

CDM-EB90-AA-A04

Concept note

Analysis of impacts on distributing the accreditation fee across the five-year accreditation term (jointly by CDM-AP and secretariat)

Version 01.1



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1. Procedural background

1. The Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board), at its eighty seventh meeting (EB87), considered the concept note on approaches to reduce the accreditation fees charged to DOEs by means of a subsidy and requested the secretariat and CDM Accreditation Panel (CDM-AP) to jointly analyse the impacts of distributing costs evenly across the five-year accreditation term to increase their predictability by spreading out the initial accreditation/reaccreditation fees over the five-year accreditation cycle, and to provide recommendations to the Board at a future meeting.
2. As requested by the Board, this concept note was prepared jointly with the CDM-AP.
3. This work relates to the activity 'Regulatory framework' under objective 1(b) 'Operate an effective regulatory framework resulting in reduced transaction costs for participants in the mechanism' with a resource allocation as referred to in table 3 on page 14 of the CDM management plan 2016 (EB 87, annex 1).

2. Purpose

4. The purpose of this joint concept note between the secretariat and the CDM-AP is to provide the Board with an analysis of the impact of distributing the costs evenly across the five-year accreditation term so that the Board can make an informed decision.

3. Key issues and proposed solutions

3.1. Key issues

5. Poor market conditions have created low incentives for DOEs to operate in the CDM market, particularly for entities based in Non-Annex I countries in Africa and Latin America.
6. The poor market conditions have resulted in the DOEs' withdrawal of their accreditation in all or several sectoral scopes. There are currently 36 accredited DOEs, as compared to 39 accredited DOEs in 2015.
7. In order to create incentives for entities based in Non-Annex I countries, the Board, through the revision of the accreditation procedure in 2009, has allowed entities from Non-Annex I countries to pay only 50 per cent, and pay the rest before the start of the accreditation of prior to the validation/verification activities. This provision was put in place at the 26th meeting of the Board (29 September 2006) but it has been only sporadically used.
8. Assuming that current entities will apply for reaccreditation one year prior to the date of expiry of the accreditation term, 16 entities will be subject to reaccreditation in the second semester of 2016, seven in the second semester of 2017, and nine in the second semester of 2018.
9. The application/reaccreditation fee of USD 15,000 covers the cost of the desk review (four person-days) and the overhead costs for running the accreditation system.

10. The costs for DOE to maintain its accreditation can be grouped into three categories: a) the application/reaccreditation fee; b) the cost of accreditation assessments; and c) the cost of managing its own system (e.g. required internal competence of CDM validator and verifiers). In a five-year cycle, the application/reaccreditation fee represents approximately 23 per cent of the total cost of accreditation assessments,¹ assuming a large and active DOE, and 38 per cent, assuming a small and/or inactive DOE throughout the five year period.
11. An important cost item regarding the overall cost of accreditation of DOEs relies on the management of their own systems and resources in order to comply with the CDM accreditation requirements. Analysis of this cost item, which is not affected by the payment of the accreditation fee, is therefore beyond the scope of this document.

3.2. Proposed solutions

12. The following three options are proposed for the analysis of the impact of distributing the costs evenly across the five-year accreditation term:
 - (a) **Option 1: Status quo.** No changes are to be introduced in the arrangement of payment for accreditation fee; and
 - (b) **Option 2: Distribution of fee in annual payments over the five-year cycle.** Under this option the payments are made during the initial application or application for reaccreditation, and at the start of the second, third, fourth and fifth years of the accreditation cycle.

4. Impacts

13. The analysis of the impact for each option is provided in section 4.1 below. The analysis considers the following factors:
 - (a) Impacts to the system and administration;
 - (b) Impacts to the DOEs and project participants (PPs).

4.1. Impacts to the system and administration

4.1.1. Does it promote additional applications or ensure reaccreditation?

14. Option 1 would not promote additional applications or ensure reaccreditation. Market conditions will continue to be the decisive factor in making applications. Some entities may push back or intentionally delay the conduct of reaccreditation assessments in order to delay costs.
15. The distribution of the initial accreditation/reaccreditation fee under option 2 would be welcomed by DOEs as it will alleviate the immediate financial burden of the DOEs and therefore provide an incentive for maintaining the accreditation status, particularly for DOEs expecting reaccreditation in the period 2016-2018. However, with the current level

¹ Accreditation assessment fees are charged for performance assessments, regular surveillance and any other additional type of assessment (spot check, ad hoc assessment, etc.). The costs charged to the DOEs are the actual variable costs incurred by assessment teams.

of application fee (USD 15,000) against the fees charged for validation and verification as reported by the DOEs in 2014-2015, the incentive would not be a major driver in the long run.

16. For new applicant entities, the market conditions and indirect benefits (for example reputational or using the CDM accreditation recognition for a different greenhouse gas scheme) would be the main driver for the decision to become a DOE. Under the current conditions, existing PPs may want to choose well established DOEs to validate or verify their projects. Hence distribution of the application fee may not attract new applicants to apply for initial accreditation.
17. Given the current number of DOEs and good competition among them which has driven the validation and verification fees down, the introduction of measures described in 3 would have limited impact on attracting new applicants.
18. Measures described in 3 above are unlikely to significantly affect the fees charged by DOEs to their clients.

4.1.2. Does it create a financial loss to the Board?

19. Option 1 would not create any financial loss to the Board.
20. The distribution of the fee under option 2 would delay the revenue received from the accreditation fee. However, considering the small volume of the fee compared with the total revenue, the impact would not be very significant.

4.1.3. Does it add administration complexity?

21. Option 1 would not add any administration complexity.
22. Option 2 would require revisions to the regulatory documents in order to facilitate the distribution of the accreditation fee. Additional measures and efforts would need to be put in place in order to track and follow up on the payments.
23. To ensure that fees are paid punctually, the sanction of “under observation”, suspension or withdrawal could be automated prior consideration of the CDM-AP and by the Board. For example, if the fee is not received within 30 days of the due date, the case will be considered by the CDM-AP electronically and subsequently by the Board, and the entity would be placed under observation and thereafter suspended in all sectoral scopes until the fee is received as per paragraph 5 and Appendix 9 of the CDM Accreditation Procedure V12.0.
24. If Board decides to place an entity under observation because of delayed payments then the reputation of the entity may be negatively impacted. This may also affect PPs choice in selection of the DOEs as they may see that certain number of DOEs may be placed under observation, suspended, etc.

4.1.4. Does it have any impact on predictability?

25. Option 1 would not have any impact on predictability of the full payment of the accreditation fee by the entities.
26. The distribution of the fees under option 2 may aid the DOE by spreading the same amount of expense across the five-year accreditation cycle. However, as the total fee

remains the same and the accreditation fee already is considered low as compared to the fee under other accreditation systems, there would be no significant impact on predictability.

27. Option 2 would result in less predictability at the Board's end. There may be situations in which the DOE withdraws its accreditation before it fulfils the total application fee. In order to avoid this situation, the regulation can also include mitigation measures such as deposit or guarantee of full payments even if the DOE withdraws before the accreditation cycle ends.

4.1.5. International business practices

28. International accreditation bodies apply diverse accreditation fee structures and models. The use of annual accreditation fees is a commonly applied practice in other international accreditation bodies.
29. The assessor daily fee level is one of the lowest in comparison with other accreditation bodies (ABs) that accredit entities that undertake validation or verification of greenhouse gas (GHG) assertions².

4.2. Impacts to the DOEs and PPs

4.2.1. Does it provide cost savings to DOEs?

30. Option 1 would not result in cost savings to the DOEs.
31. The distribution of the cost under option 2 would not provide cost savings to the DOE, as the application fee remains the same. However, the distribution may simplify payments for the DOEs.

4.2.2. How will it stimulate the competitiveness for validation/verification services?

32. Option 1 would not have any impact on the competitiveness among DOEs.
33. Under option 2, the competitiveness would be an indirect impact. It can only be expected if the option promotes new applications that result in the establishment of new DOEs. It is unlikely that this would have a significant direct impact on the costs incurred by the PPs.

5. Subsequent work and timelines

34. If the Board decides for option 1, no further work is envisioned.
35. If the Board decides for option 2, further work involves the revision of the regulatory documents, specifically the revision of the CDM Accreditation Procedure Version 12.0. Also, a new administrative structure to do annual billing, implementing means to recover unpaid fees in the event of an early withdrawal for example by the use of a deposit guarantee.

² See CDM-EB87-AA-A08.

6. Recommendations to the Board

36. The secretariat recommends that the Board maintain the status quo (option 1). The rationale of this recommendation is that it represents prudent management of resources and does not add to the administrative complexity of following up on payments with DOEs on a yearly basis. The option 2 (distribution of fee in annual payments over the five-year cycle) would require changes in regulation procedures and IT work related to workflow, and to some extent would create a financial risk and issues of predictability to the Board. Further, the option 2 is unlikely to have any significant effect on the fees charged by DOEs to their clients.
37. The CDM-AP recommends that the Board distribute its initial accreditation/reaccreditation fee considering payments of USD 5000 during the initial application or application for reaccreditation (in one payment of USD 2500 along with the application for accreditation/reaccreditation, and a second payment of USD 2500 after granting accreditation/reaccreditation), and four subsequent annual payments of USD 2500). The rationale of this recommendation is that distributing costs evenly across the five-year accreditation term is likely to have a positive psychological impact on DOEs and to enable more evenly distributed cost to the DOEs, taking into account that a significant number of DOEs are due for reaccreditation in the next 36 months.

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