

**DRAFT for consideration by the Executive Board at its 20<sup>th</sup> meeting**

**CDM MANAGEMENT PLAN (CDM-MAP) 2005–2006**

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## **I. Background and scope**

The entry-into-force of the Kyoto Protocol on 16 February 2005 has given certainty to Parties, the business community and other stakeholders that the CDM can and does need to go ahead in full force if its objectives are to materialize in good time, namely to assist

- Non-Annex I Parties to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention
- Annex I Parties to the Convention in achieving compliance with their Kyoto Protocol emission reduction targets.

Its role, as indicated in the Marrakesh Accords, is also to lead to the transfer of environmentally safe and sound technology and know how in addition to that under Article 4.5 of the Convention. The Marrakesh Accords also mandated work on the inclusion of afforestation and reforestation projects, rules on which were agreed at COP 9 and COP 10.

Against the background of these multiple challenges, COP 10 requested the CDM Executive Board, in its decision 12/CP.10, subject to the availability of sufficient resources, to develop a management plan. At its 19<sup>th</sup> meeting (11-13 May 2005), the Board agreed on an outline for a CDM Management Plan (CDM-MAP) for the 12-month period from mid-2005 to mid-2006, with an outlook until the end of 2007. The period covered by this initial CDM-MAP marks the transition from the CDM “prompt start” phase, during which the COP exercised authority over the CDM to era when the COP/MOP, as of its first session, takes over. The CDM-MAP offers an opportunity to take stock at the end of the pioneering period since Marrakesh, reflect on the experience gained and prepare for the future which is likely bringing much increased scope and volume to the CDM.

### **1. Mandate**

The basic infrastructure for the CDM is laid out in the provisions of Article 12 of the Kyoto Protocol and in mandates determining roles, functions, activities and conditions of work. These are established in the Marrakesh Accords and COP decisions since then which are expected to be confirmed at COP/MOP 1. Core provisions, which underline the high level of interdependency of actors and actions in the CDM, are as follows:

- The COP/MOP exercises authority over and provides guidance to the CDM. Until the first meeting of the COP/MOP, this responsibility is being assumed by the COP.
- The CDM Executive Board supervises the CDM and can draw on committees, panels and working groups to perform its technical functions. It receives requests for the registration of CDM project activities and requests for issuance of certified emission reductions (CERs) from designated operational entities (DOEs), once these have validated projects, or verified and certified emission reductions. The Board approves methodologies submitted by project developers to calculate and monitor emission reductions of the project activities and to determine the amount of CERs it can issue for a CDM project activity. The Board functions as an accreditation body for the designation of operational entities, introduced into the CDM as a central means to avoid bottlenecks at the stages of validation/registration of projects and verification/certification/issuance of credits. It accredits and provisionally designates such entities before they are being designated by COP/MOP and exercises related functions common to an accreditation body, such as performing spot-checks. The business of the Board is conducted in accordance with its rules of procedure which were approved by COP 8 (and amended since). They specify, inter alia, modalities for decision-making, including remotely by electronic means, to ensure that the process can work as smoothly as possible.
- Project proponents, i.e. prospective project participants, are assigned a crucial role in driving the process by designing projects and by proposing methodologies for baselines



and monitoring. Without their qualified input, the CDM – as a “bottom-up”, needs- and project-driven process – does not work.

- A designated national authority (DNA) must provide written approval of voluntary participation in CDM and the host country must confirm that the project contributes to its sustainable development before project proponents can submit a project to the Board.
- The secretariat services the CDM Executive Board.
- The public, inter alia IGOs and NGOs, play a significant role as they are invited to comment on cases and make inputs to the process.
- Parties interested in the CDM, apart from their immediate engagement on projects, are invited to ensure the proper functioning of the CDM by providing resources, such as through the UNFCCC core budget and voluntary contributions, until the CDM attains self-financing levels through a share of proceeds.

The principles and implementation rules for the CDM, originating as part of the larger package contained in the Marrakesh Accords, are contained in several decisions: decision 15/CP.7 “Principles, nature and scope of the mechanisms pursuant to Articles 6, 12 and 17 of the Kyoto Protocol”, decision 17/CP.7 and in the annex on “**Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol (CDM M&P)**”, and in decisions 11/CP.7 and 19/CP.7 (provisions relating to CDM credits in the A&R context and the CDM registry). Decisions by COP 8-10 provided further guidance relating to the CDM and brought a significant expansion of the scope of work. This was notably the case by requesting the Board to accelerate its work on methodologies, including their consolidation in an ever increasing number of sectors (COP 9 and COP 10), and by the agreement on modalities for afforestation and reforestation (A&R) project activities (COP 9), with special provisions for small-scale A&R projects (COP 10). Moreover, decisions relating to UNFCCC budgetary matters, such as those on the UNFCCC programme budgets for the biennium 2002-2003 and 2004-2005, and most recently for 2006-2007, referred to resources for the work on the CDM.

## 2. Scope of the CDM-MAP 2005-2006

The purpose of the CDM- MAP is to provide a comprehensive framework for planning, implementing and monitoring the work on the CDM on a 12-months-basis. Such an overall approach is necessary as, in the wake of the entry into force of the Kyoto Protocol, the work on the CDM is expected to continuously intensify and accelerate and human and financial resources must be in place to cope with expectations – and actual cases.

The CDM-MAP is to further enhance the functioning of the CDM in a transparent, efficient and cost-effective manner, notably of the Board, its panels and working groups, and the secretariat. It is to facilitate the communication of results, the appreciation for and appraisal of processes, the assessment of capacities and resources and the consideration of challenges. It is also to allow for adjustments to optimize the system as it progresses and expands. This first CDM-MAP is also to help actors and stakeholders to be fully informed of and relate to the system as it has evolved since the Marrakesh Accords were concluded in 2001.

The CDM-MAP is prepared against the background of activities spelled out in the CDM-M&P, considerations arising therefrom, and operational procedures established by the Board. Equally relevant is the experience gained in the operation of the CDM in the “prompt start” phase, notably the lack of control over the number and the quality of cases submitted and the lack of resources commensurate to the tasks and demands at hand.

The CDM-MAP 2005-2006 covers the period 1 July 2005 to 30 June 2006. It is a “living document” that will be adjusted if and when necessary.



Apart from explaining the background and scope in this **Part I**, the CDM-MAP contains in **Part II** major CDM activities and expected case flow into the year 2006. **Part III** contains the management plan of the Board, depicted in three tiers, with scenarios for the case-dependent tier 3, and several options for managing the workload. Feeding into it are the work plan from mid-2005 to mid-2006, expanding on the existing 2005 work plans of the Board, the panels and working groups. **Part IV** concludes by presenting future challenges, including issues that may need to be reflected in subsequent versions of the CDM-MAP.

The CDM-MAP draws on management, planning and monitoring tools which have been in place since the inception of the CDM. It also feeds back into them. Apart from the work plans mentioned, and secretariat tools for financial planning and monitoring, operations and communication management, these are the biennial UNFCCC programme budgets and, notably, the CDM project document (“Support to the operations of the CDM”, the current version covering 2005-2007)(for short overview, see annex 1). The provisions of the CDM-MAP will need to be reflected in the CDM project document whose current version is attached as annex 2.

Finally, while the CDM-MAP is the ex ante tool for planning the work on the CDM, its ex post correlate is the mandatory annual report of the Board to the COP/MOP (hitherto three annual reports to the COP) which serves as a basis for COP/MOP exercising authority over the CDM and providing guidance.

## **II. Activities to be undertaken by the Executive Board**

### **1. Activities mandated through the CDM M&P and COP decisions**

The major activities to be performed by the CDM Executive Board, its panels and working groups, and to be supported by the secretariat servicing these bodies, include to:

#### **Make recommendations and report, namely**

- Make recommendations to the COP/MOP on further modalities and procedures for the CDM, as appropriate;
- Make recommendations to the COP/MOP on any amendments or additions to rules of procedure (the rules of procedure had been adopted by COP 8) (rules of procedure to be kept under review – COP 9 and COP 10);
- Report on its activities to each session of the COP/MOP;

#### **Work on issues relating to methodologies (standard-setting), namely**

- Approve new methodologies related to, inter alia, baselines, monitoring plans and project boundaries – COP 7 (including for afforestation and reforestation project activities - COP 9)
- Develop and revise simplified baselines methodologies for small-scale project activities – COP 8;
- Develop and recommend to the COP/MOP general guidance on methodologies relating to baselines and monitoring and specific guidance, as detailed in Appendix C to the CDM M&P - COP 7 (request for further work was reiterated - COP 9);
- Intensify its work on methodologies and to provide further guidance for the development of methodologies which have a broader applicability- COP 9;
- Further facilitate the development of baseline and monitoring methodologies on the basis of experience gained – COP 10
- Keep under review the “additionality tool” and report to COP/MOP 1 – COP 10;
- To further work on the consolidation of methodologies (district heating , energy efficiency and transportation) – COP 10;



- To start the development of a database of approved methodologies organized by project category and condition of applicability (COP 10);
- Review provisions with regard to simplified modalities, procedures and the definition of small scale project activities and, if necessary, make recommendations to COP/MOP (COP 8 had adopted the simplified modalities and procedures);
- Develop, for consideration by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its first session, default factors for assessing the existing carbon stocks and for simplified baseline methodologies for small-scale afforestation and reforestation project activities under the clean development mechanism, taking into account, if appropriate, types of soils, lifetime of the project and climatic conditions – COP 10;
- Develop, for consideration by COP/MOP 1, simplified monitoring methodologies for small-scale afforestation and reforestation project activities under the clean development mechanism, based on appropriate statistical methods, to estimate or measure the actual net greenhouse gas removals by sinks; as appropriate, the Executive Board may indicate different methods for different types of afforestation and reforestation project activities and propose default factors, if any, to facilitate the estimation or measurement of actual net greenhouse gas removals by sinks – COP10;
- Develop guidelines to estimate leakage for small-scale afforestation and reforestation project activities under the clean development mechanism – COP 10.

#### **Work on issues relating to accreditation (accreditation body)**

- Be responsible for the accreditation of operational entities, and make recommendations to the COP/MOP for the designation of operational entities, in accordance with Article 12, paragraph 5;
- Maintain a publicly available list of designated operational entities;
- Review whether each designated operational entity continue to comply with the accreditation standards and, in this respect, conduct spot-checking at any time and undertake re-accreditation upon the request of a DOE every 3 years.

#### **Work on the registration of CDM project activities and related issues (product quality assessor)**

- Consider need to review a request for registration by a DOE; in the absence of a request for review, the project activity is automatically becoming a registered CDM project activity (8 weeks or 4 weeks, depending on the project size, after submission);
- To conduct, if necessary, a review of the proposed CDM project activity in accordance with paragraph 41 of the Marrakech Accords;
- Develop and maintain a publicly available database of CDM project activities;
- Report to the COP/MOP on the regional and subregional distribution of CDM project activities with a view to identifying systematic or systemic barriers to their equitable distribution;
- Make publicly available relevant information, submitted to it for this purpose, on proposed CDM project activities in need of funding and on investors seeking opportunities, in order to assist in arranging funding of CDM project activities, as necessary;

#### **Work on the issuance of CERs and related issues (product quality assessor), including the CDM registry**

- Approve the issuance of CERs and instruct the CDM registry administrator to issue;
- To perform, if necessary, a review of the proposed issuance of CERs and decide whether it should be approved in accordance with paragraph 65 of the Marrakech Accords
- Develop and maintain the CDM registry;

**Collaborate with the Subsidiary Body for Scientific and Technological Advice (SBSTA) on methodological and scientific cross-cutting issues:**

- To follow negotiations regarding registries and the international transaction log (ITL);
- To collaborate with SBSTA in the elaboration of a recommendation to COP/MOP 1 relating to implications of the implementation of CDM project activities for the achievement of objectives of other environmental conventions and protocols, in particular the Montreal Protocol, and which imply the establishment of new HCFC 22 facilities which seek to obtain certified emissions reductions for the destruction of HFC 23, taking into account the principles established in Article 3, paragraph 1, and the definitions in Article 1, paragraph 5, of the Convention (COP 10);

**Communication and repository functions**

- Make any technical reports commissioned available to the public and provide for public comments on draft methodologies and guidance before documents are finalized;
- Develop, maintain and make publicly available a repository of approved rules, procedures, methodologies and standards;

**Governance issues**

- Make recommendations to the COP/MOP on any amendments or additions to rules of procedure for the Executive Board – COP 7 (retreated at COP 8-10) ;
- Address issues relating to observance of modalities and procedures for the CDM by project participants and/or operational entities, and report on them to the COP/MOP – COP 7.
- To continue to assess existing and new ways to ensure transparency, i.e. regular written reports by the Executive Board and its panels, communication with constituencies and exchange of information with the public (COP 10);
- To intensify its work to ensure the proper functioning of the clean development mechanism, inter alia, by developing a management plan as soon as possible, strengthening institutional capacity, and facilitating efficient, transparent and substantiated decisions by the Executive Board and its panels and working groups (COP 10).

**2. Case-specific work****Planning under uncertainty**

One of the central constraints of CDM planning processes, apart from uncertainties about resources, has been the absence of control by the Board over the number, scope and quality of cases it receives. There is also no certainty as to when cases will be submitted and a risk of unpredictable clustering. In order to have at least some indications of the caseload in the foreseeable future, informal surveys had been done in the past. In April 2005, with hopefully more certainty on the flow of cases after the entry-into-force of the Kyoto Protocol, the secretariat conducted a first survey among DOEs and AEs to be appraised of the expected number of methodologies and project activities to be submitted within a year. This survey will be repeated on a quarterly basis to get this input into 12-months forward planning. The result of the latest survey will be available at EB-20.

**12 months case flow as indicated by DOEs/AEs responding to survey (second quarter 2005 till end of first quarter 2006)**

The information by the 11 responding DOEs and AEs was provided on a confidential basis and with the understanding that only aggregate figures would be used. The overall picture shows the following:

- Expected requests for registration: 151



- Expected number of proposed methodologies: 91.

If differentiating by quarter, they expect the number of requests for registration to move strongly and quickly upward: from 13 (Q2/05), 36 (Q3/05), 50 (Q4/05) to 54 (Q1/06). With the existing procedures, the Board would have to brace itself for an exponential increase in the workload for each member. This increase suggests that measures have to be urgently devised which address the limitations of time by Board members while safeguarding the integrity of the registration process.

In the case of the submissions of methodologies, the case-flow is somewhat more even, albeit sharply up in Q3/05 from Q 2/05. In general, it resembles more what has been experienced to date: 15 (Q2/05), 26 (Q3/05), 22 (Q4/05) to 27 (Q1/06) cases to be submitted. It is noteworthy that 18 A&R methodologies are among these proposals-to-be, with two being for small-scale projects. Regarding the overall workload to be handled by the Meth Panel, it needs to be recalled that it is also to engage strongly in the consolidation of methodologies. Updated information on the caseflow will be provided once information is available and analyzed (possibly at EB 20).

### Case flow – expected in the UNFCCC programme budget 2006-2007

In the UNFCCC programme budget for the biennium 2006-2007 and in the related CDM project document, assumptions have been made concerning the caseload and the number of Board and panel/WG meetings needed to handle the workload. The following caseload has been assumed:

- Expected number of application for accreditation: 20 cases per annum;
- Expected methodologies submissions: 70 per annum of which 20 A&R;
- Expected requests for registration: 300 cases per annum.

The above estimates of expected caseload in 2005-2006 (Q1) and for 2006 and 2007 are reflected in Part III under the medium and high case scenarios, respectively.

### III. CDM Management Plan

The CDM-MAP takes, as its point of departure, the functions and activities expected to be undertaken over the 12 months period from mid-2005 to mid-2006. This first CDM-MAP is based on the assumption that the resources, once the optimal management options are identified, would be made fully available. If this expectation does not materialize, the CDM-MAP would be accordingly adjusted.

The functions and activities are depicted in **three tiers**, making the following distinctions regarding functions:

- Governance (fixed) functions, i.e. those relating to the intergovernmental process (such as holding a minimal number of 3 meetings per year and reporting to the COP/MOP)
- Procedure-setting and standard-setting functions
- Operational, i.e. largely case-specific functions (highly variable; neither volume nor quality of input is under the control of the Board).

Estimates are provided on the time required to undertake the activities in each tier. Regarding tier3, three scenarios (low, medium, high level) are spelled out.

**Tier 1 – Governance (fixed functions):** (i) meeting at least three times per year, if possible in conjunction with the meetings of the SBs and the COP/MOP, including planning/monitoring functions and preparing annual report to the COP/MOP based on draft prepared by the secretariat; (ii) presenting the report to the COP/MOP and being available for queries; (iii) question-and answer sessions on the occasions of SB and COP/MOP sessions; (v) implementing modalities for collaboration with SBSTA and performing related work (e.g. implications of HCFC 22 projects, CDM



registry in the context of the development of registries systems and the international transaction log (ITL)).

**Tier 1 – Requirements (time):** (i) Preparation, attendance and follow-up to 3 EB meetings of 3-4 days plus travel days (3x6 days): 18 days per/member (p/m); (ii) 5 days p/m; (iii) 2 days p/m; (iv) 10 days per members requested to follow an issue; **Total: (i)-(iii): 25 days p/m; (i)-(iv): 35 days for designated members.**

**Tier 2 – Procedure-setting and standard-setting functions**, i.e. those relating to the elaboration of generally applicable procedures (directly elaborated by the Board or based on recommendations by panels or working groups) which are the basis for operations by actors at various levels; clarifications and review of such procedures, as appropriate.

**Tier 2 – Requirements (time):** (i) Preparation, attendance and follow-up of equivalent of one EB meeting (1x6 days): 6 days p/m; and (ii) inter-sessional work (exchange of drafts, possibly electronic decision-making): 20 cases requiring 2 days p/m totalling 40 days p/m; **Total: (i)-(ii): 46 days p/m**

**Tier 3** – Operational functions are case-specific. They depend on inputs forwarded from project proponents and DOEs (requests for registration and issuance), on proposals for methodologies and accreditation and, subsequently, on recommendations (on methodologies and accreditation) from panels and working groups, also taking into account inputs received from the public. The Board has no control over input. It can only influence the efficiency with which its parts of processes are handled. Time estimates for methodologies are based on recent experience following the increase in capacity of the Meth Panel by 50 percent and the streamlining of procedures. In the case of requests for registration and issuance, the assumption is that the Board continues to screen the cases, once the secretariat has conducted checks for completeness of the documentation, by using teams of Board members.

In the following, a **low, medium and high caseload scenario** is presented for tier 3. The middle scenario is based on the results of the survey which was conducted by the secretariat in April 2005. The upper scenario is based on assumptions for the years 2006 and 2007 which the secretariat had used for estimating activity levels in that period. Current indications from observing the submissions of projects for validation (potential projects “in the pipeline”) are that there is a tendency towards the upper scenario. It should be noted that the **time required per member and year** is not considered to be generally increasing in a linear fashion as a function of the number of cases submitted. The assumption is that there are some “economies of scale” if projects submitted attain a degree of resemblance and as experience grows on all sides involved.

**Scenario 1 (low):** (i) 50 cases of registration requests and issuance requiring each team of 2 members to take on 5 cases, requiring 1 day per member (p/m) totalling 5 days p/m; (ii) 40 cases of recommendations (e.g. on methodologies, accreditation).

**Time required:** (i) Preparation, attendance and follow-up of equivalent of 2 EB meeting (2x6 days): 12 days p/m; consideration of 50 cases at 2 hours per case: 12.5 days p/m; (ii) inter-sessional work (exchange of drafts, possibly electronic decision-making): 40 cases requiring 1/2 day p/m totalling 20 days p/m; **(i)-(ii): 42.5 days p/m**

**Scenario 2 (medium, based on survey):** (i) 150 cases of registration requests (assuming a significant number of similar cases) and issuance requiring each team of 2 members to take on 15 cases, requiring 1 day p/m totalling 15 days p/m; (ii) 100 cases of recommendations (e.g. on methodologies, accreditation).

**Time required:** (i) Preparation, attendance and follow-up of equivalent of 3 EB meetings (3x6 days): 18 days p/m; consideration of 150 cases at 2 hours per case: 37.5 days p/m and (ii) intersessional work (exchange of drafts, possibly electronic decision-making): 100 cases requiring 1/2 day p/m totalling 50 days p/m; **(i)-(ii): 105.5 days p/m**

**Scenario 3 (high):** (i) 300 cases of registration requests (assuming a significant number of similar cases) and issuance requiring each team of 2 members to take on 30 cases, requiring 1 day p/m totalling 30 days p/m; (ii) 100 cases of recommendations (e.g. on methodologies, accreditation).  
Time required: (i) Preparation, attendance and follow-up of equivalent of 4 EB meetings (4x6 days): 24 days p/m; consideration of 300 cases at 2 hours per case: 75 days p/m and (ii) intersessional work (exchange of drafts, possibly electronic decision-making): 100 cases requiring 1/2 day p/m totalling 50 days p/m; **(i)-(ii): 149 days p/m**

### Tiers 1-3 Time required per member (excluding tier 1 (iv))

Tier 1-3 (tier 3, low):	25+46+42.5	113.5 days p/m (including 6 EB meetings per year)
Tier 1-3 (tier 3 mid):	25+46+105.5	176.5 days p/m (including 7 EB meetings per year)
Tier 1-3 (tier 3 high):	25+46+149	220 days p/m (including 8 EB meetings per year)

The above estimates show that a member of the Board must be able to devote a minimum of over 100 days to the Board's work. This could, however, increase to a full-time occupation if the assumptions regarding time required apply and the number of cases is as high as expected in the scenario 3. This is in stark contrast to the current situation where Board members, acting in their personal capacity, are expected to devote time freely to the work on the CDM. The situation is exacerbated if a member of the Board has additional functions, such as being the Chair/Vice-Chair of the Board or the Chair/Vice-Chair of a panel or working group. It is obvious that even in the case of the low-case scenario, the number of days to be devoted to the functions may reach, or even exceed, four-fifths of a person's working time.

Obviously, while the functions in tier 1 and 2 are rather stable (at approximately 70 days per year), the decisive variable is tier 3. Tier 3 is therefore the one on which the secretariat is surveying on a quarterly basis DOEs and AEs as well as DNAs. The activities under tier 3, albeit beset by uncertainty, and the conditions under which the work is conducted, should therefore be the focus of attention when exploring approaches for managing the expected work.

### Approaches for managing the expected work

Six options for managing the work are spelled out below. They range from an increased direct involvement by the Board (option 1), its panels and working groups (option 2), an increased reliance on DOEs in registration and issuance processes (option 3) and a role in screening of methodologies (option 4), to an increased technical role of the secretariat, both in screening requests for registration and issuance as well as in making technical inputs on methodologies – in addition to its current functions (option 5), or a combination of options 1-5 (option 6). In considering the options below, the respective resource requirements need to be borne in mind. The possibility of having test phases or staged and pilot phases could be explored.

**Option 1:** The Board increases its direct involvement. A number of scenarios may be considered: (i) members (not alternates) are serving full-time on the Board, at least in an initial period until the system is functioning smoothly (say, till end 2007); (ii) Chairs and Vice-Chairs of the Board and the Panels, possibly also the working groups, serve in a full-time capacity and are remunerated for their services; (iii) members and alternates reach agreements with their employers to be released for Board functions for at least 100 days per year. The Board members and alternates receive compensation dependent on products being delivered as agreed, in good quality and on-time; (iv) combinations of (ii) and (iii), including the ample use of electronic decision-making and of phone- and video-conferencing (which poses problems due to time differences).

The increased direct involvement of the Board, coupled with designations of responsibility, may also facilitate the provision of early responses to queries which are of a policy nature and which the secretariat is therefore unable to respond to.

**Option 2:** The Board strengthens the panels and working groups and requests them to perform increased functions (esp. on methodologies) and enhance the reporting on and presentation of recommendations to facilitate decision-making.

- The Board has, in response to a request by COP 10, made efforts in this respect. It has, however, been hampered by the fact that the financial resources which were supposed to be available soon after COP 10 for this purpose have only recently, and only in part, become available. Recruitment of staff to assist panels was therefore delayed by approximately 6 months.
- Once resources started to become available, the Board, apart from working on measures to improve and further streamline the work of the panels and working groups (results – EB 20), has increased the number of members on the Meth Panel from 10 to 15, i.e. a 50 % increase, so that it can better handle the caseload, be it intersessionally or at its meetings (e.g. working in parallel groups – see also report of Meth Panel).

**Option 3:** The Board opts for an increased role of DOEs in screening methodologies (see outcome of EB 20 on improvements to the process of considering methodologies)

**Option 4:** The Board opts for an increased reliance on DOEs in the registration and issuance process. The integrity of the CDM relies strongly on the capacity of DOEs to validate projects, and to verify and certify emission reductions. Especially in the initial period when requests for registration and issuance are first received, and as long as DOEs are still building up their capacity, the Board has been engaged in screening cases in detail to ensure that the requirements are fulfilled. As the process matures and performance improves, the Board may opt to increasingly rely on the DOEs. Strengthening the accreditation process, in particular with regard to the assessment of technical capacity to undertake validation and verification work, has been initiated by involving experts on methodologies in the accreditation process. The Board will need to keep close scrutiny of activities to strengthen the accreditation process and decide on whether further initiatives would be necessary. Spot-checking on the performance of the DOEs may also be an option in lieu of detailed case-by-case checking at the stage of registration and issuance. The aforementioned underlines the critical importance of functioning DOEs to avoid bottlenecks in the processing of cases. It also speaks to the desirability of having a wide spread of DOEs which may also require a self-governing system of peer reviews to correct non-conformities.

**Option 5:** The Board requests an increased role of technical expertise to be provided by the secretariat, in particular with respect to inputs on the elaboration of baseline and monitoring methodologies, on registration of projects and on issuance of credits. As the secretariat has only recently obtained resources to assume the increased reporting functions spelled out by COP 10 (resulting in the announcement of vacancies in May 2005), the expansion to functions going well beyond would require commensurate resources. To assume an increased function regarding methodologies and in the checking of registration and issuance requests, technically competent staff would need to be available in addition to those in place. They would need to be complemented by the contracting of specialized expertise as the scope and depth of cases coming forward can only be handled efficiently and cost-effectively at that level. This option therefore depends on appropriate and predictable resources being available in a timely manner. It also depends on the ready availability of in-depth specialized expertise (consultants), a factor that has sometimes been a constraint in the past.

The secretariat, in its efforts to ensure that the CDM is operated as transparently, cost-effectively and efficiently as possible, put in place – and is constantly further improving - a number of tools to



facilitate operations and communication. Two major innovative tools are helping to handle the day-to-day planning, organization and support of the various CDM processes:

- the electronic workflow system which allows the multitude of CDM functions to be carried out efficiently and in a consistent manner, and
- the network of extranets (9) and dedicated e-mail listservs (around 60) which connects, and allows ongoing dialogue among, members of the Board, the panels and working groups, and the secretariat.

These internal communication management systems are complemented by the public communication tool, the UNFCCC CDM web site which displays information in an up-to-date manner on all results and processes of the CDM. It also allows to issue calls for public input, one of the central and unique features to engage a wide community in the CDM, for experts (e.g. on methodologies). The CDM information system also features a CDM News Facility which conveys latest information to over 4,000 subscribers worldwide and helps them to update their own planning and implementation schedules.

An additional tool that the secretariat considers highly necessary, but for whose implementation resources were not available to date, is the tracking of decisions that the Board took since the inception of the CDM. Such tracking needs to be user-specific and needs to contain multiple automated cross-references. Such a tool may also lessen the number of information queries received from the public.

**Option 6:** Combinations of any of the above options.

#### **IV. Work plans of the Board, panels and working groups**

##### **Work plan/schedule 2005**

At the first meeting of each calendar year, the Board agrees on its annual work plan – so far in the form of a schedule - for carrying out its activities. It details the number and length of possible meetings of the Board and its panels and working groups. It also sets the schedule of meetings as firmly as possible bearing in mind, inter alia, (i) the dates when cases would likely be submitted so that the work flow and the consideration cycle is optimized, (ii) tight timelines set by the CDM M&P and by internal Board procedures, (iii) the need to obtain public input and have feedback loops with project proponents and operational entities, (iv) the dates of intergovernmental meetings (COPs, COP/MOPs and SBs), (v) deadlines for the submission of documents (UN rules and the Board's rules of procedure). Finally, when planning the work and assignments of members, be it in the form of preparing and attending meetings or the need to perform work in-between meetings, limits to the availability of Board, panel and working group members are taken into account. They are all performing their CDM related functions in addition to their regular positions. The current work plan, as agreed at EB-18, had been attached to the report of EB-18. It will be amended once EB 20 has agreed on a revision to extend it until mid-2006.

Annex 4 contains tentative work plans of the panels extending into mid-2006. In order to provide further factual input into the elaboration of the work plans, the secretariat has conducted surveys among panels and working group members as to their observations and perceptions of the process and workload. The results will be made available at EB-20.

#### **V. Conclusions and future challenges**

The “prompt start” phase of the CDM was instituted by COP 7 to develop the system and to prepare the CDM for operations so that project proponents, once the entry-into-force risk was gone, could request registration for CDM project activities-to-be and obtain certified emission reductions (CERs)



into their accounts in the CDM registry. It meant the establishment of the institutional infrastructure: CDM Executive Board as the body supervising the CDM at the conclusion of COP 7 in Marrakesh and the designation of the UNFCCC secretariat as the institution to service the CDM. The Board, in turn, quickly moved to set up its technical support bodies (for accreditation, methodologies and small-scale projects) in 2002. Resources for the work were to mainly come from voluntary contributions, apart from a small part from the core budget and some income from fees, and Parties were accordingly invited to continue making contributions in 2006 and 2007.

In terms of developmental work, the priority was to translate the provisions of the Marrakesh Accords into workable procedures and processes – many of which having to be invented from scratch. In each instance, public input was invited and taken into account as appropriate. An information system on the CDM had to be set up to serve a global community, both in the public and private sector. All this was done and the operation of the CDM was therefore able to take off. On 16 November 2004, coincidentally on the day that entry-into-force became certain, the first CDM project activity was registered. Since then, the count has risen to 10 registered CDM project activities. The expected amount of emission reductions can be traced on the UNFCCC CDM web site. The CDM has during the prompt start phase moved from idea to reality.

Notwithstanding the results, major challenges had to be mastered by the Board, its panels and working groups, but also by the DOEs as the “extended arm of the Board”, the project proponents, the DNAs and other actors involved, and the secretariat. Some of the lessons learnt, depending on the character of the problem, may be relevant in the future and are therefore highlighted here:

- **Translating negotiated text into operational procedures and policy-related matters:** the CDM M&P, owing to their provenance as part of a negotiated, balanced package in the form of the Marrakesh Accords, contain a number of ambiguities. The Board was therefore repeatedly called upon by potential project participants to provide clarifications and practicable solutions so that they could progress in their work. The resolution of such ambiguities is difficult and often resource-intensive. While major issues have been addressed and, in the Board’s view, resolved, other issues may arise in the future as problems are coming only into sharp focus at the stage of implementation. There are also issues where the Board meets its limits: a case in point is the issue of HCFC 22 project activities (new facilities) which was taken to COP, has been with SBSTA 22 and is now going to COP/MOP 1.
- **The character – level of complexity and responsibility - of the Board’s work:** The level of complexity of the CDM and responsibility implied in supervising the CDM may not have been fully appreciated at the time when the MA were concluded. By now, the CDM is being seen as a mechanism to be used across the globe and all economic sectors (since COP 9 and COP 10 also for afforestation and reforestation projects and for small-scale projects in that area). The Board is expected to deliver, in a mutually compatible manner, to the satisfaction of business interests and of the global community whose primary interest is to mitigate climate change and enhance sustainable development. As the CDM is “case law-driven” by design, the Board has taken on this challenge by requesting, especially whenever a “first” case comes up (i.e. requests for accreditation, approval of baseline and monitoring methodologies or registration of a project activity), improvements of submissions until a reasonably credible precedent was set for others to follow. The Board’s role in this respect cannot be overestimated. Unique in an international context, the Marrakesh Accords assign to the Board a *quasi* regulatory function for process and and product quality. The Board therefore determines, akin to a Central Bank issuing legal tender, the amount of certified emission reductions (CERs) that can be issued without jeopardizing the environmental credibility and economic viability of the CDM and emission trading system under the Kyoto Protocol. Hence, the critical role played by additionality in the context of approving methodologies for baselines and pressures exerted on the Board and its Methodologies Panel.



- **Multitude of interdependent actors, mutual trust and the development of routine:** In terms of the functions and institutional infrastructure, both at international and national levels, many factors and actors need to come together and work well. The CDM is a highly interdependent and can only be smoothly run if all actors – at national and international levels, in governments and in the private sector - perform in accordance with their roles, deliver good quality within the time limits set and communicate well in all necessary directions. Even with best intentions and effort on all parts (and leaving aside here that resources were never adequate to the effort required), it takes time for all actors to be conversant and cope with the broad scope, the technical standards and the sheer volume of work. There are a good number of successful examples on record to show that if the elements are in place, collaboration is productive for all sides and yields quicker results. An important factor to emerge from good collaboration is strengthened mutual trust – an essential prerequisite for streamlining processes and resorting to spot-checks rather than all-round checks.

In all these respects, the prompt start phase has been of immense importance and has afforded the Board, and all the pioneers involved, an invaluable learning-by-doing opportunity. Eventually, albeit with pains, persistently under-resourced and with huge personal effort, the CDM has accomplished in this period what it was set to do: the development work paved the way for operations and deliverables. At the end of June 2005, there were 8 accredited/designated entities and 40 methodologies (3 of them consolidated) in a wide array of sectors. There were also 10 CDM projects registered (out of 17 submitted, 4 of which recently). Well over 150 projects are in the pipeline.

The challenges are likely to grow with CDM operations further increasing in volume and complexity, and with the CDM being at the intersection of commercial and intergovernmental interests, not least related to its role in future negotiations for climate change action in the period after 2012. The CDM-MAP and the guidance from the COP/MOP relating to the CDM play a critical role in ensuring that all human, financial and institutional resources, including provisions regarding immunity from legal prosecution, are in place for the CDM to work according to the intention of the Marrakesh Accords and for the benefit of all Parties involved.



## Annex 1

### Resource management tools

#### UNFCCC programme budget

The biennial UNFCCC programme budget, currently the one for the period 2004-2005, contains the results expected from the CDM process and specifies resource requirements. The programme budget for the biennium 2006-2007 has been agreed by the twenty-second session of the Subsidiary Body for Implementation (May 2005) and is foreseen for adoption at COP 11/COP/MOP1 in November 2005. The activities on the CDM and the required resources are described in the main document which pertains to the core budget and in addenda which specify core and supplementary activities and their resource needs (**FC/SCB/2005/8 and its addenda 1 and 2**). The activity levels are related to the expected caseload in 2006-2007.

#### CDM project document

A CDM project document serves as the overall planning tool relating to outputs, activities and human and financial resource requirements for the work of the CDM. Its assumptions and parameters are congruent with indications of the Board as to the expected workload and with the UNFCCC programme budget for the biennium. Such a CDM project document has been in place since the inception of the CDM and been adjusted and updated on several occasions. Annex II Parties with an interest in making voluntary contributions to the CDM are familiar with the document as it has been the basis for the secretariat's fundraising efforts ever since 2002. The first CDM project document pertained to the period 2002-2003, the second one to the period 2004-2005. A recently revised and updated revision exists for the period 2005-2007 and shows the resources required from the core budget (KPIA in 2005) and from voluntary contributions. It also indicates other sources of income, notably fees for case-specific work (requests for registration and applications for accreditation). Updates on the major financial performance indicators are presented by the secretariat to each meeting of the Board (e.g. expenditure status, income levels and shortfalls in resources).

#### Resources for the work on the CDM and financial planning and monitoring tools of the secretariat

From 2002-2004, resources for supporting the work on the CDM mainly came from supplementary resources (voluntary contributions by Parties and fees for case-specific work). With the entry into force of the Kyoto Protocol on 16 February 2005, resources are also available from the core budget, although the bulk of resources continues to be from supplementary sources. Eventually, with the introduction of the share of proceeds to cover administrative expenses, an additional revenue stream is expected to grow in importance as the CDM case flow and the CERs generated reach a significant level. This is expected for the biennium 2008-2009.

The financial management of the CDM is performed by the secretariat. Its Integrated Management Information System (IMIS) tracks administrative activities and related financial transactions. It also allows to monitor resource flows in real time. This feature has been critical for over the past years as resources remained persistently below required, and often at crisis, levels. Budgetary adjustments were frequently needed to direct resources to areas where they were most immediately and urgently needed.



**Annex 2**

**CDM project document (current version covering 2005-2007)**

(see separate pdf file)



### Annex 3

#### **Reporting during the “prompt start” phase through annual reports to the Conference of the Parties (2002-2004) and, henceforth, to the first session of the COP/MOP (November 2005)**

In accordance with decision 17/CP.7 and the CDM M&P, the Executive Board reports annually to COP until COP/MOP takes over by adopting draft decision -/CMP.1 (Article 12) recommended by the COP at its seventh session. The COP/MOP reviews the annual reports of the Executive Board. The annual reports of the Board provide comprehensive information to Parties on progress made on the CDM, in particular on the implementation of the tasks in its work plan – accreditation, methodologies, registration and issuance as well as governance (including communication and resources). It recommends decision to be taken, for example on the designation of operational entities. The first three annual reports – and the draft of the fourth report (to COP/MOP) which is an annex to the annotated agenda for EB 20 - are available on the UNFCCC CDM web site.

The **first report** to COP 8 showed the progress made from November 2001 (1<sup>st</sup> meeting of the EB) to August 2002 (5<sup>th</sup> meeting of the EB). The work occurring after August 2002 was covered by an oral report from the Chair of the Board at COP 8 and included the establishment of an Accreditation Panel and the launch of the accreditation process, the determination of an application fee for operational entities, the recommendation to the COP of simplified modalities and procedures on small-scale CDM projects, the development and recommendation to the COP of detailed rules of procedure for the Board, the creation of the UNFCCC CDM web site, and the agreement of the Board on communication and attendance matters of observers at EB meetings.

The **second annual report** and its addendum were presented to COP 9. It reported on the consideration process for 19 applications for accreditation, the preparation of “Indicative simplified baseline and monitoring methodologies for selected small-scale project activities categories”, the approval of 9 baseline and monitoring methodologies (out of 36 proposed), the development of a project design document, and on initial steps for developing the CDM registry. The report also provided update information on the administrative expenses of the CDM in 2002 and 2003 (USD 1.5 million) and the planned activities and resource requirements for the biennium 2004-2005 (USD 3.0 million in 2004 and USD xx million in 2005).

The **third Board report** and its addendum, presented to COP 10, showed four entities having been accredited and being recommended for designation by the COP, the approval status of methodologies being 19 out of 85 proposals, including two consolidated methodologies, the development of an optional tool to demonstrate and assess additionality, and the first project being registered on 16 November 2004. Also, the CDM registry (version 1) had been developed, tested and deployed in November 2004. The report accounted for the resources available for the work on the CDM, indicating a significant shortfall of resources (USD 3.3 million) in 2005 unless significant voluntary contributions from Parties were received.

The draft of the **fourth annual report**, which is the first report to COP/MOP, has been prepared by the secretariat and will be subject to consideration by the Board at its 20<sup>th</sup> meeting (6-8 July 2005). The draft is available as annex 1 to the annotated agenda to that meeting and can be viewed on the UNFCCC CDM web site.



**Annex 4**

**Work plans of panels, including status on accreditation and methodologies**

(see separate files attached)

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