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Annex 6

DRAFT CDM PROGRAMME BUDGET 2002-2003

Note by the secretariat

I. INTRODUCTION

1. The Conference of the Parties, at its seventh session, adopted through its decision 38/CP.7 the programme budget for the biennium 2002-2003 for the Convention. This programme budget provides resources, *inter alia*, for carrying out core activities in support of cooperative mechanisms. Taking into account the decision by Parties to agree on a prompt start of the clean development mechanism (CDM), a contingency provision pertaining to staff resources was included in the core programme budget (for the background, please refer to FCCC/SBI/2001/17 and its addenda 1 and 2). Through the same decision, the COP invited Parties to contribute additionally required resources for the prompt start of the CDM to the UNFCCC Trust Fund for Supplementary Activities. These additional resources were estimated to amount to USD 6.8 million, including provisions for overhead and working capital reserve.
2. The executive board, at its first meeting, had agreed that the CDM programme budget 2002-2003 should be an item on the agenda of its second meeting. This note presents, therefore, the draft CDM programme budget 2002-2003 which pertains to activities and resource requirements for the prompt start of the CDM not covered by the programme budget 2002-2003 for the Convention.
3. The executive board may wish to note that this draft CDM programme budget does not include any resource requirements related to activities referred to in paragraphs 8 and 9 of decision 17/CP.7, i.e. activities for the development of definitions and modalities for including afforestation and reforestation project activities under the CDM in the first commitment period. A separate project document for mobilizing extra-budgetary resources for this purpose will be drawn up by the secretariat on this topic.
4. The board may wish to note further that the draft CDM programme budget 2002-2003 only includes limited resources for initial work on a CDM registry. Any further resource requirements for the development of the CDM registry would be covered in a separate project document for mobilizing extra-budgetary resources for the work related to registries and the transaction log in accordance with decision 19/CP.7.
5. In considering this draft CDM programme budget 2002-2003, the executive board may wish to bear in mind the provisions in paragraph 8 of Article 12 which stipulates, *inter alia*, that “the COP/MOP shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses” and in decision 17/CP.7: (a) “the level of the share of proceeds to cover administrative expenses for the CDM shall be determined by the COP upon the recommendation by the executive board” (paragraph 16), and (b) “until the COP determines a percentage for the share of proceeds for the administrative expenses, the executive board shall charge a fee to recover any project related expenses” (paragraph 17, last sentence). In addition, the provision in paragraph 18, which

“requests the secretariat to perform any functions assigned to it in the present decision and in the annex below” needs to be taken into consideration.

II. ACTION TO BE TAKEN

6. The executive board may wish to consider the draft CDM programme budget 2002-2003 amounting to a **total of USD 5,233,000** (subsequently to be adjusted to include overhead and working capital reserve), scrutinizing in particular assumptions regarding the frequency of meetings, the size and operational modalities of any panels and the extent of information services to be offered, with a view to agreeing on activities and resource requirements.

7. The executive board may further wish to request the secretariat (a) to notify Parties of the approval of the CDM programme budget 2002-2003 reiterating the invitation to Parties to contribute resources to the UNFCCC Trust Fund for Supplementary Activities in support of the prompt start of the CDM in accordance with decision 38/CP.7, and (b) to report on responses received.

8. The executive board may also request the secretariat to elaborate options for determining fees for project related expenses, for consideration by the board at its third meeting.

III. PROPOSED ACTIVITIES AND RESOURCE REQUIREMENTS IN 2002-2003

9. The Conference of the Parties, at its seventh session, decided on activities to be carried out under the CDM, as specified in decision 17/CP.7 and in the annex on modalities and procedures for a CDM (hereafter referred as “modalities and procedures”). It identified, in particular, specific elements to be included in the work plan until COP 8 (paragraph 6 of decision 17/CP.7) for facilitating the prompt start of the CDM.

10. Linked to the identification of activities, COP 7 also agreed in the modalities and procedures on institutional provisions for carrying out the work. These institutional requirements, which have budgetary implications, include the following:

(a) The executive board shall comprise ten members from Parties to the Kyoto Protocol (paragraph 7 of the modalities and procedures) and an alternate for each member from the same constituency (paragraph 9); the costs of participation in meetings of members and alternate members from developing country Parties and other Parties eligible under UNFCCC practice shall be covered by the budget of the executive board (subparagraph 8(c)); the executive board shall meet as necessary but no less than three times a year; meetings of the executive board shall be open to attendance, as observers, by all Parties and by all UNFCCC accredited observers and stakeholders, except where otherwise decided by the executive board (paragraph 16 of the modalities and procedures); and decisions by the board shall be made available in all six UN languages;

(b) The executive board may establish committees, panels or working groups to assist it in the performance of its functions (paragraph 18 of the modalities and procedures);

(c) The secretariat shall service the executive board (paragraph 19 of the modalities and procedures);

(d) In addition, provisions in the draft rules of procedure may have further budgetary implications.

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11. The following key components of the draft CDM programme budget 2002-2003 are structured along institutional lines assuming the involvement in activities, in accordance with clearly defined mandates and terms of reference, of (a) the executive board; (b) panels under the executive board; and (c) the secretariat. Any budgetary implications beyond the current draft rules of procedure would need to be additionally considered. Apart from activities stipulated in the work programme until COP 8 in decision 17/CP.7 and general work referred to in the modalities and procedures, assumptions had to be made regarding case-specific work. These relate to activities arising from applications by operational entities for accreditation and from requests related to project registration (i.e. requests for approvals of methodologies). The current draft is based on the expectation that 40 operational entities would apply and that 200 cases related to project registration would need to be dealt with by the executive board, any panels established by it and by the secretariat.

12. Activities of the executive board and related resource requirements: The draft CDM programme budget 2002-2003 envisages six meetings of the executive board in 2002 and five in 2003 in order to be able to cope with the work programme until COP 8 and the work until COP 9 and/or the first meeting of the Conference of the Parties serving as the meeting of the Parties to the Protocol (COP/MOP). In considering the schedule of meetings, the executive board may pronounce itself on the feasibility of convening its meetings in conjunction with sessions of the COP or its subsidiary bodies as well as with workshops addressing CDM-related issues. This may allow for some cost reductions. The logistical costs for a meeting of the executive board will also depend on the decision on whether a meeting shall be open or closed to observers. In the current estimates, it is assumed that a meeting can be observed through the recording of the proceedings being made available via world wide web cast. This measure would assist in addressing the problem that the number of physically present observers and spatial requirements are difficult to predict and to be planned for. Taking further into account costs for translation of decisions and miscellaneous expenses, one board meeting is expected to cost, on average, USD 50,000. The total cost for eleven meetings in 2002-2003 would amount to **USD 550,000**.

13. Activities of panels and related resource requirements: The estimates assume that, on average, panels dealing with methodological issues (such as simplified modalities and procedures for small-scale CDM project activities and methodologies for baselines and monitoring plans) would be composed of ten members, while panels handling issues related to accreditation of operational entities would have eight members. On this basis and assuming that panel meetings should be conducted electronically, whenever possible, the costs for panel meetings are estimated to be USD 400,000 (methodological panels) and USD 230,000 (accreditation panels), totalling **USD 630,000**. It is further assumed that the workload of panels would be substantial and that panel members would, therefore, need to be paid fees in accordance with UN rules and regulations. The respective costs are estimated to be USD 550,000 (methodological panels) and USD 330,000 (accreditation panels), totalling **USD 880,000**. In order to obtain additional technical expert input in highly specialized fields, methodological studies and consultancies are anticipated, with costs amounting to USD 1,500,000 (for methodology-related issues) and USD 200,000 (for accreditation-related issues), totalling **USD 1,700,000**. The sum total of the above cost components for panels (and additional expertise) would amount to **USD 3,210,000**.

14. Activities by the secretariat and related resource requirements: The core function of the secretariat is the substantive and logistical support to the executive board and thus includes, by extension, support to any committees, panels or working groups which the executive board may

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establish. While some core institutional functions are covered through provisions in the programme budget of the Convention for 2002-2003, as mentioned above, the bulk of operational functions related to the prompt start of the CDM would require additional resources. The following key operational activities and resource requirements are anticipated: the secretariat will need to establish and maintain a comprehensive data base related to the provisions contained in the modalities and procedures, e.g. on the project cycle. A related web interface has to be created (**USD 190,000**). Initial work on the CDM registry is required so that at least preliminary records on certified emission reductions (CERs) issued can be kept and technical inputs provided to the broader work on registries related to Article 7.4 of the Kyoto Protocol (**USD 40,000**). Secretariat support to workshops at regional levels may have to be provided in order to facilitate participation in the CDM in a geographically balanced way (**USD 150,000**). Additional staff required for ensuring the appropriate support to the executive board and for carrying out the related activities would be recruited as a function of the anticipated and observed work flow. Based on the current assumptions, it is envisaged to recruit one P-4/5 staff (as of mid 2002) and one P-3/4 staff (as of mid 2002), both in support of the executive board and any panels; and one P-3 staff (as of mid 2002) and one P-2 staff (as of early 2002) for work on information, documentation and web-related work. The professional staff would be supported by three general service staff who would be recruited between early and mid-2002. Resources required for these staffing needs amount to **USD 973,000**. It is estimated that for staff travel and overtime an amount of **USD 120,000** would be required. The total of this component would amount to **USD 1,473,000**.

15. The total of this draft CDM programme budget 2002-2003 would thus amount to **USD 5,233,000** based on the assumptions specified above.