

CDM-EB82-AA-A02

Concept note

Simplification of the project submission, registration and issuance processes and further opportunities for streamlining of the CDM

Version 01.0



United Nations
Framework Convention on
Climate Change

1. Procedural background

1. The development of the clean development mechanism (CDM) regulations and operation over the years has focused on addressing all possible scenarios and closing “loopholes” through the “learning-by-doing” approach, resulting in somewhat of a patchwork of requirements and procedural steps. This has often prompted criticism of the CDM as being bureaucratic, cumbersome, lengthy and unpredictable, and possibly further discourages the uptake of the CDM, especially in the current times of low demand and low prices of certified emission reductions (CERs).
2. In an effort to address this, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) has frequently requested the CDM Executive Board (the Board) to simplify and streamline the CDM. Such requests from the CMP in recent years have included, among others, the following:
 - (a) “Requests the Executive Board, based on the experience gained through the application of materiality, as defined in decision 9/CMP.7, and in consultation with the Designated Operational Entities/Accredited Independent Entities Coordination Forum, to review the concept of materiality in the verification process and, if applicable, how it can be further applied in the clean development mechanism” (decision 3/CMP.9, para. 21);
 - (b) “Further requests the Executive Board to further analyse options to allow the simplified registration of project activities and programmes of activities that qualify as automatically additional and report back to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eleventh session for its consideration: the options would include, inter alia, that registration is approved on the basis of a standardized pre-approved registration template using objective criteria without prior validation through a designated operational entity, combined with ex post confirmation by a designated operational entity during the first verification of the compliance with the registered template of the implemented project activity or programme of activities” (decision 4/CMP.10, para. 13);
 - (c) “Requests the Executive Board to analyse the implications, and possible provisions for ensuring environmental integrity, of allowing the same designated operational entity to carry out validation and verification for the same project activity or programme of activities of all scales and report back on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eleventh session for its consideration” (decision 4/CMP.10, para. 14);
 - (d) “Requests the Executive Board to streamline provisions relating to programmes of activities in the “CDM project standard”, “CDM validation and verification standard”, “CDM project cycle procedure” and other relevant documents, with a view to achieving consistency in a consolidated set of rules” (decision 4/CMP.10, para. 17);
 - (e) “Also requests the Executive Board to consider adjusting, and if appropriate implement, the rules governing programmes of activities to

reflect the special features of programmes of activities in order to facilitate effective implementation and reduce associated transaction costs while ensuring environmental integrity, taking into account the implications for liability with regard to the issuance of certified emission reductions resulting from significant deficiencies in validation, verification and certification reports, including rules that:

- (i) Apply microscale thresholds at the unit level rather than at the component project activity level;
 - (ii) Allow, as an option, a simplified validation and registration process for activities that satisfy microscale thresholds and are considered automatically additional; this option shall allow for:
 - (iii) Validation of a programme of activities without the submission of a specific-case component project activity;
 - (iv) Inclusion on the basis of a pre-approved standardized inclusion template of component project activities carried out directly by the coordinating/managing entity without prior validation through a designated operational entity” (decision 4/CMP.10, para. 18);
- (f) “Requests the Executive Board to explore and analyse options to improve accreditation of operational entities in regions underrepresented in the clean development mechanism, and report back on this matter to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eleventh session for its consideration” (decision 4/CMP.10, para. 19).
3. Based on this, or on its own initiative, the Board has been working on simplification/streamlining of several areas of the CDM in recent years. The CDM management plan (MAP) for 2015 contains a planned activity “Simplification of the project submission, registration and issuance processes and further opportunities for streamlining” under objective 1(a) “Operate efficient project and entity assessment processes”. This activity encompasses existing and new actions that would help streamline the CDM, at both the regulatory and operational levels, and covers all relevant mandates from the CMP (up to CMP 10) as well as from the Board (up to EB 81).

2. Project aims

4. The project aims to simplify and streamline the CDM, while maintaining or improving environmental integrity, in order that:
- (a) Transaction costs incurred through participation in the CDM are reduced;
 - (b) The cost-efficiency in the regulation of the CDM is increased;
 - (c) The update of the CDM is increase and preserved over the long term;
 - (d) The use of the CDM infrastructure in other fields is increased, in particular for result-based finance.

3. Key issues and proposed solutions

5. There are many regulatory and operational issues regarding the CDM that may be putting a burden on CDM stakeholders that outweigh the benefits to the system:
 - (a) On project proponents in designing CDM project activities and programmes of activities (PoAs) and monitoring emission reductions or removal enhancements;
 - (b) On designated operational entities (DOEs) in their validation and verification activities;
 - (c) On applicant operational entities in obtaining the accreditation status and on DOEs in their maintaining the accreditation status;
 - (d) On the Board and its support structure in their day-to-day operation of the CDM project cycle.
6. CDM stakeholders often complain that the current CDM system is too complex, requires long preparation and process time, and incurs high transaction costs to follow. It is possible that some of the existing CDM requirements are not always needed to achieve the required goal, in particular environmental integrity.
7. It is expected that most potential for simplifying and streamlining the CDM could be addressed through regulatory and operational changes that fall within the decision-making mandate of the Board. In the event that the Board considers that useful changes would require decisions of the CMP, the Board could provide recommendations to the CMP through its annual report.
8. It is important to ensure that all the ongoing and planned activities of the Board that contribute to the simplification and streamlining of the CDM do not contradict each other, but instead work in the same direction of a simplified/streamlined CDM that will endure the test of time for many years to come.
9. Based on the above, the project will develop **options for the simplification and streamlining of the CDM** based on value-added and cost-benefit analysis, covering, but not limited to:
 - (a) A simplified registration process for project activities and PoAs that are deemed automatically additional (requested by decision 4/CMP.10, para. 13). Such process could include the possibility of automatic registration using templates and post-registration validation (confirmation) for this type of project activities and PoAs;
 - (b) A consolidated, streamlined and user-friendly set of rules governing PoAs (requested by decision 4/CMP.10, paras. 17 and 18). Such set of rules could be a PoA-specific project standard (PS) incorporating all PoA-related methodological standards, validation and verification standard (VVS) and/or project cycle procedure (PCP), or the creation of consolidated sections on PoAs in the existing PS, VVS and PCP;
 - (c) Further application of materiality principles in the CDM (requested by decision 3/CMP.9, para. 21; continuation of MAP 2014 project 240). Such consideration would look into the benefits and feasibility and, if found feasible, propose a new

set of criteria for the extended application of materiality principles to project or programme design and validation;

- (d) Transparent, objective and streamlined criteria for allowing the same DOE validating and verifying the same project activity or PoA for all scales (requested by decision 4/CMP.10, para. 14);
 - (e) Options to improve accreditation of operational entities in regions underrepresented in the CDM (requested by decision 4/CMP.10, para. 19). Such options could be considered in the context of simplification/streamlining of the CDM accreditation process;
 - (f) Options for the use of the CDM infrastructure in other fields (requested per EB 81 report, para. 9). Such options could be developed by analysing first how the existing CDM project cycle may already be used partially or entirely as a monitoring, reporting and verification (MRV) tool in result-based finance schemes, then how the simplified/streamlined CDM could facilitate such use.
10. The areas of work listed as examples in paragraph 9 above will be carried out individually and the resulting subsets of products from this project may be presented to the Board for consideration at different times. However, strong coordination among these subsets of activities will be ensured, based on common principles, in order to ensure consistency and coherence in the results. This would mean that the outcome of the subsets of the activities will feed into the development of overall list of options for the simplification and streamlining of the CDM.
11. The final product (list of options for the simplification and streamlining of the CDM) would address the following aspects of the CDM and may include annexes containing draft regulatory provisions in some areas:
- (a) The features of project activities and programmes to be registered as CDM project activities and PoAs (excluding simplification/streamlining of specific methodologies and methodological tools themselves);
 - (b) The requirements for validation of CDM project activities and PoAs and for verification of monitored emission reductions or removal enhancements;
 - (c) The process of handling requests for registration, issuance, post-registration changes, renewal of crediting period and other steps in the CDM project cycle;
 - (d) The process of developing, revising and clarifying baseline and monitoring methodologies and methodological tools;
 - (e) The process of acknowledging third party independent validation/verification bodies, including their initial accreditation, regular surveillance and reaccreditation.

4. Desired outcomes and impacts

12. The project is to benefit all stakeholders in the CDM, particularly project proponents and DOEs, due to increased efficiency and hence lower transaction costs in registration/issuance, validation/verification and accreditation. The project also aims to

save costs for the Board and the secretariat due to the simplified/streamlined operation of the CDM processes.

13. The project can also be expected to provide a basis for increased uptake of the CDM and to provide a strong basis for its continued operation.

4.1. CMP deliveries

14. The project contains many activities requested by the CMP as indicated in paragraph 9 above. For most of these activities, the CMP requested the Board to make recommendations or report back on their implementation to the CMP. It may also occur that the work under this project may highlight other aspects of CMP decisions that are contributing to unnecessarily high transaction costs or a lengthy process, for which the Board may wish to make further recommendations to the CMP. Expected deliverables to the CMP include:

- (a) Recommendations on simplification/streamlining of the CDM, including:
 - (i) Simplified registration process for project activities and PoAs that are deemed automatically additional;
 - (ii) Further application of materiality principles in the CDM;
 - (iii) Criteria for allowing the same DOE validating/verifying the same project activity or PoA for all scales;
 - (iv) Options to improve accreditation of operational entities in regions underrepresented in the CDM;
- (b) Reporting on:
 - (i) The potential and the status of use of the CDM infrastructure in other fields;
 - (ii) The consolidation and streamlining of provisions governing PoAs.

5. Product/milestones and timelines

15. The project will generate a package of documents containing concrete options for the simplification/streamlining of the CDM, attaching revised or new regulatory provisions in some areas. The timing shown in the table below takes account of the appropriate sequencing of products such that they are able to feed into each other.
16. The Board will need to integrate the agreed changes into the Board's regulations and operations, some of them after the endorsement by the CMP as necessary. This work would extend into 2016.

| Product | EB 82 | EB 83 | EB 84 | EB 85 | EB 86 | EB 87 |
|--|---------|-------|--|-----------------------------|---|-------|
| (1) Project concept note | Concept | | | | | |
| (2) Proposal for simplification and streamlining of the CDM | | | | Concept | Final (Preceded by workshop) | |
| (3) Recommendations to the CMP on simplification/streamlining of the CDM | | | | | Final | |
| (4) Use of the CDM infrastructure in other fields | | | Concept (based on the current CDM system, to be included in final product of (1)) | | Final (based on the proposed simplified and streamlined CDM, included in final product of (1)) | |
| (5) Consolidated and streamlined set of provisions for PoAs | | | Concept | Draft (preceded by call) | Final (Attached to final product of (1)) | |

6. Recommendations to the Board

17. The secretariat recommends that the Board approve the work proposed under this project and provide guidance as required.

7. References

18. The references of the relevant mandates from the CMP and the Board that became the basis for some activities under this project are listed below:
- (a) Decision 3/CMP.9, paragraph 21;
 - (b) Decision 4/CMP.10, paragraphs 13, 14, 17–19;
 - (c) CDM MAP 2014, project 240;
 - (d) EB 81 report, paragraph 9.

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