

The World Bank

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CDM Executive Board
c/o UNFCCC Secretariat
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Subject: Recommendations regarding the registration and issuance process in response to the EB call for public inputs at its 52nd meeting.

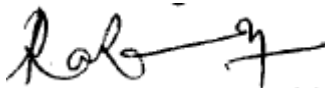
Honorable Members of the CDM Executive Board,

We welcome the opportunity to contribute to the proposed revision of the registration and issuance procedures presented at EB52. We understand that the proposed revision is aimed at achieving multiple goals such as shortening the timelines for project registration and issuance of credits; improving the workflow of the EB and the Secretariat; enhancing communication with DOEs and PPs prior to calling a review, and enabling the EB to focus on strategic guidance related to registration and issuance process.

In preparing these recommendations, the draft "Procedures for Requests for Registration of a proposed CDM Project Activity", the draft "Procedures for review for requests for registration", the draft "Procedures for Requests for Issuance of Certified Emission Reductions", the draft "Procedures for review for requests for issuance" were consulted.

We will be glad to provide any further information and clarifications as necessary.

With kind regards,



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Recommendations regarding the registration and issuance process in response to the call for public inputs at EB52

Context

The total time required for project registration has increased from an average of 8-10 months in 2004-2007 to 18-19 months in 2008-2009.¹ The average time from request for registration to approval of registration has increased from 3 months in 2004-2007 to 6 months in 2008-2009. The analyses undertaken by the World Bank on its portfolio of CDM projects indicate significant increase in the costs of validation and verification, especially for small-scale projects². It is estimated that the cost of delays in the registration of projects results in an average loss of up to 50% CERs³. The timelines for processing of requests for CER issuance are currently better than those for registration, but this scenario is likely to change with increases anticipated in requests for issuance.

To ensure success of clean development mechanism, key issues related to procedures, transparency, consistency and overall efficiency need to be addressed. This calls for finding practical solutions to address delays and bottlenecks in the system as they, along with the ongoing uncertainties affect the enthusiasm of stakeholders. The current operation and management structure of the CDM results in several bottlenecks and delays which translate into significant costs in terms of lost CERs. Improvements in procedures governing the CDM system will benefit both the developing countries and the developed countries seeking cost-effective climate mitigation objectives.

1. Defining the ideal operational structure – a vision

Proposal: The EB, its panels and operational entities have the potential to operate as an efficient matrix organization⁴. However, a negative side effect of the “learning by doing” approach has been the institutionalization of multiple document checks and increased reliance on case by case decisions when issues related to the quality of DOE performance have arisen. Such case by case approach contributes to large delays in important stages of CDM project cycle such as registration and issuance. To promote effective delegation of project cycle roles, responsibilities and accountability of operational entities of the mechanism, the DOEs, a vision of the streamlined CDM operations presented in Figure 1a and Figure 1b is designed to enable the EB and the Secretariat to focus on their key roles which include:

- Approving and amending methodologies
- Oversight on the work of Designated Operational Entities
- Implementing the completeness checks of projects in compliance of regulatory requirements within the specified time period for ensuring automatic registration (20 working days for registration).
- Undertake reviews of small number of projects (between 5% and 10% of total projects submitted for registration) in specific and limited circumstances to clarify issues of policy,

¹ Source: The World Bank’s 10 years of experience in carbon finance: Insights from working with carbon markets for development & global greenhouse gas mitigation [interim report, November 2009].

² Ibid

³ State and Trends of the Carbon Market (2009), K. Capoor & P. Ambrosi, The World Bank

regulatory guidance, interpretation of modalities and procedures, and to ensure consistency in implementation of the CDM project cycle procedures, i.e., avoiding the use of review procedures to project specific contexts, which could be addressed through the strengthening of the roles and responsibilities of DOEs

- Establishing an appeals process to address the requests for appeals

Figure 1a: Streamlined procedures at registration and issuance

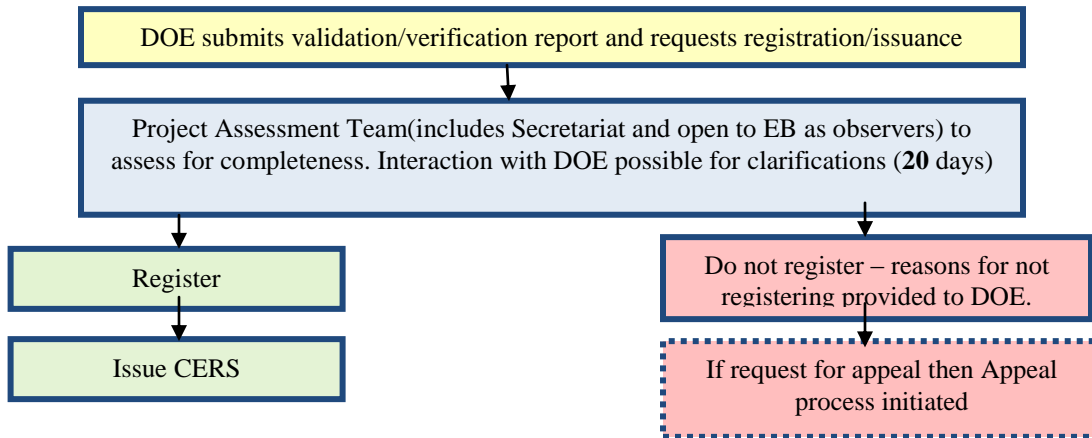
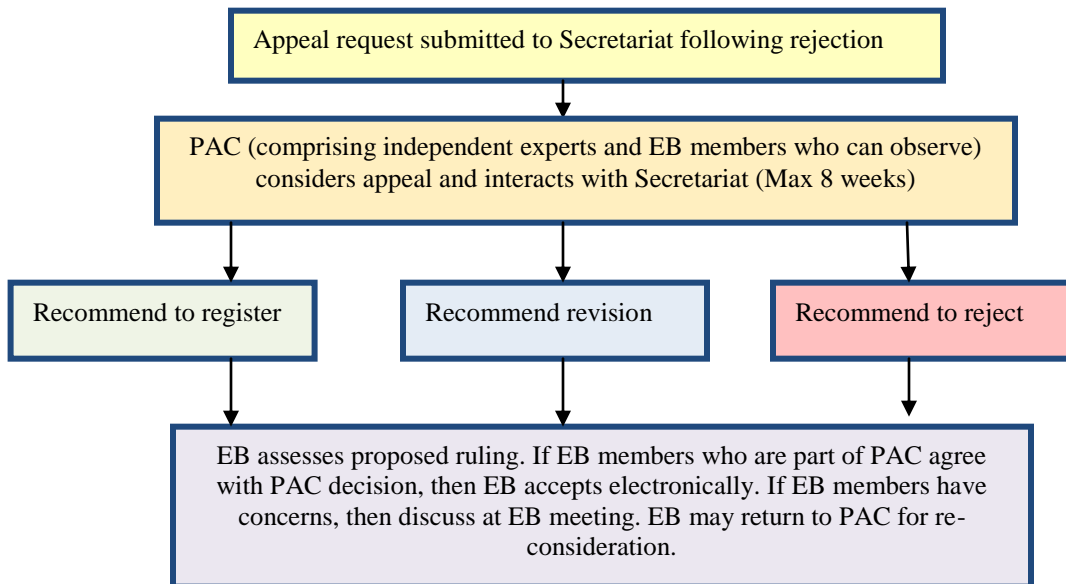


Figure 1b: Appeals process at registration and issuance



⁴ Robbins, S.F., Judge, T.A.(2007). Organizational Behavior. 12th ed. Pearson Education Inc., p. 551-557

2. Work towards achieving the ideal

2.1 Adoption of procedures that ensure DOE competence and accountability

Issue: DOEs have not always provided satisfactory inputs. The operational structure must involve incentives and penalties that can ensure good performance.

Proposals:

- (a) Promotion of quality and consistency of DOE services through mandatory training and certification programs in CDM quality assurance procedures.
- (b) Implementing structured and close communication procedures between the DOE and EB/Secretariat
- (c) Implementation of a framework to monitor the performance of DOEs that will provide sufficient penalties and incentives to ensure their continued competence and accountability during the project cycle.
- (d) Establishing appeal procedures for projects affected due to DOE actions: In response to the notice of appeal filed by relevant parties, the Appeals process needs to assess procedures followed by DOE at project registration or issuance of CERs I. (Details of the nature of the Appeals process is described in section 2.5)

2.2 Improvement in the capacity of the Secretariat to support requirements

Issue: The major reason stated for the current delays in completeness checks - is the understaffing of the Secretariat. Currently, the Secretariat is approximately 25% - 30% understaffed, and even if all the positions are filled, the Secretariat would still not have sufficient capacity to process all projects as the structures that exist were based on an assumption that there would be 50-60 projects per month in comparison increases observed over time.

Proposal: Considering the significant growth in the number of projects submitted to the regulatory process, the staff strength of the Secretariat needs to be increased to ensure that the Secretariat can adequately process the projects within the timelines specified for different stages of the project cycle. Existing timelines should not be altered to accommodate understaffing constraints but rather the number of staff employed should be increased to ensure that the Secretariat can adequately process the projects within the 30-day timeline. An increase in the timeline for registration at issuance from 15 to 21 days as proposed in the draft by the Secretariat on the grounds of understaffing will not have support considering the delays in the project completeness checks. .

2.3 Limiting the impact of methodology expiration on project cycle

Issue: An increase in the date of validity of expired version of methodology would greatly alleviate the understaffing bottleneck the Secretariat for completeness check.

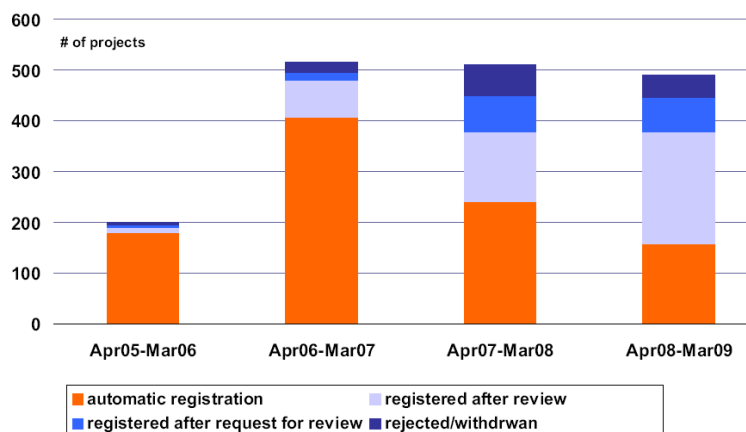
Proposal: Given the delays at the completeness check and long review procedures, the validity of an expiring methodology should be increased from 8 months to 18 months. This proposal is in line with the decision of EB with regard to the validity of expiring afforestation and reforestation methodologies.

2.4 Implementing structured communication procedures on issues related to project registration and issuance

Issue: A large majority of projects reviewed are finally registered with corrections (see Figure 2) indicating that the review process is currently working as a net that allows for the correction of mistakes made in the original submission and the completeness check.

Proposal: Approval of procedures for structured communication between the DOE and Secretariat at the project assessment stage can be expected to speed up the process of project registration and issuance. Procedures and protocols that permit communication and dialogue with the DOE and/or PP for issues identified after submission to registration and issuance would ensure that errors and clarifications of procedural nature are expeditiously addressed, thereby ensuring timeliness and efficient use of resources of regulatory bodies and project entities. The DOE could be required to make a brief presentation that the context and validation process can be clearly discussed.

Figure 2: Review cases at registration



Source: UNFCCC.

2.5 Introduce effective appeals body

Issue: An appeals process would ensure accountability of stakeholders in the regulatory process and provides incentive for DOEs to perform. If an appeals process is to come into force, it should be noted that the new procedures suggested for cost recovery by the CDM Executive board in case of rejection of project should not be pursued.⁵

Proposal: The EB could constitute an Appeals Committee (AC) which is accountable to the CDM Executive Board. The appeal PAC should be made of experts with knowledge of appeal procedure and what may be appealed – process or substance which will need to be defined by the EB. A membership of 5-6 experts of which a minimum of 3 should be present at a meeting is considered acceptable. The AC should have the authority to register, request corrections or reject projects after considering an appeal. The AC should include experts with experiences that cover all sector scopes and a financial expert with knowledge of emerging markets.

The proposal to increase the opportunity for interaction between an expert technical body (the AC) and the DOE and/or PPs in the decision to register a project or to issue CERs is welcome. DOEs and PPs should be allowed to present information of clarification nature. To promote consistency between decisions made by the AC with the EB, it is recommended that designated EB members participate in or observe AC discussions. Should there be concerns; the particular project could be discussed at the following EB meeting.

⁵ Source : Par. 27 of the draft “Procedures for review for requests for registration”.

2.6 Reform review procedures

Issue: The ideal operational structure would have little need for double checks. In other words if the appeal procedures, combined with the initiatives to ensure high standards of DOE performance are effective, then the need for the current checks on DOE performance by the RIT and review procedure could be made redundant. However, this is something to work towards and at present the RIT and review process are necessary interim measures to ensure the credibility of the CDM. The critical issue at present is that the numbers of projects put under review are too many especially given that most are registered with corrections (See Figure 3).

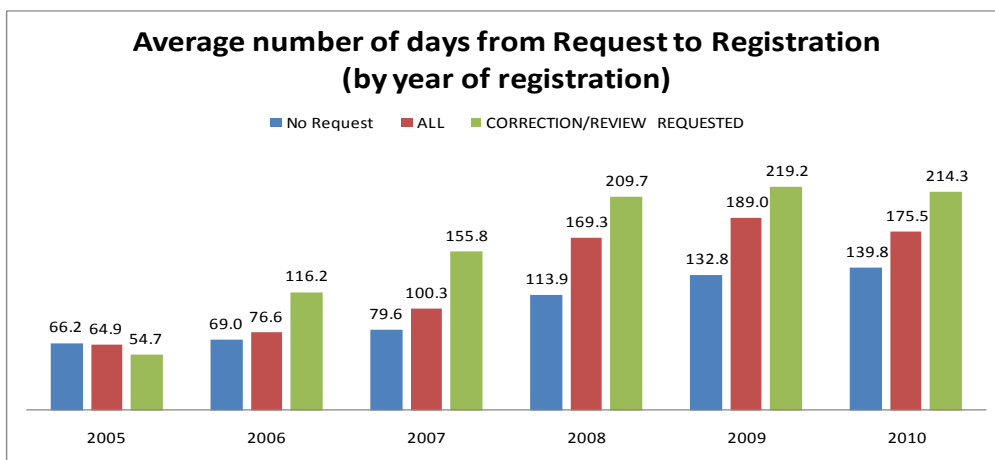
Proposal: The proposal to constitute PAC for expeditious completion of review procedures is welcome as a temporary measure to be re-visited once DOE performance control measure are established within the operational structure. To be effective, PAC should be a small body of 4-5 members with representation from RIT and external experts representing specific sector scopes, with a maximum of 2 EB members. The PAC should include a financial expert with knowledge of developing country markets and regulations. The timeline for review of projects with PAC should be 4 weeks and should not go beyond the subsequent EB meeting. The EB could consider constituting multiple PACs, perhaps with a sector focus, that would not only ensure consistency in rulings but also expedite registration of projects. Only in cases where the PAC is unable to make a decision for reasons of policy or lack of clarity in the interpretation of modalities of procedures or lack of precedence could be placed for the deliberation of EB.

2.7 Date of registration of projects

Issue:

The graph below in Figure 3 shows the significant increase in the average number of days required by projects from the submission of request for registration to actual registration. It is clear that the number of days taken by projects that were registered without review and projects that were registered after review has grown. The increase in the delay of project registration penalizes the projects although they are found to be compliant with regulatory process.

Figure 3



Proposal: For projects that go through the completion checks and review procedures and are found eligible, the date of registration of a project should be the same as the original date of registration. This proposal protects a project from loss of CERs due to the delays in project registration caused by regulatory procedures that may take up to 12 months or more.

4. Concluding comments

In the process of making any revisions to the registration and issuance submission and review procedures, it will be necessary to ensure consistency with currently planned regulations, including the DOE monitoring framework, reform of review procedures and the proposed appeals procedures. The adoption of above proposals would ensure timely and effective implementation of the registration and the issuance procedures.

Additionally, any changes made should be assessed with the option to change procedures should they not achieve the desired goal of greater efficiency, structured interaction with stakeholders and enhancing the EB focus on policy decisions would have desirable impact. Due process in registration and issuance stages of the project cycle must be followed and respect for precedents maintained for ensuring consistency in procedures. Changes in policy or guidance should be applied with a grace period. To ensure transparency, the effectiveness of regulatory procedures implemented to improve the efficiency of project cycle would need to be reviewed through external audit and communicated widely among the stake holders. .
