

REQUIREMENTS FOR CDM DESIGNATED OPERATIONAL ENTITIES

CONTENTS

	Page
1. INTRODUCTION	2
2. REQUIREMENTS WITH RESPECT TO THE ORGANIZATION	3
2.1 Requirements specified in “Standards for the accreditation of operational entities”	3
2.2 Additional requirements specified in “Competence criteria for operational entities” of “LIST of SECTORAL SCOPES”	5
2.3 Requirements specified in “DESK REVIEW REPORT FORM”	7
3. GENERAL REQUIREMENTS AS DESIGNATED OPERATIONAL ENTITIES AND WITH RESPECT TO THEIR ACTIVITIES	11
3.1 Designated operational entities	11
3.2 Validation and registration	11
3.3 Verification and certification	14
3.4 Draft simplified modalities and procedures for small-scale CDM project activities	15
3.5 Procedures on public availability of the CDM Project Design Document and for receiving comments as referred to in paragraphs 40 (b) and (c) of the CDM Modalities and Procedures	20

I. INTRODUCTION

1. Requirements for the Designated Operational Entities are described in different parts of the CDM documentation. In this document key requirements are presented in two sections:

- REQUIREMENTS WITH RESPECT TO THE ORGANIZATION and
- GENERAL REQUIREMENTS AS DESIGNATED OPERATIONAL ENTITIES AND WITH RESPECT TO THEIR ACTIVITIES

Section 2.1 is equal to Modalities and procedures for a clean development mechanism (CDM M&P), APPENDIX A. “Standards for accreditation of operational entities”.

Section 2.2 is equal to Appendix A to Annex A (Version 01/30 September 2002) of LIST OF SECTORAL SCOPES.

Section 2.3 is copied from the desk review report form and the on-site assessment report form. Both forms.

Section 3.1 is equal to Section E “Designated operational entities” of CDM M&P.

Section 3.2 is equal to Section G “Validation and registration” of CDM M&P.

Section 3.3 is equal to Section I “Verification and certification” of CDM M&P.

Section 3.4 is equal to Section II to Annex II to CONFERENCE OF THE PARTIES Eighth session, New Delhi, 23 October – 1 November 2002, FIRST REPORT OF THE EXECUTIVE BOARD OF THE CLEAN DEVELOPMENT MECHANISM (2001–2002).

Section 3.5 is equal to Annex 7 to the report from the 9th meeting of the Executive Board of the CDM.

2. This document is published for convenience only. Other documents approved by COP/MOP or the Executive Board before and after the issuing of this document include information relevant for the duties of Designated Operational Entities and hence, the Designated Operational Entities therefore have to aware of existing relevant documents and ensure that they are up to date with all relevant information. In case of dispute, the CDM M&P and other documents approved by COP/MOP or the Executive Board should be referred to.

II. REQUIREMENTS WITH RESPECT TO THE ORGANIZATION

2.1 Requirements specified in “Standards for the accreditation of operational entities”

An operational entity shall:

- (a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status;
- (b) Employ a sufficient number of persons having the necessary competence to perform validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;
- (c) Have the financial stability, insurance coverage and resources required for its activities;
- (d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;

(e) Have documented internal procedures for carrying out its functions including, among others, procedures for the allocation of responsibility within the organization and for handling complaints. These procedures shall be made publicly available;

(f) Have, or have access to, the necessary expertise to carry out the functions specified in modalities and procedures of the CDM and relevant decisions by the COP/MOP, in particular knowledge and understanding of:

- (i) The modalities and procedures and guidelines for the operation of the CDM, relevant decisions of the COP/MOP and of the executive board;
- (ii) Issues, in particular environmental, relevant to validation, verification and certification of CDM project activities, as appropriate;
- (iii) The technical aspects of CDM project activities relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions;
- (iv) Relevant environmental auditing requirements and methodologies;
- (v) Methodologies for accounting of anthropogenic emissions by sources;
- (vi) Regional and sectoral aspects;

(g) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including quality assurance procedures, and all relevant decisions relating to validation, verification and certification. The applicant operational entity shall make available:

- (i) The names, qualifications, experience and terms of reference of senior management personnel such as the senior executive, board members, senior officers and other relevant personnel;
- (ii) An organizational chart showing lines of authority, responsibility and allocation of functions stemming from senior management;
- (iii) Its quality assurance policy and procedures;
- (iv) Administrative procedures, including document control;
- (v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for all necessary functions for validation, verification and certification functions, and for monitoring their performance;
- (vi) Its procedures for handling complaints, appeals and disputes;

(h) Not have pending any judicial process for malpractice, fraud and/or other activity incompatible with its functions as a designated operational entity.

2. An applicant operational entity shall meet the following operational requirements:

(a) Work in a credible, independent, non-discriminatory and transparent manner, complying with applicable national law and meeting, in particular, the following requirements:

- (i) An applicant operational entity shall have a documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations;

- (ii) If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any CDM project activity, the applicant operational entity shall:
- Make a declaration of all the organization's actual and planned involvement in CDM project activities, if any, indicating which part of the organization is involved and in which particular CDM project activities;
 - Clearly define the links with other parts of the organization, demonstrating that no conflicts of interest exist;
 - Demonstrate that no conflict of interest exists between its functions as an operational entity and any other functions that it may have, and demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all sources of conflict of interest, whether they arise from within the applicant operational entity or from the activities of related bodies;
 - Demonstrate that it, together with its senior management and staff, is not involved in any commercial, financial or other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;
- (b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants in accordance with provisions contained in the present annex.

2.2 Additional requirements specified in “Competence criteria for operational entities”

General

1. An applicant entity has to demonstrate competence at the following two levels:
 - (a) At the Management level
 - (b) At the Audit Team level.
2. Before accreditation for a specific sectoral scope, the management of the applicant has to demonstrate that they are able to assign an audit team for a specified project within the sectoral scope(s) applied for. The competence requirements may vary from one CDM project to another.

Competence requirements at management level

3. The management shall demonstrate competence in four areas:
 - (a) Assessment of resources required
 - (b) Contract review
 - (c) Training and selection of audit teams
 - (d) Management of the decision-making process

Assessment of resources required

4. The management shall:

(a) Have a system which ensures up-to-date knowledge of the technological and the applicable legal issues relating to the CDM project cycle in the sectoral scope(s) applied for

(b) Have a system for assessing the adequacy of competence requirements for each CDM project it wishes to accept a contract for, within the sectoral scope(s) applied for.

(c) Be able to demonstrate that it has performed a competence analysis of the requirements of each sectoral scope applied for. In particular, it should have the competence to complete the following activities:

- (i) Identify the typical GHG aspects of the areas of activity of the sectoral scope;
- (ii) Define the competence needed to validate the application of approved baseline and monitoring methodologies and verify/certify projects in relation to the sectoral scope, with specific reference to GHG aspects.

Contract review

5. The management shall be able to demonstrate that it has the competence to complete the following activities for each of the CDM project activities it validates and verifies:

(a) Confirm the appropriateness of the sectoral scope of the project;

(b) Confirm that the typical GHG aspects, arising from the complete range of the project's activities, correspond to those referred to in section 4 (c) above,

(c) Confirm the availability of the required resources.

6. Additionally, it should have procedures by which it determines the length of time needed to cover all the relevant elements of the validation as well as the verification and certification process, taking into account the information provided by the project participants in the current version of the CDM-PDD as well as the requirements defined in the M&P of the CDM.

Training and selection of audit teams

7. The management shall have criteria for the selection and training of audit teams, consistent with the competence requirements for audit team personnel (see section "Competence requirements for audit team personnel"). Such criteria shall ensure the appropriate levels of understanding and knowledge in the following areas:

(a) The Kyoto protocol and CDM project cycle;

(b) Technical and operational aspects of a project activity in the sectoral scope applied for to be audited;

(c) Regulatory requirements relevant to CDM Project cycle;

(d) Environmental issues relevant to the sectoral scope applied for;

(e) Environmental management system;

- (f) Management system audit.

Management of the decision-making process

8. The management function shall have the competence and procedures in place for decision-making regarding the validation, registration as well as verification and certification of CDM project activity.

Competence requirements at the audit team personnel level

9. The competence requirements for entity audit team personnel are classified into three levels:

- (a) Individual audit team member,
- (b) Audit team
- (c) External experts that may be required

The level of individual audit team member

10. All members of the audit team shall meet the requirements similar to those in international standards for auditor competence (e.g. ISO 19011) , and as may be specified by the Executive Board from time to time. In addition, all members shall, as a minimum, be familiar with the following:

- (a) The Kyoto Protocol and CDM.
- (b) The concepts of management systems in general
- (c) Issues related to various environmental aspects and impacts of CDM project activity.

The level of the audit team

11. The audit team shall collectively have experience, training and up-to-date knowledge through at least one audit team member taking responsibility within the team for:

(a) Leading the team and managing the audit process 3 where international standards for audit competence refer to "environmental science and technology" this shall be understood as "science and technology relevant for the understanding of the Kyoto protocol and CDM and their social and environmental impacts".

- (b) Regulatory and applicable legal requirements of the CDM
- (c) Baselines and monitoring methodologies (including GHG inventories)
- (d) Management systems and auditing methods
- (e) Applicable environmental and social impacts and aspects of CDM project activity
- (f) Current technical and operational knowledge of the specific sectoral scope
- (g) Sector specific technologies and their applications.

12. Notwithstanding the above responsibility, some of this expertise may be supplemented from external sources as described below.

The level of the external experts

13. The work of the audit team may be supported by input from technical experts with specific knowledge regarding:

- (a) Regulatory and applicable legal requirements of the CDM
- (b) Baselines and monitoring methodologies (including GHG inventories)
- (c) Applicable environmental and social impacts and aspects of CDM project activity
- (d) Current technical and operational knowledge of the specific sectoral scope;
- (e) Sector specific technologies and their applications.

14. Such experts shall not be considered as members of the audit team.

2.3 Requirements within the desk review form

1(a), Is the AE a legal entity?

- Is it a domestic legal entity(government body/private entity)?
- Is it an international organization with defined locations?

Supportive legal registration documentation submitted (including registration number if any)

1(b), Does the AE employ sufficient and competent staff to perform functions as defined by the scope of accreditation applied for and with respect to type, scope and volume of work?

- Does the AE have procedures and defined criteria to ensure the competency of the personnel involved in validation, verification and certification functions?
- Do the organizational chart and lines of authority show which senior executive is responsible for the overall management of the AE?
Are the requirements specified in “Competence criteria for DOE” of the “List of sectoral scopes” met

1(c), Do the financial resources demonstrated ensure financial stability of the AE?

- Does the AE have externally audited financial figures on a regular basis?

1(d), Do the insurance coverage and other means sufficiently cover legal and financial liabilities potentially arising from its activities?

Has the applicant AE assessed its potential liabilities?

1(e), Does the AE have a documented policy that addresses;

- Procedures for allocation of responsibility within the AE?
- Procedures for handling appeals, complaints and disputes?
- Record of actions taken in each case, as well as corrective and preventive measures implemented?
- Are corrective actions assessed to determine their effectiveness?

Are these procedures publicly available?

1(f), Does the applicant AE have, or have access to, the necessary expertise to carry out the functions specified in modalities and procedures of the CDM and relevant decisions by the COP/MOP?

1(f) i to vi, Does the AE have responsible personnel having knowledge and understanding of :

- The modalities and procedures and guidelines for the operation of CDM and relevant decisions of the COP/MOP and of the executive board?
- Issues, in particular environmental, relevant to validation or verification and certification of CDM project activities as appropriate?
- The technical aspects of the CDM project activities relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions?
- Relevant environmental requirements and methodologies and recent developments in the scope of this application?
- Methodologies for accounting of anthropogenic emissions by sources?
- The regional and sectoral aspects of CDM project activities?
- Have language capacity to communicate with local stakeholders in their local languages and in the working language of the executive board of the CDM and the UNFCCC secretariat (English)?

1(g), Does the AE have a management structure that has overall responsibility for performance of the AE's functions, including quality assurance procedures, and all relevant decisions relating to validation verification and certification?

- Does the AE have a documented CDM quality policy statement and CDM quality manual, which includes;
 - Objectives for quality?
 - Commitment to documented quality?
- How the commitment is demonstrated?
- How does the management structure ensure that the CDM quality system is understood, implemented and maintained at all levels of the AE?
- What are the defined intervals to conduct internal audits and management reviews to verify that the CDM quality system is operational? Are the records of these reviews maintained?

Is there a person designated as CDM quality manager with a direct access to senior management personnel, such as the senior executive, board members, senior officers?

1(g) i to vi, Has the AE made available :

- The names, qualifications, experience and terms of reference of senior management personnel, such as the senior executive, board members, senior officers and relevant personnel?
- An organizational chart showing lines of authority, responsibility and allocation of functions stemming from senior management?
- Documented procedures for document and data control?
- Policy and procedure for the recruitment and training of personnel responsible for validation or verification and certification functions and monitoring their performance?
- Record of qualifications, training and experiences? Are these records updated?

1(h), Is there any pending judicial process for malpractice, fraud and/or other activity?

If there is any pending judicial process against the AE: Is it incompatible with the functions as an accredited/designated operational entity?

Does the AE maintain the record of any judicial actions?

2(a) i, Does the AE meet its operational requirements as follows:

Does the AE demonstrate and ensure its operations to be:

- Independent
- Non-discriminatory and transparent.
- Complying to the applicable national law

Documented structure of the AE to safeguard its impartiality including provisions to ensure impartiality of its operations (by identifying any potential sources of conflict of interest?)

- Does the AE have any committees or structures which protect and ensures its impartiality?
- Have terms and membership criteria been defined for any such committees or structures?
- A single entity with defined operations, scopes and locations?
- Does the AE provide CDM related services other than validation as well as verification and certification?
- If so, does the AE have procedures and policies to ensure that these CDM related services do not conflict with its role as a DOE?
- Has the AE identified related bodies that provide CDM related services?

If so, have the potential sources of conflict of interest been identified and addressed?

2(a) ii, Is the AE part of a larger organization involved in several activities and services?

If the AE is a part of a larger organization, where parts of that organization are, or may become involved in the identification, development or financing of any CDM project activity, does the AE:

- Make a declaration of all of the larger organization's actual and planned involvement in the CDM project activities?
- Clearly indicate which part of the organization is involved and in which particular CDM project activities?
- Provide evidence how the larger organization's planned involvement in the CDM activities is compatible with the operational requirements as applied by the AE?
- Clearly define the links and management structures which separates the functions of the AE as an operational entity and any other areas of work?
- Describe how the AE deals with the potential sources of conflict both at the strategy and policy level and at decision-making level for validation and/or verification and certification of CDM projects?
- Demonstrate how its validation, verification and certification business is managed and any other business in which the AE is involved with, or with other related organizations?
- Demonstrate its functional or structural link (Common ownership, contractual arrangement, informal contract ...) with other related bodies?
- Recognize all potential sources of conflict of interests between itself and/or among its related bodies?
- Identify measures and means and implement these in order to minimize any risks to impartiality?
- Have documented policies and arrangements to prove its independence in its operations?
- Have procedures and records to demonstrate that its assessment personnel (including contract personnel), staff and senior management are not involved in any commercial, financial or other processes which might influence their judgment?

Have arrangements for the identification of such situations and measures to address them in a timely and responsible manner?

2(b), Has the AE made adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants in accordance with provision contained in the M&P annex.

- Does the AE have documented policies and procedures and arrangements with regard to who has access to the information, in accordance with applicable provisions, obtained from CDM project participants?

- Does the AE have arrangements to obtain written consent of the project participants for any information which may be made public prior to any such information being disclosed?
- Has the AE in its subcontracting policies and procedures, included necessary provisions ensuring the confidentiality of information in accordance with the applicable provisions?
In case of AE's assessors (full, part time and/or subcontracted personnel), has the issue of confidentiality been dealt with in an adequate manner (e.g. self declaration by staff employed)?

3. GENERAL REQUIREMENTS AS DESIGNATED OPERATIONAL ENTITIES AND WITH RESPECT TO THEIR ACTIVITIES

3.1 Designated operational entities

(CDM modalities and procedures, decision 17/CP.7)

26. Designated operational entities shall be accountable to the COP/MOP through the executive board and shall comply with the modalities and procedures in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP and the executive board.

27. A designated operational entity shall:

- (a) Validate proposed CDM project activities;
- (b) Verify and certify reductions in anthropogenic emissions by sources of greenhouse gases;
- (c) Comply with applicable laws of the Parties hosting CDM project activities when carrying out its functions referred to in subparagraph (e) below;
- (d) Demonstrate that it, and its subcontractors, have no real or potential conflict of interest with the participants in the CDM project activities for which it has been selected to carry out validation or verification and certification functions;
- (e) Perform one of the following functions related to a given CDM project activity: validation or verification and certification. Upon request, the executive board may, however, allow a single designated operational entity to perform all these functions within a single CDM project activity;
- (f) Maintain a publicly available list of all CDM project activities for which it has carried out validation, verification and certification;
- (g) Submit an annual activity report to the executive board;
- (h) Make information obtained from CDM project participants publicly available, as required by the executive board. Information marked as proprietary or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law. Information used to determine additionality as defined in paragraph 43 below, to describe the baseline methodology and its application, and to support an environmental impact assessment referred to in paragraph 37(c) below, shall not be considered as proprietary or confidential.

3.2 Validation and registration

(CDM modalities and procedures, decision 17/CP.7)

35. Validation is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM as set out in decision 17/CP.7, the present annex

and relevant decisions of the COP/MOP, on the basis of the project design document, as outlined in Appendix B below.

36. Registration is the formal acceptance by the executive board of a validated project as a CDM project activity. Registration is the prerequisite for the verification, certification and issuance of CERs related to that project activity.

37. The designated operational entity selected by project participants to validate a project activity, being under a contractual arrangement with them, shall review the project design document and any supporting documentation to confirm that the following requirements have been met:

- (a) The participation requirements as set out in paragraphs 28 to 30 [of CDM M&P] are satisfied;
- (b) Comments by local stakeholders have been invited, a summary of the comments received has been provided, and a report to the designated operational entity on how due account was taken of any comments has been received;
- (c) Project participants have submitted to the designated operational entity documentation on the analysis of the environmental impacts of the project activity, including transboundary impacts and, if those impacts are considered significant by the project participants or the host Party, have undertaken an environmental impact assessment in accordance with procedures as required by the host Party;
- (d) The project activity is expected to result in a reduction in anthropogenic emissions by sources of greenhouse gases that are additional to any that would occur in the absence of the proposed project activity, in accordance with paragraphs 43 to 52 [of CDM M&P];
- (e) The baseline and monitoring methodologies comply with requirements pertaining to:
 - (i) Methodologies previously approved by the executive board; or
 - (ii) Modalities and procedures for establishing a new methodology, as set out in paragraph 38 below;
- (f) Provisions for monitoring, verification and reporting are in accordance with decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
- (g) The project activity conforms to all other requirements for CDM project activities in decision 17/CP.7, the present annex and relevant decisions by the COP/MOP and the executive board.

38. If the designated operational entity determines that the project activity intends to use a new baseline or monitoring methodology, as referred to in paragraph 37(e) (ii) above, it shall, prior to a submission for registration of this project activity, forward the proposed methodology together with the draft project design document, including a description of the project and identification of the project participants to the executive board for review. The executive board shall expeditiously, if possible at its next meeting but not later than four months, review the proposed new methodology in accordance with the modalities and procedures of the present annex. Once approved by the executive board it shall make the approved methodology publicly available along with any relevant guidance and the designated operational entity may proceed with the validation of the project activity and submit the project design document for registration. In the event that the COP/MOP requests the revision of an approved methodology, no CDM project activity may use this methodology. The project participants shall revise the methodology, as appropriate, taking into consideration any guidance received.

39. A revision of a methodology shall be carried out in accordance with the modalities and procedures for establishing new methodologies as set out in paragraph 38 above. Any revision to an approved methodology shall only be applicable to project activities registered subsequent to the date of revision and shall not affect existing registered project activities during their crediting periods.

40. The designated operational entity shall:

(a) Prior to the submission of the validation report to the executive board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, including confirmation by the host Party that the project activity assists it in achieving sustainable development;

(b) In accordance with provisions on confidentiality contained in paragraph 27(h) above, make publicly available the project design document;

(c) Receive, within 30 days, comments on the validation requirements from Parties, stakeholders and UNFCCC accredited non-governmental organizations and make them publicly available;

(d) After the deadline for receipt of comments, make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated;

(e) Inform project participants of its determination on the validation of the project activity. Notification to the project participants will include:

(i) Confirmation of validation and date of submission of the validation report to the executive board; or

(ii) An explanation of reasons for non-acceptance if the project activity, as documented, is judged not to fulfil the requirements for validation;

(f) Submit to the executive board, if it determines the proposed project activity to be valid, a request for registration in the form of a validation report including the project design document, the written approval of the host Party as referred to in subparagraph (a) above, and an explanation of how it has taken due account of comments received;

(g) Make this validation report publicly available upon transmission to the executive board.

3.3 Verification and certification

(CDM modalities and procedures, decision 17/CP.7)

61. Verification is the periodic independent review and ex post determination by the designated operational entity of the monitored reductions in anthropogenic emissions by sources of greenhouse gases that have occurred as a result of a registered CDM project activity during the verification period. Certification is the written assurance by the designated operational entity that, during a specified time period, a project activity achieved the reductions in anthropogenic emissions by sources of greenhouse gases as verified.

62. In accordance with the provisions on confidentiality in paragraph 27(h) above, the designated operational entity contracted by the project participants to perform the verification shall make the monitoring report publicly available, and shall:

(a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;

- (b) Conduct on-site inspections, as appropriate, that may comprise, inter alia, a review of performance records, interviews with project participants and local stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;
- (c) If appropriate, use additional data from other sources;
- (d) Review monitoring results and verify that the monitoring methodologies for the estimation of reductions in anthropogenic emissions by sources have been applied correctly and their documentation is complete and transparent;
- (e) Recommend to the project participants appropriate changes to the monitoring methodology for any future crediting period, if necessary;
- (f) Determine the reductions in anthropogenic emissions by sources of greenhouse gases that would not have occurred in the absence of the CDM project activity, based on the data and information derived under subparagraph (a) above and obtained under subparagraph (b) and/or (c) above, as appropriate, using calculation procedures consistent with those contained in the registered project design document and in the monitoring plan;
- (g) Identify and inform the project participants of any concerns related to the conformity of the actual project activity and its operation with the registered project design document. Project participants shall address the concerns and supply relevant additional information;
- (h) Provide a verification report to the project participants, the Parties involved and the executive board. The report shall be made publicly available.

63. The designated operational entity shall, based on its verification report, certify in writing that, during the specified time period, the project activity achieved the verified amount of reductions in anthropogenic emissions by sources of greenhouse gases that would not have occurred in the absence of the CDM project activity. It shall inform the project participants, Parties involved and the executive board of its certification decision in writing immediately upon completion of the certification process and make the certification report publicly available.

3.4 Draft simplified modalities and procedures for small-scale CDM project activities

A. Introduction

9. Small-scale CDM project activities shall follow the stages of the project cycle specified in the modalities and procedures for a clean development mechanism contained in the annex to decision 17/CP.7 (hereinafter referred as the CDM modalities and procedures). In order to reduce transaction costs modalities and procedures are simplified for small-scale CDM project activities, as follows:

- (a) Project activities may be bundled or portfolio bundled at the following stages in the project cycle: the project design document, validation, registration, monitoring, verification and certification. The size of the total bundle should not exceed the limits stipulated in paragraph 6 (c) of decision 17/CP.7;
- (b) The requirements for the project design document are reduced;
- (c) Baselines methodologies by project category are simplified to reduce the cost of developing a project baseline;
- (d) Monitoring plans are simplified, including simplified monitoring requirements, to reduce monitoring costs;
- (e) The same operational entity may undertake validation, and verification and certification.

10. Simplified baseline and monitoring methodologies have been developed for 14 small-scale CDM project activity categories related to types (i) to (iii). (Type (i): Renewable energy project activities with a maximum output capacity equivalent of up to 15 megawatts (or an appropriate equivalent); Type (ii): 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; and Type (iii): Other project activities that both reduce anthropogenic emissions by sources and directly emit less than 15 kilotonnes of carbon dioxide equivalent annually.) They are presented in appendix B. This list shall not preclude other types of small-scale CDM project activities. If a proposed small-scale CDM project activity does not fall into any of the categories in appendix B, the project participants may submit a request to the Executive Board for approval of a simplified baseline and/or monitoring plan developed bearing in mind provisions in paragraph 16 below.

11. The CDM modalities and procedures shall apply to small-scale CDM project activities except for its paragraphs 37 to 60. The following paragraphs 12 to 39 apply instead. Appendix A to this annex should replace, as appropriate, provisions in appendix B of the CDM modalities and procedures.

B. Simplified modalities and procedures for small-scale CDM project activities

12. To use simplified modalities and procedures for small-scale CDM project activities, a proposed project activity shall:

- (a) Meet the eligibility criteria for small-scale CDM project activities set out in paragraph 6 (c) of decision 17/CP.7;
- (b) Conform to one of the project categories in appendix B to this annex;
- (c) Not be a debundled component of a larger project activity, as determined through appendix C to this annex.

13. Project participants shall prepare a project design document in accordance with the format specified in appendix A to this annex.

14. Project participants may use the simplified baseline and monitoring methodologies specified in appendix B for their project category.

15. Project participants involved in small-scale CDM project activities may propose changes to the simplified baseline and monitoring methodologies specified in appendix B or propose additional project categories for consideration by the Executive Board.

16. Project participants willing to submit a new small-scale project activity category or revisions to a methodology shall make a request in writing to the Board providing information about the technology/activity and proposals on how a simplified baseline and monitoring methodology would be applied to this category. The Board may draw on expertise, as appropriate, in considering new project categories and/or revisions of and amendments to simplified methodologies. The Executive Board shall expeditiously, if possible at its next meeting, review the proposed methodology. Once approved, the Executive Board shall amend appendix B.

17. The Executive Board shall review and amend, as necessary, appendix B at least once a year.

18. Any amendments to appendix B shall apply only to project activities registered subsequent to the date of amendment and shall not affect registered CDM project activities during the crediting periods for which they are registered.

19. Several small-scale CDM project activities may be bundled for the purpose of validation. An overall monitoring plan that monitors performance of the constituent project activities on a sample basis may be proposed for bundled project activities. If bundled project activities are registered with an overall monitoring plan, this monitoring plan shall be implemented and each verification/certification of the emission reductions achieved shall cover all of the bundled project activities.

20. A single designated operational entity may perform validation as well as verification and certification for a small-scale CDM project activity or bundled small-scale CDM project activities.

21. The Executive Board, in proposing the share of proceeds to cover administrative expenses and registration fees to recover any project related expenses, may consider proposing lower fees for small scale CDM project activities.

C. Validation and registration

22. The designated operational entity selected by project participants to validate a project activity, being under a contractual arrangement with them, shall review the project design document and any supporting documentation to confirm that the following requirements have been met:

(a) The participation requirements set out in paragraphs 28 to 30 of the CDM modalities and procedures are satisfied;

(b) Comments by local stakeholders have been invited and a summary of the comments received has been provided to the designated operational entity together with a report indicating how due account was taken of any comments received;

(c) Project participants have submitted to the designated operational entity documentation on the analysis of the environmental impacts of the project activity, if required by the host Party;

(d) The project activity is expected to result in a reduction in anthropogenic emissions by sources of greenhouse gases that are additional to any that would occur in the absence of the proposed project activity, in accordance with paragraphs 26 to 28 below;

(e) The small-scale project activity conforms to one of the project categories in appendix B and uses the simplified baseline and monitoring methodology for that project activity category as specified in appendix B, or a bundle of small-scale project activities satisfies the conditions for bundling and the overall monitoring plan for the bundled small-scale project activities is appropriate.

(f) The project activity conforms to all other requirements for CDM project activities in the CDM modalities and procedures that are not replaced by these simplified modalities and procedures.

23. The designated operational entity shall:

(a) Prior to the submission of the validation report to the Executive Board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, including confirmation by the host Party that the project activity assists it in achieving sustainable development;

(b) In accordance with provisions on confidentiality contained in paragraph 27 (h) of the CDM modalities and procedures, make publicly available the project design document;

(c) Receive, within 30 days, comments on the project design document from Parties,

stakeholders and UNFCCC accredited non-governmental organizations, and make them publicly available;

(d) After the deadline for receipt of comments, make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated;

(e) Inform project participants of its determination on the validation of the project activity. Notification to the project participants shall include either:

(i) Confirmation of validation and date of submission of the validation report to the Executive Board; or

(ii) An explanation of reasons for non-acceptance if the project activity, as documented, is judged not to fulfil the requirements for validation;

(f) Submit to the Executive Board, if it determines the proposed project activity to be valid, a request for registration in the form of a validation report including the project design document, the written approval of the host Party as referred to in paragraph 23 (a) above, and an explanation of how it has taken due account of comments received;

(g) Make this validation report publicly available upon transmission to the Executive Board.

24. The registration by the Executive Board shall be deemed final four weeks after the date of receipt by the Executive Board of the request for registration, unless a Party involved in the project activity or at least three members of the Executive Board request a review of the proposed CDM project activity. The review by the Executive Board shall be made in accordance with the following provisions:

(h) It shall be related to issues associated with the validation requirements;

(i) It shall be finalized no later than at the second meeting following the request for review, with the decision and the reasons for it being communicated to the project participants and the public.

25. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration after appropriate revisions, provided that it follows the procedures and meets the requirements for validation and registration, including those related to public comments.

26. A CDM project activity is additional if anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity.

27. The baseline for a CDM project activity is the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity. A simplified baseline for a small-scale CDM project activity specified in appendix B shall be deemed to reasonably represent the anthropogenic emissions that would occur in the absence of the proposed small-scale project activity. If a simplified baseline is not used, the baseline proposed shall cover emissions from all gases, sectors and source categories listed in Annex A to the Kyoto Protocol within the project boundary.

28. A simplified baseline and monitoring methodology listed in appendix B may be used for a smallscale CDM project activity if the project participants are able to demonstrate to a designated operational entity that the project activity would otherwise not be implemented due to the existence of one or more of the barriers listed in attachment A of appendix B. Where specified in appendix B for a project category, quantitative evidence that the project activity would otherwise not be implemented may be provided instead of a demonstration based on the barriers listed in attachment A to appendix B.

29. Project participants shall select a crediting period for a proposed small-scale CDM project activity from one of the following alternatives:

- (a) A maximum of seven years which may be renewed at most two times, provided that, for each renewal, a designated operational entity determines and informs the Executive Board that the original project baseline is still valid or has been updated taking account of new data where applicable;
- (b) A maximum of 10 years with no option of renewal.

30. Leakage is defined as the net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundary, and which is measurable and attributable to the CDM project activity. Reductions in anthropogenic emissions by sources shall be adjusted for leakage in accordance with the provisions of appendix B for the relevant project categories. The Executive Board shall consider simplification of the leakage calculation for any other project categories added to appendix B.

31. The project boundary shall encompass significant anthropogenic emissions by sources of greenhouse gases under the control of the project participants that are reasonably attributable to the small-scale CDM project activity, in accordance with provisions of appendix B for the relevant project category.

D. Monitoring

32. Project participants shall include, as part of the project design document for a small-scale CDM project activity or bundle of small-scale CDM project activities, a monitoring plan. The monitoring plan shall provide for the collection and archiving of the data needed to:

- (a) Estimate or measure anthropogenic emissions by sources of greenhouse gases occurring within the project boundary during the crediting period as specified in appendix B for the relevant project category;
- (b) Determine the baseline of anthropogenic emissions by sources of greenhouse gases occurring within the project boundary during the crediting period, as specified in appendix B for the relevant project category;
- (c) Calculate the reductions of anthropogenic emissions by sources by the proposed small scale CDM project activity, and for leakage effects, in accordance with provisions of appendix B for the relevant project category.

33. The monitoring plan for a small-scale CDM project activity may use the monitoring methodology specified in appendix B for the relevant project category if the designated operational entity determines at validation that the monitoring methodology reflects good monitoring practice appropriate to the circumstances of the project activity.

34. If project activities are bundled, a separate monitoring plan shall apply for each of the constituent project activities in accordance with paragraphs 32 and 33 above, or an overall monitoring plan shall apply for the bundled projects, as determined by the designated operational entity at validation to reflect good monitoring practice appropriate to the bundled project activities and to provide for collection and archiving of the data needed to calculate the emission reductions achieved by the bundled project activities.

35. Project participants shall implement the monitoring plan contained in the registered project design document, archive the relevant monitored data and report the relevant monitoring data to a designated operational entity contracted to verify the emission reductions achieved during the crediting period specified by the project participants.

36. Revisions, if any, to the monitoring plan to improve its accuracy and/or completeness of information shall be justified by project participants and shall be submitted for validation to a designated operational entity.

37. The implementation of the registered monitoring plan and its revisions, as applicable, shall be a condition for verification, certification and the issuance of certified emission reductions (CERs).

38. Subsequent to the monitoring and reporting of reductions in anthropogenic emissions, CERs resulting from a small-scale CDM project activity during a specified time period shall be calculated, applying the registered methodology, by subtracting the actual anthropogenic emissions by sources from baseline emissions, and adjusting for leakage, as appropriate, in accordance with appendix B for the relevant project category.

39. The project participants shall provide to the designated operational entity, contracted by the project participants to perform the verification, a monitoring report in accordance with the registered monitoring plan set out in paragraph 32 above for the purpose of verification and certification.

3.5 Procedures on public availability of the CDM Project Design Document and for receiving comments as referred to in paragraphs 40 (b) and (c) of the CDM Modalities and Procedures

1. The DOE shall make publicly available the CDM-PDD, in accordance with paragraph 40 (b) of the modalities and procedures for the CDM.

2. The DOE shall either:

(a) Establish a web site where CDM-PDDs shall be made publicly available in PDF format through a link to the UNFCCC CDM web site; or

(b) Make CDM-PDDs directly publicly available in PDF format on the UNFCCC CDM web site.

3. The DOE shall notify the secretariat ten (10) days before the CDM-PDD is to be made publicly available. The notification shall specify:

(a) The address of the web page where the CDM-PDD will be found or whether it wishes to post the PDD directly on the UNFCCC CDM web site;

(b) The name of the proposed CDM project activity; and

(c) The opening and closing date of comments on the validation requirements.

4. The secretariat shall post on the UNFCCC CDM web site a link to the web page of the DOE or post the CDM PDD on its web site. The secretariat shall make an announcement on the UNFCCC CDM web site and in the CDM news facility about the public availability of the CDM-PDD. The announcement shall specify the link in the UNFCCC CDM web page where the CDM-PDD will be found, the name of the project activity and the opening and closing date for comments. The secretariat shall promptly inform the DOE when the announcement has been made.

5. In accordance with paragraph 40 (c) of the CDM modalities and procedures, Parties, stakeholders and UNFCCC accredited observers may for a 30 day period submit comments on the validation requirements to the DOE. The DOE shall promptly acknowledge receipt of comments.

6. The web page where a CDM-PDD is made available shall:

(a) Specify how comments on a CDM-PDD shall be communicated to the DOE, providing both e-mail and fax details;

(b) Display at the end of the 30 days period all comments received, in accordance with paragraph 40 (c) of the CDM modalities and procedures.
