

## Strengthening the CDM

IETA Position Paper  
for  
COP 11 and COP/MoP 1

*MARKET SOLUTIONS FOR GLOBAL ENVIRONMENTAL PROBLEMS*



## **Executive Summary**

*IETA believes that the Clean Development Mechanism (CDM) is critical to the success and viability of the global greenhouse gas (GHG) market. If properly implemented, the CDM holds the potential of influencing \$ 100 billion in green private investment into developing countries, thereby helping to promote sustainable development.*

*IETA has strongly supported the CDM and acknowledges that the Executive Board (EB) and its staff have delivered a substantial amount of work in spite of serious resource constraints.*

However, there are significant concerns regarding different aspects of the CDM process, including bottlenecks in the approval of methodologies, the application of additionality criteria and the registration of projects. The CDM will, in its current form function in certain niche areas, but there is a real danger that it will remain a “boutique” operation.

With the entry into force of the Kyoto Protocol, it is essential that the CDM be governed, regulated, managed and funded in a manner that befits a global institution with significant financial impact.

The lessons learned from the “prompt start” phase indicate the need to intensify efforts to streamline and improve CDM processes and make them more cost-effective, especially in areas such as simplifying additionality criteria, improving quality of input by project proponents, consolidating approved methodologies, improving quality of output (transparency, substantiation and consistency of decisions and guidance), enhancing mutual understanding between the Executive Board and DOEs on the role of the latter as an “extended arm of the Board”, incorporating, at appropriate points in CDM processes, regular and direct interactions between stakeholders and the Executive Board or its Panels, improving system performance against agreed time-lines.

Bold actions, within the confines of the Marrakech Accords, by those that support the CDM and its Executive Board, are necessary leading to the Montreal meeting, in order to equip the CDM with the necessary tools to accomplish its missions. Such proposals, could include:

- The Executive Board to focus on its strategic oversight role, consistent with the Marrakech Accords, while dealing with specific projects only in exceptional cases,



- Simplified additionality criteria, that should avoid perverse incentives and rely primarily on sound baselines for emission reductions, as envisaged in the Marrakech Accords
- The accelerated development of methodologies, including the proactive development of methodologies
- An effective “fast track” for small-scale projects and a supportive approach to bundling small-scale and “micro” projects;
- Nominations to membership of the Board should be based on agreed terms of reference, resulting in a mix of policy, business, regulatory and technical expertise, as well as regional perspectives, that enables the Board to fulfil its oversight role;
- The Board must have adequate technical support by a dedicated secretariat unit under strong leadership which can outsource technical work, including work on development of methodologies;
- *The credibility of any strengthened governance will depend on the adequacy of funding. Parties making use of the CDM for compliance with their Kyoto Protocol commitments have a special responsibility for contributing funds. The required funds should be committed at COP/MOP 1 for a three-year period and regularly thereafter.*
- Indicators to measure the success of the Executive Board and the CDM should be established. The ultimate measure of success, however, must be the contribution of the CDM to reducing emissions in non Annex 1 countries.
- *A better geographical spread to least developed and other poor developing countries will be encouraged by expeditious registration of small-scale projects and support for bundled projects.*
- *National and regional capacity building is needed to increase the supply of projects from these countries.*



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## 1 The CDM Challenge

IETA believes that the Clean Development Mechanism (CDM) is critical to the success and viability of the global greenhouse gas (GHG) market. Kyoto Compliance needs in the first commitment period amount to 275-880 million tonnes p.a.<sup>1</sup>. If realized in this magnitude the CDM has the potential to deliver some US \$15 billion worth of CERs for Kyoto compliance by Annex I Parties. This would in turn leverage green private investment of around US\$100 billion into developing countries, thereby helping to promote sustainable development.<sup>2</sup> Our market analysis shows that 1,000-1,500 projects will be needed to reduce global GHG emissions by 300 million tonnes p.a.

At present, the CDM EB and staff do not have the adequate resources, staffing and policy certainty to operate with the level of credibility required for such a major investment program.

IETA has strongly supported the CDM and the work of the EB and its bodies since their inception. We acknowledge that the Executive Board (EB) and its staff have delivered a substantial amount of work in spite of serious resource constraints aimed at the important mission and mandate that the COP has given in the Marrakech Accords (MA).

However, many in business and governments have significant concerns regarding different aspects of the CDM process, which have so far prevented the CDM to fully deliver on its promise. These concerns focus on bottlenecks in the approval of methodologies, the application of additionality criteria and the registration of projects.

The causes can be synthesized into a total lack of resources given to the EB, combined with issues of process and governance.

The current approach, which emphasizes rigor at the expense of pragmatism, stifles projects with good environmental and development benefits from being implemented. This occurs either because projects do not make it through the lengthy process or because developers are discouraged by the CDM's overly complex and unpredictable procedures. This unpredictability represents a risk to business that will inhibit large-scale investment.

The bottom up process of methodology development is putting another burden and disincentive on business. There seems to be some contradiction between the bottom-up process (which is by necessity slow, and which is currently used in exclusivity) and the urgency of the climate change issue as well as the urgency imposed by regulatory requirements in jurisdictions such as the EU.

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<sup>1</sup> Different estimates for the anticipated "gap" between projected emissions and Kyoto targets or the potential "demand" for CERs by Annex I countries excluding the US and Australia exist in a range of 275 –880 mt CO<sub>2</sub>-eq per year. The expected supply of CERs will currently amount to between 4% and 15% of the expected gap to compliance of Annex I parties.

<sup>2</sup> This number is based on the following assumptions: 300m CERs p.a. at an average price of 10 US\$ (8EUR). With the CER value representing on average 3% of the total investment value, the total investment behind the CDM projects amounts to 100bn US\$



The CDM will, in its current form, make only a small contribution in assisting Annex I countries to comply with their obligations, and only a limited number of Non-Annex I countries will gain benefit from it – limiting their potential to use it to achieve their sustainable development objectives. It will function in certain niche areas, but there is a real danger that it will remain a “boutique” operation.

With the entry into force of the Kyoto Protocol, the CDM has entered a new phase in which an increase of demand for CERs is anticipated. It is essential that the CDM be governed, regulated, managed and funded in a manner that benefits a global institution with significant financial impact.

This calls for bold and urgent action by COP/MOP 1, consistent with the Marrakech Accords, to equip the Executive Board and its supporting bodies to respond to this new challenge and change the way they do business. A decision to this effect by COP/MOP 1 will need to be prepared by pre-session political consultations.

This paper is based on observations and experience to-date results of the CDM process collected by professionals in the business community, governments and others in personal interviews and IETA workshops. It summarizes the perceived bottlenecks in the CDM Process and sets forth IETA’s vision for how these issues should be addressed within the framework of the Marrakech Accords.



## 2 Perceived Bottlenecks and Issues

### 2.1 CDM Operational Issues

#### 2.1.1 Methodology approval

A considerable bottleneck exists in the approval of new methodologies. DOEs agree that at a minimum of 300 methodologies will be needed to ensure coverage of most types of potential CDM projects. At the current speed of processing it will take years to produce the required methodologies.

Currently, projects that rely on the approval of new methodologies are delayed by several months, caused by a bottleneck in the Methodologies Panel (Meth Panel).

According to recent data,<sup>3</sup> the EB had approved 23 methodologies in the last 2 years, 4 consolidated methodologies as well as 15 Small-Scale methodologies (developed in a top down approach). 48 methodologies are currently pending. 44 methodologies were not approved.

Figures 1 and 2 below illustrate the complexity of the current process for the approval of new methodologies. This process includes overlaps, uncertainties and general inefficiencies related to the roles of the actors involved. The total time needed to get a project though the process is unpredictable, introducing uncertainty, which inevitably increases resources required and associated costs.

The Meth Panel is comprised of independent researchers who work on individual sub-contracts supervised by the Secretariat. The Members work part time with strict UN limits on daily rates and numbers of days to be worked. There is no ability to gain benefit of the economies of scale, speed and range of expertise that is available from large professional services organizations, which commonly compete to support regulatory bodies in many Annex 1 jurisdictions.

There is little opportunity for direct interaction between stakeholders and the EB and its bodies, as appropriate, e.g. Meth Panel and project proponents, that could speed and simplify the process. Also, some poorly drafted methodologies are allowed to reach the Board without positive recommendation, prematurely, even though a number of early checks are available to be undertaken by the technical staff to the EB to ensure that all obvious problems are addressed before they reach the Board.

#### 2.1.2 Registration process

According to the Marrakech accords, Registration is an automatic step unless a review is requested.<sup>4</sup> Whereas one would think that the review is an exceptional measure, it has been applied to roughly 50% of the projects submitted so far.

#### **Figure 1 - Current Procedure of EB Approval of Methodologies (Sheet I)**

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<sup>3</sup> The number of approved methodologies includes 4 consolidated methodologies. See <http://cdm.unfccc.int/methodologies/PAmethodologies> accessed on 9 August 2005.

<sup>4</sup> See Para 41 CDM Modalities and Procedures: "The registration by the executive board shall be deemed final eight 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. ..."

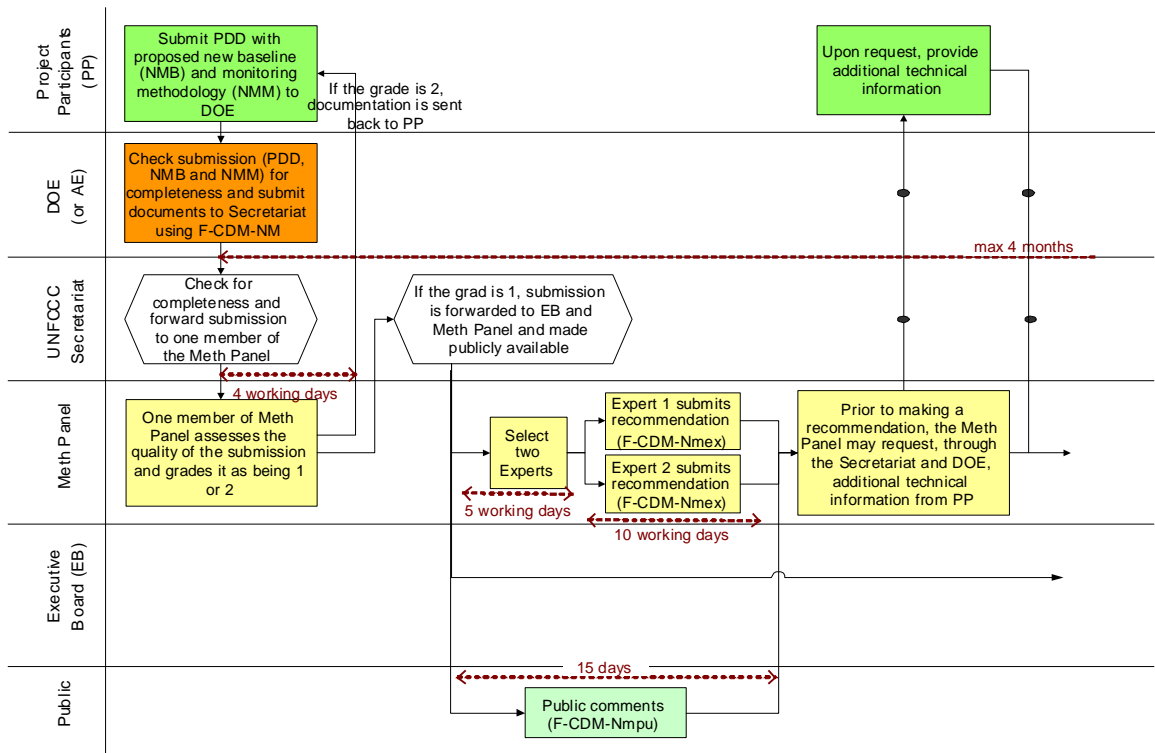
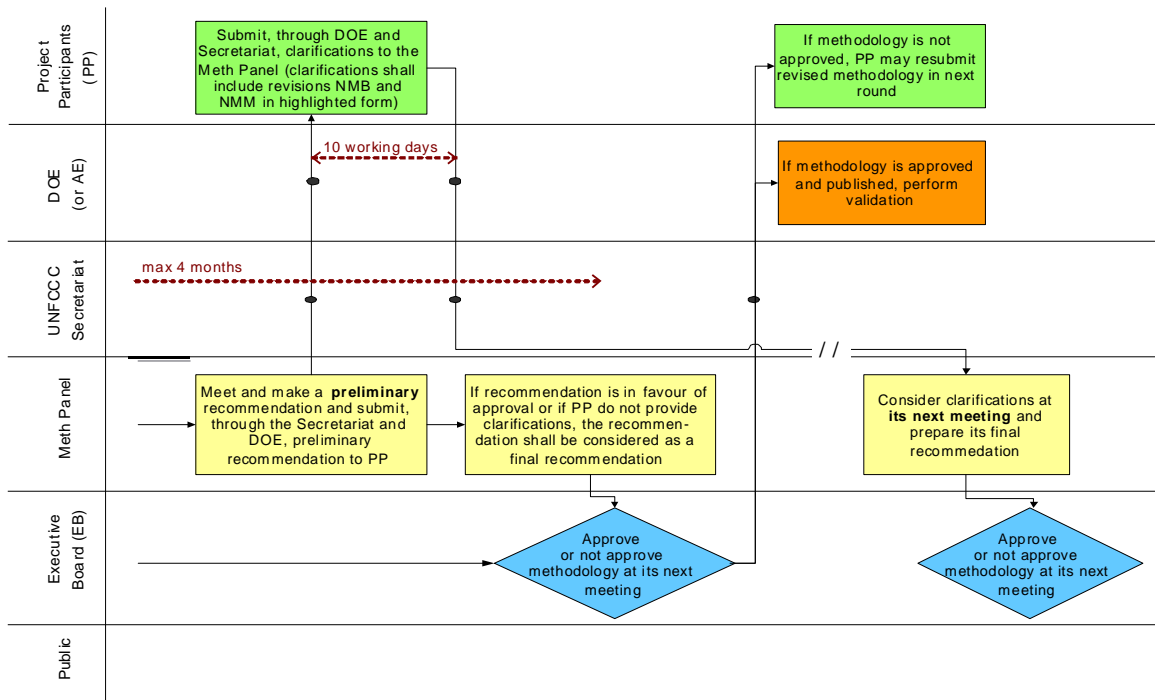


Figure 2 – Current Procedure of EB Approval of Methodologies (Sheet II)





Only 13 projects have been registered to date.<sup>5</sup> More than 200 projects per year are estimated to be in the pipeline.

The EB's reviews demonstrate an insufficient trust in the work of DOEs in validating projects and submitting them for Registration. This trust, which must be earned through the accreditation process, is critical if another bottleneck is to be avoided. A full review of a project should only be undertaken as a means of last resort.

### **2.1.3 Additionality**

The Marrakech Accords stipulate that a CDM project has to result in emissions reductions that are additional to any that would occur in the absence of the project activity. The COP directed the EB to proceed under a "conservative" approach during the early days of operation, to build credibility in the system.

The current interpretation from the EB has produced working guidelines, including an optional Additionality Tool to help filter out BAU projects. The tool uses several tests (legal requirements, investment analysis, barrier analysis, common practice test and CDM impact test).

Too often, the additionality consideration has focused on the intent of the project (was it undertaken for CDM purposes), as opposed to finding the right baseline and ensuring that the emissions are under that baseline, as stipulated in the MA paras 43 and 44 ("A CDM project is additional if antropogenic emissions of GHG by sources are reduced below those that would have occurred in the absence of the registered CDM project activity").

It is IETA's view that proving intent is an almost impossible task that is clear-cut only in rare cases. It suggests a subjective approach that will work in a limited number of cases, but not produce the large amounts of reductions needed and stimulate changes in the energy investment patterns of non Annex 1 countries. Combining subjective assessment of a promoter's intent with a COP instruction for the EB to act conservatively, we fear that the CDM is destined to become a boutique operation.

Some stakeholders also argue that the inclusion of Additionality in the methodology has produced further complications. Additionality is referred in para 43 of the CDM M&P, whereas the use of methodologies is dealt with in paras 44 and 45. The inclusion of additionality in the methodologies has distracted the Meth Panel and cost a lot of time.

Business perception is that in its current form the test for additionality, which essentially relies heavily on the Additionality Tool, exposes every project to a highly subjective assessment of its CDM eligibility and allows for second-guessing by the EB. It leads to "question a project to death" and towards a project-by-project review by the CDM EB. While the use of the Additionality Tool is not mandatory, it is currently widely used, by necessity, by many project developers, as it is the only realistic option to avoid a possible delay of the project.

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<sup>5</sup> Out of the 15 projects currently submitted for registration as of 9 August 2005, 13 projects are registered, one is currently under review and for another project a review has been requested. Out of the 13 Projects registered 5 have been reviewed.



IETA Members believe that with the KP's entry into force, the COP/MOP 1 should send a strong signal of pragmatism, focusing the Board clearly on environmental additionality that does not attempt to determine the intentions of project proponents.

#### **2.1.4 Small-Scale Projects**

Although simplified procedures and modalities for small-scale projects have been developed transaction costs are still very high, in some cases even higher than in the case of large scale projects.

The EB seems not to distinguish between large and small-scale projects, and between procedural and substantive deficiencies, in determining the degree of rigor to be applied in clearing projects for registration.

#### **2.1.5 International Transactions Log (ITL)**

The ability to transfer CERs once they come out of the CDM process and to hold them in personal accounts (in a national registry) has a great influence on the price investors are willing to pay. The ITL is a COP/MOP responsibility, as it involves more than the CDM. But the market relies on the ITL infrastructure to facilitate delivery of CERs so that payments can be made. As a result, the ITL delays and uncertainty around the timing of its completion are dampening CER prices<sup>6</sup>.

The ITL is necessary for CERs to flow to National Registries (EU) and to be used for compliance in the first and second EU ETS periods. Currently, the Secretariat's best estimate for full operation of the ITL is Q1 2007. One of the main reasons for the late initiation of the ITL process seems to be lack of funding.

This creates the possibility that CERs may not be able to flow into EU ETS registries within the first period EU ETS period. The lack of clarity around this is a very big issue for the trading community (both within the EU and outside the EU), and for implementation of the EU ETS Linking Directive.

#### **2.1.6 Retroactive Crediting**

The Marrakech Accords state that in order for a project to be eligible to receive credits for a period before project registration, the project needs to be registered with the EB before 31<sup>st</sup> Dec 2005. However, registration of many projects that counted on a prompt start of the CDM by Dec 31<sup>st</sup> 05 may be impossible, given the time it takes to gain international approval, methodology, validation, registration etc.

As a result of this situation many projects will lose value as the Dec 31<sup>st</sup> deadline looms. The pipeline of projects already thin, will get even more so.

We must ensure that a mechanism is found such that prompt start projects are not seriously disadvantaged by the state of development of the international process. COP/MoP1 can and must act on this issue.

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<sup>6</sup> CERs are currently trading at €5-€10 with EU Allowances trading around €20 in August 2005.



## **2.2 CDM Organizational/Administrative Issues**

### **2.2.1 Roles and Responsibilities**

It is perceived that the EB is not performing functions that would be typically associated with the Board of a regulatory agency. It is caught up in discussions on a very technical level, while the vision in the Marrakech Accords was for the EB to supervise the CDM and be assisted in its functions by an expert, “technical” staff at the Secretariat. To accomplish its work, the EB would also utilize committees, panels, working groups and consultancies, with assistance from the Secretariat’s technical staff. The expertise of the private sector would be tapped to maximum advantage, notably through highly qualified Designated Operational Entities (DOEs), who would validate and verify under EB approved protocols for baseline and monitoring.

Under the current practice, methodologies rarely move through the process efficiently. The typical methodology is narrowly drafted to a specific set of project circumstances, making it difficult to replicate. Frequently, the EB delves into the details of methodologies, effectively duplicating the Meth Panel’s duties. This causes severe delays in issuing methodology approvals and diverts EB focus and resources into tasks that should be performed by technical experts.

### **2.2.2 Resource availability**

The work of the EB, its panels and the UNFCCC Secretariat dedicated to the CDM work is seriously under-funded. The Secretariat has a part-time staff of four professionals to service the CDM, backed by independent consultants serving the Meth Panel. In the 2002-03 period, the CDM process received funding from the Parties at a level of \$1.5 million; and in the 2004-5 period, the process is budgeted to run at a level of \$7 million. Although budgets are developed for two-year cycles, actual deposits of funding from Parties are annual and, often times, incomplete.

EB members and its panels conduct work in addition to their full time jobs. It should be recognized that the work of EB members cannot be done “on the side”.

Parties, including some that rely in their compliance strategy on an efficient functioning of the CDM have provided some funding, but not to the level required. It must be emphasized that, for the role that the EB and the CDM are called to play, the sufficiency of funding should not be a barrier to the CDM’s success: it simply must be funded properly.

### **2.2.3 Insufficient Interaction**

There is currently little direct interaction between the stakeholders and the EB and its bodies. Understandably, the EB has avoided direct interaction to avoid real or perceived conflicts of interest. We agree that such conflicts should be avoided, but we are also aware that many regulatory bodies around the world manage to create an open, transparent process that gives stakeholders a right to petition and engage in dialogue with decision-makers. A lack of predictable, objective, routine interaction combined with insufficient communications between the Regulator, Project Developers and stakeholders has resulted in frustration and inefficiencies. This is also influencing the quality of input provided in the development of methodologies.



Such direct interaction is a basic right in other regulatory processes and could help avoid misunderstandings and alleviate some of the problems. In fact, in environmental regulation, innovations have taken hold in many jurisdictions recently, making it common to engage stakeholders for collaborative problem-solving. This helps to expedite the process, avoid litigation, promote mutual respect and enhance prospects for meeting compliance objectives on time. This collaborative spirit is missing from the CDM, which operates in an old-style, case-by-case, trial-and-error manner.

#### **2.2.4 Composition of EB and Election of members**

The majority of EB members and alternates currently have a Government background. The EB is perceived as a negotiation body, driven by UN restrictions, rather than a regulatory body, geared to work with business in making a market instrument successful.

Political experience and understanding of the negotiation process that led to the Marrakech Accords was essential in the first years of EB operation as continuity was an important element. In moving to the operational stage, continuity and stability continue to be important, but a new set of skills and experience become critical, especially in the areas of financial and regulatory background and executive decision-making experience.

It is understood that the Marrakech Accords contemplate a balanced regional representation in the EB, as well as necessary policy and technical expertise.<sup>7</sup> At present, the EB possesses a wealth of expertise in international negotiation and Kyoto-related policies, but it shows less prowess in running complex regulatory decision-making agencies.

It is imperative to ensure that appointments to the EB, always politically driven to some degree, are filled by people that have the necessary skills, experience and knowledge and are willing and able to devote time to EB work.

#### **2.2.5 Lack of guidance and transparency in decisions**

Some business participants feel that not enough guidance on the development and application of methodologies is provided by the EB. There is no guidance document outlining all previous decisions, and reasons for decision, of the Meth Panel, and the Board, on Methodologies. This would be very useful to the developers of new methodologies, will assist the Meth Panel in its future deliberations and form the basis of a consistent means of assessing new methodologies.

Meth Panel decisions and their reasoning are unclear since meetings are closed to the public and only very limited minutes are published. Decision and reason for decision are not documented in a consistent way. Project developers (and expert reviewers) need better access to information in order to develop better methodologies and to understand the basis on which certain methods were adopted over others.

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<sup>7</sup> The CDM Modalities and Procedures state in § 8 c: Members, including alternate Members, of the EB shall “possess appropriate technical and/or policy expertise and shall act in their personal capacity. ...”.



In addition, decisions are in some cases contradictory.<sup>8</sup>

### **3 Way Forward**

Parties should examine the current outcomes of the CDM process and aim to produce for COP11/MoP1 a bold agenda for improvement, aimed at making the EB a regulatory agency that can service the 100 billion level of investments that we can envisage and hope for, and the CDM process in general an instrument geared to this objective.

IEA believes that improvements can be accomplished with decisions, commitments and guidance from the Parties. All proposals outlined below can be implemented within the Marrakech Accords

#### **3.1 Roles and Responsibilities**

The CDM EB will continue to use the administrative infrastructure of the UNFCCC Secretariat for the CDM EB and its staff, as currently envisaged in the MA. The reporting relationship of the EB is, and has to be, with the MoP – the EB is and will be accountable to the MoP on all matters.

##### **3.1.1 COP/MoP**

The MoP is the “owner” of the CDM, fully responsible for its success or failure. Its roles and governance should fully reflect that responsibility. This includes formal approval (or not) of EB decisions, as foreseen in the Marrakech Accords.

It needs to ensure that the functioning of the Board and its Secretariat is protected by immunity from legal prosecution.

The EB should be encouraged to pursue a pragmatic approach to its work, while maintaining the necessary rigor.

Membership of the EB will be based on geographical representation. The MoP should ensure that Terms of Reference, that will provide guidance on the qualifications and experience of Board members, should be developed. They should emphasize the need for a of skill sets beyond negotiating experience – emphasizing executive experience in regulatory approvals, program administration, and finance.

##### **3.1.2 Executive Board**

The Executive Board should address major issues of policy or principle and provide guidance where new ground is broken. It should avoid micro-managing technical details, referring them instead to competent technical experts.

The EB should, as it currently is, be accountable to the MoP and have its own clear budget line - within the UNFCCC budget. EB members should be remunerated for their work, as needed, to ensure that a large pool of talent is available and able to serve on the EB.

The CDM EB should meet on a regular basis, to address issues of principle, provide guidance, formally approve projects and methodologies, but involve itself directly in

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<sup>8</sup> e.g. procedures allowed in one methodology are forbidden in another.



technical issues only on as needed basis – by exception. Matters should only be brought to the Board by the CDM EB Secretariat<sup>9</sup> when they are put forward for approval, or when an issue of principle has emerged.

It will need to show trust in the DOEs and its staff to ensure smooth functioning of the CDM process.

Possibilities for regular, direct, part of the process interactions between stakeholders and the Executive Board or its staff, at appropriate times, at the level needed (staff or EB, depending on matter) need to be incorporated in CDM processes. The possibility of public hearings should be part of an objective, well set process. Written records of decisions, their rationales and guidance on future applicability to other projects should be published.

### **3.1.3 CDM EB Secretariat**

The UNFCCC Executive Secretary should appoint a head of the CDM EB Secretariat, accountable for the day-to-day activities of the EB and to supervise the activities to support the EB, including the technical work on methodologies, etc. He/she should report to the Chair of the EB (under delegated authority by the UNFCCC Executive Secretary) and have a budget for which s/he is responsible and accountable to the EB – held under the UNFCCC administrative apparatus. The UNFCCC Secretariat will administer the contract.

A Professional Staff of 20-30 persons, including legal counsel, fully dedicated to the CDM, should be retained to operate the programs. The staff would report to the Head of the CDM EB Secretariat under contracts administered by the UNFCCC. This staff should have experience not only in global environmental policy, but also in regulatory approval, technical aspects of regulatory decision-making and large consulting program administration.

The activities of the staff will include key functions such as (not an exclusive list):

- Methodologies:  
Permanent staff of technical experts to deal with ability to sub-contract work, to external contractors to deal with pipeline of methodologies or proactive development of methodologies.
- DOE Relations:  
Managing relations with DOEs and preparing the EB for validation reports / registration requests;
- Help Desk:  
Answering constituent requests for clarifications on documentation and policies.
- Info Services:  
Assisting in the creation and maintenance of the CDM registry, which is critical to the issuance and delivery of CERs to investors;
- Accreditation of DOEs

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<sup>9</sup> For the purpose of the paper staff supporting the CDM EB will be called CDM EB Secretariat.



- Interaction with stakeholders – arrange and manage meetings with stakeholders, including possible hearings on issues of principle or new issues that emerge

### **3.1.4 Designated Operational Entities (DOEs)**

DOEs will be responsible for the validation and verification of projects. They are not part and cannot be part of the CDM EB Secretariat. They will have a working relationship with EB Secretariat Staff and will interface with Project Participants on project and methodology matters. This includes upstream pre-assessment of methodologies to improve quality of input.

## **3.2 Issues**

The Head of the CDM EB Secretariat will organize the work of his staff to assure that the following activities are conducted in an efficient manner:

### **3.2.1 Methodologies**

The staff should have the option and the financial and human resources to hire and manage outside experts to complete the range of methodologies required for the objective of 300 methodologies covering the majority of possible projects before COP/MOP 2. Only a readily available database of projects will encourage sufficient interest to reach over 1000 project developers.

This implies that an intensive process is employed, consisting of both pro-actively developed methodologies (“top-down”) and a continuation of the “bottom-up” approach. Pro-active development of methodologies is consistent with the Marrakech Accords. It will enable project developers to pick a methodology and submit it together with an underlying project for approval and then validation.

The current methodologies approach, which draws upon individual researchers and desk reviewers, should be rolled into the Methodology Team.

The Head should employ a new approach that taps the expertise of a large consulting network or consortia that can offer bulk rates for a package of professional services.

The following figure illustrates the simplified process for the approval of new methodologies.

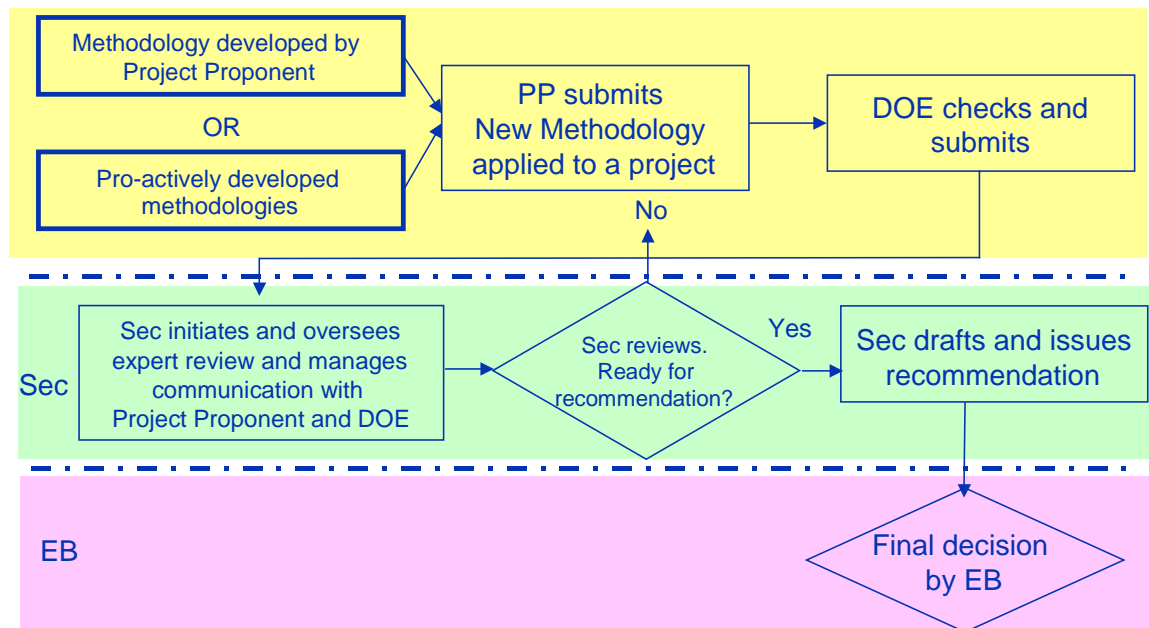


Figure 3 Outline of modified methodology approval process

### 3.2.2 Additionality

The Marrakech Accords define additionality in relation to emission reductions compared to a baseline scenario, but not in relation to a project activity. Once methodologies for baseline calculation are developed they will be used to ensure that the emissions additionality test is met. Other offset programs, including the proposed Canadian Offset paper, currently propose this approach.

The additionality test should avoid the creation of perverse incentives that would hold back enhancement of national policies and rely primarily on sound baselines for emission reductions, as envisaged in the Marrakech Accords, while also exploring the use of sectoral benchmarks.

### 3.2.3 Small Scale Projects

The EB should implement an effective “fast track” for small-scale projects and a supportive approach to bundling small-scale and “micro” projects.

## 3.3 Resources

The credibility of strengthened governance arrangements for the CDM will depend on the adequacy of funding provided for it by Parties, until a share of the proceeds from CERs can fund the CDM.

Parties making use of the CDM for compliance with their Kyoto Protocol commitments have a special responsibility for contributing funds.

Analysis of future financial requirements, commensurate with the potential of the CDM, needs to be undertaken before COP/MOP 1. The required funds should be committed at COP/MOP 1 for a three-year period and regularly thereafter.

A budget of \$16-18 million per year can be envisaged to make the CDM work as a regulatory agency for the size of underlying investment that needs to be managed.



### **3.4 Indicators for EB performance**

The COP/MOP should establish indicators to measure the success of the Executive Board and the CDM, so as to promote continued improvement in their performance. The ultimate measure of success, must be the contribution of the CDM to limiting global GHG emissions.

Indicators and measures of performance must be established at the beginning of each year to allow for an objective assessment of performance of the EB and the CDM in general as part of the EB report at each MoP.

### **3.5 Geographical distribution**

Evaluation by host countries and other stakeholders of the contribution of the CDM to sustainable development will be influenced by the technological content of the CDM portfolio and by the geographical reach of CDM activities.

While the large emerging economies will inevitably predominate in the geographical location of CDM projects, a better geographical spread to least developed and other poor developing countries will be encouraged by expeditious registration of small-scale projects and support for bundled projects.

National and regional capacity building is needed to increase the supply of projects from these countries.

### **3.6 Assurance post 2012**

There is strong demand from market participants for credible signals of continuity in the emissions market beyond 2012. Reduction of political uncertainty on this count will do a great deal to boost present commitment to strengthening the governance of the CDM.