

CDM-EB81-AA-A03

Concept note

Numbers, frequency and timing of assessments of DOEs

Version 01.0



United Nations
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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 eightieth meeting as referred to in paragraph 31 of the meeting report, considered the input from the DOE/AIE Coordination Forum on paragraphs 115 and 117 of the CDM accreditation procedure version 11.0. It requested the secretariat to maintain current practices and prepare a concept note, in consultation with the CDM Accreditation Panel (CDM-AP), for consideration by the Board at a future meeting, on options on numbers, frequency and timing of assessments of designated operational entities (DOEs), ensuring the integrity of the accreditation process while taking into account the impact on costs to DOEs given the current market situation.

2. Purpose

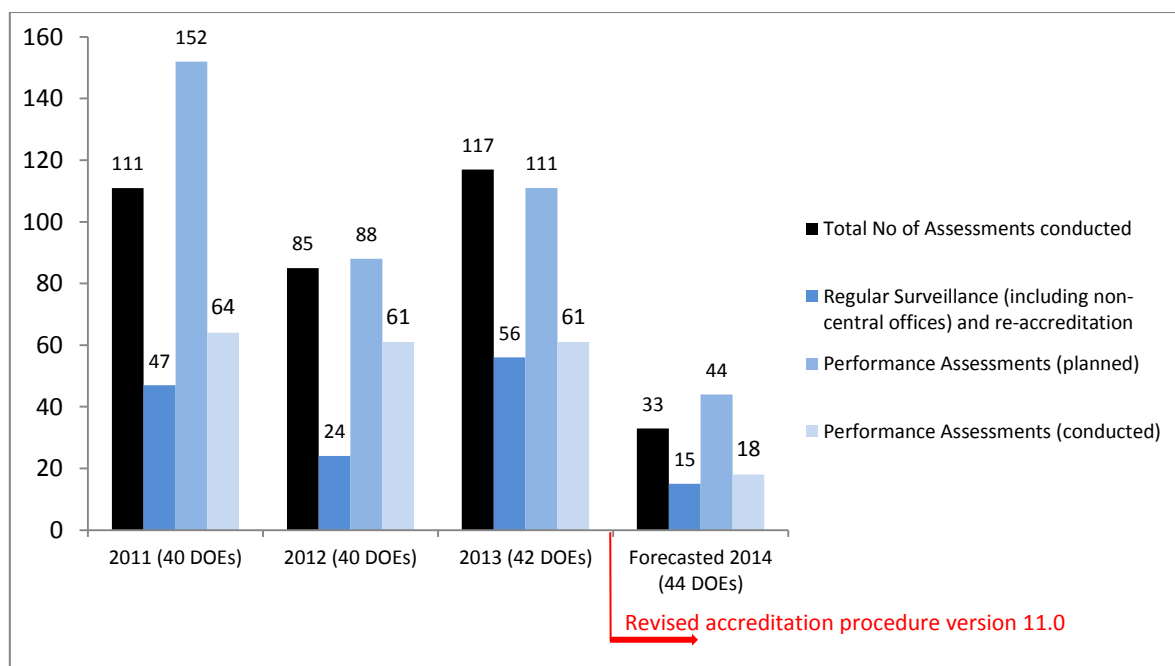
2. The purpose of this note is to enable the Board to assess whether the requirements on numbers, frequency and timing for assessments of DOEs [warrant] a revision of the CDM accreditation procedure (version 11.0) and, if so, to provide options to the Board for addressing the impact of assessment costs to DOEs given the current market situation while ensuring the integrity of the accreditation process

3. Key issues and proposed solutions

3. The DOE/AIE Coordination Forum Chair, Mr. Werner Betzenbichler at the previous interaction of the Forum with the Board, among other inputs, pointed out that each assessment creates costs for the DOEs, and for some it has a major impact on their competitiveness.
4. In order to address these concerns raised by the DOEs, given the current market situation, the Board wishes to receive further information in relation to numbers, frequency and timing for assessments of DOEs and explore possible alternatives to these parameters while ensuring the integrity of the accreditation process.
5. Accreditation recognizes entities for their competence, authority and credibility, their ability to act in a transparent and fair manner and their ability to apply suitable quality measures when conducting CDM validation and verification functions. This recognition in turn provides confidence to the marketplace that a certified emission reduction from one CDM project activity and programme of activities is equivalent to that from another. Therefore, it should be ensured that any change in the oversight processes (assessments of entities) does not result in the integrity of the accreditation process being adversely compromised or unwanted reputational risks to the CDM being created.
6. This concept note has been prepared based on the assumptions that:
 - (a) There is a diverse range of expectations with regard to the number of assessments in an accreditation cycle and the desired level of integrity across the spectrum of stakeholders within the CDM, including the Board, the CDM-AP, DOEs and the secretariat, which needs to be actively managed in order to maintain a clear focus;

- (b) The latest trends indicate that the CDM will receive few new applications for accreditation from accredited entities (AEs) (approximately two per year) during the next two years. In addition, a reduction in the level of accreditation activities on performance assessments is expected owing to the low level of project submissions and a number of voluntary withdrawals of DOEs from the system (up to five in 2014).
7. The Board revised the CDM accreditation procedure in 2013 based on consultation with all stakeholders.
 8. The revised CDM accreditation procedure version 11.0 came into effect on 1 January 2014, as per paragraph 79 of the report on the seventy-fifth meeting of the Board.
 9. The revised procedure included changes to the number, frequency and timing for assessments that reduced costs significantly to DOEs and since its implementation a significant reduction in the number of total assessments in comparison with 2013 has been achieved.

Figure 1. Number of CDM assessments conducted since 2011

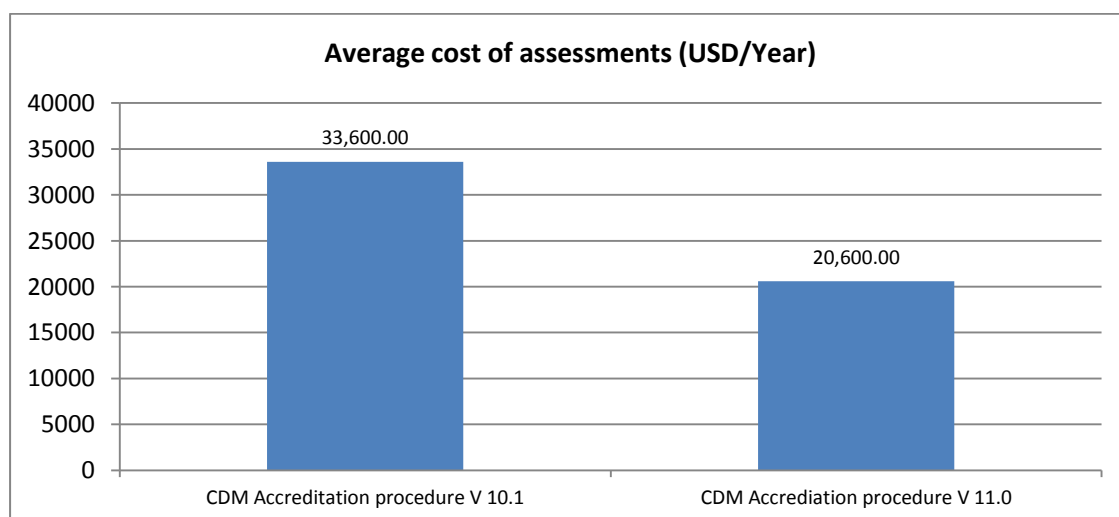


10. The implemented changes include:
 - (a) An extension of the accreditation period from three to five years (as per paragraph 20 of decision 5/CMP.8.) thereby decreasing the frequency of regular surveillance (RS) and reaccreditation assessments (RA).
 - (b) A change in the calculation method for the number of performance assessments (PA), thereby reducing the number of performance assessments a DOE is subjected to.
11. Under the previous CDM accreditation procedure version 10.1; DOEs were subjected to a 36-month accreditation period within which it was subjected to three onsite

assessments (two RS and one RA) coupled with a PA. The number of PA (validation and verification) was calculated based on the number of project submissions by a DOE.

12. The yearly average has consequently decreased significantly from 33.600 US\$ prior to 1 January 2014 to 20.600 US\$ after implementation of the revised CDM accreditation procedure version 11.0.
13. The total fees and costs over the previous five-year accreditation period implemented with the CDM accreditation procedure version 11.0, amounted to 100.800 US\$ per DOE (and a yearly average of 20.600 US\$ per DOE). Total fees and costs after the first five-year accreditation period amounts to 75.400 US\$ per DOE and (a yearly average of 15.080 US\$ per DOE).

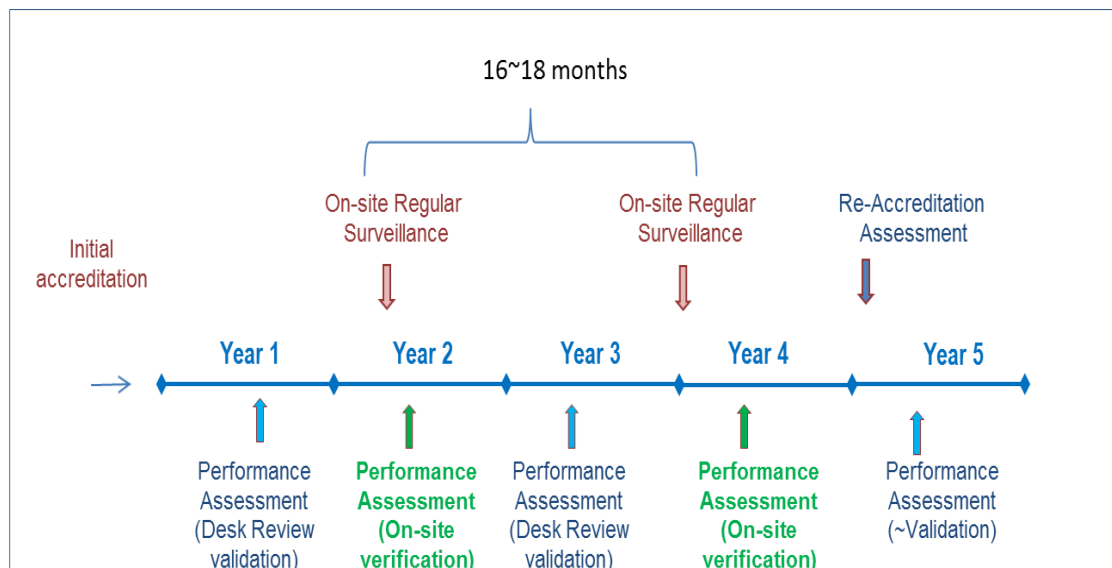
Figure 2. Comparison of the yearly average cost of assessment per DOE achieved through the revised CDM accreditation procedure version 11.0.



14. A number of other measures have also been taken during 2013/2014 to reduce costs to DOEs, which include inter-alia:
 - (a) Use of assessors from nearby geographic areas to reduce travel and DSA costs related to onsite visits;
 - (b) Use of secretariat staff to reduce the size of the teams and further strengthen the support and predictability of the assessment process, ;
 - (c) Introduction of economy class for flights requiring less than nine hours travel;
 - (d) Reduction of timeframes of processes in the accreditation procedure and;
 - (e) Reduction of the assessment costs for the extension of scope applications that contain three or fewer sectoral scopes.
15. Currently in the five-year accreditation cycle a DOE is subjected to two RS; one RA and five mandatory PAs (plus there may be one additional PA per year depending on DOE performance monitoring results; and one additional PA per 50 registration cases and per 150 issuance cases).

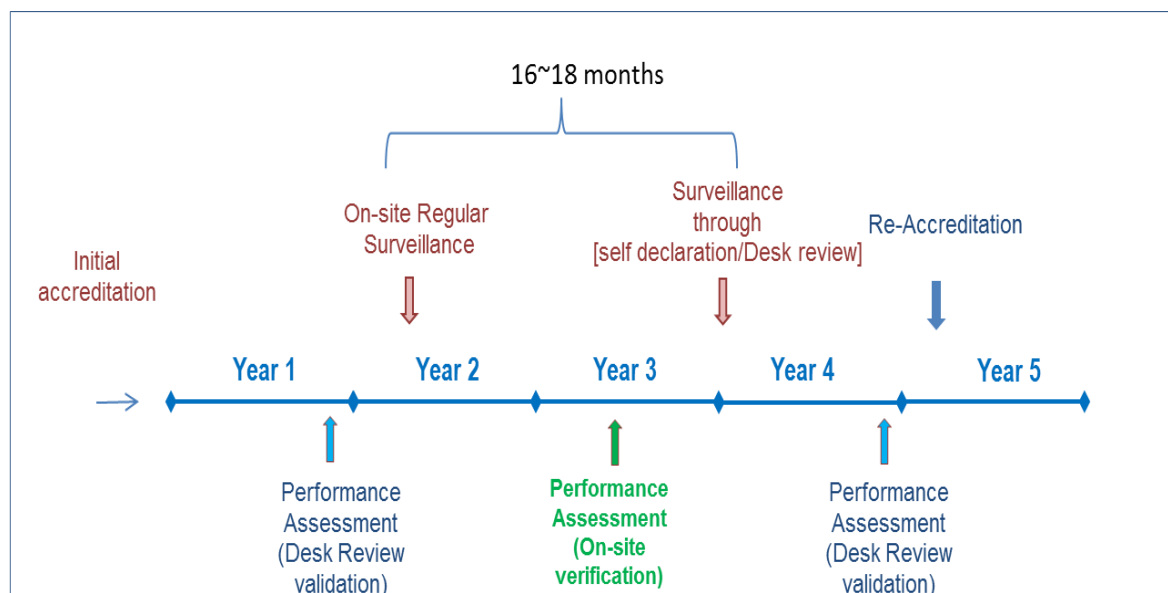
16. It is important to highlight that the launching of PAs is subject to project submissions by the DOEs; hence when DOEs are inactive PAs cannot be conducted.

Figure 3. Current number, frequency and timing of assessments in a 5-year accreditation cycle



17. In addition to the opportunities already implemented to achieve significant cost savings by DOEs, an option that combines two further alternatives is provided for consideration by the Board:
- (a) **Alternative 1:** To further reduce the mandatory (minimum) number of performance assessments (PA) from five to three in the five-year accreditation cycle; and
 - (b) **Alternative 2:** The second regular on-site surveillance assessment (RS) can be substituted, by applying a risk-based approach, and submission of a self-declaration [and/or] a desk review of documentation submitted by the DOE.

Figure 4. Proposed option for number, frequency and timing of assessments in a 5-year accreditation cycle



18. The analysis and safeguards to ensure the integrity possible cost savings and associated risks for each of these measures are:

(a) Analysis of alternative 1 (reduce the number of PAs):

(i) Safeguards to integrity:

- a. Two validations and one verification depending on the type of projects DOEs are submitting for registration/ issuance.
- b. DOEs shall be subjected to additional performance assessment (s) if a request for review results in a negative Board decision.

(ii) Cost saving for DOEs:

- a. Lower travel/assessor costs from the reduction in the number of assessments from five to three;
- b. Lower travel/assessor costs from having only one verification assessment (onsite) in the cycle instead of two.

(iii) Potential risks:

- a. Lack of oversight capacity of the Board. A PA is used by the Board to determine that the DOE understands and is implementing its system on the ground in conformance with the accreditation requirements. The measure requires the willingness for and ability of entities to maintain or intensify, as appropriate, their monitoring activities (e.g. through internal audits, regular self-declarations, etc.) in order to maintain a high /satisfactory level of quality of the accreditation process and thereby the integrity and credibility of the CDM required by the Board.

(iv) Feedback from the CDM-AP to alternative 1:

- a. The CDM-AP is not in favour of alternative 1. The CDM-AP recommended maintaining the current requirement for one performance assessment per year in line with other accreditation schemes. The rationale provided by the CDM-AP is that as the number of performance assessments depends on the number of projects assessed by the DOE, the current approach is reflective of the volume of work undertaken by DOEs.

(b) Analysis of alternative 2 (reduce the number of RSs):

(i) Safeguards to integrity: the risk-based-approach can be implemented by the Board based on the following criteria:

- a. Years of experience of the DOE in the CDM (e.g. accredited for more than one accreditation cycle);
- b. Outcomes of the last PA;
- c. Previous decisions for suspension during the current accreditation cycle; and,
- d. Results of the DOE performance monitoring process.

(ii) Cost saving for DOEs:

- a. Travel/on-site assessor costs for the second RS as applicable. There may be a four person-day desk review assessment cost depending on the decision by the Board.

(iii) Potential risks:

- a. Lack of oversight capacity of the Board. The RS are used by the Board to determine that the system of the DOEs is implemented in conformance with the accreditation requirements and that the resources are in place to manage personnel competence and impartiality on a consistent basis. Similarly, the measure requires the willingness for and ability of the entities to maintain or intensify, as appropriate, their internal control and monitoring activities.

(iv) Feedback from the CDM-AP to alternative 2:

- a. The panel is not in favour of this alternative to reduce the number of RS. Instead, it recommended the current requirement for RS be maintained. That is, one on-site assessment during the second year and one during the fourth year of the term. The rationale provided by the CDM-AP is that the purpose of the on-site surveillance is to verify whether the systems, competence and operational capability of the DOE continue to meet the CDM accreditation requirements over the accreditation term. Therefore, it is not advisable to reduce the CDM-AT's ability and access to assessments as this may have a negative effect on the integrity of the system.

- b. The panel indicates that other accreditation systems require annual on-site surveillance assessments and the first on-site surveillance to be carried out no later than 12 months from the date of initial accreditation. It seems the current practice is already at the lower end of system oversight and should not be further reduced.
 - c. In response to a request from the seventieth meeting of the CDM-AP, a review of the numbers of accreditation surveillance assessments on a few accreditation bodies that provide accreditation services to other schemes was conducted. The review indicates that, depending on the scheme, surveillance assessments are conducted over a span from 12 to 24 months in an accreditation cycle. The main factors that are taken into account are: the maturity of the accreditation scheme; the maturity of the management systems implemented by the accredited entities; compliance by accreditation bodies to their specific accreditation requirements; the needs of their specific industry sectors for accreditation surveillance.
- (c) Additional alternatives proposed by the CDM-AP to the Board:
 - (i) Taking cognizance of the CDM-AP feedback to alternatives 1 and 2 above, the CDM-AP recommends that the Board consider additional measures to reduce overall cost of accreditation by:
 - a. Continuing to make use of the current accreditation procedure, which accommodates the incorporation of spot-checks, notification of changes, and extension of sectoral scopes into the regular surveillance and reaccreditation processes. This in addition to the recommendation made above to incorporate performance assessments when feasible and based upon the positive performance of the DOE, and;
 - b. Assigning CDM-ATs located within the general geographical area when possible with a view to reducing travel costs taking into account the principles contained in the for selection and performance evaluation of experts on the CDM accreditation roster of experts;
 - c. Further analyzing the use of fixed costs based on average costs for assessment activities (Initial Accreditation Assessments, Reaccreditation Assessments, Regular Surveillance Assessments and Performance Assessments) to allow a more predictable allocation of accreditation costs for the DOEs. The fee structure should be at a level comparable to other schemes.

4. Impacts

19. The Board's consideration of the issues on numbers, frequency and timing for assessments of DOEs and options described in this document enables an informed, consistent, transparent and effective implementation of the accreditation process.

20. The adoption of the options above by the Board addresses concerns expressed by the DOE Forum related to the difficult market situation and provides incentives for DOEs to maintain their CDM accreditation, particularly those that are assessing whether to stay or withdraw their accreditation given the current market situation.
21. If the Board decides to adopt the option above, changes in the workflow and in the accreditation procedure are required.
22. Any further reduction in the number of assessments from the option above would require further analysis and consultation with stakeholders in order to better understand the impact on the market. This could also lead to a decrease in the quality of validation and verification work and, consequently, a decrease of the environmental integrity of the mechanism. It may also result in the reduction of CDM accreditation capacity and know-how at the Board, the CDM-AP, the CDM-AT and secretariat levels due to decreased activity in this area.

5. Subsequent work and timelines

23. The secretariat will implement the decision as adopted by the Board.

6. Budget and costs

24. If the Board decides to revise the accreditation procedure at a future meeting additional costs will be added to the 2015 management plan (MAP) related to the proposed course of action.

7. Recommendations to the Board

25. The secretariat recommends the following alternatives for the Board to consider:
 - (a) To further reduce the mandatory number of performance assessment from five to three in the five-year accreditation cycle;
 - (b) The second on-site regular surveillance assessment can be substituted, by applying a risk-based approach, and submission of a self-declaration [and/or] a desk review of documentation submitted by the DOE.
26. The secretariat also recommends that the Board consider that the CDM-AP recommends that the current requirement for one performance assessment per year is maintained as well as maintaining the current requirement for on-site regular surveillance assessments as per paragraphs 18 (a)(iv) and 18 (b)(iv) above.
27. In addition hereto the CDM-AP recommends additional alternatives as provided in paragraph 18(c) above.

8. References

8.1. Types of assessments

28. **Initial accreditation (IA)** is a set of activities (application, desk review and an onsite visit), to ensure that an applicant entity can operate in compliance with all the

accreditation criteria. The entity is assessed using a three-person assessment team over two assessment days.

29. **Regular surveillance (RS)** visits are on-site visits to the accredited entity's main office or any other accredited facilities or outsourced entities, undertaken every eighteen months to ensure that the entity operates in compliance with the accreditation requirements. A smaller sample of work undertaken by the entity is assessed using a two-person assessment team over two assessment days. The purpose of these assessments is to verify whether the systems, competence and operational capability of the DOE continue to meet the CDM accreditation requirements over the accreditation term.
30. **Reaccreditation (RA)** is a set of activities (application, desk review and an onsite visit), to be completed six months before the expiry accreditation date to ensure that an accredited entity operates in compliance with all the accreditation criteria. A larger sample of work undertaken by the entity is more comprehensively assessed using a three-person assessment team over two assessment days.
31. **Performance assessments validation (PA/Val)** are desk reviews of documentation arising from a validation that an accredited entity has performed. The purpose is to ensure that the entity complies with accreditation criteria relating to the performance of validation activities and the validation and verification standard. Non-conformities raised during the assessment process are used to identify systemic deficiencies in the entity's management system that can impact on other validation activities performed by the DOE.
32. **Performance assessments verification (PA/Ver)** comprises a desk review of documentation and an onsite visit (witness assessment) arising from a verification of an accredited entity. The purpose is to ensure that the entity complies with accreditation criteria relating to the performance of validation activities and the validation and verification standard. Non-conformities raised during the assessment process are used to identify systemic deficiencies in the entity's management system that can impact on other verification activities performed by the DOE. The PA/Ver is used to determine that the DOE understands and is implementing its system in conformance with the accreditation requirements.
33. **Extension of scope assessments** occur when DOEs apply to extend the number of sectoral scopes they are accredited for. It comprises a desk review as well as an onsite visit if there are more than three sectoral scopes applied for.
34. **Spot checks (SC)** comprise an additional onsite visit that result from a Board decision to investigate further a specific issue at a DOE.

Appendix 1. Supporting information on provisions relating to assessments of DOEs

1. Introduction

1.1. Situational analysis, demand for CDM validation and verification

1. The demand for certified emission reductions (CERs) from the compliance market under the Kyoto Protocol is in decline. There has been a significant drop in unit prices, eroding the incentive to develop new projects and impacting the business potential of DOEs.

Figure 1. Projects entering validation

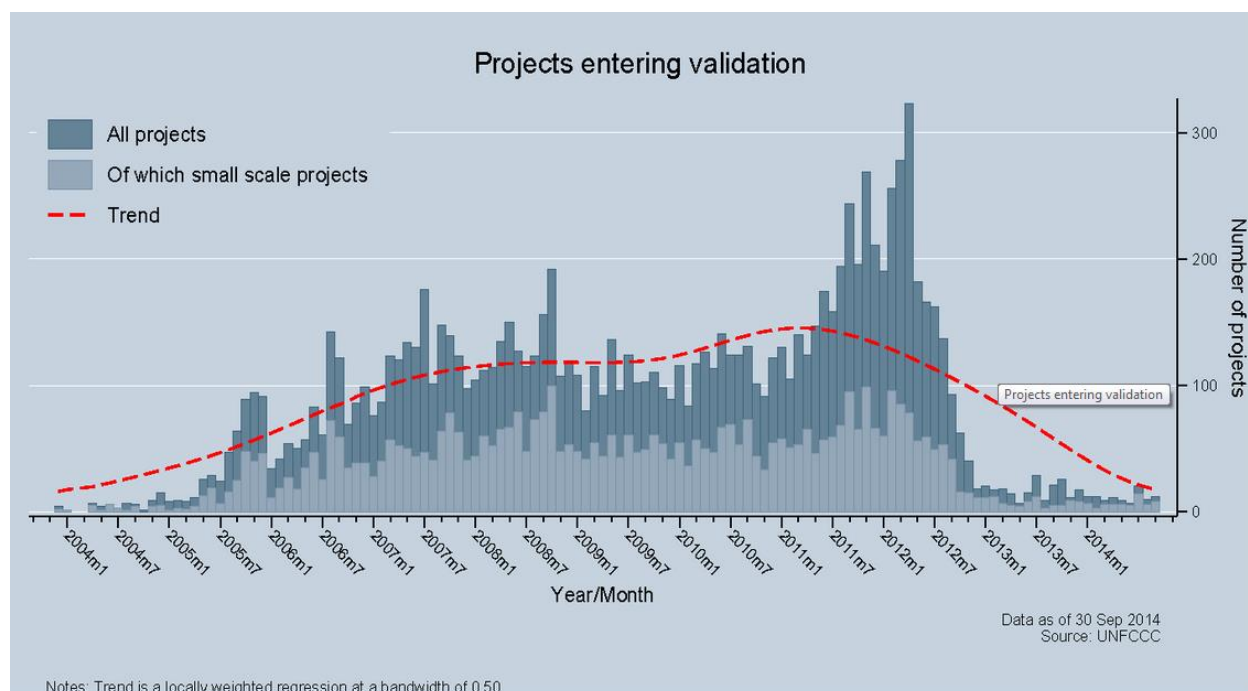


Figure 2. Projects registered and registering

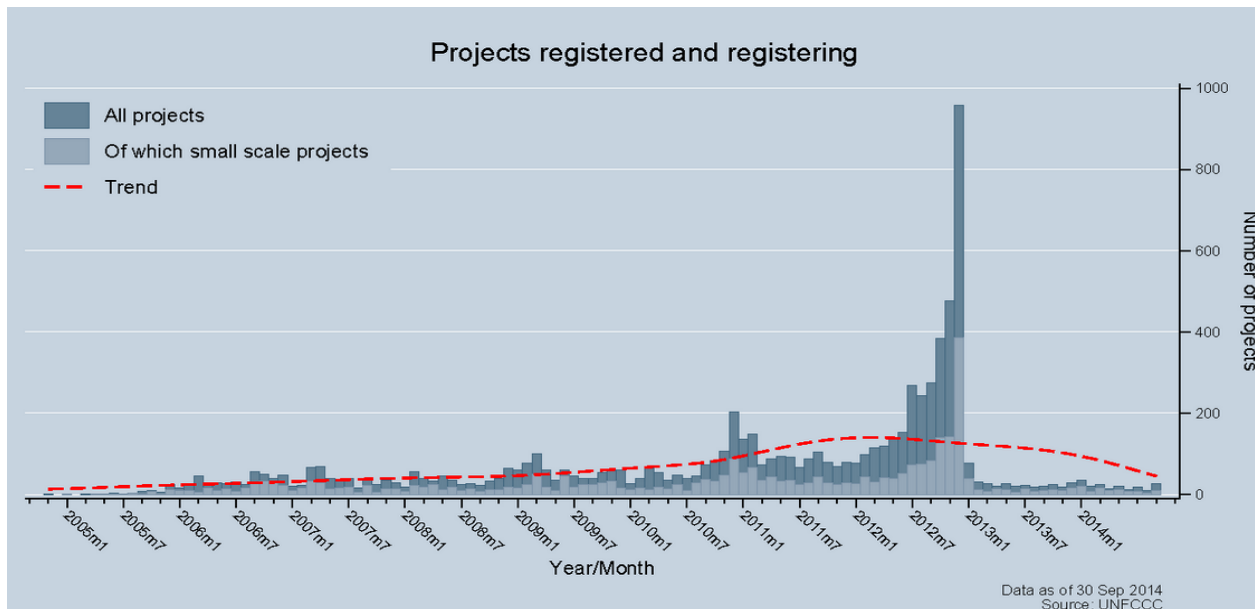


Figure 3. PoAs entering validation

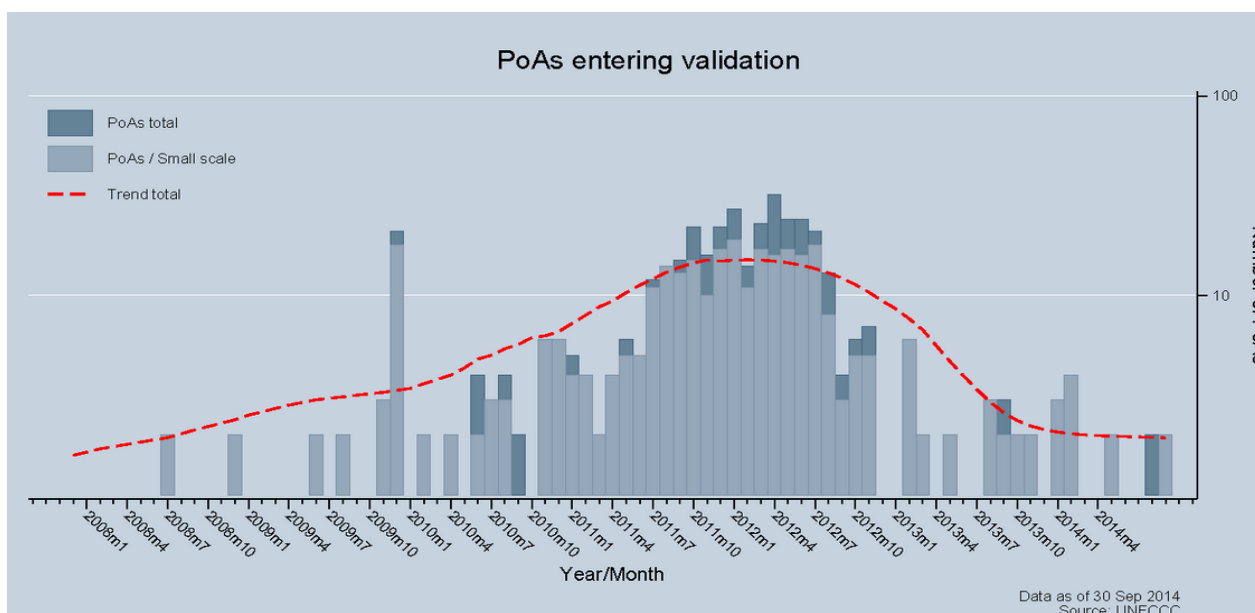
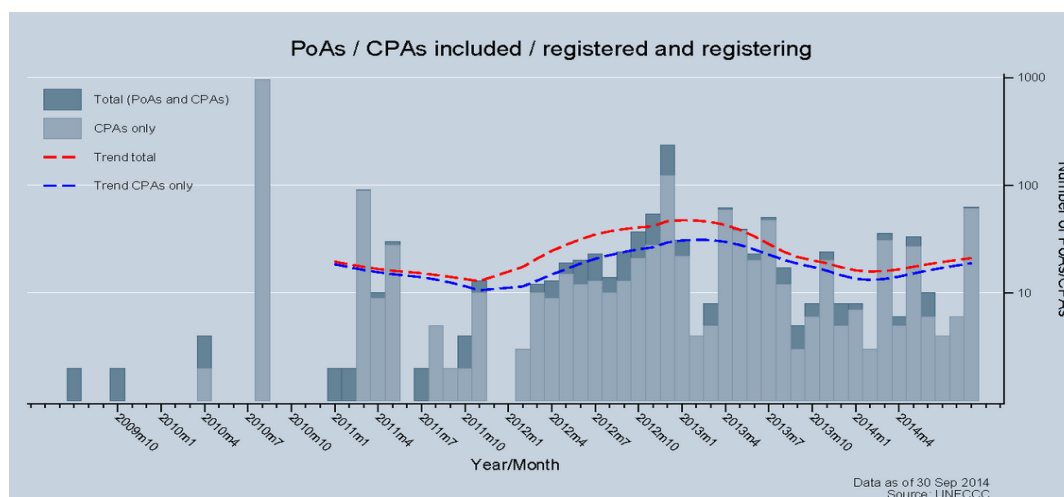


Figure 4. PoAs/CPAs included/registered and registering

1.2. Changes in the revised accreditation procedure on assessments

2. The Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board), through the CDM management plan 2012/13 (MAP) decided to improve the performance and role-definition of operational entities through revised standards and procedures. The holistic two-year project was included in the MAP to coherently deliver the various mandates from the Board on the key CDM accreditation documentation.
3. This work covered among other elements a revision of the CDM accreditation procedure by the secretariat, in consultation with the CDM Accreditation Panel (CDM-AP) and designated operational entities (DOEs) and was approved by the Board at its seventy-fourth meeting (August 2013).
4. The procedure introduced several new elements on assessment planning aiming for the reduction of the global cost of the accreditation process from the DOEs' side while still preserving integrity; including extending the accreditation cycle from three to five years, reducing the number and type of assessments in the cycle (from ~6 to 1 performance assessments per year in the case of large entities), added value requirements in the accreditation standard, and introducing risk-based approaches through the DOE performance monitoring, hereby increasing the incentive for high-quality work of DOEs.
5. These changes were made after appropriate benchmarking and consultation with all stakeholders involved and ensuring that there is a definite yearly cost reduction to DOEs whilst maintaining the integrity of the accreditation process.
6. The revised section of the accreditation procedure described above discussed in consultation with the CDM-AP and DOEs and approved by the Board as follows:

Table 1. EB Meetings and consultations conducted for the revision of the accreditation procedure

	EB 72	EB 73	EB 74
Revision of the Accreditation procedure	Concept note ^a	Draft ^{ab}	Final ^c

(a) Preceded by CDM-AP consultation (feedback);

(b) Preceded by stakeholder consultation (Round table and DOE Forum);

(c) Preceded by electronic CDM-AP consultation (feedback).

1.3. Numbers and frequency of assessments

7. Table 2 indicates the difference in frequency of assessments. For example, in terms of CDM accreditation procedure version 10.1, in the 3-year accreditation cycle, a DOE would need to apply for reaccreditation in the 27th month, however, in terms of the CDM accreditation procedure version 11.0 a DOE would only need to apply in the 48th month of its accreditation period.

Table 2. Frequency of assessment in months

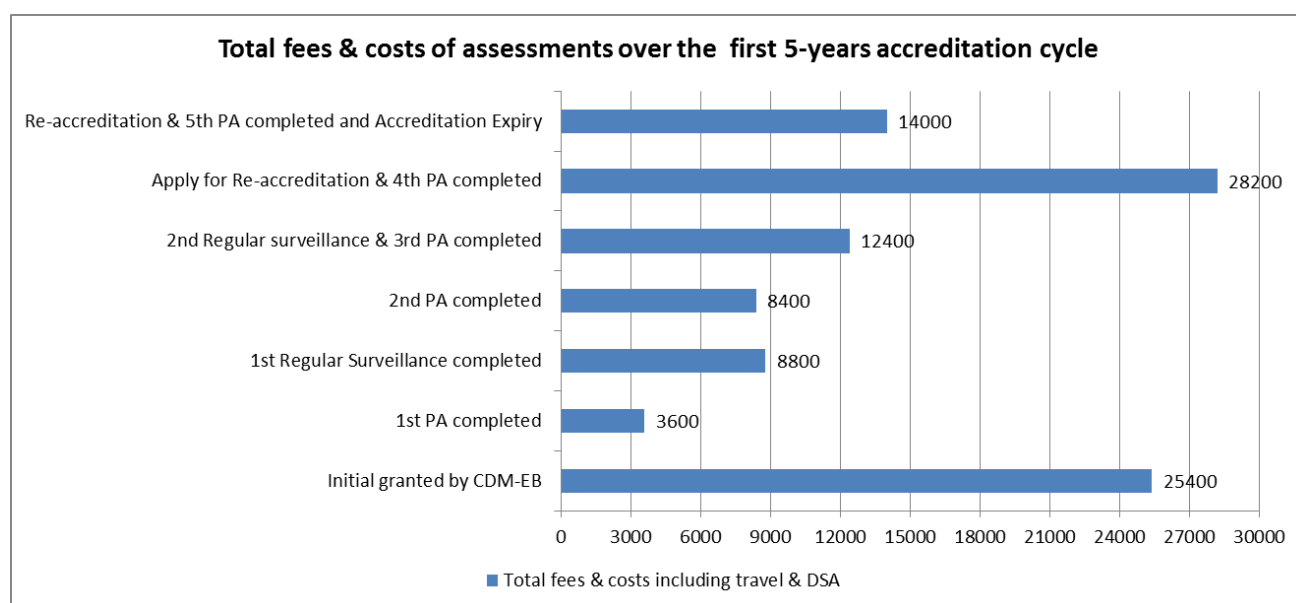
	Initial or RA granted by EB	1st RS completed	2nd RA completed	Apply for RA	RA completed & Accreditation expiry
3-year accreditation (Accreditation Procedure Ver. 10.1)	1	12	24	27	36
5-year accreditation (Accreditation Procedure Ver 11.0)	1	18	36	48	60
Difference in frequency of assessments (months)	-	6	12	21	24

8. In terms of performance assessments, prior to 1 January 2014, on average a DOE was subjected to 2.6 performance assessments per year. This is now reduced to 1 mandatory performance assessment per year plus any additional performance assessment/year depending on the DOE performance monitoring results; and any additional performance assessment per 50 registration cases and per 150 issuance cases per year. For 2014, the submission of registration and issuance cases have not exceeded this threshold for any DOEs and neither has the DOE performance monitoring warranted any additional performance assessment, meaning that DOEs have been subjected to only one performance assessment per year. For 2014, where it could be applied without affecting the integrity of the accreditation process, preference has been given to validation performance assessments over verification in order to avoid onsite assessment, travel and DSA costs to DOEs.

1.4. Fees and costs of assessments

9. Fees and costs for accreditation assessments by CDM-ATs as well as application fees for accreditation, reaccreditation and extension of accreditation for additional sectoral scopes are detailed in Appendix 9 of the accreditation procedure version 11.0.
10. The fee level is presently set at US\$ 400 per day which is one of the lowest in comparison with other accreditation bodies (ABs) that accredit entities that undertake validation or verification of greenhouse gas (GHG) assertions.
11. The CDM does not contemplate an annual fee which is a commonly applied practice in other ABs.
12. It is also important to highlight that while indicative fee levels for CDM-AT members are provided, the procedure allows the fee level for CDM-AT members to be adjusted depending on the estimated volume of work as per Appendix 9 of the accreditation procedure version 11.0.

Figure 5. Estimation of the cost of CDM assessments per assessment type in a 5-year accreditation cycle



13. Figure 5 illustrates the total costs a DOE is subjected to over the first accreditation period. Note that the costs are for three validation performances and two verification performances as per the CDM accreditation procedure version 11.0, paragraph 75, with the second and fifth performance assessments being verification requiring an onsite visit by the CDM-AT.

Appendix 2. Inputs from the CDM-AP at its seventieth meeting (3-5 November 2014)

1. The CDM-AP considered the request by the Board as contained in paragraph 31 of the report of its eightieth meeting, and agreed to provide the following input on options on numbers, frequency and timing for assessments of DOEs to the secretariat for finalization of the concept note for the Board's consideration at its eighty-first meeting, with a view to ensuring the integrity of the accreditation process while taking into account the impact on costs to DOEs.
 - (a) Recommendation: To maintain the current requirement for regular on-site surveillance assessments. That is, one on-site assessment during the second year and one during the fourth year of the term.
 - (i) Rationale: the purpose of the on-site surveillance is to verify whether the systems, competence and operational capability of the DOE continue to meet the CDM accreditation requirements over the accreditation term. Therefore, it is not advisable to reduce the CDM-AT's ability and access to doing so as this may have a negative effect on the integrity of the system;
 - (ii) Further action: In addition, the secretariat should reference that other accreditation systems require annual on-site surveillance assessments and the first on-site surveillance to be carried out no later than 12 months from the date of initial accreditation. It seems the current practice is already at the lower end of system oversight and should not be further reduced. It is therefore advisable to add additional background to the concept note on assessments page 3 under section 5 or 6 regarding practices of other accreditation bodies.

Note by the secretariat: Paragraph 1(a) above was included in paragraph 18(a)(iv) of this concept note.
 - (b) Recommendation: To maintain the current requirement for one performance assessment per year in line with other accreditation schemes.
 - (i) Rationale: As the number of performance assessments depends on the number of projects assessed by the DOE, the current approach is reflective of the volume of work undertaken by DOEs;
 - (ii) Further action: To reduce the cost of performance assessments, consideration can be given to incorporating a review of validation and verification processes into the on-site surveillance assessment process. The same CDM-AT composition may be maintained in these cases when possible (dependent on the sectoral scope assessed) to reduce cost. Such consideration shall only be given based upon the positive performance of the DOE and the ability of the CDM-AT to carry out an effective review of project files on-site. This may require more detailed planning for the assessment.

Note by the secretariat: Paragraph 1(b) above was included in paragraph 18(b)(iv) of this concept note.

- (c) Consider additional measures to reduce the overall cost of accreditation by:
- (i) Continuing to make use of the current accreditation procedure, which accommodates the incorporation of spot-checks, notification of changes, and extension of sectoral scopes into the regular surveillance and reaccreditation processes. This is in addition to the recommendation made above to incorporate performance assessments when feasible and based upon the positive performance of the DOE, and;
 - (ii) Assigning CDM-ATs located within the general geographical area when possible with a view to reducing travel costs taking into account the principles contained in the for selection and performance evaluation of experts on the CDM accreditation roster of experts;
 - (iii) Further analyzing the use of fixed costs based on average costs for assessment activities (Initial Accreditation Assessments, Reaccreditation Assessments, Regular Surveillance Assessments and Performance Assessments) to allow a more predictable allocation of accreditation costs for the DOEs. The fee structure should be at a level comparable to other schemes.

Note by the secretariat: Paragraph 1(c) above was included on paragraph 18(c) of this concept note.

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Document information

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