

CDM-EB93-AA-A08

Concept note

Performance assessments and inactive DOEs

Version 01.0



United Nations
Framework Convention on
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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 ninety-second meeting (EB 92), considered a draft revised “CDM accreditation procedure” which addressed the following 4 issues:
 - (a) Accreditation application fee;
 - (b) Process flow charts;
 - (c) Process of hearing; and
 - (d) The numbers, frequency and timing of performance assessments of the designated operation entities (DOEs).
2. Based on the proposal contained in annex 9 of the EB 92 annotated agenda, the Board agreed to introduce no changes to the process of hearing. The Board also agreed to introduce, in the next revision of the accreditation procedure, the changes related the accreditation application fee and process flow chart as proposed in Appendix 1 of this note.
3. In relation to the numbers, frequency and timing of performance assessments of the DOEs, the Board at EB 92 also considered a set of simplified DOE performance indicators and cost implications for the DOEs as contained in annex 9 of the annotated agenda of that meeting and agreed to extend the validity of the provision in footnote 7 inserted in paragraph 76 of the accreditation procedure from 28 November 2016 to 28 May 2017. This footnote requires one mandatory performance assessment every 20 months instead of one mandatory performance assessment every year (i.e. three instead of five performance assessments in the five-year accreditation term). The Board decided to defer the consideration of the extension of footnote 7 beyond 28 May 2017 at a future meeting.
4. At the same meeting (EB 92, paragraph 49), the Board requested the CDM Accreditation Panel (CDM-AP) and the secretariat to jointly prepare a concept note for consideration by the Board at its next meeting on alternative approaches to CDM project activities to address the situation of having DOEs (6 out of 35) that have not submitted any registration or issuance in the system for more than 20 months. The concept note should take into account the integrity of the system and consistent treatment of DOEs and should also include an analysis on the impact of costs for the DOEs.
5. 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 9 of the CDM management plan 2017 (EB 92, annex 1).

2. Purpose

6. The purpose of this joint concept note produced by the secretariat and the CDM-AP is to provide the Board with:
 - (a) An analysis on the impact of the temporary provision “one mandatory performance assessment every 20 months” on the performance and the cost of assessment of DOEs; and

- (b) Alternatives to assessing performance of inactive DOEs.

3. Key issues and proposed solutions

3.1. PART 1: The frequency, number and timing of performance assessments

7. The CDM accreditation procedure establishes that a DOE shall be subject to performance assessments during its accredited term.
8. According to the CDM Accreditation Procedure, the purpose of a performance assessment is to assess the implementation of the systems of the DOE and its competence in an accredited sectoral scope through an assessment of a specific validation or verification/certification activity.
9. The Board when discussing the frequency, number and timing of performance assessments at EB 92, considered a set of simplified DOE performance indicators and noted, based on annex 9 of the annotated agenda, that the trends of performance assessments of DOEs and the request for reviews did not show correlation since the introduction of the temporary provision at EB 81 in November 2014.
10. At the same time, the Board also noted that the use of a minimum mandatory number of three (3) performance assessments instead of five in the five-year accreditation term allow on average a cost reduction of USD 1,800 per year for each DOE.
11. For these reasons above, the secretariat recommends that the Board agree on a minimum of three mandatory performance assessments in the five-year accreditation term for any DOE referred to in option 1, Appendix 1.
12. While recognizing that poor market conditions in the CDM have resulted in the secretariat not being able to launch the minimum number of performance assessments specified in the procedure, the CDM-AP is not in favour of the recommendation of the secretariat in paragraph 11 above. The CDM-AP recommends maintaining the requirement for one performance assessment per year (i.e. five mandatory performance assessments in the five-year accreditation term for any DOE) referred to in option 2, Appendix 1. The rationale provided by the CDM-AP is that a reduction in the minimum mandatory number of performance assessments would limit the ability of the Board to assess the implementation of the systems of the DOE and its competence in all the accredited sectoral scopes through an assessment of a specific validation or verification/certification activity. Reducing the minimum mandatory performance assessments to three in the five-year accreditation term for any DOE may have a negative effect on the integrity of the system.

3.2. PART 2: Alternatives to performance assessments for inactive DOEs.

13. There are currently 35 accredited DOEs, as compared to 39 accredited DOEs in 2015. As of 9 January 2017 six DOEs are considered inactive.
14. Among many possible reasons it is likely that poor market conditions have created low incentives for inactive DOEs to operate in the CDM market. The poor market conditions have resulted in the DOEs' withdrawal of their accreditation in all or several sectoral scopes.

15. At the same time, recognition of CDM accreditation by other greenhouse gas business activities that involve validation or verification of greenhouse gas assertions in other schemes other than the CDM, may have created an incentive for these DOEs to seek and/or maintain accreditation in the CDM¹.
16. During 2016, 33 DOEs reported¹ being engaged with other business activities that involve validation or verification of greenhouse gas assertions in schemes other than the CDM. The majority of these DOEs reported working on other schemes such as the Gold Standard, Verified Carbon Standard and regional or national initiatives (e.g. China national carbon market and the European emission trading scheme). Due to similarities between the CDM and some of these schemes, DOEs have identified synergies which include using qualified personnel with compatible knowledge and skills working on these schemes.
17. In order to address the situation of having DOEs that have not submitted any registration or issuance in the system for more than 20 months the following three alternative approaches to CDM project activities are analysed taking into account the integrity of the accreditation system and the cost to the DOEs.

3.2.1. Option 1: Status quo

18. This option maintains the current situation allowing inactive DOEs to maintain accreditation even in the absence of project submissions that would trigger performance assessments.
19. Currently, no sanctions are applied to non-active DOEs. Apart from their status made available on the UNFCCC website (as per EB 92, paragraph 48), inactive DOEs can remain accredited subject to two on-site regular surveillance assessments and, one on-site reaccreditation assessment in the five-year accreditation term. Under this approach, the Board is only able to assess the system, records and systems of the DOE at the central office through the regular surveillance and reaccreditation assessments.
20. An inactive DOE can perform validation/verifications activities at any time. However, 10 days prior to its first submission, the DOE should inform the secretariat of its intention to submit a request for registration and/or publication of the monitoring report. Thereafter, normal provisions for triggering performance assessments as per CDM Accreditation Procedure shall apply.

3.2.1.1. Advantages

21. The benefit of this option would be that no additional costs are envisaged for any inactive DOE.
22. The current approach may attract applicant entities interested on the CDM accreditation status even without having CDM businesses.

¹ Synthesis report of the annual activity of the DOE report 2015-16: <[https://cdm.unfccc.int/filestorage/e/x/t/extfile-20161027160157606-Regular report DOE Synthesis report 2015-16.pdf/Regular%20report DOE%20Synthesis%20report%202015-16.pdf?t=eG18b2p4OHFsDDsly8ZgQIW448K1f-UXkSf](https://cdm.unfccc.int/filestorage/e/x/t/extfile-20161027160157606-Regular%20report_DOE%20Synthesis%20report%202015-16.pdf?eG18b2p4OHFsDDsly8ZgQIW448K1f-UXkSf)>.

23. This option would help create synergies with such entities and with other schemes. Other schemes would welcome this approach and may seek enhanced collaboration with the Board.

3.2.1.2. Disadvantages

24. The Board in the absence of performance assessment, in terms of integrity of the system, is not in a position to fully assess the implementation of the DOEs' system and their competence in any accredited sectoral scope which was supposed to be assessed through a performance assessment of a specific validation or verification/certification activity in the case of active DOEs.
25. The reputational risk for the Board is higher for this option in comparison with the options below, if any inactive DOE performs badly under a different scheme.

3.2.2. Option 2: Under-observation of inactive DOEs.

26. This option is similar to status quo above only that the Board will automatically place under observation DOEs that are inactive (no project submissions) for a fixed period of 20 months.

3.2.2.1. Advantages

27. The advantages are similar to those of option 1 above except that, in terms of integrity of the system, under this option, the Board would take a more conservative approach by removing entities that are not able to demonstrate competence through witness activities.
28. This option would put pressure on inactive DOEs to actively promote their CDM services.

3.2.2.2. Disadvantages

29. This may result in some DOEs leaving the CDM.

3.2.3. Option 3: Inactive DOEs periodically undertake a CDM mock validation/verification examination for performance assessment

30. A CDM mock validation/verification is an examination method that simulates CDM project validation and verification situations used by an inactive DOE to demonstrate its competences - for example every 24 months or within a period deemed appropriate by the Board.
31. These assessment outcomes based on mock validations/verifications are what a DOE is required to know and be able to apply subsequent to a 20-month period of inactivity.
32. If the Board agrees on a project to put in place CDM mock validations/verifications for inactive DOEs, the Board would need to mandate the secretariat and the CDM-AP to prepare a concept note taking into account the modalities, systems, contents and resources required for that purpose for consideration by the Board at a future meeting.
33. The Board may need to consider the following elements to be analysed in the future concept note as applicable:
- (a) Analyse the development of a system which gives a reasonable level of security and integrity. If examinations are considered as part of the mock performance

assessment process, a curriculum stated in terms of desired outcomes will be needed;

- (b) How to ensure that the knowledge and skills of key personnel are assessed including management functions, decision making and technical review activities. DOEs should apply and be able to demonstrate their previously defined auditor competencies. The development of a CDM mock validation/verifications should take place in parallel with the development of the evaluation tools for that exercise;
 - (c) How to ensure that the personal attributes, such as perceptiveness or decisiveness of DOE's validators and verifiers are evaluated and well suited to testing intellectual skills such as knowledge and understanding of CDM requirements;
 - (d) How to select the exercise and determine the level of complexity, frequency, duration, cost, evaluation of outcomes, processing of findings and possible sanctions.
34. CDM mock validation/verification outcomes developed by the secretariat and approved by the CDM-AP should be well suited to assess performance of inactive DOEs in complex situations and application of recent relevant regulations.

3.2.3.1. Advantages

35. In terms of integrity of the system, under this option the Board would take more conservative approach in terms of periodically monitoring competence of DOEs including those that are not active in the CDM.
36. It would be a cost/effective means to monitor competence of inactive DOEs.

3.2.3.2. Disadvantages

37. It may represent cost implications for the inactive DOEs in comparison to option 1.
38. An active DOE might have the impression of being penalized for being active by being subject to regular performance assessments.
39. If this option is applied by the Board, it may create disincentives for active DOEs which are still subject to verification performance assessments. Verification performance assessments involve witness activities along with travelling of appointed CDM-AT. Therefore, some entities may push back or intentionally delay the conduct of verification performance assessments in order to avoid costs as well as avoid being eligible for the mock exercise.
40. In order to prevent such disincentives for active DOEs, the definition of a new category "inactive" is necessary. An inactive DOE would have to activate its accreditation through a performance monitoring activity. Inactive DOEs would be listed on the UNFCCC website.

4. Impacts

41. Part 1: No material budgetary impact or no additional improvements in terms of integrity of the accreditation system are foreseen for the Board. This measure allows on average a reduction of USD 1,800 per year for each DOE.

- 42. Part 2, option 1: No material budgetary impact or no additional improvements in terms of integrity of the accreditation system are foreseen for the Board.
- 43. Part 2, option 2: No significant material budgetary impacts (only a minor revision of the accreditation procedure) or slightly additional improvements in terms of integrity of the accreditation system are foreseen for the Board.
- 44. Part 2, option 3: Timing, frequency and audience for consultations as well as an accurate budget could be better determined through a detailed concept note that the Board can consider at a future meeting.

5. Subsequent work and timelines

- 45. In relation to part 1 above, if the Board decides to adopt the model of having a minimum of three or five mandatory performance assessments in the five-year accreditation term for any DOE, then the revised accreditation procedure version 13.0 as contained in Appendix 1 can be adopted at this meeting.
- 46. If the Board decides not to make changes to the current status and conditions for inactive DOEs, there will be no further work arising from the EB 92 mandate.
- 47. If the Board decides to pursue the model that limit the time of Inactive DOEs for a fixed period of 20 months, the secretariat will reflect the same at the next revision of the CDM accreditation procedure.
- 48. If the Board decides to pursue the model where inactive DOEs undertake a CDM mock validation/verification examination every 24 months to retain accreditation, the secretariat will provide a more in-depth proposal, including the exact levels of fees, draft language for amending the CDM accreditation procedure, and implementation steps including possible amendments to the accreditation workflow. The in-depth proposal would also include transitional measures for the implementation of the new accreditation status.

6. Recommendations to the Board

- 49. The secretariat and the CDM-AP recommend that the Board adopt version 13.0 of the CDM accreditation procedure as contained in Appendix 1.
- 50. Regarding the validity of the provision of one performance assessment per 20 months as contained in footnote 7 inserted in paragraph 76 of the procedure, the secretariat and the CDM-AP forward separately the following recommendations:
 - (a) Recommendation by the secretariat: that the Board agree on a minimum of three mandatory performance assessments in the five-year accreditation term for any DOE.
 - (b) Recommendation by the CDM-AP: that the provision in footnote 7 should expire and the timing of performance assessments should revert to the requirements outlined in paragraph 76 of the CDM accreditation procedure, i.e. a minimum of five mandatory performance assessments in the five-year accreditation term for any DOE.

51. In relation to DOEs that have not submitted any registration or issuance in the system for more than 20 months (inactive DOEs), the secretariat and the CDM-AP forward separately the following recommendations:
- (a) Recommendation by the secretariat: that the Board maintain the current situation allowing inactive DOEs to maintain accreditation even in the absence of project submissions that would trigger performance assessments. The secretariat also recommends that the Board request inactive DOEs to inform the secretariat 10 days prior to its first submission, of its intention to submit a request for registration and/or publication of monitoring report. Thereafter, normal provisions for triggering performance assessments as per CDM Accreditation Procedure shall apply.
 - (b) Recommendation by the CDM-AP: that the Board, based on recommendations from the CDM-AP, place under observation DOEs that are inactive (no project submissions) for a fixed period of 20 months. Should the Board agree with the recommendations in paragraph 51(a) above, the CDM-AP further recommends that the Board consider amending paragraph 19 in the procedure in order to harmonize with paragraph 51(a) above.

Appendix 1. Proposed changes to the draft CDM accreditation procedure version 13.0

1. The sections included in this appendix, including attachments A and B contain proposed changes to the CDM Accreditation procedure.

1. 2.2. Entry into force

2. 6. Version 132.0 of this Procedure enters into force on 1 March 2016 24 February 2017.

2. 7. Performance assessment

7.1. General

3. Recommendation 51a):

76. Upon submissions of requests for registration or/and publication of the monitoring reports, the number and types of performance assessments shall be determined as follows:

- (a) One Three performance assessments per year per five-year accreditation term for any DOE as the mandatory basis.¹ The types of performance assessments should be distributed as follows:
 - (i) ThreeOne performance assessment on validation activities per five-year accreditation term;
 - (ii) Two performance assessments on verification activities per five-year accreditation term; and
- (b) Additional performance assessment(s) based on the volume of work as follows:
 - (i) One additional performance assessment on a validation activity per year if the DOE submitted 50 or more requests for registration in the previous 12 months or equivalent;
 - (ii) One additional performance assessment on verification activities per year if the DOE submitted 150 or more requests for issuance in the previous 12 months or equivalent; and

¹ At its eighty first meeting the Board agreed to have, after applying a risk-based approach, a minimum of one mandatory performance assessment every 20 months for any DOE. This modification is on a temporary basis, valid until 28 November 2016.

- (c) Addition or reduction of the number of performance assessments based on the output of the “Procedure on performance monitoring of designated operational entities” (CDM-EB58-A01-PROC), by:
 - (i) One additional performance assessment on validation or verification/certification activity if the indicator I2 is in the yellow zone for the registration or issuance process, respectively, for two consecutive monitoring periods;
 - (ii) One less performance assessment on validation or verification/certification activity if the indicator I2 is in the green zone for the registration or issuance process, respectively, for four consecutive monitoring periods. This reduction in the number of performance assessments shall be done only from those added in accordance with paragraph 3(b) or 3(c)(i) above.

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Attachment A to Appendix 1. Fees and costs

1. Application fees for accreditation, reaccreditation and extension of accreditation for additional sectoral scopes

1. The fee for application for accreditation or reaccreditation is USD 15,000. If an applicant entity (AE) or designated operational entity (DOE) decides to withdraw its application for accreditation, reaccreditation or extension of accreditation for additional sectoral scopes before all appointed CDM assessment team (CDM-AT) members sign a confidentiality agreement and conflict of interest declaration in accordance with the relevant paragraphs of this Procedure, the application fee shall be reimbursed in full, otherwise it shall be non-reimbursable.

2. ~~An AE or DOE from a non-Annex I Party may have the possibility of paying 50 per cent of the application fee when it applies for accreditation or reaccreditation respectively, provided that it states its inability to pay the full fee at application, bearing in mind that it still needs to meet the relevant requirements in the "CDM accreditation standard for operational entities" regarding financial stability and liability. In this case, the AE/DOE shall pay the remaining 50 per cent of the application fee if and when the AE is accredited before starting its operation or once and if the DOE is re-accredited before starting its operation in the renewed term.~~

An AE or DOE shall pay the application fee for accreditation, re-accreditation or extension of sectoral scopes as follows:

- (a) One payment of USD 7,500 at the time of the application for accreditation, re-accreditation or extension of sectoral scopes and a second payment of USD 7,500 within one year after obtaining accreditation, re-accreditation or extension of sectoral scopes; or
- (b) One payment of USD 15,000 at the time of the application for accreditation, re-accreditation or extension of sectoral scopes.

Attachment B to Appendix 1. Accreditation flow diagram

- The purpose of the process flow diagram is to present the sequence of activities in the accreditation process and the controls that apply. This accreditation process flow diagram shall be read together with the content of the CDM accreditation procedure.

Figure 1. Accreditation Flow Diagram (No. 1) - Initial accreditation, reaccreditation and extension of accreditation for additional sectoral scopes

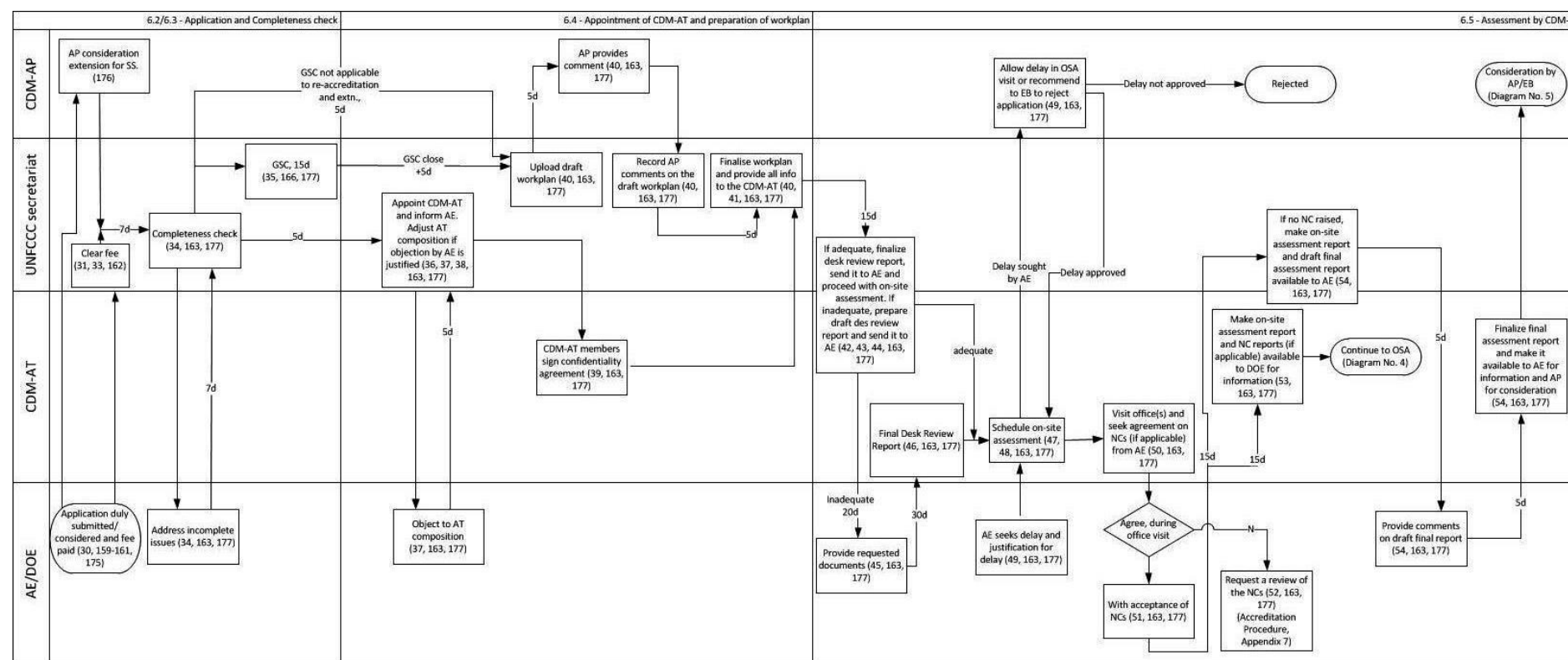


Figure 2. Accreditation Flow Diagram (No. 2) - Performance assessment

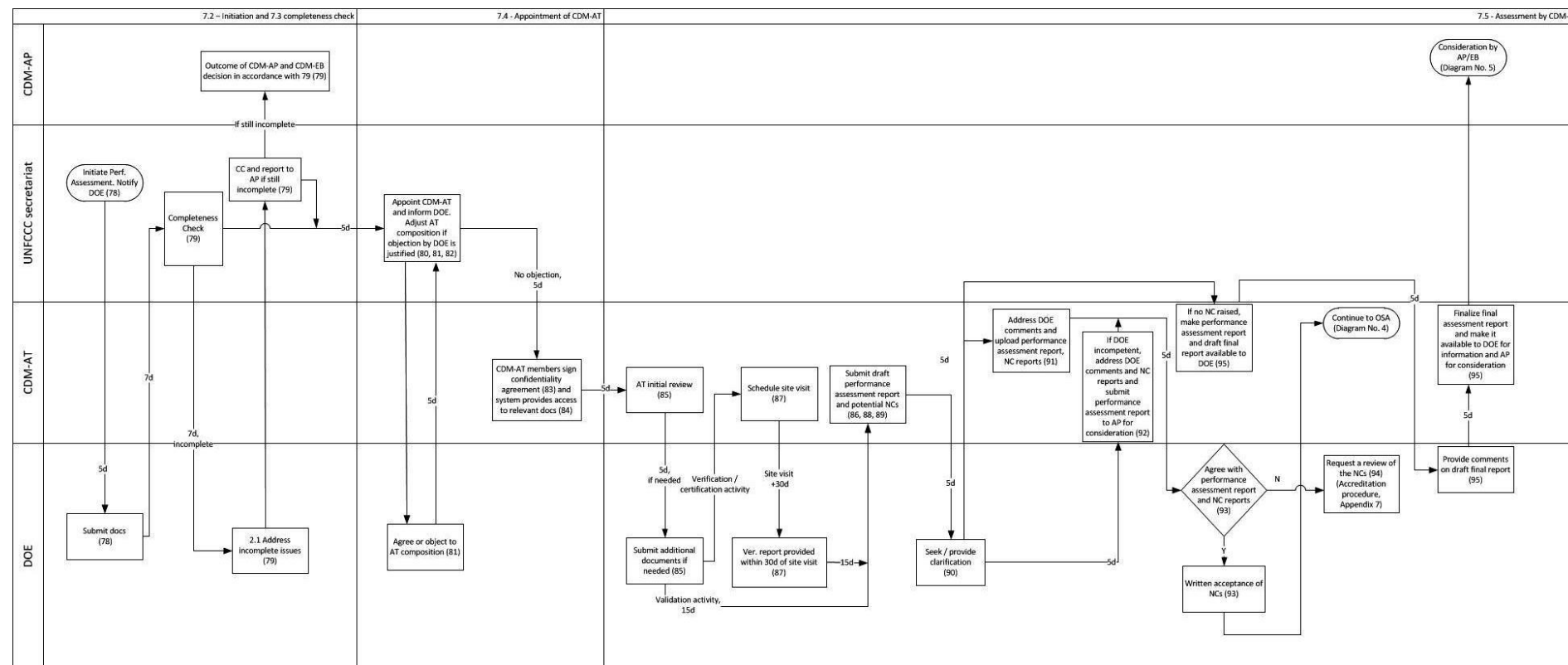


Figure 3. Accreditation Flow Diagram (No. 3) - Regular on-site surveillance

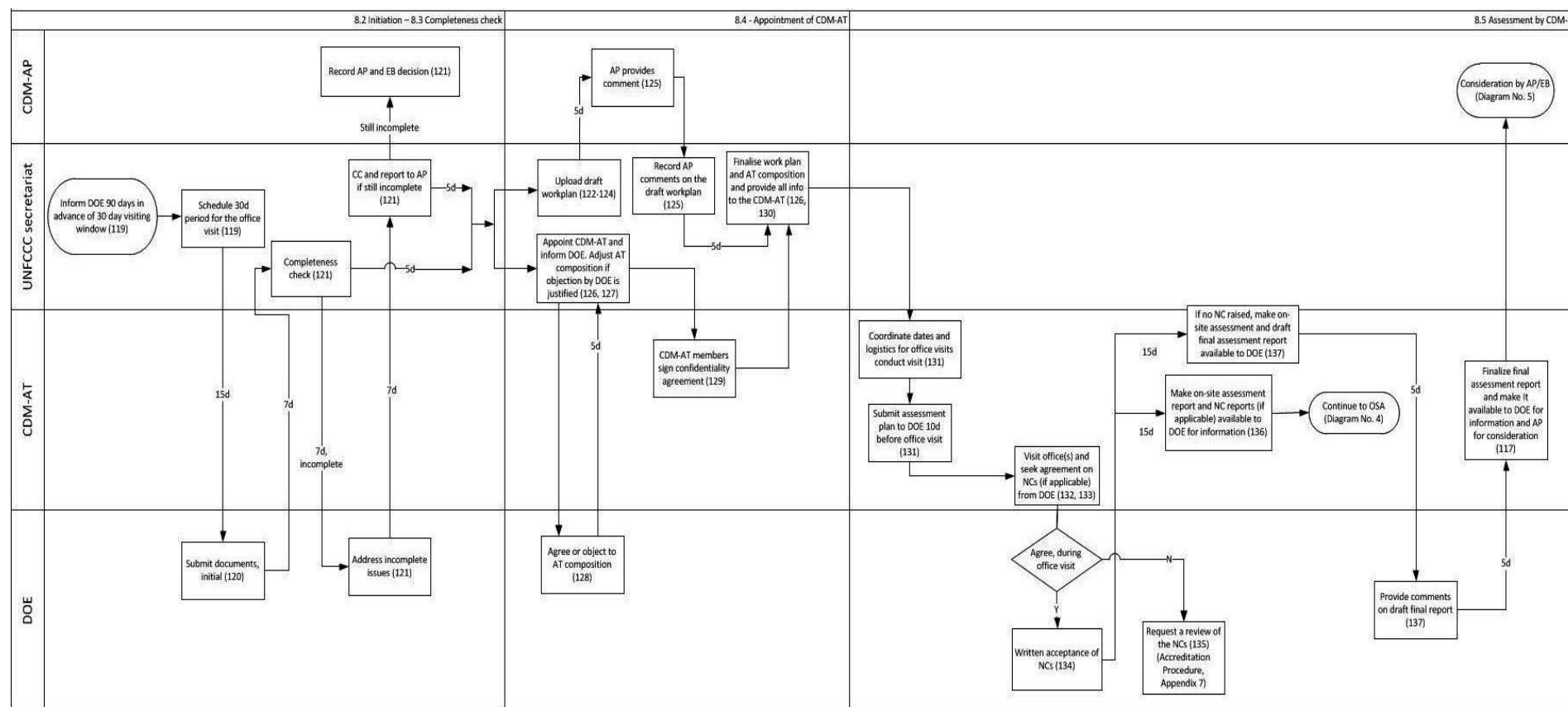


Figure 4. Accreditation Flow Diagram (No. 4) – On-site assessment (OSA) common to initial accreditation, reaccreditation, extension of accreditation for additional sectoral scopes, performance assessment and regular on-site surveillance

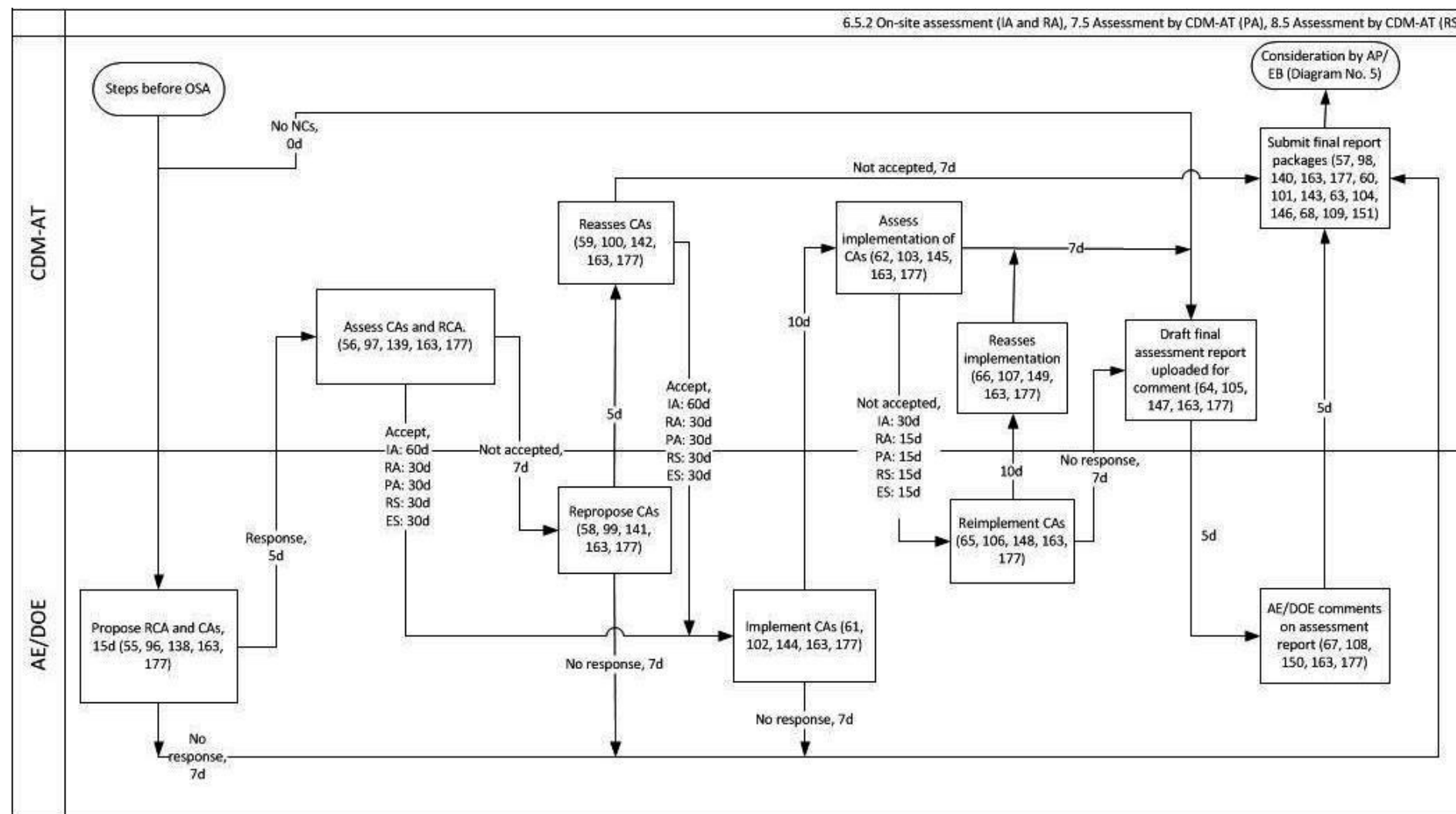
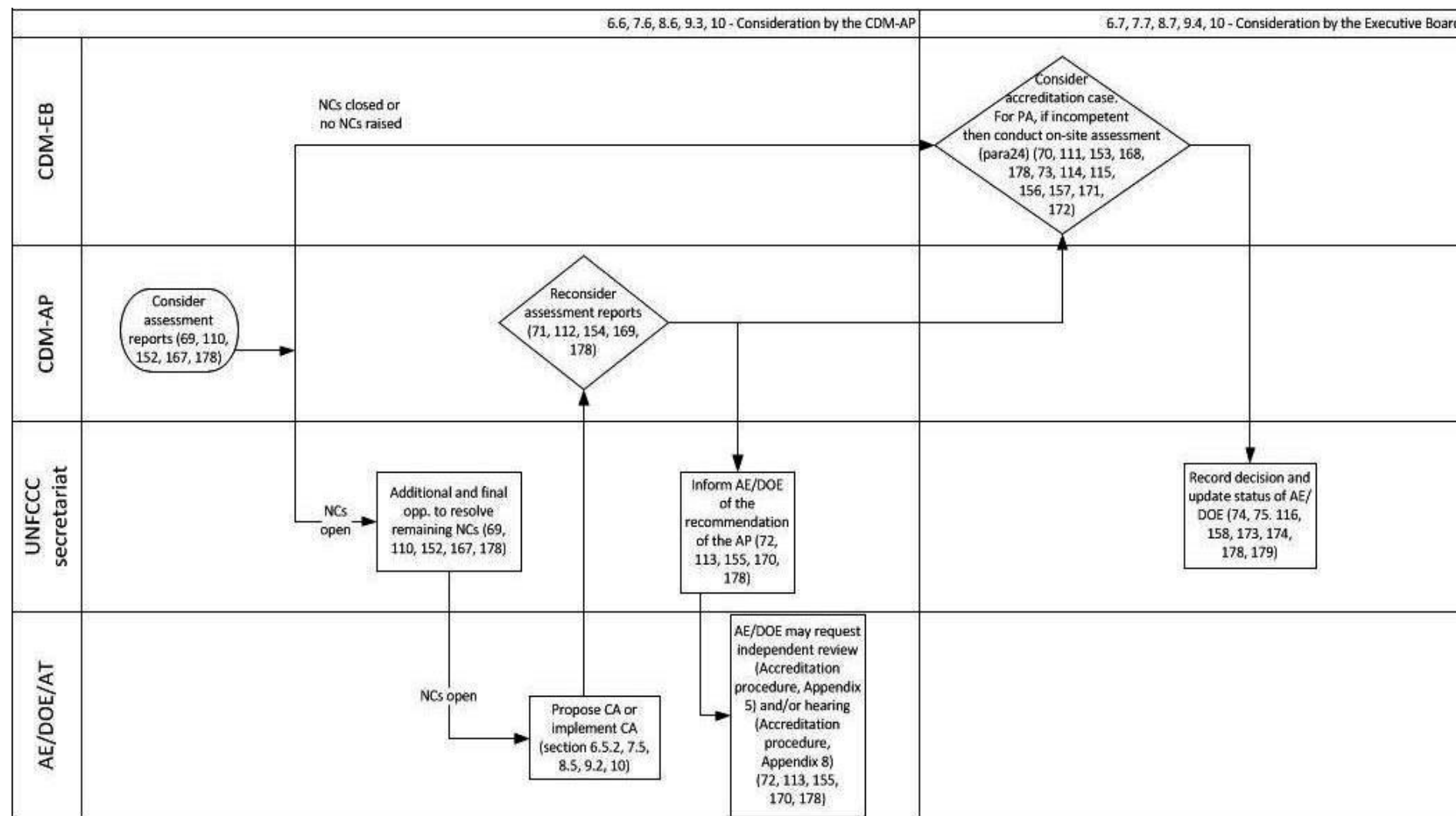


Figure 5. Accreditation Flow Diagram (No. 5) - Consideration of an accreditation activity by the CDM-AP and CDM-EB



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