

2010 Rating of Designated Operational Entities (DOEs) accredited under the Clean Development Mechanism (CDM)

Report for WWF

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Executive Summary

Designated Operational Entities (DOEs) are accredited independent entities responsible for ensuring that proposed projects under the Clean Development Mechanism (CDM) meet all requirements established by the CDM Executive Board operating under the Kyoto Protocol. In May 2009, Öko-Institut and WWF published a first rating of DOEs. The rating aims to provide transparent information to the market with regards to how well DOEs are fulfilling the requirements and expectations of the CDM Executive Board. This report updates the rating and in addition evaluates the current validation and verification process and provides recommendations for improvements.

The rating is based on a statistical evaluation of decisions by the CDM Executive Board on projects that were validated positively by a DOE. The CDM Executive Board may automatically register a project if it concurs with the positive validation opinion of the DOE or may require corrections or reject a project if the validation is not deemed appropriate. The percentage of projects registered, rejected, reviewed or for which corrections are requested is used to assess the performance of DOEs. The rationale for such a statistical approach is that the registration success expresses on average, over many projects, the extent to which the DOEs are meeting the expectations of the Board. 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. The rating focuses on the fulfilment of requirements and expectations of the Board; other aspects of the performance of DOEs, such as the costs and timing of their services, are not subject to the rating.

To rate DOEs, we use a scale from A to F where A indicates a very good performance and F indicates a very poor performance. The results of both the 2010 and the 2009 rating are illustrated in Table 1. Generally, the rating for all DOEs continues to be relatively low due to the high number of projects being rejected, reviewed or requested to take corrective action. As in the May 2009 rating, TÜV-Nord has the best performance with a D rating and BVC has the poorest performance with an F rating. All other DOEs are in the middle ground and have an E+ rating. The score of TÜV-Süd and DNV decreased compared to the previous rating, whereas the score of SGS increased. Note that DNV was given an F grade in the previous rating due to its temporary suspension of accreditation. In this rating, we do not give an automatic F grade for DOEs which faced suspension but highlight separately in the table which DOEs were temporarily suspended in the past two years.

Table 1: Rating results

DOE	BVC	DNV	SGS	TÜV-Nord	TÜV-SÜD
2010 RATING					
Average score	0.44	0.58	0.58	0.66	0.61
Rating	F	E+	E+	D	E+
2009 RATING					
Average score	0.43	0.64	0.54	0.66	0.65
Rating	F	F	E	D	D
Suspension of accreditation		x	x		x

Overall, the share of projects that are automatically registered decreased even further from 41% in the 2009 rating to 36% in the 2010 rating. The share of projects which require corrections before registration increased from 51% to 57% and the share of rejections increased slightly from 6% to 7%. There are several possible explanations for this. The CDM Executive Board may have increased its scrutiny in the assessment of projects over time. Also, the adoption of the validation and verification manual (VVM) and other new guidance, such as the additional guidance on application of the investment analysis, may have resulted in a lower number of projects automatically registered. In some cases, new guidance by the CDM Executive Board was only released after issues were identified at registration stage. The DOEs may also face difficulties with ensuring a high quality given that the demand for validation and verification services is still growing.

The updated rating shows that there is still a large discrepancy between the expectations of the CDM Executive Board and the way DOEs perform validation and verification functions. This situation has not improved since the last rating published in May 2009. The recent suspension of two more DOEs suggests that the problems observed in the past continue to exist.

The evaluation of the current validation and verification process revealed a number of problems that cause this situation. Among the reasons for projects being rejected or being reviewed, the failure to demonstrate the **additionality** of a project is the main issue. The application of the investment analysis appears to be particularly problematic. Manipulation of data appears a difficult issue in the validation process. Moreover, the level of feed-in tariffs for renewable power projects appears controversial, as some tariffs have been lowered. This raised the question as to whether national or local subsidies for wind power were lowered as a result of the CDM and are to be partially replaced by CER revenues and more generally how national and sectoral policies should be considered in the assessment of additionality. This suggests that the current guidance by the CDM Executive Board should be reviewed. Instead of assessing when policies were introduced and how investments would be made in the absence of the policies, it may be more transparent and objective to focus on the market maturity or diffusion of the technologies used.

An evaluation of the reasons for temporary suspensions of the accreditation of DOEs chiefly reveals the recurrence of three issues:

- Lack of **competence of the personnel** in validation and verification teams;
- Lack of evidence that the DOE actually undertook an **independent technical review** of the case; and
- The DOEs did not follow **internal review or audit procedures** to ensure sufficient quality.

As a result of the problems with the performance of DOEs, the COP/MOP requested that both the DOEs and the CDM Executive Board take specific actions to address the current deficits, including the development of the VVM, the CDM accreditation standard and a policy framework to address non-compliance by DOEs. The policy framework includes a system to monitor the performance of DOEs in a systematic manner and to adopt actions or sanctions in the case of a poor performance. The performance of DOEs is monitored in a similar way to our DOE rating based on indicators which assess issues arising from the registration and issuance process.

Despite these initiatives, there are still considerable problems with the validation and verification process, as shown by the recent suspension of two DOEs and the continuously large number of projects that are validated positively but nevertheless require corrective actions before registration or are rejected by the CDM Executive Board. We recommend the following measures to improve the situation:

- Insufficiently trained and qualified DOE personnel appears to be a major issue. To strengthen the capacity of DOEs, the UNFCCC secretariat or a third party institution could develop online **training courses** for validation and verification and conduct exams, the participants of which then qualify for working at a DOE. In addition, the CDM Executive Board could work together with DOEs to define technical areas or review the current sectoral scopes in order to ensure that the necessary qualifications are available in the validation and verification teams.
- The evaluation of rejected projects and requests for reviews also shows that in some areas the CDM rules are not available, unclear or ambiguous and are thus subject to interpretation. This has led to different interpretations between the CDM Executive Board and DOEs about what the actual requirements are and how they should be validated. This particularly holds for the demonstration of additionality. This suggests that the tools used to demonstrate additionality do not provide sufficiently clear and objective criteria and guidance. To improve the situation the guidance should become more specific or **more objective criteria should be used to demonstrate additionality**. Examples for more objective criteria are quantitative thresholds for common practice or the use of emission benchmarks for demonstrating additionality, as recently implemented in the approved methodology AM0070 for manufacturing refrigerators. The current guidance on the consideration of national and sectoral policies is another area which has led to the rejection of several projects and where additional and clearer guidance is required from the CDM Executive Board.

- Generally, the **transparency** with regard to the performance of DOEs and the actual issues arising from the registration and issuance is relatively low. Increased transparency could improve the registration and issuance process and help enhance the performance of DOEs. This could be achieved by publishing meeting reports of the accreditation team, results from spot checks and the exact issues which triggered a request for review.
- The **policy framework to address non-compliance** is an important step in the right direction. Assessing the performance of DOEs and applying sanctions in a more systematic manner could result in an effective system to provide incentives for DOEs to ensure a high performance level. However, the policy framework is still at an initial stage and several aspects still need to be implemented. In addition, the framework could be improved in different ways:
 - The current framework provides for two quantitative indicators to assess the performance of DOEs, similar to our rating. The thresholds for the two indicators which trigger actions provide for a very high tolerance level for non-compliance. This appears in contradiction to the long-term policy of the zero tolerance announced by the CDM Executive Board. With the current thresholds, a DOE could wrongly validate additionality in 60 percent of the submitted projects before a spot check would be triggered. The thresholds should therefore be lowered significantly.
 - The performance assessment of DOEs should be made publicly available as requested by the COP/MOP.
 - The framework is still quite vague with regard to the sanctions and corrective actions that are triggered if the performance indicators of a DOE reach a certain level. A much broader set of actions should be applied, including financial sanctions, mandatory trainings in areas which appeared problematic, mandatory audits guided by members of the accreditation team, the suspension in single sectoral scopes or the replacement of CERs. The objectivity, transparency and predictability of the decision-making of the Board would be improved if such sanctions would be triggered automatically once a certain threshold of an indicator is reached.
 - The documentation of the policy framework should be improved. All relevant information should be described in one single document and be internally consistent.

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1 Introduction

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**).

In May 2009, WWF has for the first time published a rating of DOEs.¹ One year later, this report provides an update of this rating. Moreover, the report takes stock of the validation and verification process under the CDM and provides recommendations on how the current process can be improved.

The objective of the rating is to assess the extent to which 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 fulfilled in the past more frequently the expectations of the Board than a DOE with a lower rating.

The results of the rating target different stakeholders. 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. Until May 2010, the CDM Executive Board has temporarily suspended the accreditation of four DOEs due to serious non-conformities with CDM requirements. In one case, the DOE gave a positive validation opinion although it had doubts about the additionality of the projects. Another problem is that many projects that are positively validated are either rejected by the CDM EB or require corrections before approval. In this regard, 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. Moreover, the rating may help project participants in selecting a DOE. A DOE with a high rating had a better performance of getting a project approved by the CDM EB than a DOE with a lower rating.

The methodology used to rate DOEs is largely the same one used for the May 2009 rating. Chapter 2 provides a summary of the methodology. The methodology is described in detail in Annex 1. Chapter 3 presents the results of the rating. Finally, chapter 4 takes stock of the current validation and verification process and provides recommendations for improvement.

¹ Öko-Institut (2009): A rating of Designated Operational Entities (DOEs) Accredited under the Clean Development Mechanism (CDM). <http://oeko.de/oekodoc/902/2009-020-en.pdf>

2 Summary of the methodology used to rate 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 cannot 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 cannot be verified. If the emission reductions are confirmed, a request for issuance of Certified Emission Reductions (CERs) is sent to the CDM EB.

The rating is based on a statistical evaluation of decisions by the Board on projects which were positively validated by a DOE and submitted by the DOE to the Board seeking their registration. The percentage of projects registered, rejected, reviewed or for which corrections are requested by the Board despite the positive validation by the DOE is used to assess the performance of DOEs. The rationale for such a statistical approach is that the registration success expresses on average, over many projects, the extent to which the DOEs are meeting the expectations of the Board. 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. The rating does not consider the verification process, mainly because in these cases it is often difficult to assess whether a problem in the former validation or the actual verification triggers a review. A detailed description of the rating methodology and its limitations is provided in Annex 1.

This updated rating is based on projects that requested registration between 1 April 2008 and 31 March 2010 and that reached a final decision status of registration or rejection within this period. This covers 915 projects that were submitted by 19 DOEs. However, only DOEs were included in the rating for which at least 40 projects have been completely processed within this period. This included the following five DOEs: BVC, DNV, SGS, TÜV-Nord and TÜV-Süd.

Each request for registration is assigned a score on a scale from -1.0 to +1.0. A score of 1.0 is used for projects that are automatically registered and a score of -1.0 is used for projects that were rejected. Projects for CDM Executive Board requested or review receive scores between 0 and -1.0, depending on whether a full review of the project was undertaken and whether minor or major corrections were required (see Annex 1 for more details). The average score of all requests for registration is then used to rate each DOE. For this purpose, we use a scale from A to F where A indicates a very good performance and F indicates a very poor performance. The following table provides an example of the level of registration performance that would qualify the DOE for a certain 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 both the 2010 and the 2009 rating are illustrated in Table 3. Generally, the rating for all DOEs continues to be relatively low due to the high number of projects being rejected, reviewed or requested for corrective action by the Board. As in the May 2009 rating, TÜV-Nord has the best performance with a D rating by achieving 0.66 points and BVC has the poorest performance with a score of only 0.44 points and an F rating. All other DOEs are in the middle ground and have an E+ rating. The score of TÜV-Süd and DNV decreased compared to the previous rating, whereas the score of SGS increased. Note that DNV was given an F grade in the previous rating due to its temporary suspension of accreditation. In this rating, we do not give an automatic F grade for DOEs which faced suspension but highlight separately in Table 3 which DOEs were temporarily suspended in the past two years.

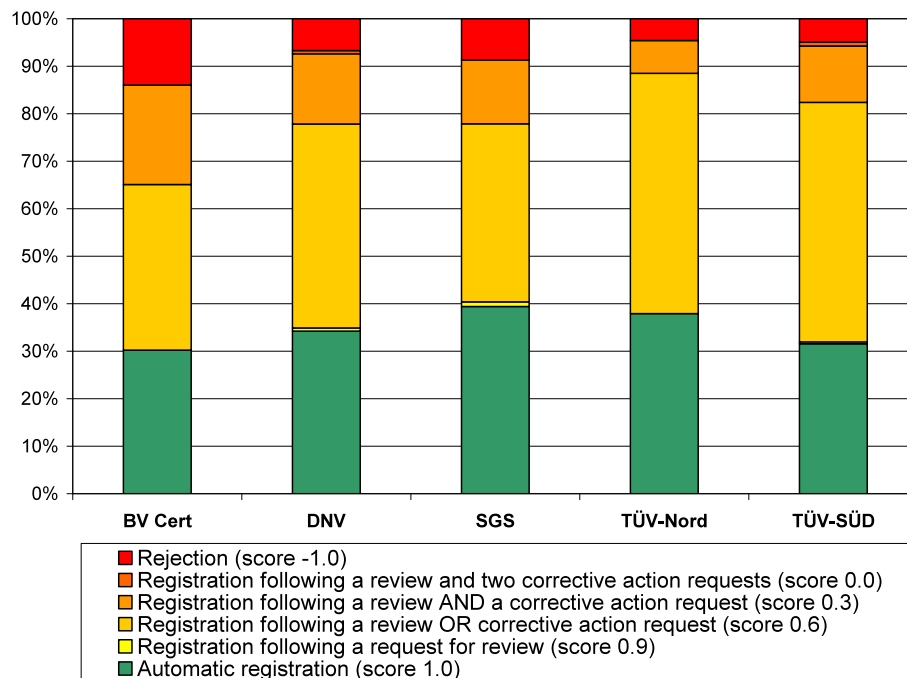
Table 3: Rating results

DOE	BVC	DNV	SGS	TÜV-Nord	TÜV-SÜD
2010 RATING					
Average score	0.44	0.58	0.58	0.66	0.61
Rating	F	E+	E+	D	E+
2009 RATING					
Average score	0.43	0.64	0.54	0.66	0.65
Rating	F	F	E	D	D
Suspension of accreditation		x	x		x

The detailed results of the evaluation are shown in Figure 1 and Annex 2. The relatively higher ranking of TÜV-Nord can mainly be attributed to its higher registration success as it has a relatively low share of projects being rejected (5%). Other DOEs also have low rejection rates (5% for TÜV-Süd and 7% for DNV), but show less automatic registrations or more reviews with corrective action request. For all DOEs, the share of projects that are automatically registered is below 40%; hereby, the span ranges from 30% (BVC) to 39% (SGS).

Overall, the share of projects that are automatically registered decreased even further from 41% in the 2009 rating to 36% in the 2010 rating. The share of projects which require corrections before registration increased from 51% to 57% and the share of rejections increased slightly from 6% to 7% respectively. There are several possible explanations for this. The CDM Executive Board may have increased its scrutiny of the assessment of projects over time. Also, the adoption of the VVM and other new guidance, such as the additional guidance on application of the investment analysis, may have resulted in a lower number of projects being automatically registered. In some cases, new guidance by the CDM Executive Board was only released after issues were identified at registration stage. The DOEs may also face difficulties with ensuring a high quality given that demand for validation and verification services is still growing.

Figure 1: EB decisions on requests for registration per DOE



The updated rating shows that there is still a large discrepancy between the expectations of the CDM Executive Board and the way DOEs perform validation and verification functions. This situation has not improved since the last rating published in May 2009. The recent suspension of two more DOEs support that the problems observed in the past continue to exist. The differences between the DOEs are not very large which suggests that the problems are more overarching. For this reason, the next chapter analyses the reasons for the current deficits in more detail and provides recommendations on how the situation can be improved.

4 Lessons learned from the validation and verification process and ways forward

Third party validation and verification by Designated Operation Entities (DOEs) was regarded by Parties to the Kyoto Protocol as a key element to safeguard the environmental integrity of the CDM. However, the evidence accumulated over the past years shows that third party validation and verification is not working in the way it should. The rating of DOEs shows that about 50% of the projects which are validated positively by DOEs require corrections before they can be registered or are rejected by the CDM Executive Board. The CDM Executive Board temporarily suspended the accreditation of four DOEs, including the three largest market players DNV, SGS and TÜV-Süd. Several spot checks at DOEs undertaken by the CDM Executive Board revealed serious shortcomings. In some cases, basic CDM requirements were not assessed appropriately by the DOEs. In 2007, a report by Öko-Institut prepared for WWF showed that a number of validation reports did not contain any information on whether and how issues have been examined by the DOE.²

This section assesses the reasons for these deficits and evaluates the measures that have been taken by the CDM Executive Board so far to improve the situation. Based on this evaluation recommendations are made with regard to how the current measures could be improved and made more effective and what additional measures could be taken. The assessment starts with an evaluation of the reasons provided by the CDM Executive Board for requests for reviews and the rejection of projects that were positively validated (section 4.1). This is followed by an assessment of the reasons for the suspension of the accreditation of DOEs (section 4.2). Section 4.3 evaluates the actions taken by the CDM Executive Board to improve the performance of DOEs, with a focus on the recently adopted policy framework to address non-compliance by DOEs. Finally conclusions are drawn and recommendations for further actions are provided (section 4.4).

4.1 Evaluation of the reasons for rejection or correction of positively validated projects

The DOE rating illustrates that a significant number of projects that were positively validated by a DOE were subsequently rejected by the Board. Among the projects considered in this updated rating, 7% of the positively validated projects were rejected and 58% of the projects required corrective actions before they could be registered.

This section provides an overview of the main reasons for requests for review, corrective action requests and rejections of projects by the Board. This analysis aims to provide a better understanding of what the difficult areas in the validation process are. It is based on different sources, including (a) an assessment of requests by the UNFCCC secretariat on the reasons for requests for reviews, (b) an evaluation of the reasons

² Schneider (2007): Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement.

outlined in EB meeting reports for rejecting projects and seeking corrective actions³, and (c) interviews with relevant stakeholders, including the UNFCCC secretariat, members of the CDM Executive Board and DOEs. In the following, the key results from this evaluation are summarised.

The failure to demonstrate the **additionality** of a project is the main reason for requests for reviews and the rejection of CDM projects. In about 80% of the projects that were rejected by the CDM Executive Board the failure to demonstrate additionality was provided as reason for the rejection. Similarly, the UNFCCC secretariat identified that in 92% of the requests for review that were made due to major issues additionality requirements were a primary justification for requesting a review. The application of the investment analysis appears to be particularly problematic. For about 60% of the rejected projects, key parameters in the investment analysis were not regarded as sufficiently substantiated. In many cases, assumptions were made that make the project activity economically less attractive but that could not be justified as credible. For example, a number of hydro power projects in China assumed for the investment analysis that the amount of electricity fed into the grid is 20-25% lower than the electricity generated by the plant. In other cases, the determination of other key parameters, such as the weighted average cost of capital (WACC) or prices of products or inputs, were not regarded as appropriately justified. Interviews with relevant stakeholders confirm that the manipulation of investment analyses is a key challenge. Other areas that led to reviews are the application of the sensitivity analysis and the calculation of a suitable financial benchmark.

Another important controversial issue is the level of **feed-in tariffs** used in the investment analysis in the case of some wind power projects in China. In these cases, the CDM Executive Board questioned whether feed-in tariffs were lowered compared to earlier announcements or are lower compared to similar projects that were implemented before without the CDM. This raised the question as to whether national or local subsidies for wind power were lowered as a result of the CDM and are to be partially replaced by CER revenues. In this case, it is likely that the projects would have been implemented anyhow, although they could demonstrate that they are not economically attractive with the lowered feed-in tariffs. The CDM Executive Board requested the project participants to demonstrate that the lower feed-in tariffs “have not resulted in a reduction of the incentive for investment in the wind power, i.e. it should be confirmed that the return on investment has not been substantially lowered as a result of the reduction in the tariff”. Several project proponents failed to provide such evidence which resulted in the rejection of 14 projects for this reason.

These cases raised uncertainty in the market as to how changes in incentives for low GHG technologies will be treated in the future and triggered a more general debate on how policies should be considered in the assessment of additionality. In 2005, the CDM Executive Board released the following guidance on the consideration of policies which were classified as “E-“ and “E+”:

³ Annex 5 to the annotated agenda of EB50: <https://cdm.unfccc.int/EB/050/eb50annagan5.pdf>

- “E- policies” are national and/or sectoral policies or regulations which give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies (e.g. public subsidies to promote the diffusion of renewable energy or to finance energy efficiency programs). If introduced after 2001, such policies can be ignored when determining the baseline scenario and demonstrating additionality. This guidance aims to prevent perverse incentives for the host country authorities not to introduce policies to promote low GHG technologies as such policies may otherwise lower the potential for CDM projects.
- “E+ policies” are national and/or sectoral policies or regulations which give comparative advantages to more emission-intensive technologies or fuels over less emission-intensive technologies or fuels. If introduced after 1997, they should not be considered in determining the baseline scenario and demonstrating additionality. This guidance aims to prevent perverse incentives for the host country authorities to introduce such policies in order to increase the potential for CDM projects.

In the context of the wind power plants above, it can be argued that lowering feed-in tariffs may constitute an E+ policy and the original tariffs instead of the lowered tariffs should be considered in an investment analysis. While this approach could avoid perverse incentives to lower feed-in tariffs as a result of the CDM, it may be difficult to apply in practice as it requires exact determination of the subsidy component in a feed-in tariff. In the absence of a transparent and objective procedure to determine the subsidy component, this could result in difficult disputes between the project developers and the DOEs about the appropriateness of the considered feed-in tariffs.

The guidance by the Board on the consideration of policies causes also other environmental and practical problems. While this guidance addresses potential perverse incentives for host country governments, it resulted in a situation where a potentially large number of projects are registered although it is likely that they would be implemented anyhow due to the favourable policy framework in place in the host country. In other words: while this guidance avoids perverse incentives in the policy making of developing countries, it poses the environmental risk that many free-riders are registered under the CDM. This dilemma appears difficult or impossible to solve.

Another practical problem is that it can be methodologically very difficult to determine a baseline scenario for the hypothetical situation that all E- policies adopted by the host country since 1997 would not have been implemented. In some cases, such scenarios would require modelling technology learning and diffusion with and without a certain policy, making the baseline very hypothetical and uncertain. In practice, most methodologies do not consider the EB guidance but determine the baseline scenario based on a real observed historical situation, such as the actual emissions observed during the three most recent years, and not a hypothetical historical emission level that would have occurred in the absence of policies introduced since 1997.

Altogether, this suggests that the current guidance by the CDM Executive Board should be reviewed. The rejection of the 14 wind power projects triggered criticism from several project participants who argued that market security was at risk. As a response, the CDM Executive Board is discussing the current guidance on the consideration of E+/E- policies and may revise the current approach. When revisiting the current guidance, an objective and more practical approach could be to focus on the market maturity or diffusion of the technologies used in the particular host country or region instead of assessing the hypothetical question as to whether and how investments would have been made in the absence of certain policies. In this way, the CDM may facilitate the initial diffusion of innovative technologies but would cease once the technology appears more mature.

Other areas that frequently trigger reviews, corrective actions or the rejection of projects are the identification of the baseline scenario and the demonstration that the CDM was seriously considered when proceeding with an investment. With regard to the latter, the CDM Executive Board adopted guidance to clarify how it should be proven that the CDM was seriously considered in the decision to proceed with a project activity.⁴

A number of reviews also occurred because new guidance by the CDM Executive Board was just emerging when the request for registration was submitted by the DOE. Given that new guidance is released at nearly each EB meeting and that many projects require considerable time from project development until registration, it can be difficult for DOEs to keep up to date with changes in EB guidance. One DOE therefore proposed that new guidance becomes applicable only after a grace period, similar to the case for revisions of methodologies where the previous version of the methodology can usually continued to be applied for a period of eight months. Another deficit raised by DOEs in interviews is the lack of more direct communication with the UNFCCC secretariat. DOEs also claimed that the UNFCCC secretariat and the CDM Executive Board do not always treat issues in a consistent manner; for example, an issue may be raised in one request for registration but not in another request for another project activity.

4.2 Spot checks and suspensions of accreditation

The CDM Executive Board has so far conducted 11 spot checks at DOEs according to its meeting reports. So far the Board decided on a case by case basis to conduct spot checks if one or several major issues were observed during a review of a request for registration or issuance. Once the policy framework to address non-compliance is fully operational, spot checks will also be triggered more systematically based on monitored performance indicators of the DOE (see section 4.3). During a spot check, the CDM accreditation panel assesses the work of the DOE. If non-conformities are observed, the panel reports on these and requests that the DOE takes corrective actions. Following a spot check, the CDM Executive Board may also decide to suspend the accreditation of the DOE. While initially the names of the DOEs undergoing a spot check were

⁴ See Annex 22 to the EB49 meeting report:
http://cdm.unfccc.int/Reference/Guidclarif/reg/reg_guid04.pdf

not published, the Board started to publish the names in November 2008. Since then, spot checks were conducted at DNV, JCI, KEMCO, SGS, TÜV-Nord and TÜV-Süd (see Table 4). Reports on the reasons for and outcome of the spot checks are not publicly available and can thus not serve as a basis for evaluating the deficits observed by the accreditation team.

Table 4: Spot checks and suspensions since November 2008

Sanction/DOE	DNV	JCI	KEMCO	SGS	TÜV-Nord	TÜV-Süd
Spot-check	yes	yes	yes	yes	yes	yes
scopes	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
start date	n.s.	n.s.	n.s.	17.07.2009	04.12.2009	04.12.2009
end date	12.02.2010	13.02.2009	ongoing	28.05.2010	26.03.2010	ongoing
Suspension	yes	no	yes	yes	no	yes
scopes	all	-	2, 4, 6-15	all	-	all
start date	28.11.2008	-	26.03.2010	11.09.2009	-	26.03.2010
end date	13.02.2010	-	ongoing	04.12.2009	-	ongoing

However, the suspension of the accreditation of a DOE was accompanied by an explanation of the CDM Executive Board for the reasons for suspension. An evaluation of the four suspensions chiefly reveals the recurrence of three issues:

- **Competence of the personnel in validation and verification teams.** The competence of the personnel involved in a registration or issuance case is an issue that recurs in all four suspensions of a DOE. This includes situations where the DOE did not involve personnel that is sufficiently qualified and did not meet the requirements in the accreditation standard or the modalities and procedures for the CDM; that the competences and specific technical areas required for a case were not assessed; the competence of the staff for defined areas was not appropriately evaluated or documented; or internal procedures to appraise the performance of assessors were not effectively applied.
- **Evidence that an independent technical review was undertaken.** In some cases the DOE could not provide evidence that it had actually undertaken an independent technical review of the case. In one case, the accreditation team concluded that the DOE had given a positive validation opinion for some projects even though the DOE had concerns about additionality and the Board raised doubts about the ability of the DOE to deliver a sound opinion that was not influenced by undue pressure.
- **Problems with internal review or audit procedures.** In several suspension cases the Board identified that the DOEs did not follow internal review or audit procedures. This includes the identification that internal reviewers did not capture issues that were lacking or inconsistencies when reviewing draft reports; that the DOE could not provide evidence that a technical review had been undertaken or that the frequency of such reviews was not defined; that the internal audit plan by the DOE was not followed; that identified shortcomings

were not sufficiently documented; that no or not sufficient corrective actions were undertaken to address the identified shortcomings; or that procedures to follow up on identified issues were not in place or were not appropriate.

4.3 The CDM Executive Board's policy towards DOEs

As a result of the problems with the performance of DOEs, the COP/MOP requested both the DOEs and the CDM Executive Board to take specific actions to address the current deficits. In consequence, the CDM Executive Board has planned or implemented different measures over the past years, including the following:

- **Validation and Verification Manual (VVM).** Following a request by the COP/MOP in December 2006, the Board started the development of a validation and verification manual which was adopted two years later in November 2008. The VVM specifies how the validation and verification function should be carried out by DOEs.
- **CDM Accreditation Standard.** The CDM accreditation standard was adopted in July 2009. It compiles all CDM accreditation requirements in one single document and aims to promote common understanding and consistent implementation of the CDM accreditation requirements.
- **Policy framework to address non-compliance in a systematic manner.** In July 2007, the CDM Executive Board decided to develop a policy framework to address non-compliance of DOEs in a systematic manner. Following a request from the COP/MOP in December 2008 to finalise the framework, the Board adopted an initial concept for such a framework in September 2009⁵ and an implementation plan in December 2009. The framework includes a system to continuously monitor the performance of DOEs with the help of indicators, similar to this rating. However, even three years after the decision to develop this framework it is not yet fully operational.

This section takes stock of the current policy of the CDM Executive Board towards DOEs with a focus on the policy framework to address non-compliance. The policy framework to address non-compliance of DOEs is planned to consist of several elements: firstly, a system to monitor the performance of DOEs in a systematic manner will be established. For this purpose, issues arising from each request for registration and request for issuance are systematically identified, classified and collected in a database. The performance level of each DOE is then determined with the help of quantitative indicators and the DOE is graded according to the monitored indicators. A second element is a catalogue of actions or sanctions which are triggered if the DOEs drop into a poorer grade, such as spot checks at the DOE. And thirdly, the systematic identification and classification of issues allows the EB to evaluate trends, undertake a root-cause analysis of issues common to multiple DOEs or to implement specific measures, such as improving relevant guidance or addressing particular issues in workshops or trainings.

⁵ Annex 3 to the EB49 meeting report: http://cdm.unfccc.int/EB/049/eb49_repan03.pdf

Although work began in mid 2007, the proposed framework has not yet been fully designed and is in an early implementation stage. Currently, the first indicators are calculated based on data from 1 January 2010 onwards. However, the indicators or grading for DOEs have so far not been made available to the public. Similarly, the sanctions which are supposed to apply when reaching a certain grade are not yet clear and operational. The description of the framework is also still scattered across various documents which partially provide contradicting and inconsistent information.⁶

A key element of the framework is a statistical evaluation of the performance of DOEs. Similar to the rating developed in this report, the CDM Executive Board uses indicators to assess the performance in the registration and issuance process. While our rating is limited to publicly available information, the CDM Executive Board has additional information on the severity of the issues observed during the review of requests or during the completeness checks undertaken by the UNFCCC secretariat. The CDM Executive Board evaluates both the registration and the issuance process whereas our rating is limited to the registration process. The framework currently provides for two indicators:

- The first indicator (I_1) addresses the completeness of the documentation submitted by the DOE to the UNFCCC secretariat. The indicator expresses the share of projects that were submitted for registration to the UNFCCC secretariat but for which the secretariat deemed that the documentation is incomplete. The indicator is calculated as the number of projects rejected by the UNFCCC secretariat during the completeness check divided by the number of requests submitted by the DOE.
- The second indicator (I_2) addresses the severity of the issues that appear in requests for review. Towards this end, the UNFCCC secretariat documents for each request for review the issues that were identified. Each issue is then weighted for its severity in a scale from 1 to 5 according to the classification illustrated in Table 4 and Table 5. The indicator I_2 measures for each DOE the average weighted number of issues identified in requests submitted by the DOE. It is calculated as the sum of all identified issues, each weighted with the scaling factors in the tables, divided by the total number of requests that were processed.

⁶ Several differences and inconsistencies can be observed between the policy framework adopted at EB49 and the implementation plan adopted at EB51, including the following:

- The categorisation of non-compliances differs between the two documents (paragraph 19 in the policy framework and paragraph 9 in the implementation plan). For example, the policy framework lists “identified conflicts of interests” and “fraud and malfeasance” as categories, whereas these do not appear at all in the implementation plan. Vice versa, the implementation plan mentions “technical correctness and accuracy issues” which do not appear in the policy framework.
- The policy framework introduces three grades of non-compliance (A, B and C). In contrast, the implementation plan introduces weighting factors based on the severity of the issue. The weighting factors adopted at EB52 consider five levels (1 to 5) and seem thus not consistent with the initial categorisation of issues in three levels (A, B and C).
- Information on potential sanctions or actions triggered by the performance assessment also varies. The policy framework mentions specifically five type of actions (paragraph 22), whereas the implementation plan only mentions three of them.

Table 4: Categorisation and weighting of issues identified at requests for registration

		Weight
I	Issues related to reporting	
1	This category includes errors covering: <ul style="list-style-type: none"> - Inconsistencies in the information presented in the documents pre-sented/information supplied; - Incomplete information/missing data; - DOE has not fully reported how the compliance to the requirements are being met; - Not the latest PDD template is used 	1
II	Issues related to failure to follow procedural requirements	
1	Failure to submit the corrections on time	2
2	CAR/CLs in validation reports which are not closed out correctly: <ul style="list-style-type: none"> - Where the CAR resolution indicates that the PDD has been updated but it has not; - Where a CAR is marked as closed without explanation 	2
3	Failure to carry out the global public stakeholder consultation in line with the CDM requirements	3
4	Failure to visit project site or provide justification	4
5	Failure to request a deviation when non-compliance of the project activity with the requirements of the methodology has been identified	4
III	Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements	
1	This sub-category includes cases for which the DOE has not precisely validated the project in accordance with the requirements of the VVM, however the failure is not likely to alter the validation opinion <ul style="list-style-type: none"> - Failure to ensure precise project start date where the change in the date does not impact additionality - Failure to fully validate all minor input values in an investment analysis - Failure to ensure that the common practice analysis has been conducted fully in accordance with the requirements - Failure to ensure that LoA refers to the precise title of the propose project activity - Failure to assess compliance with environmental impacts and/or local stakeholder consultation 	3
2	This sub-category includes cases for which the DOE has failed to ensure compliance with a requirement which may ultimately be resolved during verification/issuance: <ul style="list-style-type: none"> - The monitoring plan is incomplete; - The validation report or PDD contain conflicting information regarding the baseline which may lead to a request for review at issuance 	4
3	This sub-category includes cases for which the DOEs failure to ensure compliance with CDM requirements is likely to have an impact of the projects, or similar future projects, eligibility to receive the estimated quantity of CERs: <ul style="list-style-type: none"> - Errors in validation of additionality that would lead to the failure to identify non-additional projects - Failure to apply or the misapplication of the requirements of the methodology that would lead to a non-applicable methodology being applied or the baseline being incorrectly established 	5
IV	Other issues, to analysis system-wide gaps and improve classification	
1	Absence of requirement / guidance by the Board	0
2	Ambiguity of the interpretation of requirements of methodology / guidance	0

Table 5: Categorisation and weighting of issues identified at requests for issuance

		Weight
I	Issues related to reporting	
1	This category includes errors covering: <ul style="list-style-type: none"> - Inconsistencies in the information presented in the documents presented/information supplied; - Incomplete information/missing data; - DOE has not fully reported how the compliance to the requirements are being met; 	1
II	Issues related to failure to follow procedural requirements	
1	Failure to submit the corrections on time	2
2	This sub category covers: <ul style="list-style-type: none"> - CAR/CLs in verification reports are not appropriately closed out; - Failure to follow up FAR from previous verification. 	2
3	This sub category covers failure to conduct site visit as per requirements of verification process; or provide justification	4
4	This sub category covers the failure to request and select, as appropriate: <ul style="list-style-type: none"> - Deviation; - Revision Mon Plan; - Changes from PDD. 	4
III	Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements	
1	This sub category covers basic verification to ensure to ensure the quality of required data measured and reported : <ul style="list-style-type: none"> - Failure to verify equipments / system / protocols / procedures; - Failure to cross check reported data / No clear audit trail (data generating, aggregating, reporting); - Failure to identify calculation errors in the supporting documents/spreadsheets due to omissions or data transpose 	3
2	This sub category covers failure to apply conservativeness approach when required	4
3	This sub category covers failures to correctly apply methodology requirements which may lead to incorrect CERs: <ul style="list-style-type: none"> - Failure to verify Installation of monitoring System not per methodology; - Parameters required by methodology not being monitored; - Incorrect application of meth formulae, factors, default values 	5
IV	Other issues, to analysis system-wide gaps and improve classification	
1	Absence of requirement / guidance by the Board	0
2	Ambiguity of Interpretation of requirements of methodology/guidance	0

The second indicator is similar to the approach used in our rating of DOEs. It aims to assess the extent to which the DOEs fulfil in practice the CDM requirements and expectations of the CDM Executive Board. However, it is able to better reflect the severity of the issues raised. While our rating only indirectly considers the severity through different weightings of the decision route a project is taking, the approach by the CDM Executive Board enables a detailed evaluation of each issue raised by the UNFCCC secretariat staff or CDM Executive Board members involved in the review cases.

The tables show that issues which have a potentially high impact on the environmental integrity of the CDM have a higher weight, such as a failure in the validation of additionality or issues which result in an incorrect baseline. The weighting factors thereby

consider the materiality of the issues. This approach appears appropriate to arrive at a meaningful and fair assessment of the performance of DOEs.

In order to grade the DOEs into different performance classes, the CDM Executive Board decided in March 2010 on two thresholds for both registration and issuance for the indicator I₂.⁷

- a) For requests for registration: 0.5 and 3.0;
- b) For requests for issuance: 0.5 and 1.5.

If a DOE reaches the first threshold, it will be notified and has to undertake a root-cause analysis as well as corrective actions. If a DOE reaches the second threshold, a proposal for a spot-check of the respective DOE will be sent to the EB. The current framework does not yet specify any other sanctions that could apply when reaching a certain threshold, such as suspensions from accreditation or financial sanctions, such as that the DOE has to bear the costs for the reviews.

At each CDM Executive Board meeting, the UNFCCC secretariat updates the indicators and informs the Board and the DOEs on the results. It is not yet clear when the relevant statistics and underlying data will be made available to the public and when the announced catalogue of sanctions and actions will be put in place.

4.4 Conclusions and recommendations

The varied performance of DOEs has been an issue for several years. Despite several requests by the COP/MOP and a number of actions taken by the CDM Executive Board, there are still considerable problems, as shown by the recent suspension of two DOEs and the continuously large number of projects that are validated positively but nevertheless require corrective actions before registration or are rejected by the CDM Executive Board. This demonstrates that additional measures are necessary to improve the current situation. According to our analysis, the continuing problems in the validation and verification process have several causes and may thus require several solutions.

The rationales provided by the CDM Executive Board for the suspension of DOEs suggest that **insufficiently trained and qualified DOE personnel** is a major issue. The need for more capacity building is broadly recognised. With the large number of sectors in the CDM and the specific technical or economic knowledge that is required for some project types it may be difficult to find all required qualifications within a small team. Some DOEs argue that the qualification requirements for personnel are vague and not sufficiently clear. While it appears difficult to further specify the general requirements beyond what is described in the accreditation standard, it may be helpful to define technical areas that are more precise than the current system of sectoral scopes. Currently, many different project types may fall within one sectoral scope and may require

⁷ See EB53 meeting report (Version 01.1) para.12, p.3:
<http://cdm.unfccc.int/EB/053/eb53rep.pdf>

very different qualifications for the personnel of DOEs. For this reason, a DOE expert admitted to a certain sectoral scope does not necessarily have the necessary knowledge for all project types within that scope. A clear definition of technical areas or a review of the sectoral scopes could help to address this issue.

To strengthen the capacity of DOEs a similar approach as for the UNFCCC review of national greenhouse gas inventories could be taken. Reviewers of GHG inventories have to participate in online training courses and pass an exam before they are admitted as reviewers. Similarly, the UNFCCC secretariat or a third party institution could develop online training courses for validation and verification and conduct exams which then qualify for working at a DOE. Such courses would not substitute internal capacity building by the DOEs but would ensure a minimum knowledge of the CDM requirements. In addition, the CDM Executive Board could work together with DOEs to define technical areas that are more precise than the current sectoral scopes and that are linked to methodologies. The personnel of the DOEs may then be assigned based on the qualifications to specific technical areas. Similarly, training courses could include both general modules as well as specific modules for specific technical areas or methodologies.

The evaluation of rejected projects and requests for reviews also shows that in some areas the **CDM rules are not available, unclear or ambiguous** and thus subject to interpretation. This has led to different interpretations between the CDM Executive Board and DOEs about what the actual requirements are and how they should be validated. The failure to demonstrate the **additionality** of CDM projects is by far the most frequent reason for rejecting CDM projects and is also an issue in many requests for review. This suggests that the tools used to demonstrate additionality do not provide sufficiently clear and objective criteria and guidance. To improve the situation the guidance should become more specific or more objective criteria should be used to demonstrate additionality. For example, the “tool to determine the weighted average cost of capital” which is currently under development may provide more objective means to determine the financial benchmark. Examples for more objective criteria are quantitative thresholds for common practice or the use of emission benchmarks for demonstrating additionality, as recently implemented in the approved methodology AM0070 for manufacturing refrigerators and proposed for the cement sector in the new methodology NM0302. The current guidance on the consideration of E+ and E+ policies (see section 4.1) is another area which has led to the rejection of several projects and where additional and clearer guidance is required by the CDM Executive Board.

Generally, the **transparency** with regard to the performance of DOEs and the actual issues arising from the registration and issuance is relatively low. The methodology approval process is generally more transparent than the registration, issuance and accreditation processes. While meeting reports and case-specific recommendations by the Methodologies Panel, the Small-Scale Working Group (SSCWG) and the Afforestation and Reforestation Working Group (ARWG) are made publicly available, this information is kept confidential in the case of the accreditation team (AT), the registration and issuance team (RIT) and the recommendations by the UNFCCC secretariat. Simi-

larly, information on which DOEs undergo a spot check was kept confidential for several years and the Board started only in November 2008 to report the names of the DOEs. As all processes deal with specific cases where project developers and/or DOEs are involved, it is not clear why the CDM Executive Board follows a different approach with regard to transparency in the different processes.

Increased transparency could improve the registration and issuance process and help enhance the performance of DOEs for several reasons. Firstly, an enhanced transparency on the performance and status of DOEs provides additional incentives for DOEs to internally work on improving their performance. Project developers will likely have a preference for DOEs with a high performance which face a lower risk of being suspended. Secondly, increased transparency on the issues that trigger reviews or spot checks enables all stakeholders to better understand the rationales of the CDM Executive Board for seeking corrective actions or rejecting projects. And thirdly, it may also help achieve more consistency in the decision-making of the Board as any inconsistencies could be observed by the public and be highlighted to the Board.

We therefore recommend significant improvement of the transparency through the following measures:

- **Publication of meeting reports of the accreditation team.** In line with the practice in other working groups under the CDM Executive Board, the meeting report could be separated in an external and an internal meeting report.
- **Publication of the results from spot checks.** Reports of assessment teams with regard to issues found in spot checks should be made publicly available. This is in line with the approach for methodologies where recommendations by desk reviewers are also made publicly available.
- **Publication of the issues which trigger a request for review.** Based on the input from the registration and issuance team, the UNFCCC secretariat prepares a summary of potential issues identified with each request for registration and issuance. As this information forms the basis for the Board's decision-making, it is not clear why this information is not made publicly available. Similarly, the written exchange of information between project participants and the UNFCCC secretariat during a review is not made publicly available. The CDM Executive Board is currently considering an update of the procedures for review of requests for registration and requests for issuance. We recommend that the procedures ensure that all key information regarding the review process be made publicly available.

The **policy framework to address non-compliance** is an important step in the right direction. Assessing the performance of DOEs and applying sanctions in a more systematic manner could result in an effective system to provide incentives for DOEs to ensure a high performance level. A more systematic assessment also facilitate a more objective, transparent and consistent decision-making by the CDM Executive Board on sanctions or requests to DOEs for corrective actions – a need which is repeatedly mentioned in COP/MOP decisions. The approach to base the performance assessment on

an evaluation of the practical experiences with requests for registration and issuance appears practical and appropriate.

The policy framework is still at an initial stage and several issues still need to be implemented. In addition, the framework could be improved in different ways. We recommend the following changes and improvements:

- **Level of the thresholds.** The current thresholds for the two indicators I_1 and I_2 provide for a very high tolerance level for non-compliance. This appears to contradict the long-term policy of the zero tolerance announced by the CDM Executive Board. With the current thresholds, a DOE could, for example, make a fundamental mistake with regard to the evaluation of additionality in each 10th project and would nevertheless not even reach the first threshold which requires corrective actions to be taken. The second threshold, involving a spot check, would be triggered if additionality is wrongly validated in 60 percent of the submitted projects. These examples show that a significantly lower tolerance level should be implemented. Corrective actions and spot checks should be triggered at a much earlier stage.
- **Publication of the performance results and underlying data.** The COP/MOP requested the Board in December 2008 to “enhance the transparency of the performance of DOEs, including by regularly publishing statistics on their performance on the UNFCCC CDM website (...)”. Accordingly, the indicators and overall grades of each DOE should be made publicly available. In addition, we recommend that the issues identified in each request for registration or issuance be made publicly available as well. This would increase transparency and allow third parties to reproduce the results of the rating.
- **Sanctions and corrective actions.** The framework is still quite vague with regard to the sanctions and corrective actions that are triggered if the performance indicators of a DOE reach a certain level. A much broader set of actions could be applied, including financial sanctions, mandatory trainings in areas which appeared problematic, mandatory audits guided by members of the accreditation team, the suspension in single sectoral scopes or the replacement of CERs. Although explicitly foreseen in the modalities and procedures for the CDM, so far no DOE had to replace any CER despite severe non-conformities. Recently, the Board, however, started work on assessing how an obligation to replace CERs could be implemented.⁸ Next to the lack of systematic sanctions, the current practice of conducting spot checks on a case by case basis may not be very objective. It appears astonishing that the DOE with the worst performance with regard to requests for registration (BVC) and the worst rating has not faced any spot check in the past years. The objectivity, transparency and predictability of the decision-making of the Board would be improved if such sanctions would be triggered automatically once a certain threshold of an indicator is reached.

⁸ See EB54 meeting report, paragraph 17: <http://cdm.unfccc.int/EB/054/eb54rep.pdf>

- **Documentation of the policy framework.** The documentation of the policy framework should be improved. All relevant information should be described in one single document and be internally consistent.

Annex 1: Methodology of the rating

This Annex describes the methodology used for the rating. The methodology used in the first rating published in May 2009 has been retained; only few changes were implemented.

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 cannot 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 cannot be verified. If the emission reductions are confirmed, a request for issuance of Certified Emission Reductions (CERs) is sent to the CDM EB.

Due to the performance problems of DOEs in the past, the CDM Executive Board established a procedure in which all requests for registration or issuance undergo an additional screening by the UNFCCC secretariat. If nothing irregular is observed during this screening, the projects are automatically registered or Certified Emission Reductions (CERs) are automatically issued. Otherwise, a review of the projects is requested which may result in corrections required by the DOE and the project participants or a rejection of the project.

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 when developing the May 2009 rating. In total, the questionnaire was sent to 33 market participants and 10 responses were received. Based on the answers to the questionnaire, a methodology for

the first rating published in 2009 was developed. This second rating applies the same methodology, with few exceptions described below. The methodology used in future ratings should be amended to take into account the experience gained with these ratings and any additional information that becomes available.

As for the first rating, the basis for this second 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 time periods and over many projects express the extent to which the DOEs are meeting 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, it can be argued 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 in the development of the 2009 rating. 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.

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 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 cannot 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 on the DOE alone. 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 improves 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 have not been 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

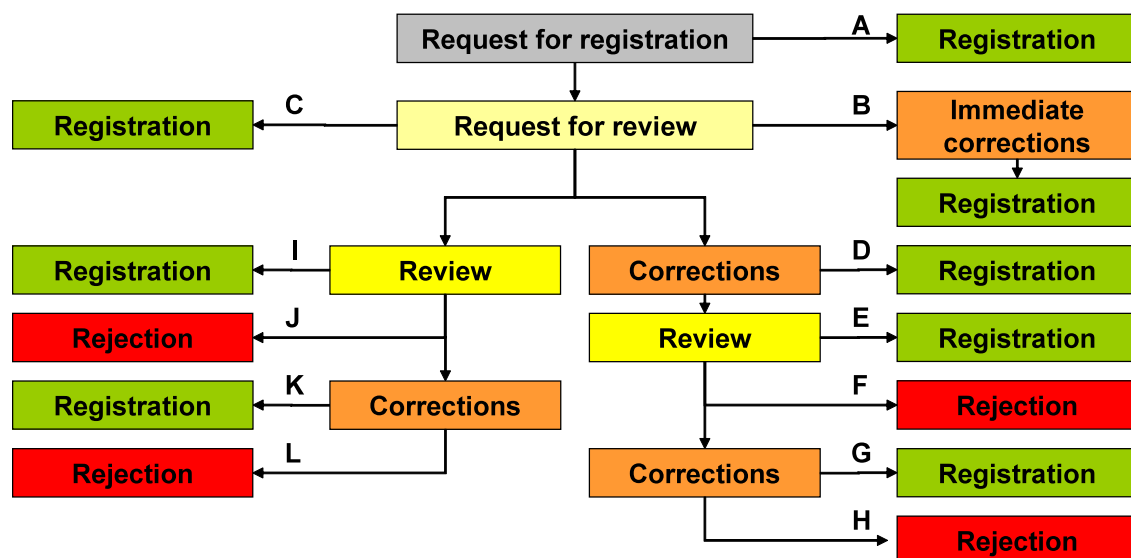
requirements and expectations of the CDM EB. For example, a DOE may face a rejection of a project because new guidance by the CDM EB is emerging which was not yet available when the validation opinion was formed. This problem is important but will become less relevant in the future as more and more guidance for DOEs emerges. 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 the extent to which DOEs are meeting the expectations of the CDM EB. The 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.

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 2 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 2: 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 cannot 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 or she 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 or she 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 or she 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 on the extent to which 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 of 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 request 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 had had an opportunity to provide additional clarifications and does not seem to have been 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 6 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 of zero or above are used for all cases because most respondents to the questionnaire agreed that a rejection should be weighed much more strongly 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, it can be argued 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 the case of a review, it can be argued 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 6: 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

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. This second rating illustrates the situation one year later and thus covers the same two year period but one year later from 1 April 2008 to 31

March 2010. As for the first rating, 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 on the UNFCCC CDM website.⁹

This second rating includes 915 projects that were submitted by 19 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 2008 to 31 March 2010. This included for the 2010 rating the same five DOEs as for the 2009 rating: BVC, DNV, SGS, TÜV-Nord and TÜV-Süd.

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 into 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 a score that is below the qualification for an E rating. In the first rating, an F also indicated that the DOE had been suspended in the past 6 months. **However, for this second rating we decided to reflect the suspension of accreditation separately and to base the rating only on the scores achieved in the registration process.** 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 2 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.

⁹ See <http://www.cdmpipeline.org/> and <http://cdm.unfccc.int/index.html>

Table 7: 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

Annex 2: Detailed rating results for each DOE

Table 8: Registration success for each DOE

Decision route		BV Cert	DNV	SGS	TÜV-Nord	TÜV-SÜD
A	Automatic registration	13	102	41	33	77
B	Registration following a request for review and immediate corrections	6	55	27	15	53
C	Registration following a request for review and consideration of the project by the Board	0	2	1	0	1
D	Registration following a request for review and a corrective action request	6	71	12	29	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	1	0	0	0	0
G	Registration following a request for review, a corrective action request, a review and a second corrective action request	0	2	0	0	2
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	3	2	0	0	1
J	Rejection following a request for review and a review	2	10	8	4	10
K	Registration following a request for review, a review and a corrective action request	9	44	14	6	29
L	Rejection following a request for review, a review and a corrective action request	3	10	1	0	2
TOTAL		43	298	104	87	244