

A rating of Designated Operational Entities (DOEs) Accredited under the Clean Development Mechanism (CDM)

Scope, methodology and results

Report for WWF

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1 Scope of the rating

The Clean Development Mechanism (CDM) under the Kyoto Protocol allows the crediting of emission reductions from greenhouse gas (GHG) abatement projects in developing countries. Designated Operational Entities (DOEs) are accredited third party entities that are responsible for evaluating proposed CDM project activities against requirements established by the COP/MOP and the CDM Executive Board (**validation**) and verifying that the monitored emission reductions have actually occurred (**verification**).

On behalf of WWF, Öko-Institut has developed a rating of DOEs. The objective of the rating is to assess to what extent DOEs are fulfilling the requirements and expectations of the CDM Executive Board (EB). Other aspects of the performance of DOEs, such as the costs and timing of their services, are not subject to the rating. The rating aims to provide more transparency to the market with regards to how DOEs are fulfilling the expectations of the CDM EB. A DOE with a higher rating has in the past fulfilled more frequently the expectations of the Board than a DOE with a lower rating.

The results of the rating target different stakeholders. One of the aims is to help project participants in selecting a DOE. A DOE with a high rating had in the past a better performance of getting a project approved by the CDM EB than a DOE with a lower rating. The rating also aims to encourage DOEs to work harder at meeting the expectations of the CDM EB, as a lower rating may present reputational risks. Finally, the rating aims to provide the international community with more transparency about the differences between DOEs in fulfilling the expectations of the CDM EB. This appears important in the light of concerns that have been raised about the performance of some DOEs.¹

This report describes the methodology used to rate the DOEs (chapter 2) and documents the results of this first rating (chapter 3). WWF intends to regularly update the rating (with relevant amendments made to improve the methodology).

¹ For example, the CDM Executive Board has undertaken spot checks at various DOEs which have revealed serious shortcomings, such as non-conformities of the DOEs with regard to “competencies to perform validation and verification functions” and “compliance with CDM requirements”. In November 2008, the accreditation of the DNV was suspended and reinstated in February 2009.

2 Methodological approach

2.1 What is the role of DOEs?

Under the CDM, Designated Operational Entities (DOEs) are accredited by the CDM EB and are responsible for ensuring that proposed CDM project activities meet all requirements established by the COP/MOP and the CDM EB. In this respect, DOEs can be regarded as an extended arm of the CDM EB. They are contracted and paid by developers and operators of CDM projects for two types of services:

- **Validation.** Validation is the independent evaluation of a project activity by the DOE against the requirements established by COP/MOP and the CDM EB. The information provided in the Project Design Documents (PDDs) forms the basis for the validation process. At the end of the validation process, the DOE either accepts the project if all requirements are met and outstanding issues are solved, or determines that the project can not be validated positively. If accepted, the project is forwarded to the CDM EB for registration.
- **Verification.** Verification is the assessment by the DOE that a CDM project activity has achieved the emission reductions claimed in monitoring reports. The information provided in monitoring reports forms the basis for the verification process. At the end of the verification process, the DOE either confirms that the quantity of emission reductions claimed in the monitoring reports have been achieved or determines that the emission reductions can not be verified. If the emission reductions are confirmed, a request for issuance of Certified Emission Reductions (CERs) is sent to the CDM EB.

2.2 What information was used to rate DOEs and why has this approach been chosen?

Several methodological approaches for a rating of DOEs have been explored in the development of this rating. A questionnaire, including the proposed approach and other options, was sent to DOEs and other market stakeholders. In total, the questionnaire was sent to 33 market participants and 10 responses have been received. Based on the answers to the questionnaire, a methodology for the first rating published in 2009 was developed. WWF intends to regularly update the rating. The methodology used in future ratings should be amended to take into account the experience gained with this first rating and any additional information that becomes available.

For this first rating, the basis for the rating of DOEs is a statistical evaluation of decisions by the CDM EB on requests by DOEs for registration of a project. The rationale for a statistical evaluation of EB decisions on requests by DOEs is that the number of reviews or rejections of projects by the EB may over longer timer periods and over many projects express to what extent the DOEs live up to the expectations of the EB. For example, a DOE with a high percentage of projects being rejected fails on average more frequently to meet the requirements and expectations of the Board and should

thus have a lower rating than a DOE with a low percentage of projects being rejected. Similarly, if the CDM EB requires that corrections have to be made to a PDD or a validation report before the project can be registered, one can argue that the DOE has not ensured a sufficiently transparent or correct documentation of the project or the validation process. A key advantage of this approach is that it allows the rating to be established on publicly available information. This makes the rating transparent and reproducible.

Several other approaches for DOE ratings have been assessed. An evaluation of validation and verification reports was explored but appears difficult. Information provided in validation and verification reports is often not sufficient to objectively assess the performance of DOEs. Validation reports sometimes make only general statements or repeat information in the CDM-PDD. This does not allow the reader to understand whether and how the DOE has assessed key assumptions of the proposed CDM project. Currently, only the EB and its support structure have access to additional information (e.g. provided in the review process) in order to make a judgement on whether all requirements by the Board have been met. This may change in the future due to the adoption of the validation and verification manual (VVM) by the CDM EB.

The evaluation of decisions by the EB on requests for issuance of CERs could be a future amendment to the rating. Currently, requests for issuance are more difficult to use for a several reasons: in a number of cases, the review of requests for issuance may be related to shortcomings during the validation process. It is thus difficult to clearly identify whether a review or rejection of an issuance request relates to deficiencies of the DOE that has validated the project or the DOE that is verifying emission reductions. Another difficulty is that the EB has not yet adopted guidance regarding how differences between the CDM-PDD and the actual implementation of the project activity should be dealt with. A number of issues raised during the verification of emission reductions may relate to such differences.

The use of surveys to assess the performance of DOEs (e.g. a survey sent to project participants) poses considerable challenges. The performance of a DOE may vary depending on the country, the sectoral scope or the methodology. A survey would thus need to ensure that the participants selected were representative with regards to the overall project portfolio. This may be very challenging. Moreover, the views of the market participants on what is a good performance of a DOE may not necessarily correspond to the expectations of the CDM EB. Finally, project participants that have had a bad experience with a DOE for reasons not related to the registration process may understandably respond to questions on the performance of the DOE in a biased way.

A decision by the CDM EB to reject a project or to seek corrective action can have different reasons. In some cases, the DOE may have clearly breached rules set by the EB. In other cases, the decision may be a result of a different interpretation of requirements between the DOE and the EB. For this reason, it was explored whether the rationale of decisions by the CDM EB could be used to identify cases where the DOE did clearly not follow rules already established by the EB. However, this approach proved to be difficult as well. The reasons for decisions, as documented in reports by the CDM

EB, are often quite vague and do not provide clear enough information on the exact issues. In addition, in a number of cases, the DOE did not meet specific requirements set by the EB but, as these requirements were only adopted very recently, they could not yet be considered by the DOE in the validation process.

Another approach could be an evaluation of the validation and verification decisions by each DOE. One could argue that a DOE that has never validated a project negatively could have a lower scrutiny in checking the requirements by the CDM EB compared to a DOE that rejects a number of projects. However, a key problem is that information on negative validation decisions by DOEs is not publicly available. Moreover, some projects are never validated negatively but remain pending for a considerable time or are withdrawn by the project participants. For example, this may apply if the project participants can not provide the necessary additional documentation to validate the project positively. Another difficulty is that some DOEs have a pre-screening procedure and do not let projects into the validation process which have a high risk of a negative validation, whereas other DOEs merely accept any project. Some DOEs operate only in some countries and can only validate projects in certain sectors. This may result in different qualities of the PDDs being submitted to different DOEs and consequently to different rates of negative validation opinions due to reasons that are outside the control of the DOE. In conclusion, whether a project is validated positively or not depends considerably on the project participants and not only on the DOE. Therefore, the number of negative validation decisions does not seem a good indicator for the performance of DOEs.

A rating based on decisions by the CDM EB clearly has some shortcomings. An important weakness is that the decision-making of the Board is not always consistent. The COP/MOP has repeatedly requested that the Board improve its decision-making processes. However, since April 2007 the UNFCCC secretariat has systematically assessed each project and strives to ensure a consistent approach. Therefore, ratings should only be based on projects that requested registration after 31 March 2007.

Another difficulty is that the rules regarding how DOEs should actually validate projects are not yet fully clear. For example, the validation and verification manual (VVM) was only adopted in November 2008. Also other important guidance has only been adopted recently or is still under consideration, such as the guidance on investment analysis or the guidance on how the CDM should be considered in the decision to proceed with a project. As a result, DOEs face considerable uncertainty with respect to the requirements and expectations of the CDM EB. For example, a DOE may face a rejection of a project because new guidance by the CDM EB is emerging which was not yet available when the validation opinion was formed. This problem is important but will become less relevant in the future, as more and more guidance for DOEs is emerging. In developing the rating it was evaluated whether and how such influences could be factored out but the approaches tested were either difficult to implement or did not significantly influence the result of the rating.

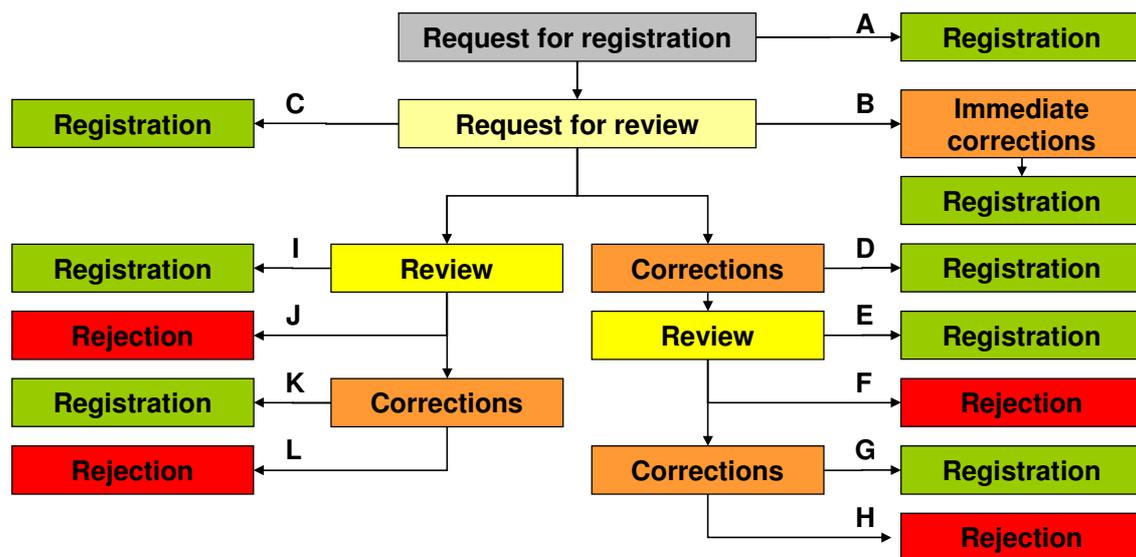
In summary, despite some shortcomings, the decisions by the CDM EB on requests for registration by DOEs currently appear to be the best available means to evaluate to

what extent DOEs are living up to the expectations of the CDM EB. The first rating only considers decisions on requests for registration and decisions on the suspension or withdrawal of accreditation but may be amended in the future by other indicators, such as decisions on requests for issuance of CERs, decisions on conducting spot checks or other publicly available information.

2.3 How are decisions on registration requests used in the rating?

A request for registration of a CDM project can be processed through various pathways. Figure 1 illustrates the current project approval process. The final outcome of a registration request is that a project is a) registered, b) rejected or c) withdrawn or not resubmitted by the DOE and the project participants (PPs). The latter case – withdrawal of a project or no re-submission by a DOE and the project participants – is not considered in the rating. In such cases, it is usually the decision of the project participants to withdraw a project activity and a final judgment whether the DOE has lived up to the expectations of the Board appears difficult.

Figure 1: Decision pathways for requests for registration



There are several different routes to a registration or rejection of a project. A CDM project is automatically registered (**route A**), unless a review of the project is requested by three members of the Board or a Designated National Authority (DNA) involved in the project. If the issues raised in the request for review are straight-forward to address, the PPs and the DOE have the opportunity to correct these issues. If the resubmitted documentation is deemed appropriate by the UNFCCC secretariat and the Chair of the CDM EB, the project is displayed as registered on the UNFCCC website (**route B**). If the resubmitted documentation is not deemed appropriate or if issues identified in the request for review can not be addressed immediately but require consideration by the Board, the project is put on the agenda of the next meeting of the Board. The Board then has the following options. It can: a) register the project without any further requirements (**route C**), b) decide to undertake a review of the project (path on the left

hand side of Figure 1) or c) request the DOE and the PPs to make corrections to the PDD and the validation report (path on the right hand side of Figure 1).

If the EB requests corrections, the PPs and the DOE can re-submit a corrected PDD and a corrected validation report within 12 weeks. If the corrections are deemed appropriate by the Chair of the Board, the project is registered (**route D**). If corrections are not deemed appropriate by the Chair of the Board, he can decide to put the case on the agenda of the next Board meeting where the Board can decide to register the project or undertake a review of the project. Based on the outcome of the review, the Board can decide to register the project (**route E**), reject the project (**route F**), or request the DOE and the PPs to make corrections to the PDD and the validation report. In the latter case, the PPs and the DOE can again re-submit a corrected PDD and a corrected validation report within 12 weeks. If the corrections are deemed appropriate by the Chair of the Board, the project is registered (**route G**). If corrections are not deemed appropriate by the Chair of the Board, he can decide to put the case on the agenda of the next Board meeting where the Board can decide to register the project (again **route G**) or to reject the project (**route H**).

If the EB undertakes a review of the project, it can again decide among three options: a) register the project without any further requirements (**route I**), b) reject the project (**route J**), or c) request the DOE and the PPs to make corrections to the PDD and the validation report. In the latter case, the PPs and the DOE can re-submit a corrected PDD and a corrected validation report within 12 weeks. If the corrections are deemed appropriate by the Chair of the Board, the project is registered (**route K**). If the corrections are not deemed appropriate by the Chair of the Board, he can decide to put the case on the agenda of the next Board meeting where the Board can decide to register the project (again **route K**) or to reject the project (**route L**).

The rating evaluates for each DOE how the EB decided on its registration requests. The EB decisions are then weighted according to their seriousness of the failure of the DOE to fulfil the requirements and expectations of the EB. As the judgement to what extent a DOE failed to fulfil the expectations with a certain EB decision is subjective, the questionnaire sent to DOEs and market participants asked the participants to weight the different EB decisions and to justify their judgment. The following considerations were raised in responses to the survey:

- The final outcome on the registration request should play an important role. Most participants believe that a rejection should be weighted significantly more seriously than a registration – whatever the pathway a project took to a registration or a rejection.
- Some participants argued that an indicator for the performance of the DOE is the number of opportunities the DOE needed to supply additional information or correct information. For example: in case of route B or route C (immediate registration following a request for review), the DOE needed only one opportunity to satisfy the EB. In contrast, in the case of route G, the DOE needed several opportunities to correct an issue: it had the possibility to submit additional information after the re-

quest for review was raised, after the decisions by the EB that corrections are required, during the review by the EB, and again after the second decision by the EB that corrections are required. This indicates that the DOE had repeatedly failed to ensure that corrections were appropriately made and documented even though several opportunities to do so were given.

- Some participants argued that a request for review or a review may not necessarily constitute a failure of the DOE at all, as the UNFCCC secretariat, in assessing the project, may have misinterpreted information in the PDD and validation report. Others argued that by that time the DOE already had one opportunity to provide additional clarifications and was apparently not able to address the issues satisfactorily.

Based on these considerations and the answers to the questionnaire, the different outcomes of EB decision were weighted on a scale from -1.0 to +1.0. The approach chosen is documented in Table 1 overleaf.

A score of 1.0 is used for projects that are automatically registered without a request for review by three EB members or a DNA. For such projects, the expectations of the CDM EB were apparently fulfilled. A score of -1.0 is used for projects that were rejected, not differentiating between the different routes (F, H, J and L). For projects that are registered only after a request for review (routes B, C, D, E, G, I and K), a differentiated approach is used. Values at or above zero are used for all cases because most respondents to the questionnaire agreed that a rejection should be weighed much stronger than any route leading to registration.

A score of 0.9 is used for projects that are registered without any corrections when the Board considers the project for the first time (route C). A high score is used in this case, as it was not necessary to make any corrections and the request for review may only be related to lack of transparency in the documentation or to different views among the EB members.

For each corrective action request by the Board or its Chair we subtract 0.3 points. Corrective action requests can relate to different issues. However, they always indicate that the DOE has not fulfilled the requirements or expectations of the Board, as changes to the project documentation are necessary before the project can be registered. Even if only minor issues must be corrected, one can argue that a DOE which fails to identify minor issues may also not be able to raise major issues which are sometimes more difficult to detect.

For a review of a project we also subtract 0.3 points. In case of a review, one can argue that the DOE failed to sufficiently clarify the issue in the first round and that the issues at stake are usually substantial and not editorial. For example, if the DOE only failed to check whether monitoring tables have been completed correctly by the project participants, such an issue will usually be dealt with by a correction request without undertaking a review of the project (route B or route D corresponding to 0.6 points). However, if the DOE failed to assess an issue related to additionality, the Board will usually undertake a review which will be reflected by lower points (e.g. 0.3 points for route K).

Table 1: Scoring used for EB decisions on registration requests

Decision route		Score
A	Automatic registration	1.0
B	Registration following a request for review and immediate corrections	0.6
C	Registration following a request for review and consideration of the project by the Board	0.9
D	Registration following a request for review and a corrective action request	0.6
E	Registration following a request for review, a corrective action request and a review	0.3
F	Rejection following a request for review, a corrective action request and a review	-1.0
G	Registration following a request for review, a corrective action request, a review and a second corrective action request	0.0
H	Rejection following a request for review, a corrective action request, a review and a second corrective action request	-1.0
I	Registration following a request for review and a review	0.6
J	Rejection following a request for review and a review	-1.0
K	Registration following a request for review, a review and a corrective action request	0.3
L	Rejection following a request for review, a review and a corrective action request	-1.0

2.4 Which projects were used for the rating?

The first rating was based on projects that requested registration between 1 April 2007 (when the UNFCCC secretariat started to systematically assess all requests for registration) and 31 March 2009 and that reached a final decision status of registration or rejection within this period. Projects that were withdrawn or for which a final decision by the Board is still pending were not included. To identify the projects and their status, we used the Excel Database by UNEP/RISOE and the information displayed at UNFCCC CDM Website.²

The first rating includes 900 projects that were submitted by 14 DOEs. However, a small number of projects submitted by a DOE may not be sufficiently representative to assess whether the DOE was living up to the expectations of the CDM EB. Therefore, only DOEs were included in the rating for which at least 40 projects have been completely processed in the period from 1 April 2007 to 31 March 2009. This included the following five DOEs: BVC, DNV, SGS, TÜV-Nord and TÜV-Süd.

² See <http://www.cdmpipeline.org/> and <http://cdm.unfccc.int/index.html>

2.5 How were the scores of the DOEs translated into a rating?

Based on the EB decisions, a score was calculated for each DOE. To facilitate a comparison of DOEs, the score was then translated in a rating. The rating scale goes from A to E, where A indicates a very good performance and E indicates a poor performance. F indicates that the DOE has either been suspended in the past 6 months or has a score that is below the qualification for an E rating. Within each rating category the performance is differentiated: A plus sign after the letter (e.g. B+) indicates that the DOE is at a higher end within the rating category and a minus sign after the letter (e.g. B-) indicates that the DOE is at the lower end within the rating category. Table 3 below illustrates how the score is translated into a rating. For each rating the table also provides an example of the level of performance that would qualify the DOE for the respective rating.

Table 2: Rating categories

Rating	Score range	Example of the level of performance qualifying for the rating
A	≥ 0.94	95% automatic registration 3% registered after corrections 1% registered after a review and corrections 1% rejected
B	0.85 – 0.94	80% automatic registration 16% registered after corrections 2% registered after a review and corrections 2% rejected
C	0.73 – 0.85	65% automatic registration 20% registered after corrections 12% registered after a review and corrections 3% rejected
D	0.61 – 0.73	50% automatic registration 25% registered after corrections 20% registered after a review and corrections 5% rejected
E	0.50 – 0.61	35% automatic registration 40% registered after corrections 15% registered after a review and corrections 10% rejected
F	< 0.50	20% automatic registration 40% registered after corrections 20% registered after a review and corrections 20% rejected

3 Results of the rating

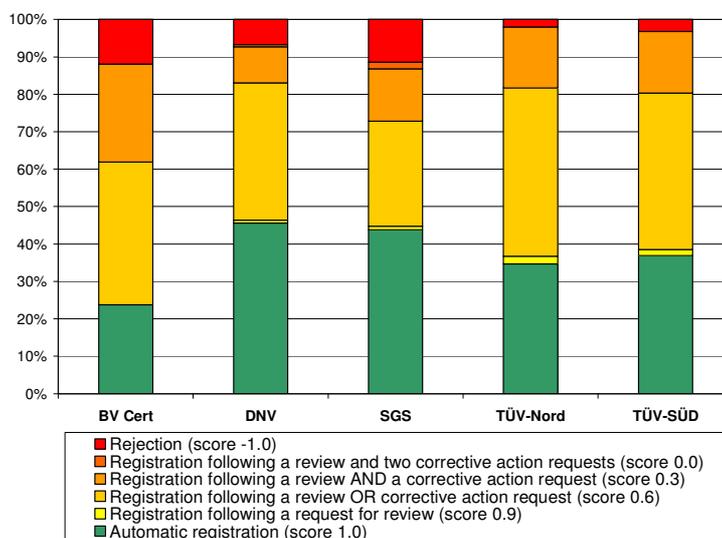
The results of the rating are illustrated in Table 3. Generally, the rating for all DOEs is relatively low due to the high number of projects being rejected, reviewed or requested for corrective action by the Board. TÜV-Nord and TÜV-Süd have the best performance with a D rating. They achieved 0.66 and 0.65 points respectively. BVC has a score of only 0.43 points and receives an F rating. The reason for BVC’s poor performance is their high share of projects being rejected or requested for corrective action to be taken. SGS attained 0.54 points and an E rating and is therefore in the middle ground between BVC and the TÜVs. The accreditation of DNV was recently suspended. For this reason, DNV has an F rating. Without suspension, DNV would be close to the TÜVs and receive a D- rating.

Table 3: Rating results

DOE	BVC	DNV	SGS	TÜV-Nord	TÜV-SÜD
Average score	0.43	0.64	0.54	0.66	0.65
Suspension of accreditation		x			
RATING	F	F	E	D	D

The relatively higher ranking of the TÜVs can mainly be attributed to their higher registration success. Both DOEs have a relatively low share of projects being rejected (2% for TÜV-Nord and 3% for TÜV-Süd) compared to other DOEs (11% for SGS and 12% for BVC). For all DOEs, the share of projects that are automatically registered is below 50%; however, BVC has a significantly lower rate (24%) of automatically registered projects compared to other DOEs (35%-46%). BVC also has a high share of projects for which a review was requested and for which corrections were required. The detailed results of the evaluation are shown in Figure 2 below.

Figure 2: EB decisions on requests for registration per DOE



Annex

Decision route		BVC	DNV	SGS	TÜV-Nord	TÜV-SÜD
A	Automatic registration	10	169	50	17	92
B	Registration following a request for review and immediate corrections	5	43	12	6	34
C	Registration following a request for review and consideration of the project by the Board	0	3	1	1	4
D	Registration following a request for review and a corrective action request	10	91	19	16	69
E	Registration following a request for review, a corrective action request and a review	0	0	0	0	0
F	Rejection following a request for review, a corrective action request and a review	0	0	1	0	0
G	Registration following a request for review, a corrective action request, a review and a second corrective action request	0	2	2	0	0
H	Rejection following a request for review, a corrective action request, a review and a second corrective action request	0	0	0	0	0
I	Registration following a request for review and a review	1	2	1	0	1
J	Rejection following a request for review and a review	4	17	10	1	6
K	Registration following a request for review, a review and a corrective action request	11	36	16	8	41
L	Rejection following a request for review, a review and a corrective action request	1	8	2	0	2
TOTAL		42	371	114	49	249