CLEAN DEVELOPMENT MECHANISM

CDM-EB85-AA-A12

Concept note

Options for accreditation assessment fees

Version 01.0

United Nations
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1. Procedural background

1. The idea of introducing fixed fees for accreditation activities in the clean development mechanism (CDM) was initially raised by the DOE/AIE Coordination Forum Chair during an interaction with the CDM Accreditation Panel (CDM-AP). In particular there was a call, reflected in paragraph 24 of the report of the seventieth meeting of the CDM-AP, to fix or cap accreditation costs per assessment.

2. The CDM Executive Board (hereinafter referred to as the Board), at its eighty-first meeting, further considered this idea during its discussions on a concept note on “Numbers, frequency and timing of assessments of designated operational entities (DOEs)”. At the same meeting, the Board requested the secretariat to prepare, in consultation with the CDM-AP, a concept note on the introduction of fixed fees for assessment activities, for consideration by the Board at a future meeting (EB 81 report, para. 15 (d)).

3. As requested, the secretariat consulted with the CDM-AP on a draft of this concept note at AP 72. The CDM-AP agreed that, of the options presented, maintaining the status quo represents the most feasible option, considering that there is room to reduce costs within the existing framework.

4. It is important to highlight that in the past six months the Board has implemented a number of temporary measures to significantly reduce assessment costs for entities while maintaining the integrity of the accreditation system. It will take a few more months until the effectiveness of such decisions is measurable. Some of the key decisions relevant to the issues discussed in this concept note are:

   (a) The Board, at EB 81, reduced the number of mandatory performance assessments per accreditation term by 40 per cent (three performance assessments per accreditation term instead of five). At the same meeting the Board requested that the secretariat consider travel costs as a criterion when assembling the assessment teams;

   (b) The Board, at EB 83, requested that the secretariat and the CDM-AP prepare a joint concept note analysing various amendments to the “Clean development mechanism accreditation procedure”. One of the proposals (EB 83 meeting report para. 54) is to reduce the number of assessment team members traveling for an on-site regular surveillance.

5. This work relates to the activity ‘Entity assessments’ under objective 1(a): ‘Operate efficient project and entity assessment processes’ with a resource allocation as referred to in table 2 of the Management plan 2015 (EB81, annex 1).

2. Purpose

6. The purpose of this concept note is to enable the Board to assess the merits of various fixed-fee models regarding assessment activities. Each of the options below present preliminary estimates regarding the level of any fixed fee. Based on this introduction to various alternative charging models, the Board may wish to provide the secretariat with instructions to make amendments to the current charging model.

3. Key issues and proposed solutions

3.1. Key issue

7. The key issue is the current state of the CDM market and the pressure this is exercising on entities' businesses. In this context DOEs expressed concern that costs are too high and that other charging modal should be explored to understand if there is any room to lower costs by adjusting the charging model.

8. In response to the Board's mandate, this note focuses specifically on fixed fees as a solution. It may be noted that such a solution is not common in accreditation schemes and does not fully address the problem that has been identified (high costs). Fee structures that are flexible and tailored to the scope and complexity of the certification body are more common.

3.2. Option 1: retain current fee structure (status quo)

9. Before considering a new fee structure it is instructive to provide a brief overview of the current situation. There are two main categories of fees:

   (a) **Application fees** are charged for initial accreditation, reaccreditation and extension of scope and are fixed at USD 15,000 each. This fee covers the cost of the desk review (four person-days) and the overhead costs for running the accreditation system;

   (b) **Accreditation assessment fees** which are charged for performance assessments, regular surveillance and any other additional type of assessment (spot check, ad hoc assessment initial accreditation, etc.). The costs charged to the DOE are the actual variable costs incurred by the assessment team. The assessment fees consist of:

      (i) Daily fee[1] (USD 400 per day);[2]

      (ii) Travel:[3]

         a. Transportation (aeroplane, train, etc.);

         b. Daily Subsistence Allowance (DSA);

[1] The daily assessor fee in other accreditation schemes is between USD 800 and 1,200.

[2] CDM accreditation procedure (v.11.0), appendix 9.

[3] For CDM-AT members from the secretariat, United Nations rules and regulations shall apply.

c. Terminal expenses.

10. The following average accreditation assessment fees are based on the fees charged by secretariat assessment team members and external assessors since 1 January 2013:

(a) Regular surveillance: USD 11,000;[4]

(b) Performance assessment (verification): USD 10,500;

(c) Performance assessment (validation): USD 4,000.

11. These average costs and the below fixed-fee options are a guideline to demonstrate the factor of magnitude. Should the Board decide to adopt fixed assessment fees, the secretariat will collect additional cost information to better estimate the precise level of any fixed-fee option.

12. The difference in cost between these three types of assessments is because regular surveillance and verification performance assessment include a travel component. In addition, there are a differing number of person-days mandated for each type of assessment.

13. The purpose of a regular on-site surveillance is to verify whether the systems, competence and operational capability of the DOE continue to meet CDM accreditation requirements over the accreditation term. An entity is subject to two regular on-site surveillances during its five-year accreditation term: one during the second year and another during the fourth year of its accreditation term.

14. The purpose of a performance assessment is to assess the implementation of the entity's systems and its competence in an accredited sectoral scope through an assessment of a specific validation or verification activity. An entity is subject to at least one performance assessment per year, alternating between validation and verification-type assessments. Given a 'standard' number of assessments within a five-year accreditation term (one initial/reaccreditation, two regular surveillances, two performance assessments (verification) and three performance assessments (validation)) the average entity could expect to pay around USD 70,000, based on current costs. This frequency was modified, on a temporary basis (valid for two years), to once every 20 months (EB 81 report, para. 15). For the sake of simplicity this note ignores this temporary amendment and assumes the timings and frequencies under the CDM accreditation procedure (v.11.0).

15. Additional performance assessments are levied based on the volume of completed requests for registration and issuance. Given the current level of submissions, no entities are reaching the threshold to incur additional performance assessments.

16. External assessors currently bill the entities for their daily fee, DSA and terminal expenses, with the entity typically paying for transportation outright. Transportation for external assessors is organized and paid for by the entity without involving the secretariat. Occasionally accommodation is also organized and paid for by the entity,

[4] All costs indicated in this concept note are based on incomplete information. It was not possible to obtain all cost information from external assessors. All figures throughout this note are rounded to the nearest USD 500. Intermediate calculations are not rounded.

which reduces the DSA. The relevant amount is transferred from the entity directly to the bank account of the external assessor.

17. For internal assessors, the entity is billed by the secretariat for the daily fee, transportation, DSA and terminal expenses. Internal assessors do not receive the daily fee (they are paid a salary) and the secretariat travel unit takes care of the travel arrangements.

3.3. Option 2: fixed accreditation assessment fees

3.3.1. Proposal

18. This option pertains to regular surveillance and performance assessments. These assessments are the most frequent and constitute more than 80 per cent of entity assessments.

19. Regular surveillance, verification performance assessments and validation performance assessments could be fixed at USD 12,000, USD 11,000 and USD 4,500, respectively, based on the currently available data.

20. These fixed fees are larger than the averages provided above as they take into account a 13 per cent processing fee (programme support cost (PSC)). As the secretariat will stand between the DOE and the external assessor in receiving and disbursing the money, a standard 13 per cent is applied. This is based on secretariat rules and is routinely applied in similar situations. In addition a 2.9 per cent[5] adjustment factor is applied to anticipate any inflation in costs.

21. The secretariat would invoice the entity once for the full amount of the whole assessment. The external assessor would bill the secretariat for the daily fee, DSA and terminal expenses based on actual costs. Transportation would be organized and paid for directly by the secretariat, as is currently the case for internal assessors.

22. To ensure that the aggregate level of fees collected is appropriate, the secretariat would have to prepare, on an annual basis, the data and recommendation regarding the fee level. This would entail an annual paper and presentation to the Board and meeting time for discussion.

3.3.2. Option 2: advantages

23. The benefit to the DOEs would be **predictability of costs**. Given a fixed assessment fee the DOE would have more information and be able to plan accordingly. Fixed fees would give entities greater certainty regarding their upcoming assessment costs. Given the current business environment this predictability should be welcome for the entities.

24. The payment of external assessors by the secretariat rather than the DOE is transparent and reduces the possibility of any (perceived) conflict of interest. Option 2 would put financial distance between the entity and the external assessor. This would **mitigate any perceived conflict of interest**.

[5] International Monetary Fund, 2015. *World Economic Outlook: Uneven Growth – short and long term factors*. Washington (April).

3.3.3. Option 2: disadvantages

25. Overall there would be an **increase in administration (for the Board) and cost (for the secretariat)**. Previously the entity was responsible for the external expert's payments and travel arrangements. Under a fixed model the secretariat would be responsible for organizing payments and travel of the external assessor. A large part of this support would be provided by the secretariat's Administrative Services programme which would levy a 13 per cent PSC.

26. Currently the secretariat seeks cost savings (for the entity) by scheduling **back-to-back assessments**. That is, using the same assessment team for assessments that are to be carried out in the same general geographic location. Under such an arrangement the entities agree on sharing transportation costs, DSA and terminal costs. Option 2 is incompatible with such an approach.

27. In some cases external assessors take **voluntary measures** to reduce their cost to the entity (e.g. downgrading to economy class transportation). The incentive for such voluntary measures would vanish under a fixed fee as savings would not be passed on to the entity.

28. Given that the fixed assessment fees approximate the actual aggregate cost of assessments, there would be **no cost savings to the entities**. As entities are currently charged based on cost there is no opportunity to lower the aggregate cost by adopting a different charging model.

29. The suggested levels for the fixed assessment fees above will not (exactly) match the actual costs borne by the secretariat in carrying out entity assessment activities. Any given year will see either a **loss or gain to the CDM budget**.

30. An **annual review of the fixed fee** would require additional administrative time.

31. Fixed assessment fees would create **arbitrary winners and losers**, as compared to what entities were paying previously. For example, consider regular surveillances: on average, an entity in Asia[6] currently pays around USD 12,000 while entities in Europe pay around USD 9,000. There are too few data points in Africa and the Americas to be able to draw any conclusions as to what the average impact would be on fixing assessment fees.

3.4. Option 3: flat annual fee

3.4.1. Proposal

32. Entities could be charged an annual fee to cover a 'standard' number of assessments due within one accreditation term. That is:

    (a) One initial accreditation assessment or reaccreditation assessment;

    (b) Two regular surveillances;

    (c) Five performance assessments (three validations and two verifications).

[6] Defined by the physical location of the 'central office'. For example, under this definition TUV Rheinland (a German company) would be considered to be an Asian entity (central office is in Beijing, China).

33. Based on the average costs of these eight assessments, an annual fee of USD 15,500 could be levied on entities.[7] Payment would be due on the date of initial accreditation and every 12 months thereafter during the accreditation term. As above, a 13 per cent PSC and inflation of 2.9 per cent has been applied.

34. For additional assessments, such as spot checks, desk reviews, volume-based performance assessments, lifting suspension and so on, the entity would be charged based on the actual cost. Additional assessments are infrequent and ad hoc, making it inappropriate to include them in the flat annual fee.

35. The annual fee would be in addition to the USD 15,000 application fee (applicable to initial accreditation, reaccreditation and extension of scope).

36. To ensure fees are paid punctually the sanction of suspension could be automated. For example, if the fee is not received within 30 days of the due date the entity would be suspended in all sectoral scopes until the fee is received.

3.4.2. Option 3: advantages

37. In addition to the advantages of the fixed accreditation assessment fees as outlined in section 3.3.2 above, this proposal has several further advantages.

38. This proposal has **complete cost transparency** for the entity (assuming the annual fee is set correctly and does not require adjusting). Apart from miscellaneous ad hoc assessments the entity will know the amount due for the entire accreditation term. This is especially attractive to prospective applicants and new entities that currently have little information about typical assessment costs.

39. Levying an annual fee on the entities **breaks the link between fee payment and projects** chosen for performance assessment. There have been cases where entities have attempted to pass performance assessment costs onto project participants.

40. Delinking the fee payment from accreditation assessments further **reduces** (compared to option 2 and option 4) **any perceived conflict of interest** between the assessment team receiving payment from the entity.

41. The secretariat is encountering an increased level of recalcitrance from entities to carry out assessments due to the costs involved. Delinking the fee payment from the accreditation assessment could move this recalcitrance to paying the flat annual fee. As proposed above, the **sanction for late fee payment is very clear and immediate**. There is no such clear sanction where an entity attempts to avoid or delay an accreditation assessment.

3.4.3. Option 3: disadvantages

42. In addition to the disadvantages of the fixed accreditation assessment fees option as outlined in in section 3.3.3 above, this proposal has several further disadvantages.

43. The Board would bear some **financial risk** as entities could withdraw before the sum of the annual flat fee paid covers the assessment services consumed. In general,

[7] As entities are currently only subject to three performance assessments per accreditation term (for two years as per EB 81 report, para. 15) the annual fee would be correspondingly lower.

assessments are staked towards the beginning of the accreditation term to ensure all the 'standard' assessments get completed by the end of the accreditation term. Therefore, if an entity were to withdraw early in the accreditation term it would typically have consumed more accreditation services than it had paid for.

44. **Smaller entities would be at a disadvantage** compared to the larger entities (measured by the number of scopes accredited). The aggregate daily fees for smaller entities are usually lower than for larger entities. This slight differentiation between small and large entities would be eliminated by option 3.

45. Consideration of the **timing and frequency of assessments** would become more complex as changes would need to take into account the changes to the level of the annual fee. For example in the recent situation where performance assessments were reduced from five to three per accreditation term[8] the Board would also have had to review the level of the annual flat fee.

3.5. Option 4: partially fixed accreditation fees

3.5.1. Proposal

46. This option pertains to regular surveillance and performance assessments. The difference between this option and option 2 (fixed fee) is that here the transportation costs are paid for by the entity (based on actual cost).

47. Regular surveillance, verification performance assessment and validation performance assessments could be fixed at USD 7,500, USD 6,000 and USD 4,500 respectively, based on the current actual costs. A 13 per cent PSC and 2.9 per cent[9] adjustment factor has been applied to anticipate any inflation in costs.

48. The secretariat would invoice the entity for the above amount to cover the daily fee, DSA and terminal expenses. The external assessor would in turn bill the secretariat for the daily fee, DSA and terminal expenses based on actual costs. There would be no change to the current approach concerning the organization and payment of transportation for the internal and external assessors. That is, the secretariat organizes the travel of the internal assessor and the entity assumes responsibility for the travel of the external assessor.

49. To ensure that the aggregate level of fees collected is appropriate, the secretariat would have to prepare, on an annual basis, the data and recommendation regarding the fee level. This would entail an annual paper and presentation to the Board and meeting time for discussion.

3.5.2. Option 4: advantages

50. The advantages of this option are similar to those of option 2 above, but of a lesser extent.

8 EB 81 report, paragraph 15.

9 International Monetary Fund, 2015. *World Economic Outlook: Uneven Growth – short and long term factors*. Washington (April).

51. This hybrid option would **add some predictability** for entities (but not as much as under options 2 and 3).

52. This option would put **some financial distance** between the external assessor and entity, although not to the same extent as options 2 and 3. The entity would remain responsible for organizing and paying for the external assessor's transportation.

3.5.3. Option 4: disadvantages

53. The disadvantages of this option are similar to those of option 2 above. As under option 2, there would be **no cost savings to the entities.**

54. Overall there would be an **increase in administration (for the Board) and cost (for the secretariat)**. Previously the entity was responsible for the external expert's payments and travel arrangements. Under a fixed model the secretariat would be responsible for organizing payments and travel of the external assessor. A large part of this support would be provided by the secretariat's Administrative Services programme which would levy a 13 per cent PSC.

55. Any given year will see either a **loss or gain to the CDM budget**.

56. An **annual review of the fixed cost** would require additional administrative time.

57. **Arbitrary winners and losers** will be created, but to a much lesser extent than under option 2 as the cost of transportation, a main component of the overall cost to the entity, would remain cost-recoverable.

4. Impacts

58. The recommended option does not foresee any marginal cost implications for DOEs. Other stakeholders are similarly unaffected.

4.1. Option 1 (retain current fee structure (status quo)): advantages

59. This option is **fully implemented**, demonstrated and is well known by the DOEs, the Board and its constituted bodies. There would not be any additional administration cost (for the Board and the secretariat) or additional system requirements.

60. The current model is commonly applied in other accreditation schemes (and similarly applied by the DOEs for their clients in other systems) and is based on international **best practice**.

61. It allows **reducing travel cost** and DSA savings by scheduling back-to-back assessments using the same CDM assessment team for different entities in the same general geographic region.

4.2. Option 1 (retain current fee structure (status quo)): disadvantages

62. The model has certain limitations in terms of predictability of costs to DOEs, particularly under the current business environment as a volume and risk-based approach is applied.

63. Some entities may push back or intentionally delay the conduct of assessments in order to delay costs.

5. Subsequent work and timelines

64. If the Board decides not to make changes to the current fee structure there will be no further work arising from the mandate from EB 81.

65. If the Board decides to pursue a new fee structure, the secretariat will provide a more in-depth proposal, including the exact levels of a fixed fee, draft language for amending the CDM accreditation procedure and implementation steps. The in-depth proposal would also include transitional measures for the implementation of the new fee structure.

66. A new fee structure would require at least the following implementation steps:

(a) Update the accreditation workflow to include steps for processing fixed fees;

(b) Update internal processes to include travel arrangements and payments to external assessors.

6. Recommendations to the Board

67. The secretariat recommends that the Board maintain the status quo (option 1).

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