



DRAFT

Annex 1

IMPLEMENTATION PLAN OF THE POLICY FRAMEWORK TO MONITOR PERFORMANCE AND ADDRESS NON-COMPLIANCE BY DESIGNATED OPERATIONAL ENTITIES

A. Mandate

1. The conference of the Parties serving as the meeting of the Parties for the Kyoto Protocol (CMP) at its fourth sessions requested the Executive Board of the Clean Development Mechanism (hereinafter referred to as the Board) to:
 - (a) Review its experience gained in the project registration and certified emission reductions issuance processes, to summarize systematically the major issues that trigger a request for review and corresponding justification, to develop a dedicated document compiling the major criteria for decision-making during the review process and to make it publicly available through the UNFCCC CDM website;
 - (b) Develop and apply, as a priority, a system for continuous monitoring of the performance of designated operational entities (DOEs) and a system to improve the performance of designated operational entities;
 - (c) Develop and apply measures to ensure that DOEs comply with the requirements and meet the standards established by the Board for DOEs;
 - (d) Finalize, prior to the fifth session of the CMP, its work on a policy framework to address non-compliance by DOEs in a systematic manner, including transparent criteria for the application of sanctions in cases of non-compliance;
 - (e) Enhance the transparency of the performance of DOEs, including by regularly publishing statistics on their performance on the UNFCCC CDM website and report on actions taken to the CMP at its fifth and subsequent sessions.
2. The CMP decided that the Board may recover the costs related to a request for review of a request for registration of a proposed project activity or a request for issuance of certified emission reductions in cases where the Board decides to reject such a request and the DOE repeatedly fails to comply with the requirements of the Board.

B. Background

3. While addressing the request of the CMP contained in paragraph 1 (a) above, the secretariat has identified a set of major issues that currently trigger requests for review and their corresponding justification, as contained in annex 5 to the annotated agenda of the fiftieth meeting of the Board. These issues are the reasons for requesting for review, under review and rejection, as detailed in the form used by Board members to raise a request for review.

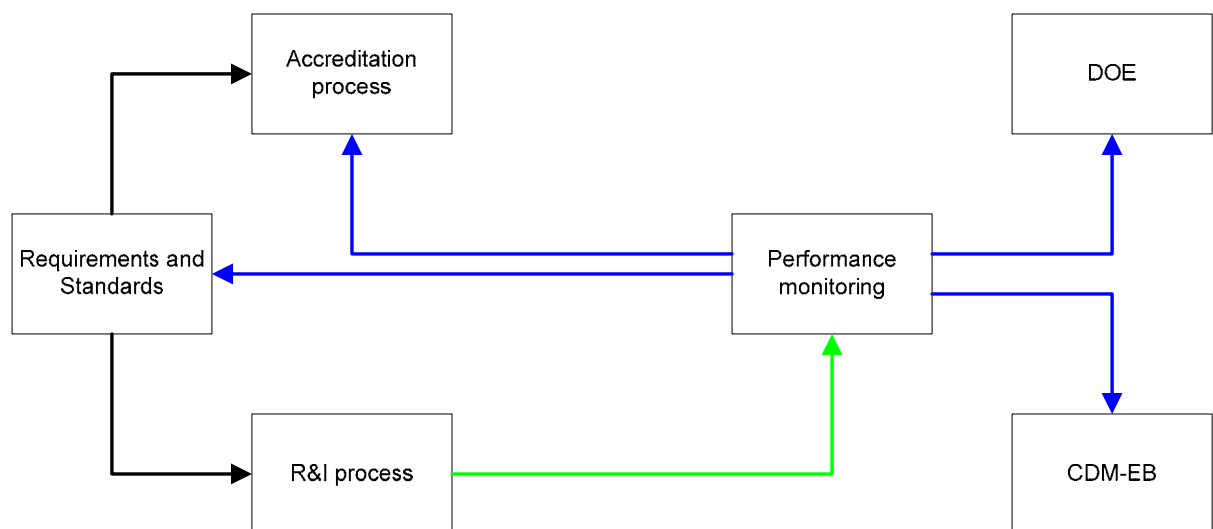
DRAFT

4. The Board at its forty-ninth meeting agreed on a policy framework to monitor performance and address non-compliance by DOEs in a systematic manner (hereinafter referred to as the Framework). The Board requested the secretariat to prepare a proposal for implementation of the Framework, including the categorization of non-compliance, proposed thresholds and applicable sanctions, for the consideration of the Board at its fifty-first meeting.

5. In addition to the principles contained in the Framework, the Board agreed on the following key implementation elements:

- (a) The Framework should not provide for comparison ranking of DOEs, but to indicate level of performance and compliance of individual DOEs with the CDM requirements;
- (b) Implementation of the Framework should be complemented with system-wide analysis and improvement;
- (c) Implementation of the Framework should:
 - (i) Provide DOEs with feedback on their performance;
 - (ii) Support the Board and the CDM Accreditation Panel (CDM-AP) in decision making.

6. The output of the Framework is also intended to provide guidance in the accreditation assessment process, as well as appropriate inputs into future revisions of the CDM requirements, standards, and methodologies.



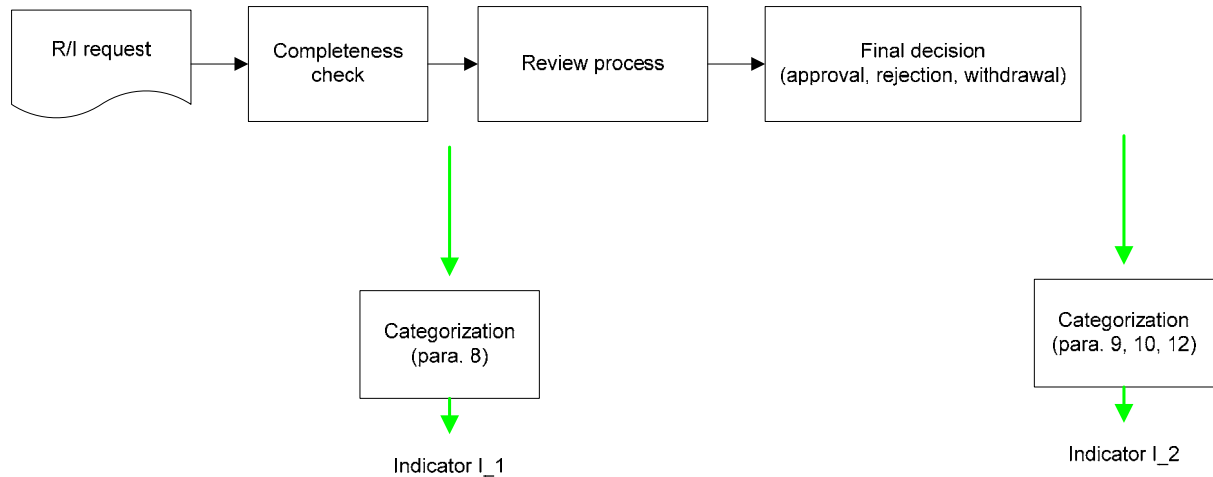
7. This document contains a proposal for the implementation of the Framework, including the categorization of non-compliance, a methodology to determine thresholds, the use of applicable sanctions and the changes required in existing procedures and common practices.



DRAFT

C. Issue classification and weighting

8. **Each issue identified during the completeness check** performed as part of registration or issuance will initially be classified under reporting. Such classification will occur at the end of the completeness check.
9. **Each issue identified during the subsequent processing of a request for registration or issuance** will be classified according to:
- (a) The reasons for requesting a review, as provided by the F-CDM-RR and F-CDM-IR. This includes minor and other issues and will refer to individual CDM requirements, including the relevant VVM requirements;
 - (b) The following categories of issues:
 - (i) Issues related to reporting;
 - (ii) Issues related to failure to follow procedural requirements;
 - (iii) Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements;
 - (iv) Other issues, to analyse system-wide gaps and improve classification.
10. **Each issue identified during a registration or issuance request** will be assigned a weight based on the severity of the issue. The weight will be selected from a range that could vary according to the category of issue already identified in paragraph 9 (b).
11. The classification and weighting of issues identified during the processing of a registration or issuance request will only be determined after a final decision on that request has been made.
12. **Each registration and issuance request** will be assigned an overall weight equal to the sum of the previously identified weights of issues (see paragraph 10), including those that are closed. The weighting of a request will be determined after a final decision on the specific request has been reached.

DRAFT**D. Indicators**

13. Based on the classification and weights identified in section C, a number of indicators will be measured for each DOE. The indicators will be used to both monitor performance of DOEs and may also trigger sanctions.

14. The following two indicators will initially be introduced, covering both registration and issuance requests:

- (a) **Rate of rejections at completeness check** calculated as the number of requests rejected at completeness check divided by the number of requests submitted, regardless of the number of issues identified in each rejection:

Indicator I_1 = N of requests rejected at completeness check / N of requests submitted

- (b) **Rate of requests for review** adjusted by weight of the requests, as referred to in paragraph 12;

Indicator I_2 = SUM (weights of RfR) / N of requests completed

15. The issues arising from requests for revisions of monitoring plans, deviations and changes from the PDD will not be counted during the initial implementation phase. Appropriate counting rules will be developed later.

16. The indicators will be calculated based on those requests, for which a final decision (approval, rejection, and withdrawal) was taken in the current implementation phase.

17. An entity will become subject to monitoring immediately after its accreditation is granted. The grading of performance and application of any sanctions however will only become applicable after the finalization of a tenth request of registration or issuance has accumulated.



DRAFT

E. Thresholds

18. For both indicators, indicator I₁ and indicator I₂, thresholds are common for all DOEs.

19. While aiming for “zero-tolerance” in the longer term, the initial definition of thresholds should be determined so as to avoid major and unmanageable disruption to the CDM accreditation system. Initial thresholds should be defined after due consideration of current performance and then lowered over time to support overall improvement of the quality of validation and verification work performed by DOEs.

20. The initial implementation phase will be used to collect data on current performance. The thresholds can then be defined after completion of phase 1 and the applicable and associated sanctions defined and introduced thereafter. The entire framework should initially be reviewed every six months. The timing of reviews can be changed in the future on the basis of accumulated experience.

F. Usage of the monitoring information

21. The **secretariat** will be responsible for identification, classification and weighting of individual issues. The secretariat will present the results of the monitoring at the end of each pre determined monitoring period to an appropriate meeting of the CDM-AP and the Board.

22. The **DOEs** will be provided with feedback information on their performance, through the indicators and categorization, and will be responsible for undertaking their own root-cause analysis to address performance issues.

23. The **CDM-AP**, at the end of each monitoring period, will consider indicators, changes in grading of all DOEs and list of all issues with a view to

- (a) Focus work of CDM assessment teams on particular re-occurring issues through preparation of the assessment work plans;
- (b) Increase or decrease number of assigned performance assessments;
- (c) Inform the Board on low performance of a DOE, requesting a spot-check.

24. The **Board**, at the end of each monitoring period, will be provided with the indicators, grades of all DOEs and list of all issues, and may consider it, with a view to

- (a) Taking decisions to initiate spot-checks;
- (b) Taking a decision to suspend or withdraw accreditation of a DOE¹.

25. The exact responsibilities of the secretariat, the CDM-AP and the CDM-EB, the information flow and decision-making procedures will require further elaboration after phase 1 is completed.

26. Some outputs of the monitoring system may be made **public**. An analysis of what should be made public will be completed at the end of the initial implementation phase.

¹ The CDM accreditation procedure will be revised to accommodate for this action.



DRAFT

G. Next steps and implementation timeline

27. The introduction of the Framework will be undertaken in two phases.
28. **Phase 1**, from EB 51 (December 2009) to EB 52 (February 2010) will include:
- (a) Data collection and classification;
 - (b) Development of IT infrastructure to support the Framework;
 - (c) Provision of information on DOE performance to CDM-AP (AP 46) and the Board (EB 52);
 - (d) Identification of appropriate level of thresholds (proposal to EB 52);
 - (e) Review of categories and performance, including initial categorization of deviation and revision of the monitoring plan (proposal to EB 52).
29. **Phase 2**, from EB 52 (February 2010) to EB 54 (May 2010) will include following elements:
- (a) Data collection and classification;
 - (b) Grading of non-compliance of DOEs against agreed thresholds;
 - (c) Provision of feedback to the DOEs;
 - (d) Provision of information on DOE performance to CDM-AP (AP 48) and the Board (EB 54);
 - (e) Provision of information to the public;
 - (f) Review of categories and thresholds (proposal to EB 54);
 - (g) Identification of appropriate sanctions (proposal to EB 54);
 - (h) Review and amendment of relevant procedures to allow triggering of sanctions (proposal to EB 54).
30. After the fifty-fourth meeting of the Board (May 2010), a full review of the Framework will be undertaken and an implementation plan for the following monitoring periods will be established. Results of the review will be submitted for consideration of the Board at its fifty-fifth meeting.
31. The Framework will be reviewed every six months afterwards until experience dictates that a longer review period is more appropriate.
