

Helping the UNFCCC secretariat improve its support to the Clean Development Mechanism and Joint Implementation

An independent technical review by McKinsey & Company

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This report presents an independent review of the support given by UNFCCC secretariat's Sustainable Development Mechanisms programme to the Clean Development Mechanism and Joint Implementation mechanism. The respective regulatory bodies are the CDM Executive Board and the Joint Implementation Supervisory Committee.

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Objective of the review

The objective of this work was to evaluate how well the UNFCCC secretariat is currently delivering on its mandate to support the Clean Development Mechanism and Joint Implementation - and to suggest opportunities for improvement to help the secretariat cope with a workload that only seems to go upwards. The secretariat has a broad-ranging mandate to support the CDM and JI, with much of its work geared around servicing the respective regulatory bodies, the CDM Executive Board (EB) and Joint Implementation Supervisory Committee (JISC).

The secretariat is acutely aware of the pressures placed on it by this work. This review is an initiative of the secretariat in order to actively seek ways in which it can improve.

We looked at how well the secretariat provides high-quality, consistent, reliable and timely support that is both impartial and cost-effective. Though it was necessary to examine this effectiveness in the context of the overall performance of the mechanisms, our scope and spotlight for improvements was focused on the secretariat's role.

The imperative for change

We believe there is a clear need for change. Demand for the CDM is increasing (the number of projects submitted for registration has grown annually by 20% over the last four years, and the number of issuance requests annually by almost 70%). At the same time, the proportion of CDM projects that are registered without corrections has fallen to 30%. The clear message here is that the quality of inputs submitted to the secretariat is increasingly poor. This results in significantly higher workload for the secretariat and increasing frustration amongst all participants.

Performance of a world-class operation is typically assessed in terms of quality, cost, service, and people satisfaction. We see that the secretariat has been the key player in maintaining the quality of the submissions that ultimately get approved, but many factors converge to result in the other indicators being neglected: costs have risen, lead-times have lengthened and people are overstretched.

- Input quality from Designated Operational Entities (DOEs): 'first-time-right' registrations of CDM projects have dropped from 80% to 30% over the last four years, a 25% year-on-year reduction, leading to excessive checking within the secretariat and long delays for project participants
- Service: lead times have tripled over the last two years: for example, registering a CDM project now takes an average of 200 days

- People satisfaction: the secretariat staff are working unsustainable hours and DOEs and project participants are beginning to complain, especially with regard to registration lead times and the clarity of methodologies
- Cost: the expenses of the secretariat for the CDM mechanism have risen 20% faster than the fees collected over the last two years.

Any further rise in demand will put the secretariat under even more severe strain. Efforts to bring in more staff are delayed by a shortage of specialist experience in the market and a lengthy recruitment process.

The secretariat also knows that it needs to change substantively in order to continue performing its role. It has initiated remedial actions, including this review.

Underlying drivers for current challenges

We reviewed the current operational performance of the secretariat against the best practices seen at leading service organisations with highly complex operations, such as insurance companies or consumer goods companies. There are several areas of strength: the secretariat staff are highly motivated and skilled, providing a proven track record of delivering high-quality, on-time assessments to the EB and JISC and showing flexibility by meeting their deadlines. Several improvement initiatives are underway, together with the EB, such as enhancing the completeness checks on new registration cases and starting to monitor DOE performance. Yet these are not sufficient, and there is a strong sense within the secretariat that it has to wait for an official mandate before it can embark on any additional initiatives.

We also identified a number of challenges for the secretariat's CDM and JI teams. Most of these arise from the how secretariat takes on and performs its operational role for the CDM and JI, but it is difficult to separate these from other challenges that stem from a work context that is not always conducive to secretariat efficiency. In particular, many of the challenges arise because the processes themselves have evolved away from what we would call their original intent.

The CDM mechanism was set up in line with an operating model that uses DOEs as an extended arm of the EB, providing expertise in the assessment of quality standards, at scale, to perform the validation, verification and certification of projects and emission reductions. The secretariat was to support the EB in its role to ensure that all processes had been correctly followed. It was expected that the majority of project submissions would be registered automatically, with the EB reserving the right to request a review if it considered one necessary.

In reality, as demand grew over time, concerns over the output quality of projects increased. To ensure that projects delivered the promised environmental benefits, the EB requested an increasing number of checks by the secretariat and the process

became increasingly complex. This restored confidence in project quality, but led to a worsening on other performance dimensions, such as lead time and reliability. This evolution has also created an unsustainable situation: it has increased EB and secretariat workload, moved accountability and expectations for quality away from the DOEs, and damaged the trust between participants.

In simple terms, quality has been guaranteed through after-the-fact inspections by the secretariat instead of being designed into a process that ensures quality from the outset, where the 'product' is initiated. There are several points at which quality suffers.

- Variable interpretation and application of standards and guidelines: documents could be more user-friendly and comprehensive, and wording is not always clear or specific. This leads to a high number of review cases for the secretariat
- Relative importance of requirements: limited guidance from the EB regarding what is essential for the assessment, and what elements are merely desirable, leads to 100% quality checks on everything that increase workload but often have only limited impact on the final outcome
- No prioritisation according to risk or impact: the process operates on the principle that one-size-fits-all, rather than concentrating effort where it would have the most impact. For example, requests for second or subsequent issuance get assessed with the same scrutiny by the secretariat as the first one, although review rates are minimal
- Frequent changes and updates to the guidelines and rules: it is difficult for the assessors in the secretariat to remain up-to-speed with the latest requirements
- No effective feedback loop: communication between the secretariat and DOEs is not effective; the secretariat's drive to demonstrate absolute impartiality and objectivity has led to limited feedback to DOEs and has not enabled collaboration that would improve the quality of DOE submissions and reduce the load on the secretariat
- Few negative consequences for DOEs for poor-quality submissions: checks seldom result in rejections and in many cases the secretariat performs much of the rework; currently the only potential consequence is the drastic measure of the EB suspending DOEs
- Lack of transparency on system and stakeholder performance: there is no systematic, balanced measurement of how well either the secretariat or DOEs are performing, making it difficult to judge progress and target improvements.

Several of these issues stem from the way the secretariat has evolved. Within the programme supporting the CDM and JI, different units have adopted different roles,

from acting only as a facilitator of a process to being a proactive owner of a technical process. Those teams that consider themselves hands-off facilitators tend to lack a mindset of collaboration or process improvement.

In the last 5 years, the programme supporting the CDM and JI has acted in many ways as a traditional UN secretariat, that is, as a facilitator of processes. It has focused more on reactively servicing the EB and JISC than on proactively identifying and driving process improvements, including eliciting better quality from DOEs. In recent months, however, it has become more proactive, working with the EB to define and implement frameworks that would see it become more of an operational process manager and begin to take more steps to improve quality and outcomes.

Potential improvement actions

We suggest a set of integrated actions that would elicit high input quality from DOEs in an efficient manner and rebuild confidence for the EB and JISC to gradually move the generation of high quality input and accountability back upstream. These actions would simultaneously reduce the day-to-day operational pressure on the secretariat and reposition it in a more proactive role. For registration and issuance, the secretariat should be in a position to manage the operational processes to ensure that project input and quality conform to requirements and that the processes are improved over time. For methodologies and accreditation, the secretariat should proactively drive the creation and improvement of standards and guidelines.

In our view, this would mark a return to the original intent for the mechanisms, but with three crucial differences: quality would be ‘designed in’ at source with DOEs and project participants instead of being ‘inspected in’ further downstream, the process would be proactively managed and controlled by the secretariat, and participants would collaborate to improve performance jointly (within a framework in which the secretariat is instrumental in defining standards and incentives for DOEs to improve).

We see these actions on three, possibly overlapping, levels. The secretariat is already active on first level but the existing and pending improvement plans should be accelerated. This would include current initiatives to implement enhanced completion checks, create and use key performance indicators, and work to improve additionality tools. However, even this acceleration is unlikely to go far enough in bringing the secretariat’s performance back on track in terms of cost and people.

The second level would involve the secretariat taking a greater role in complementary actions which are primarily within the secretariat’s control, with approval from the EB and JISC being needed in some cases. Most of these actions would aim to hold the DOEs to higher standards while providing appropriate support that would both encourage and require the DOEs to participate, thereby reducing the level of effort required of the secretariat.

We see five main changes that the secretariat can make on this second level to substantially improve its support to the CDM and JI mechanisms.

- Measure and manage how well the secretariat and DOEs perform in supporting the mechanisms, in a transparent way with clear targets and consequences. For example, implement key performance indicators, targets and performance dialogues at all levels, which are then communicated to all stakeholders.
- Improve communication between the secretariat and DOEs to ensure effective collaboration in systematically identifying and removing sources of quality errors, thus reducing rework for the secretariat. For example, create dedicated DOE managers, phone hotlines, joint improvement workshops and provide training on tools and guidelines.
- Improve clarity of guidelines and tools and make them more user-friendly. For example, improve the usability of the Verification and Validation Manual with methodology-specific sections, and clarify the language and calculations in the additionality tool. This should reduce the need for the secretariat to answer queries and the number of current reviews.
- Match effort to effect: prioritise work based on risk and impact and streamline processes through more-effective quality control. For example, reduce the level of scrutiny on second- or third-time issuance requests if the first issue has been a success and the DOE has provided consistent good quality.
- Align the role of the teams supporting the CDM and JI and reorganise so that they can take ownership of the process and drive continuous improvement. Distinguish the traditional secretariat functions from the operational responsibility that has been given to the secretariat under the CDM and JI.

We believe these actions would bring a sustainable step-change in improvements to the system, particularly if matched by reciprocal action from DOEs.

Implementing these improvements would need clear and purposeful leadership to align the secretariat teams around not only the technical but also the cultural changes required. A small internal change team led by a seasoned change manager should be created, to coordinate activities, add capacity to line management and ensure impact. This programme would require extensive effort from the secretariat's staff especially in the initial phase, but progress can be made immediately, building on current initiatives at the first level. Full implementation could take a year or two.

In conducting this review, it became evident that a number of further actions could substantially impact on the ability of the secretariat to deliver effectively its support to the CDM and JI, but lie outside the scope of what the secretariat can control. These actions constitute a third level of actions that would deliver additional improvements

for the overall process. They would require close collaboration with all stakeholders, such as the various panels, DOEs, the EB and the JISC. Though they would require an external mandate, they are aligned with the desire of the EB to take more of an executive role in its supervision of the CDM. These actions could include: agreeing risk-based assessment criteria that enable only special cases to require a summary note and be escalated to the EB; improving accreditation standards and rules, and defining the relative importance of assessment requirements to increase consistency and quality.

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Implementing these improvements would create better outcomes for all actors in the process: including the EB and the JISC, the secretariat, and DOEs. They would help contain or increase the total quality of the overall process work, even given the increased load on the system, and ensure appropriate projects continue to be registered.

Implemented fully, and with collaboration from other participants, we would estimate that input quality should rise from its current 30% rate for auto registration to 80-90%, releasing 30-50% capacity in the secretariat's CDM and JI teams to cope with the current workload and absorb potential short-term growth. Lead times for registration and issuance after submission to the secretariat should reduce by up to 75 % and become more consistent. The improved process and structural improvements would also act as a foundation that is much more scalable for any future growth in the use of market-based mechanisms beyond 2012.