

**TERMS OF REFERENCE FOR THE PANEL
TO RECOMMEND DRAFT SIMPLIFIED MODALITIES AND PROCEDURES
FOR SMALL-SCALE CDM PROJECT ACTIVITIES¹**

I. INTRODUCTION

1. Paragraph 6, subparagraph (c) of decision 17/CP.7 on modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol requests the executive board “to develop and recommend to the Conference of the Parties (COP), at its eighth session, simplified modalities and procedures for the following small-scale clean development mechanism project activities:

(a) Renewable energy project activities with a maximum output capacity equivalent of up to 15 megawatts (or an appropriate equivalent);

(b) Energy efficiency improvement project activities which reduce energy consumption, on the supply and/or demand side, by up to the equivalent of 15 gigawatthours per year;

(c) Other project activities that both reduce anthropogenic emissions by sources and directly emit less than 15 kilotonnes of carbon dioxide equivalent annually”.

2. The executive board, at its second meeting, considered the “Draft work plan to develop recommendations to COP 8 on simplified modalities and procedures for small scale CDM project activities”, hereafter referred as the “draft work plan” (Annex 4 of the proposed agenda and annotations). It agreed to launch a panel, at its third meeting, which is to develop recommendations to the board on such simplified modalities and procedures (section V of the draft work plan). The board designated Mr.Ashe and Mr.Okamatsu to serve as chair and vice chair, respectively, of this panel.

3. In addition, the board concluded that public comment on the draft work plan could be provided by Parties, NGOs and institutions from 25 January to 8 February 2002. The board also agreed to further consider how to interpret definitions of small-scale CDM project activities (section III of the draft work plan) and requested the secretariat to conduct further work to develop a proposal on this issue for the consideration by the board at its third meeting.

4. In preparation of the establishment of a panel, the board agreed on the need for further elaboration of terms of reference, including competence requirements for panel members, with a view to deciding upon them, if appropriate, prior to the third meeting via its list serve.

5. These terms of reference, including competence requirements, are contained below in draft form. They provide details, taking into account public comments received from 25 January to 8 February 2002, on the following: (a) areas of work requiring technical and analytical inputs by the panel (see II.A. and the annex below), (b) modalities of work (see II.B. below), (c) membership in the panel (see II.C. below), and (d) a time-table for work until COP 8 (see II.D. below). Once the executive board has decided on the terms of reference, the secretariat shall post, on the CDM website, the invitation to experts to submit their applications, and compile a list of applications and a short-list for further consideration by the board, including from the UNFCCC roster of experts.

¹ Approved by the executive board on 22 March 2002 in accordance with rule 29 of the draft rules of procedure.

II. TERMS OF REFERENCE

A. Areas of work

6. The panel shall elaborate precise and workable recommendations for draft simplified modalities and procedures for small-scale CDM project activities for consideration by the executive board, which shall be submitted in time for consideration by the board at its fifth meeting.
7. The recommendations for draft simplified modalities and procedures for small-scale CDM project activities shall be prepared in accordance with the modalities and procedures for a clean development mechanism contained in the Annex to decision 17/CP. 7 (hereafter referred as “modalities and procedures”) and shall take into consideration:
 - (a) Existing technical and analytical work in relevant fields;
 - (b) Experience based on completed or ongoing small-scale projects in relevant fields, identifying potential areas for reducing transaction costs while safeguarding environmental integrity;
 - (c) The draft work plan;
 - (d) Further consideration by the executive board on how to interpret definitions of small-scale project activities (section III of the draft work plan);
 - (e) Public comments received on the draft work plan;
 - (f) Work by the panel for developing guidelines on baseline and monitoring methodologies to be established at the latest by the fourth meeting of the executive board.
8. The recommendations for draft simplified modalities and procedures for small-scale CDM project activities shall address each of the issues contained in the annex.

B. Modalities of work

9. The panel shall operate under the guidance of the executive board, in accordance with general guidelines for panels. The executive board members Mr Ashe and Mr Okamatsu will act as chair and vice chair of the panel, respectively.
10. The panel shall be established for a period of 4 months (April - July 2002). The mandate of the panel may be renewed and revised by the executive board if necessary.
11. Panel meetings can be held with panel members being physically present, through conference calls and/or through electronically linking them up. The frequency and mode of panel meetings shall be determined by the chair and vice chair of the panel, bearing in mind resources available.
12. This panel shall collaborate with the panel for developing guidelines on baseline and monitoring methodologies. The two panels shall meet jointly at least once in order to exchange experiences and build on each other’s work.

C. Membership

Competence requirements:

13. A panel member shall be designated to and serve on the panel for its full period. If the mandate of the panel is renewed, the member may be re-designated.

14. In addition to requirements contained in the general guidelines for panels^{**}, a panel member shall:

(a) Have demonstrated relevant working experience of at least five years related to small-scale project activities in non-Annex I Parties;

(b) Have demonstrated technical/scientific experience, *inter alia*, through publications, in at least one of the following areas:

(i) Baseline and/or monitoring methodologies in activity areas related to at least one of the three small-scale criteria defined in paragraph 6 (c) of decision 17/CP.7;

(ii) Implementation of small-scale projects in activity areas related to at least one of the three small-scale criteria defined in paragraph 6 (c) of decision 17/CP.7, including procedures related to project activity, validation, monitoring, verification and certification;

(iii) Financing in small-scale projects activity areas related to one at least one of the three small-scale criteria defined in paragraph 6 (c) of decision 17/CP.7, including experience related to removal of investment barriers for small-scale project activities and technologies applied in this area.

(c) Have excellent drafting skills, strong operational and analytical skills, and the ability to work as a member of a team;

(d) Have advance university degree in economics, energy, environmental studies, social, natural sciences, engineering, development studies, or any related discipline.

Size and composition:

15. In addition to the designated executive board members who act as chair and vice chair, the panel shall be composed of ten members.

16. The secretariat shall post, on the UNFCCC CDM website, the invitation to experts to submit their applications. It shall compile a list of applications and a short-list of applicants, including from the UNFCCC roster of experts, on the basis of which the executive board shall select the ten members of the panel, taking fully into account the consideration of regional balance.

^{**} See general guidelines for panels approved on 22 March 2002 by the executive board in accordance with rule 29 of the draft rules of procedure.

Compensation:

17. Travel costs and daily subsistence allowance will be paid to panel members attending a meeting of the panel in accordance with the UN rules and regulations.

D. Timetable^(*) until COP 8:

| <i>From</i> | <i>To</i> | <i>Meeting</i> | <i>Task</i> | <i>Location</i> |
|-----------------|-----------------|-----------------|-----------------------------------|-----------------------------------|
| 11 April | | Panel 00 | Initial exchange | Electronic/conference call |
| 25 April | 26 April | Panel 01 | Work on issues | Bonn or tbd |
| 23 May | 24 May | Panel 02 | Finalize initial draft | Bonn or tbd |
| 27 May | 27 May | EB 04-1 | | Electronic, if required |
| 09 Jun | 10 Jun | EB 04-2 | Consider initial draft | Bonn |
| 27 Jun | 28 Jun | Panel 03 | Preparation of final draft | Bonn |
| 10 Jul | 10 Jul | Panel 04 | Agreement on final draft | Electronic |
| 15 Jul | | | Deadline for documents for EB 05 | |
| 31 Jul | 01 Aug | EB 05 | Adopt recommendation to COP 8 | Bonn |
| 31 Aug | 01 Sep | EB 06 | | Johannesburg, South Africa |
| 20 Oct | 20 Oct | EB 07-1 | | Electronic, if required |
| 02 Nov | 03 Nov | EB 07-2 | | New Delhi, India |

^(*) This timetable is subject to approval by the chair and vice chair of the panel.

Annex

ISSUES TO BE CONSIDERED BY THE PANEL

A. Scope of simplified modalities and procedures

1. The panel shall consider whether simplified modalities and procedures should be applicable in the same manner to all project activity categories or whether the level of simplification should differ according to, *inter alia*:

- (a) Category of project activity, as defined in paragraph 6 (c) of decision 17/CP.7;
- (b) Size of project activity (e.g. should special rules apply to “very small/micro” project activities (definition required)?);
- (c) Sector;
- (d) Technology;
- (e) Location/site of project activity (e.g. rural/urban or on-grid/off-grid).

B. Possibilities of bundling small-scale project activities

2. In considering conditions and modalities for project bundling, the panel shall, *inter alia*:

- (a) Address the issue of “debundling” large projects into a series of small-scale project activities and the steps that could be taken to prevent it;
- (b) Analyze possible environmental risks, including impact of free riding behaviour;
- (c) Identify potential areas for reducing transaction costs while safeguarding environmental integrity;
- (d) Explore possibilities of applying thresholds/limits for maximum size, category and/or number of project activities to be included in a bundle;
- (e) Consider and develop, if appropriate, modalities for bundling at different stages of the project cycle (i.e. design, validation, registration, monitoring, verification and certification), including through the use of tools such as the project design document.

C. Simplification of baseline and monitoring methodologies

3. According to the modalities and procedures, simplified modalities and procedures shall apply to both the establishment of baselines (subparagraph 45 (d)) and the monitoring plan (paragraph 55).

4. The panel may address possibilities for simplified methodologies to either evolve over time as new simplified methodologies are submitted by project participants (e.g. “project based” or “bottom-up), or to be defined *ex ante* (“top-down”).

5. Simplification of baseline methodologies may pertain to the following:
- (a) *The assessment of additionality* [²]. The panel shall, *inter alia*, consider:
 - (i) Environmental risks associated with easing the additionality criteria for small scale projects, including analysis of implications for different project activities and technology categories at international, regional, national, or local levels;
 - (ii) Transaction costs associated with the assessment of additionality;
 - (iii) Assessment of additionality be determined using possible standardization of baselines calculated according to international, national, sectoral, project activity and technology categories, emission and efficiency factors;
 - (iv) Appropriateness of differentiating the additionality criteria/assessment for small-scale project activities by size.
 - (b) *Appropriate level of standardization of baseline parameters*. The panel shall, *inter alia*, consider:
 - (i) Environmental risks associated with the use of standardized baseline parameters;
 - (ii) Costs associated with the preparation of baselines for small-scale project activities;
 - (iii) Appropriateness of selecting default/standard values for baseline parameters (e.g. regional or country-specific default/standard emission factors, benchmark emission factors defined for each technology);
 - (iv) Appropriateness of using non-domestic data for developing baseline if domestic data are not available;
 - (v) Possible differentiation by size, category, technology, sector and/or site (on-grid and off-grid project activities);
 - (vi) Development of decision trees and other methodological tools for selecting the most appropriate methodology, in collaboration with the panel which develops recommendations for guidelines on baseline and monitoring methodologies.
 - (c) *Project activity boundary*. The panel shall, *inter alia*, consider:
 - (i) Environmental risks and transaction cost reductions associated with simplified modalities and procedures, such as allowing the project boundary to be defined according to the technology installed;
 - (ii) In collaboration with the panel which develops recommendations for guidelines on baseline and monitoring methodologies, application of provisions of paragraph 52 of the modalities and procedures, in particular how to define terms “significant” and “reasonably attributable” to the CDM project activity and “emissions by sources of greenhouse gases under the control of project participants”.

² Additionality is defined in accordance with paragraph 43 of the modalities and procedures.

- (d) *Leakage calculation.* The panel shall, *inter alia*, consider:
 - (i) Appropriateness of simplification or exemption for small-scale project activities from requirements to adjust for or establish procedures for periodic calculation of leakage effects in the monitoring plans;
 - (ii) In collaboration with the panel which develops recommendations for guidelines on baseline and monitoring methodologies, application of provisions of paragraphs 50 and 51 of the modalities and procedures, in particular how to define the terms “measurable” and “attributable” to the CDM project activity.
- (e) *Project activity crediting period.* The panel shall, *inter alia*, consider:
 - (i) Appropriateness of allowing longer crediting periods without the need for baseline revision;
 - (ii) Appropriateness of differentiating crediting period modalities for different categories of small-scale project activities.

6. The simplification of the monitoring methodology may include the possible use of existing standard values and existing data reporting systems. The panel shall, *inter alia*:

- (a) Identify environmental risks and transaction costs associated with simplified monitoring methodologies;
- (b) Identify valid and reliable standard values and well-established and conservative existing data reporting systems;
- (c) Analyze the implication of simplifying monitoring methodologies in cases where possible baseline and additionality assessments are simplified. In this context, identify level of rigour required to demonstrate that emission reductions have occurred;
- (d) Address appropriateness of:
 - (i) Allowing focussing monitoring on larger and/or less uncertain emission sources;
 - (ii) Using easy-to-monitor data, possibly adjusted by default values rather than basing results on data that are more difficult or costly to monitor. In this context, defining, if appropriate, approximations that can be used or easily developed for data that are unavailable or costly;
 - (iii) Using of published default emission/conversion factors (rather than measured factors);
 - (iv) Using control groups, either for monitoring or verification purposes;
 - (v) Monitoring only whether any equipment installed as part of the project activity continues to be in working order;
 - (vi) Differentiating simplified monitoring methodologies for project activity size, category, technology, sector and/or site (on-grid and off-grid project activities);
- (e) Explore possibilities to reduce monitoring frequency.

D. Simplified project cycle

7. The panel shall consider whether and how requirements and steps in the project cycle may be simplified (validation, monitoring, verification and certification and issuance) and/or combined (e.g. monitoring and verification and certification).
8. In this context, consideration may also be given to special provisions for designated operational entities in small-scale CDM project activities (subject to decisions by the executive board on accreditation).
9. The panel shall consider the appropriateness of:
- (a) Simplified validation and registration requirements, in particular those referred in paragraph 37 of the modalities and procedures. The panel shall explore, in particular, the appropriateness of simplifying supporting documentation requirements on, *inter alia*:
- (i) Comments by local stakeholders (e.g. Can/should the duration of steps be shortened by reducing the time available for comments by stakeholders, Parties and observers and/or by limiting the possibility of review?);
 - (ii) Analysis of the environmental impacts of the project activity;
 - (iii) Additionality;
 - (iv) Requirements pertaining to:
 - Methodologies previously approved by the executive board; or
 - Modalities and procedures for establishing a new methodology
 - (v) Provisions for monitoring, verification and reporting.
- (b) Requirements related to the project design document (Appendix B of the modalities and procedures). This could include, *inter alia*:
- (i) Possibility of standardizing the content of project documentation and templates, such as the note on the project idea/concept, template for project design document, elements required in a baseline and monitoring plan, standard terms for agreements with host country.
 - (ii) Possibility of developing guidelines for eligibility as well as portfolio approaches, including addressing how a CDM portfolio project should be defined in relation to eligibility as a small-scale project and what simplified portfolio approaches are allowed.
- (c) Validation and registration procedures and deadlines (in particular as referred in paragraphs 40 and 41 of the modalities and procedures) being adjusted to the needs of small-scale CDM project activities;
- (d) Implementation of requirements of the monitoring plan (in particular those referred in paragraph 53 of the modalities and procedures), taking into consideration the possible combination of with verification and certification steps;
- (e) Implementation of requirements for verification and certification (in particular those referred in paragraph 62 of the modalities and procedures);

(f) Feasibility and desirability of fully or partially exempting small-scale CDM project activities from the share of proceeds for adaptation³ and/or the coverage of administrative expenses of the CDM;

(g) Feasibility and desirability of a designated operational entity to perform both, validation and verification and certification, for a small-scale CDM project activity (in accordance with subparagraph 27 (e) of the modalities and procedures);

(h) Subject to decisions of the executive board, the feasibility and desirability of accrediting local operational entities in developing countries for a scope of accreditation limited to small-scale CDM project activities (bearing in mind subparagraph 4 (b) of the modalities and procedures).

³ Please note that CDM project activities in least developed country Parties shall be exempt from the share of proceeds to assist with costs of adaptation (decision 17/CP.7).