<td></td>
<td>➢ Improve access to basic services</td>
</tr>
<tr>
<td></td>
<td>➢ Improve the quality of basic services delivered</td>
</tr>
<tr>
<td></td>
<td>➢ Make more effective use of local resources.</td>
</tr>
</tbody>
</table>

<p>| Education and Human Resource Development | ➢ Improve access to education and ensure gender balance;         |
|                                          | ➢ Raise the quality and relevance of education;                 |
|                                          | ➢ Improve planning, fiscal and financial management in the project sector. |</p>
<table>
<thead>
<tr>
<th>Project Impacts on job creation including:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment Creation</strong></td>
</tr>
<tr>
<td>➢ Improved employment opportunities</td>
</tr>
<tr>
<td>➢ Improved job prospects for young unemployed and women</td>
</tr>
<tr>
<td>➢ Improved skilled employment opportunities</td>
</tr>
<tr>
<td><strong>Economic stability and Equitable Growth</strong></td>
</tr>
<tr>
<td>➢ Promoting equitable and sustainable economic growth to improve basic services, infrastructure and the environment.</td>
</tr>
<tr>
<td>➢ Improvement in the socio-economic prospects within the community and region.</td>
</tr>
<tr>
<td><strong>Access to Energy</strong></td>
</tr>
<tr>
<td>➢ Improved access to energy/electricity for the local community/region</td>
</tr>
<tr>
<td>➢ Share of electricity generated by the project supplied to the local community</td>
</tr>
<tr>
<td>➢ Subsidised electricity to community</td>
</tr>
<tr>
<td><strong>Environmental Management</strong></td>
</tr>
<tr>
<td>➢ Promote sound and sustainable environmental management practices</td>
</tr>
<tr>
<td>➢ Ensure sustainable management and conservation of Vanuatu’s biodiversity</td>
</tr>
</tbody>
</table>
6. Other Policies Related to CDM Investment in Vanuatu

6.1 Investment Policy and Regulations

Under the Comprehensive Reform Programme, the government’s investment policy remains one of encouraging and welcoming foreign investment.

The government has enacted the Foreign Investment Act (No.15) 1998 to create a favourable environment for foreign investments. Under the Act, the Vanuatu Investment Promotion Authority (VIPA) is responsible for promoting and facilitating all foreign investments.

All foreign investors should get an approval from the VIPA Board and should approach VIPA for inquiries and foreign investment applications. The average period of time involved in processing an investment application from the point of submission to the final approval is three weeks. A limited number of small-scale activities are, however, restricted to Vanuatu citizens. Examples include small food processing, kava bars, small-scale building service operations and hotels/motels with less than 10 rooms (further details can be obtained from VIPA).

Investment incentives are applied on a project-by-project basis. The primary incentive for investment in Vanuatu is its freedom from corporate tax, income tax, estate duties and non-capital gains tax. In addition, there is no withholding tax and Vanuatu does not have any treaties or double taxation agreements with other countries. All investments over 1 billion Vatu enjoy zero duty.

6.2 Tax Exemptions

The Government of the Republic of Vanuatu has provided for the granting of exemption from payment of customs duty on goods imported for manufacture or process, and a reduction to a minimum rate of not less than 5 per cent on specified imports as mentioned in Schedules III of the Vanuatu Customs Tariff, under Section 1 for Economic Relief, as follows:

- Goods imported for Manufacture or Process (Total exemption)
- Goods imported for Agriculture, Horticulture, Livestock or Forestry Projects
CDM Investors’ Guide

- Goods imported for a Tourism Development Project
- Goods imported for Mineral Exploration and Extraction
- Fisheries Industry Equipment

Application for exemptions prior to the commencement of a project is recommended and the grant of exemption is always subject to the condition that the goods imported fall within the policy guidelines laid down by the Government of Vanuatu.

New investment in Vanuatu is welcomed by the Government particularly in areas of industry, tourism and agriculture.

6.3 Value Added Tax

Value Added Tax (VAT), otherwise known as GST in other countries, is a tax on consumption as legislated by the Value Added Tax Act No. 12 of 1998. It is charged and accounted for at a rate of 12.5 per cent.

If a person has an annual turnover of VT 4 million or more in his or her taxable activity, then the person must register for VAT.

6.4 Land

About 90 per cent of the land in Vanuatu is held by its traditional owners. The government owns the majority of the balance, most of which is located in the urban areas of Port Vila and Luganville. Land can be leased from either the government or traditional land owners. No negotiation with traditional land owners can be undertaken without the prior permission of the government, which is granted by the Department of Lands in the form of a certificate of negotiation. Land leases are for 75 years and are renewable.

The Land Use Planning Office within the Department of Lands has prepared an extensive database on land quality, tenure, topography, existing use and environmental issues. This database is a useful source of information for overseas investors seeking land for particular purposes.

6.5 Environmental Protection and Conservation

Government policy on environment and conservation is to provide an affordable framework of environmental protection and compliance within Vanuatu. This is realised through the enactment of the Environmental Management and Conservation
Act No. 12 of 2002. This commenced as law on 09 March 2003. This is the only legislation governing environmental protection of all natural resources in Vanuatu. It requires mandatory EIAs carried out for all developments that affect the environment before any local or national authority gives consent to developers and project proponents.

The Environmental Protection and Conservation Act No. 12 of 2002 and amended in 2010, focuses on conservation, sustainable development and management of the environment. Part 3 (sections 11-28) of the Act provides necessary statutory linkages and inter Government agency co-ordination for implementing EIAs. Subject to a few exceptions this law states that EIAs are mandatory for all development activities, projects and proposals that cause or are likely to cause significant environmental, social and or custom impacts, especially those that are likely to:

- affect coastal dynamics or result in coastal erosion;
- result in pollution of water resources;
- affect any protected, rare, threatened or endangered species, its habitat or nesting grounds;
- result in the contamination of land;
- endanger public health;
- affect important custom resources;
- affect protected or proposed protected areas;
- affect air quality;
- result in unsustainable use of renewable resources;
- result in introduction of foreign organisms and species; etc.

The Act also grants the Director of the Environment Department powers to intervene on his/her own initiative and request an EIA for any proposed development if s/he sees fit. Where any activity requiring an EIA is carried out by a project proponent in the absence of any Ministerial approval as set out in the Act a convicted offender faces penalty fines up to one million vatu and/or face up to two years imprisonment.

A Preliminary Environmental Assessment (PEA) is required for all activities subject to the Act. The Act also describes how the EIA is to be conducted (including required notifications and consultations), reviewed, approved and appealed.
## Table 5: Vanuatu's National Energy Road Map and Infrastructure Strategic Investment Plan

<table>
<thead>
<tr>
<th>National Energy Roadmap</th>
<th>Vanuatu Infrastructure Strategic Investment (VISIP) Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision</strong></td>
<td>&quot;VISIP outlines Vanuatu’s priorities and plans for major infrastructure over the next 5-10 years&quot;</td>
</tr>
<tr>
<td>&quot;To energise Vanuatu’s growth and development through the provision of secure, affordable, widely accessible, high quality, clean energy services for an Educated, Healthy, and Wealthy nation&quot;</td>
<td></td>
</tr>
<tr>
<td><strong>Priorities</strong></td>
<td><strong>Priority Projects include:</strong></td>
</tr>
<tr>
<td>2. Access Rate – increase rate of electricity connections in the country</td>
<td>i. Port Vila Solid Waste Management Project</td>
</tr>
<tr>
<td>3. Affordability – Options of making electricity more affordable for all consumers</td>
<td>ii. Luganville Solid Waste Management</td>
</tr>
<tr>
<td>5. Climate Change – Examine options for renewable energy and energy efficiency/energy conservation.</td>
<td>i. Takara Geothermal Power Plant, Efate</td>
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<td>ii. Brenwe Hydro Power Project, Malekula</td>
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<td>iii. Wampu Hydro Power Project, South Santo</td>
</tr>
</tbody>
</table>
| Solar Lamp planned to be disseminated under the PoA
Appendix 1: Key Contacts

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Photo: Devil's Point Wind Farm (11 X 275 kW wind turbines) on Efaté Island in Vanuatu

More information about the CDM Component of the ACP MEA Programme:

http://acf-cd4cdm.org