



## Framework Convention on Climate Change

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### Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

Sixth session

Cancun, 29 November to 10 December 2010

Agenda item 6

Issues relating to the clean development mechanism

#### Draft decision -/CMP.6

### Further guidance relating to the clean development mechanism

#### Proposal by the President

*The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,*

*Recalling* the provisions of Articles 3 and 12 of the Kyoto Protocol,

*Noting* that standardization is being used in some approved baseline and monitoring methodologies under the clean development mechanism,

*Recognizing* that baseline and monitoring methodologies using standardized baselines can be developed, proposed by project participants and approved by the Executive Board of the clean development mechanism under the modalities and procedures adopted by decisions 3/CMP.1 and 5/CMP.1,

*Recalling* that standardized baselines under the clean development mechanism should be broadly applicable, provide a high level of environmental integrity and take into account specific national, subnational or international circumstances, as appropriate,

*Noting* that the use of standardized baselines could reduce transaction costs, enhance transparency, objectivity and predictability, facilitate access to the clean development mechanism, particularly with regard to underrepresented project types and regions, and scale up the abatement of greenhouse gas emissions, while ensuring environmental integrity,

*Also noting* the issues identified by the Subsidiary Body for Scientific and Technological Advice at its thirty-second session,

*Cognizant* of decisions 7/CMP.1, 1/CMP.2, 2/CMP.3, 2/CMP.4 and 2/CMP.5,

## I. General

1. *Takes note* of the annual report for 2009–2010 of the Executive Board of the clean development mechanism;<sup>1</sup>
2. *Commends* the Executive Board for the work undertaken during the past year;
3. *Requests* the Executive Board to make available training and information materials to stakeholders and admitted observer organizations on ongoing improvements and changes to, inter alia, modalities, rules, guidelines and methodologies under the clean development mechanism through the existing stakeholder engagement process subject to the availability of resources and report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session;
4. *Requests* the Executive Board to reassess its existing regulations related to programmes of activities in order to:
  - (a) Further clarify the application of existing rules regarding the demonstration of additionality to programmes of activities and the definition of eligibility criteria for the component project activity inclusion in a programme of activity;
  - (b) Simplify the application of programmes of activities to activities applying multiple methods and technologies, including for possible city-wide programmes, while ensuring environmental integrity to the extent required by the Kyoto Protocol and decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;

## II. Governance

5. *Acknowledges with appreciation* that the curricula vitae of Executive Board members, statements on conflicts of interest and details of any past and current professional affiliations of members have been published on the UNFCCC CDM website;<sup>2</sup>
6. *Reiterates* that the Executive Board is subject to the authority of, and fully accountable to, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
7. *Endorses* the terms of reference for membership of the Executive Board developed by the Executive Board in accordance with decision 2/CMP.5, paragraph 14, as contained in annex 1 to this decision;
8. *Recalls* that members of the Executive Board, including alternate members, shall have no pecuniary or financial interest in any aspect of a clean development mechanism project activity or any designated operational entity;
9. *Takes note* that the Executive Board has adopted a code of conduct for its members;
10. *Urges* Parties to apply the terms of reference for membership of the Executive Board referred to in paragraph 7 above, which clarify the desired set of skills and expertise as well as the expected time commitment required of members and alternate members, when nominating individuals for the Executive Board;
11. *Notes with appreciation* that the procedures for the review of requests for registration and issuance adopted by the Executive Board include the publication of rulings taken by the Executive Board;

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<sup>1</sup> FCCC/KP/CMP/2010/10.

<sup>2</sup> <<http://cdm.unfccc.int/EB/index.html>>.

12. *Requests* the Executive Board to ensure that such rulings contain explanations of, and the rationale for, the decisions taken and that they include the sources of information used;
13. *Requests* the Executive Board to continue to improve the transparency and consistency of the regulatory framework of the clean development mechanism by continuing to revise its official documentation in order that it complies with the hierarchy of decisions adopted by the Executive Board;
14. *Requests* the Executive Board to provide greater clarity regarding the timing and implications of the introduction of new rules and decisions;
15. *Reiterates* its request to the Executive Board contained in decision 2/CMP.4, paragraph 14, to adhere to the principle that any decision, guidance, tool and rule shall not be applied retroactively;
16. *Requests* the Executive Board to assess, as necessary, the decision-making processes contained in its current rules of procedure and to make recommendations for changes, as appropriate, to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session;
17. *Requests* the secretariat to further increase the transparency of its work by, inter alia, publishing on the UNFCCC CDM website information related to the current and historic status regarding the processing of case-specific matters and methodologies, including requests for clarification, deviation and revision and for changes to project design documents;
18. *Requests* the Subsidiary Body for Implementation to make recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol with a view to its adopting a decision at its seventh session on procedures, mechanisms and institutional arrangements under the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to allow for appeals against Executive Board decisions based on decision 2/CMP.5, paragraph 42, taking into account the recommendations of the Executive Board contained in annex 2 to its annual report;
19. *Invites* Parties, intergovernmental organizations and admitted observer organizations to submit to the secretariat, by 28 March 2010, their views on this matter;
20. *Requests* the secretariat to compile the submissions referred to in paragraph 19 above into a miscellaneous document and to prepare a technical paper for consideration by the Subsidiary Body for Implementation;
21. *Recalls* its request to the Executive Board contained in decision 2/CMP.5, paragraph 8, to enhance its communications with project participants and stakeholders, including through the establishment of modalities and procedures for direct communication between the Executive Board and project participants in relation to individual projects;
22. *Requests* the Executive Board to develop and implement modalities and procedures with a view to enhancing direct communication with stakeholders and project proponents in relation to issues related to registration, issuance and methodologies work streams; these modalities and procedures should provide for:
  - (a) Direct communication that can be initiated by the secretariat, as needed, with project proponents, on issues related to registration, issuance and methodologies work streams;
  - (b) Stakeholder consultations on general issues, and the publication of the outputs thereof;

(c) Intensified use of public calls for input in relation to major regulatory decisions, including the possibility to make submissions;

### III. Accreditation

23. *Designates* as operational entities those entities that have been accredited, and provisionally designated, as operational entities by the Executive Board to carry out the sector-specific validation functions and/or sector-specific verification functions listed in annex 2 to this decision;

24. *Commends* the Executive Board for the revision and the adoption of the accreditation standard of the clean development mechanism for operational entities;

25. *Requests* the Executive Board to adopt, taking into consideration the views of stakeholders, and subsequently apply a procedure to address significant deficiencies in validation or verification reports;

26. *Decides* that in developing such a procedure the Executive Board may review and amend the provisions contained in paragraphs 22–24 of the annex to decision 3/CMP.1 regarding:

(a) The suspension of designated operational entities prior to the application of such a procedure;

(b) The appointment of a second designated operational entity to conduct the review or correct the deficiency;

(c) The 30-day time-limit for the cancellation of units;

(d) The liability of designated operational entities;

27. *Welcomes* the decisions taken by the Executive Board with regard to monitoring the performance of designated operational entities and making the results of such monitoring publicly available;

28. *Encourages* the Executive Board to make full use of the information on the performance of designated operational entities in the accreditation process and to use such information to improve the performance of designated operational entities through a range of activities, including training;

29. *Requests* the Executive Board to continue to monitor the activities of designated operational entities, in particular with regard to the timelines for the validation and verification processes, and to publish a compilation of information on such activities and timelines;

30. *Requests* the Subsidiary Body for Scientific and Technological Advice to consider the issue of materiality with a view to recommending a draft decision on this matter for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session;

31. *Invites* Parties, intergovernmental organizations and admitted observer organizations to submit to the secretariat, by 28 March 2011, their views on this matter;

32. *Requests* the secretariat to compile these submissions into a miscellaneous document and to prepare a technical paper for consideration by the Subsidiary Body for Scientific and Technological Advice;

#### **IV. Baseline and monitoring methodologies and additionality**

33. *Acknowledges* that the Executive Board has prioritized the work on methodologies, in order to analyse the potential use of methodologies and the potential for emission reductions, and the consideration and development of baseline and monitoring methodologies that are applicable to underrepresented project activity types or regions;
34. *Notes* that such prioritization impacts the rate at which submissions of new methodologies are considered;
35. *Requests* the Executive Board and the secretariat to take action to reduce substantially the overall waiting time for the consideration of new methodologies;
36. *Requests* the Executive Board in its work programme to continue to thoroughly assess the environmental integrity of all baseline and monitoring methodologies and methodological tools to the extent required by the Kyoto Protocol, the decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the rules of the clean development mechanism;
37. *Requests* the Executive Board, as its highest priority, to finalize guidance on the use of the first-of-its-kind barrier and the assessment of common practice;
38. *Welcomes* the work of the Executive Board on the establishment of simplified modalities for demonstrating additionality for project activities up to 5 megawatts that employ renewable energy as their primary technology and for energy efficiency project activities that aim to achieve energy savings at a scale of no more than 20 gigawatt hours per year;
39. *Requests* the Executive Board to continue to simplify these modalities based on experience gained and to expand, as appropriate, their applicability to type III projects that reduce emissions by less than 20,000 tonnes of carbon dioxide equivalent per annum and to report back to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session on the experience gained including the appropriateness of the threshold;
40. *Requests* the Executive Board to examine alternative approaches to the demonstration and assessment of additionality;
41. *Requests* the Executive Board to develop procedures for the use of nationally established grid emission factors as approved by the host country designated national authority and to report back to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol with a view to its adopting a decision on this matter at its seventh session;
42. *Takes note* of the ongoing process under the Subsidiary Body for Scientific and Technological Advice regarding the possibility of the eligibility of new technologies and scopes under the clean development mechanism;
43. *Urges* the Subsidiary Body for Scientific and Technological Advice to proceed with its mandate as stated in paragraph 42 above, to conclude its work, and to provide a recommendation to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol in order to consider new technologies and scopes as possibly eligible under the clean development mechanism;

## V. Standardized baselines

44. *Defines* “standardized baseline” as a baseline established for a Party or a group of Parties to facilitate the calculation of emission reduction and removals and/or the determination of additionality for clean development mechanism project activities, while providing assistance for assuring environmental integrity;

45. *Decides* that Parties, project participants, as well as international industry organizations or admitted observer organizations through the host country’s designated national authority, may submit proposals for standardized baselines applicable to new or existing methodologies, for consideration by the Executive Board;

46. *Requests* the Executive Board to develop standardized baselines, as appropriate, in consultation with relevant designated national authorities, prioritizing methodologies that are applicable to least developed countries, small island developing States, Parties with 10 or less registered clean development mechanism project activities as of December 31 2010 and underrepresented project activity types or regions, inter alia, for energy generation in isolate systems, transport and agriculture, taking into account the workshop referred to in paragraph 51 below.

47. *Decides* that the application of the standardized baselines as defined in paragraph 44 above, shall be at the discretion of the host country’s designated national authorities;

48. *Requests* the Executive Board to periodically review, as appropriate, the standardized baselines used in the methodologies;

49. *Requests* the Executive Board to explore different financial sources to cover the costs of developing and establishing standardized baselines, according to the needs identified in paragraph 46 above, including direct resources from the annual budget of the clean development mechanism.

50. *Encourages* Parties included in Annex I to the Convention and Parties not included in Annex I to the Convention with relevant experience to provide capacity-building and/or support for developing standardized baselines;

51. *Requests* the secretariat to organize a workshop in one of the Parties referred to in paragraph 46 above not later than the thirty-fifth session of the Subsidiary Body for Scientific and Technological Advice on the issue of standardized baselines for facilitating the access to the clean development mechanism;

52. *Requests* the Executive Board to report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session on its work on standardized baselines.

## VI. Registration of clean development mechanism project activities and issuance of certified emission reductions

53. *Welcomes* the work undertaken by the Executive Board to adopt and apply revised procedures for the registration of project activities and the issuance of certified emission reductions, together with the revised procedures for review by the Executive Board of requests for registration and issuance of certified emission reductions;

54. *Endorses* the procedures for the registration of project activities and the issuance of certified emission reductions, together with the revised procedures for review by the Executive Board of requests for registration and issuance of certified emission reductions;

55. *Encourages* the Executive Board to continue to seek ways in which to streamline the process for the registration of clean development mechanism project activities and the issuance of certified emission reductions which result in reductions in the waiting time for the project participants;
56. *Requests* the Executive Board to revise the procedures for registration to allow the effective date of registration and therefore the possible start date of the crediting period of a clean development mechanism project activity to be the date on which a complete request for registration has been submitted by the designated operational entity where the project activity has been registered automatically;
57. *Requests* the Executive Board and its support structure to take measures to enhance a common understanding between the secretariat and designated operational entities of issues raised in the completeness checks stage and their impact on validation and verification, with a view to maximizing understanding of the validation and verification requirements by designated operational entities and project participants and minimizing rejection rates at the completeness check stage;
58. *Requests* the Executive Board to keep under review the completeness checklists in order to ensure they relate to clear reporting requirements in respect of validation and verification.
59. *Requests* the Executive Board to ensure that editorial errors which will not affect the assessment of compliance with validation and verification requirements do not lead to a determination that the request for registration or issuance is incomplete, while ensuring environmental integrity;
60. *Urges* the Executive Board and the secretariat to take the necessary measures to ensure that the average time between the receipt of a submission and the commencement of the completeness check is less than 15 calendar days in 2011, to maintain publicly available information on compliance with this request and to report on progress in this regard to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session;

## **VII. Regional and subregional distribution and capacity-building**

61. *Welcomes* the work of the Designated National Authorities Forum, which could contribute to broader participation in the clean development mechanism through, inter alia, the sharing of information and experience;
62. *Requests* the Executive Board to enhance its interaction with the Designated National Authorities Forum;
63. *Requests* the Executive Board to accelerate the development of top-down baseline and monitoring methodologies that are applicable to underrepresented project activity types and regions, including providing support to the development and application of national grid emission factors;
64. *Adopts* the guidelines and modalities for operationalization contained in annex 3 to this decision for the operationalization of a loan scheme to support the development of clean development mechanism project activities in countries with fewer than 10 such activities registered;
65. *Decides* that funding for the loan scheme shall be allocated from any interest accruing on the Trust Fund for the Clean Development Mechanism;

66. *Encourages* Parties that are in a position to do so, international organizations and other interested entities to contribute to the loan scheme;
67. *Requests* the secretariat to make the necessary arrangements to ensure the operationalization of the loan scheme, including the selection of an institution to serve as an implementing agency, to oversee the performance of the implementing agency and to report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on these arrangements, in accordance with the guidelines and modalities contained in annex 3 to this decision;
68. *Encourages* the Executive Board to support the enhancement of the regional distribution of clean development mechanism project activities by intensifying the provision of focused and targeted support to assist designated national authorities, applicant entities, and project participants in underrepresented regions and countries, in cooperation with the designated authorities of such Parties;
69. *Reiterates* its encouragement to the Executive Board to further explore the possibility of including in baseline and monitoring methodologies, as appropriate, a scenario in which future anthropogenic emissions by sources are projected to rise above current levels owing to the specific circumstances of the host Party;

## **VIII. Resources for work on the clean development mechanism**

70. *Decides* to remove the cap of USD 5,000 per year, as contained in decision 7/CMP.1, on the remuneration of members and alternate members of the Executive Board for time spent in meetings of the Executive Board and its panels and working groups, effective 1 January 2011;
71. *Requests* the secretariat to make publicly available more detailed and transparent reports on the status of income and expenditure;
72. *Authorizes* the secretariat to make flexible travel arrangement for members and alternate members of the Executive Board on official Executive Board business;
73. *Requests* the Executive Board to adopt a management plan which ensures that the resources available are commensurate with the expected demands placed on it and its support structure;
74. *Urges* the secretariat to implement the staffing requirements contained in the management plan in an expeditious manner in order to support the work of the Executive Board, and to explore other ways to improve its capacity, especially via outsourcing;
75. *Expresses its appreciation* to the Government of Brazil for hosting the fifty-sixth meeting of the Executive Board from 13 to 17 September 2010.



## Annex 1

### Terms of reference in relation to the membership of the Executive Board of the clean development mechanism

#### I. Nature of the work

1. The Executive Board of the clean development mechanism (hereinafter referred to as the Board) supervises the clean development mechanism (CDM) under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) and is fully accountable to the CMP.
2. In this context, and in accordance with relevant guidance provided by the CMP, the Board is the regulatory body of the CDM, responsible for, inter alia:
  - (a) The elaboration of a clear and comprehensive policy framework, by adopting new and revised standards, procedures, guidelines and, where necessary, clarifications;
  - (b) The conduct of regulatory functions related to the operation of the CDM, including the approval of new methodologies, the accreditation of operational entities, the review of registration and issuance requests, as necessary, and the operation of the CDM registry, to ensure that all CDM activities are undertaken in a manner consistent with the established policy framework;
  - (c) The public availability of information on the CDM, including the policy framework and information on project activities and issued certified emission reductions;
  - (d) The provision of support for the realization of specific policy objectives set by the CMP;
  - (e) The promotion of awareness of the CDM and the work of the Board among stakeholders;
  - (f) Reporting on its activities to each session of the CMP and, as appropriate, recommending new or revised guidelines to the CMP for its consideration.
3. The Board carries out its work in an executive and supervisory manner, by delegating work to, and considering proposals from, its support structure. The secretariat services the Board and is its primary source of support. In addition, the Board establishes panels and working groups and involves outside expertise, as required, to assist with specific tasks.

#### II. Skills and expertise

4. All members and alternate members of the Board should:
  - (a) Have experience and competence in developing policy and strategy frameworks within regulatory processes, preferably but not necessarily in an international environment;
  - (b) Have an understanding of business perspectives regarding investment in the environmental field;
  - (c) Have knowledge on and an understanding of the intergovernmental process in relation to climate change or other environmental agreements, and an appreciation of the nexus of actions to combat climate change and promote sustainable development;

(d) Be prepared to obtain further knowledge on and understanding of decisions of the CMP relevant to the CDM and guidance previously established by the Board;

(e) Exhibit the highest levels of professionalism and competence and a commitment to act in their individual capacities and in a manner consistent with the Board's code of conduct<sup>3</sup>;

(f) Show commitment to the effective management of the CDM and to working as a team with other members and alternate members, including in relation to reaching consensus;

(g) Have competence in English (written and oral).

5. Overall, the membership of the Board should include perspectives from both the public and private sectors, as well as from relevant non-governmental communities, and should leverage in particular technical, legal and economic expertise relevant to the CDM.

6. Members and alternate members have the opportunity to participate in orientation and information activities provided by the secretariat to augment their knowledge on and understanding of existing CDM guidance and specific issues on which they need to engage.

### **III. Expected time commitment**

7. Members and alternate members of the Board are expected to commit to the following:

(a) Attending approximately 6–8 meetings per calendar year, requiring a time commitment of approximately 45–75 working days per year, including travel time, plus approximately 20–30 working days per year for preparation;

(b) Chairing or vice-chairing meetings of a panel and/or working group, if appointed, requiring a time commitment of approximately 20–55 working days per year, including travel time, plus approximately 15–30 working days per year for preparation;

(c) Participating in other activities of the Board and external activities and events relating to membership of the Board, requiring a time commitment of 10–20 working days per year.

8. In addition, the Chair and Vice-Chair of the Board are expected to make available further time for the purpose of coordinating and preparing the Board's activities and representing the Board at events, amounting to up to 50 working days per year.

### **IV. Election process**

9. In accordance with decision 3/CMP.1 and the rules of procedure of the Board<sup>4</sup>, members and alternate members are nominated by the relevant geographical constituencies and are elected by the CMP for a period of two years. They may serve a maximum of two consecutive terms as either a member or an alternate member.

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<sup>3</sup> <[http://cdm.unfccc.int/EB/047/eb47\\_repan62.pdf](http://cdm.unfccc.int/EB/047/eb47_repan62.pdf)>.

<sup>4</sup> Decision 4/CMP.1.

## Annex 2

**Entities accredited and provisionally designated by the Executive Board of the clean development mechanism and recommended for designation by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol for validation and verification/certification for specific sectoral scopes<sup>a</sup>**

<i>Name of entity</i>	<i>Provisionally designated and recommended for designation for sectoral scopes<sup>a</sup></i>	
	<i>Project validation</i>	<i>Emission reduction verification</i>
Bureau Veritas Certification Holding SAS	1–15	1–15
Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd.	1–10, 12, 13 and 15	1–10, 12, 13 and 15
Japan Consulting Institute	1, 2 and 13	1, 2 and 13
KPMG AZSA Sustainability Co. Ltd.	1, 2, 3 and 10	1, 2, 3 and 10
Conestoga Rovers & Associates Limited	1, 4, 5, 10, 12 and 13	1, 4, 5, 10, 12 and 13
Spanish Association for Standardisation and Certification	1–15	1–15
TÜV NORD CERT GmbH	1–15	1–15
Lloyd's Register Quality Assurance Ltd.	1–13	1–13
Korean Foundation for Quality	1–5, 9–11 and 13	1–5, 9–11 and 13
Ernst & Young ShinNihon Sustainability Institute Co., Ltd.	1, 2 and 3	1, 2 and 3
Nippon Kaiji Kentei Quality Assurance Ltd.	1, 3, 4, 5, 7, 12 and 13	1, 3, 4, 5, 7, 12 and 13
Perry Johnson Registrars Clean Development Mechanism, Inc.	1, 2, 3, 7, 9, 12, 13 and 15	1, 2, 3, 7, 9, 12, 13 and 15
LGAI Technological Center, S.A.	1 and 13	1 and 13
CEPREI certification body	1–5, 8–10, 13 and 15	1–5, 8–10, 13 and 15
Deloitte Cert Umweltgutachter GmbH	1, 2, 3 and 5	1, 2, 3 and 5

<sup>a</sup> Note: The numbers 1 to 15 indicate sectoral scopes as determined by the Executive Board. For details, see <<http://cdm.unfccc.int/DOE/scopelst.pdf>>.

## Annex 3

### **Guidelines and modalities for operationalization of a loan scheme to support the development of clean development mechanism project activities in countries with fewer than 10 registered clean development mechanism project activities**

#### **I. Background**

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its fifth session, through decision 2/CMP.5, paragraph 49, requested the Executive Board of the clean development mechanism (hereinafter referred to as the Board) to allocate financial resources from the interest accrued on the principal of the Trust Fund for the Clean Development Mechanism, as well as any voluntary contributions from donors, in order to provide loans to support the following activities in countries with fewer than 10 registered clean development mechanism (CDM) project activities:

- (a) To cover the costs of the development of project design documents (PDDs);
- (b) To cover the costs of validation and the first verification for these project activities.

2. The CMP, at the same session, through decision 2/CMP.5, paragraph 50, decided that these loans are to be repaid starting from the first issuance of certified emission reductions (CERs).

3. Also at that session, the CMP, through decision 2/CMP.5, paragraph 51, requested the Board to recommend guidelines and modalities for operationalizing the activities outlined in paragraphs 1 and 2 above for consideration by the CMP at its sixth session.

4. The Board, at its fifty-sixth meeting, considered the draft guidelines and modalities in question, prepared by the secretariat on the basis of the guidance provided by the Board at previous meetings, and agreed to submit the present draft to the CMP for consideration at its sixth session, as mandated.

#### **II. Definitions**

5. For the purpose of the present document, the definitions contained in the annex to decision 3/CMP.1 (CDM modalities and procedures) shall apply.

#### **III. Allocation of funds**

6. The CMP hereby establishes a scheme to provide loans to support the following activities in countries with fewer than 10 registered CDM project activities:

- (a) To cover the costs of the development of PDDs;
- (b) To cover the costs of validation and the first verification for these project activities.

7. The secretariat shall calculate and identify annually, as at 1 January, the interest accrued on the principal of the Trust Fund of the Clean Development Mechanism, as well as any voluntary contributions from donors for the scheme referred to in paragraph 1 above

(hereinafter referred to as the loan scheme), as the financial resources to be allocated for loans and associated administrative costs for that year.

#### **IV. Implementing agency**

8. The secretariat shall select and make a contract with a public or private institution that will administer the loan scheme (hereinafter referred to as the implementing agency) through a procurement process, unless it is a United Nations agency, in accordance with relevant United Nations rules and regulations. The contract shall have a term of five years, with the possibility of an extension by another three years. After the expiration of the contract, the secretariat shall proceed with a new procurement process to select an implementing agency.

9. In the process of selecting an implementing agency, the secretariat shall select an institution that has, inter alia:

(a) Proven experience in establishing and running grant or loan schemes targeted at developing countries or countries with economies in transition for the financing of CDM, joint implementation or other emission reduction or removal enhancement project activities;

(b) The ability to operate effectively for project activities in the regions of Africa, Asia and the Pacific, Eastern Europe, and Latin America and the Caribbean;

(c) A system to ensure the utilization of human resources with the relevant expertise to successfully undertake all the functions to be performed by the implementing agency;

(d) Sufficient financial strength;

(e) A good performance record;

(f) A cost-effective plan and arrangement of administrative costs for the loan scheme.

10. The implementing agency shall:

(a) Perform the origination of the loans, including:

(i) Marketing the loan scheme to project participants and consultants on CDM project activities through dedicated websites, at conferences and/or using leaflets, etc.;

(ii) Receiving and screening applications for loans;

(b) Perform appraisals of the project activities in the applications and take decisions on whether to extend loans to the applicants;

(c) Administer the flow of funds, including:

(i) Signing loan agreements with successful applicants (hereinafter referred to as loan recipients);

(ii) Disbursing funds to loan recipients;

(iii) Collecting repayments of loans from loan recipients;

(d) Monitor the progress of project activities funded by the loan scheme and the loan recipients' compliance with the loan agreements.

11. The secretariat shall transfer funds to the implementing agency annually, upon the request of the latter, in order for it to perform the functions referred to in paragraph 10 above. This shall be done on the basis of the forecast of loan disbursements and the budget for administrative costs in the corresponding annual period, which the implementing agency shall prepare and submit annually to the secretariat. The secretariat shall approve the documents provided by the implementing agency referred to in paragraph 15 (a) below before making the fund transfer.

12. In the case that the funds are running out, the implementing agency may request the secretariat to transfer additional funds between the annual transfers. In this case, the secretariat shall consider the request and make additional fund transfer(s) as appropriate. In any case, the total amount of funds transferred from the secretariat to the implementing agency in a 12-month period shall not exceed the level of financial resources for the loan scheme identified by the secretariat for that period in accordance with paragraph 7 above.

13. The administrative costs of the implementing agency shall be kept at the optimal level to operate the loan scheme in a cost-efficient manner over the duration of the contract term. In the case that the secretariat finds, through for example the annual financial statements and/or quarterly reports referred to in paragraph 15 (a) and (b) below, that the administrative costs constitute an unreasonably high portion of the total funds expended and disbursed, the secretariat shall review the situation and may: request the implementing agency to revise its operational procedures in order to reduce the administrative costs; terminate the contract with the implementing agency; or report the matter to the CMP for its consideration and guidance.

14. The implementing agency shall establish an internal organizational structure (e.g. a committee) to review and make decisions on extending loans to individual applicants in a systematic and consistent manner, maintaining integrity, as a part of performing the function referred to in paragraph 10 (b) above.

## V. Oversight by the secretariat

15. The secretariat shall oversee the performance of the implementing agency through:

(a) The approval of annual business plans, budgets and financial statements. For this purpose, the implementing agency shall prepare and submit to the secretariat:

(i) Annual business plans, setting out its approach, organization, resources, and suggestions for the management of the loan scheme;

(ii) Annual budgets, providing forecasts of disbursements of funds for loans, reflows and administrative costs;

(iii) Annual financial statements, providing information on the amounts of funds disbursed, cancelled, repaid, written off and accelerated;

(b) The review of regular reporting. For this purpose, the implementing agency shall prepare and submit to the secretariat quarterly reports on loan applications (e.g. numbers of applications submitted, at the due diligence stage, accepted, rejected or deferred) and the project portfolio (e.g. number of loan agreements signed, amount of funds disbursed, and progress of funded project activities, such as completion of PDDs, validation, verification, cancellation, repayments and write-off). The last quarterly report of a calendar year shall include a review of performance and a summary of key data for that year (complementing the financial statement referred to in paragraph 15 (a) (iii) above);

(c) The approval of operational procedures, detailed criteria for selecting project activities, and templates. For this purpose, the implementing agency shall prepare draft

operational procedures for the submission and processing of loan applications, detailed criteria for selecting project activities, and various templates, including those for applications, project idea notes and loan agreements, and submit them to the secretariat for approval. The operational procedures shall be in line with chapter VII below, and the detailed criteria for selecting project activities and the template for loan agreements shall be in line with appendices A and B, respectively, to this document;

(d) The evaluation of the loan scheme by an independent expert. For this purpose, the secretariat shall contract an independent expert to conduct the evaluation at the time specified by the secretariat so that any necessary adjustments to the loan scheme can be made at the appropriate time.

16. The secretariat shall, in its contract with the implementing agency, include provisions allowing the secretariat to terminate the contract with the implementing agency before the end of the contractual term, in addition to the standard cases under the United Nations rules and regulations (e.g. force majeure or bankruptcy of the contractor), in case the secretariat finds that the implementing agency is underperforming.

17. The secretariat shall:

(a) Review the performance of the loan scheme and the efficiency and effectiveness of the operations of the implementing agency, with regard to, inter alia:

(i) The rate of utilization of the funds;

(ii) The number and geographical distribution of funded projects;

(iii) The success rate of funded project activities in being approved for registration and issuance;

(b) Review the findings and recommendations of the independent expert on the basis of his/her evaluation of the loan scheme as referred to in paragraph 15 (d) above;

(c) Review and approve the annual budgets, business plans and financial statements of the implementing agency, as referred to in paragraph 15 (a) above;

(d) Report to the CMP on the status of implementation of the loan scheme, as referred to in paragraph 21 below.

18. The secretariat shall have the right to summon the implementing agency if it has serious concerns about the performance of the latter and, in any event, prior to a decision being taken to terminate the contract with the implementing agency.

19. If the secretariat finds, on the basis of the reviews referred to in paragraph 17 above or any other incidents, that any provisions in the guidelines and modalities for the loan scheme need to be modified in order to improve the performance or operability of the loan scheme, it shall seek guidance from the Board. If the Board subsequently revises the guidelines and modalities, then the secretariat shall apply the revised guidelines and modalities on an interim basis.

20. If the Board revises the guidelines and modalities for the loan scheme, in accordance with paragraph 19 above, the secretariat shall include in its annual report to the CMP referred to in paragraph 21 below a recommendation on the revised guidelines and modalities for consideration by the CMP at its next session. After the CMP has decided to adopt, adopt with modifications or reject the revised guidelines and modalities, the secretariat shall make adjustments, as appropriate, to the implementation of the loan scheme as soon as practicable.

## **VI. Reporting to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol**

21. The secretariat shall report to the CMP once a year on the status of implementation of the loan scheme, by providing, inter alia:

(a) The numbers of loans applied for, loans approved and loan agreements signed, and the funds disbursed by country, project type and size;

(b) The amount of funds committed and disbursed by country, project type and size;

(c) The amount of funds committed and disbursed, sorted by cost item (i.e. development of PDD, validation and first verification);

(d) Reviews of the performance of the implementing agency;

(e) Recommendations on draft revised guidelines and modalities for the loan scheme, prepared in accordance with paragraph 20 above, as applicable.

## **VII. Procedure for application, approval, fund disbursement and repayment**

22. An entity that wishes to apply for a loan shall submit an application to the implementing agency, using templates (e.g. an application form) developed by the implementing agency, as referred to in paragraph 15 (c) above, and by attaching the supporting documentation defined by the implementing agency.

23. The implementing agency shall screen the application to check its completeness and perform an initial eligibility check of the application. At this stage, the implementing agency may seek clarification and ask for additional information from the applicant, as well as visit the (planned) project activity site, as appropriate, to verify the reality of the project activity and/or identify project participants.

24. Once the application is found to be complete and has successfully passed the initial eligibility check, the implementing agency shall perform a detailed appraisal of the project activity proposed in the application, with regard to its financial viability and bankability as well as its eligibility as a CDM project activity, by means of a site visit, as appropriate. The implementing agency shall perform the appraisal against detailed criteria for selecting project activities, which shall be developed by the implementing agency on the basis of appendix A to this document, as referred to in paragraph 15 (c) above.

25. The implementing agency shall decide whether to extend a loan to the project activity. If the decision is positive, the implementing agency shall sign a loan agreement with the applicant, using a template developed by the implementing agency in accordance with the guidelines set out in appendix B to this document.

26. The implementing agency shall disburse funds to the loan recipient in accordance with the signed loan agreement.

27. The loan recipient shall repay the loan to the implementing agency in accordance with the signed loan agreement. The loan recipient shall start repaying the loan starting from the first issuance of CERs to the project activity.

28. The implementing agency shall monitor the progress of the project activity and related events that could trigger, for example, subsequent loan disbursements, cancellation, write-off or acceleration, until the loan has been fully repaid.



29. The implementing agency shall monitor the loan recipient's compliance with the loan agreement and take action, including litigation, as appropriate.

## Appendix I

### Criteria for selecting clean development mechanism project activities for the extension of a loan

1. The project participants of a project activity to be funded by the loan scheme shall:
  - (a) Have integrity, with no past or current record of judicial process for malpractice, fraud and/or any other activity that gives rise to concerns over their integrity;
  - (b) Have sufficient capacity to implement and operate the project activity, including the support of third parties.
2. A project activity to be funded by the loan scheme shall:
  - (a) Be located in a country with fewer than 10 registered clean development mechanism (CDM) project activities as of 1 January of the year in which the application for a loan is submitted to the implementing agency;
  - (b) Use commercially viable and available technology;
  - (c) Be financially viable;
  - (d) Be highly likely to secure project finance;
  - (e) Be highly likely to be commissioned and completed with regard to permits, licences, political risk, etc.;
  - (f) Have estimated emission reductions or removal enhancements of at least:
    - (g) 15,000 t CO<sub>2</sub> eq annual average over the first crediting period, in countries not classified under the United Nations as least developed countries (LDCs) or small island developing States (SIDS);
    - (h) 7,500 t CO<sub>2</sub> eq annual average over the first crediting period, in countries classified as LDCs or SIDS;
  - (i) Meet the eligibility criteria for a CDM project activity or a CDM programme of activities as defined in relevant documents adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Executive Board of the clean development mechanism.

## Appendix II

### Guidelines for loan terms and conditions

1. The obligor (loan recipient) shall be a project participant of the project activity.
2. An interest rate shall not be charged on the loan.
3. A one-time fee (upfront fee) shall be charged to the applicant. The implementing agency shall set aside the fee in the budget for the loan scheme and reimburse it to the loan recipient once the repayment starts (e.g. by deducting it from the first repayment).
4. Disbursement of the loan shall be upon the reaching of milestones, for example the implementing agency's decision to extend a loan to the project activity, the publication of the corresponding project design document (PDD) on the UNFCCC website or the registration of the project activity under the UNFCCC clean development mechanism (CDM) process. Staggered disbursement may also be considered in order to mitigate risks to the funds.
5. The loan shall be disbursed directly to the service provider (i.e. the CDM advisor/consultant for developing a PDD, and/or the designated operational entity (DOE) for validation or first verification). Payments to the loan recipient shall be made only if the previous option is not practical.
6. The loan recipient shall repay the loan in cash.
7. The loan recipient shall start repaying the loan to the implementing agency from the first year of issuance of certified emission reductions (CERs) to the project activity. The repayment shall normally be done in one instalment. Exceptionally, the implementing agency may agree to a two- or three-year repayment period.
8. To ensure loan security, the implementing agency may request the secretariat to 'withhold' CERs issued to the project activity until the repayment is complete.
9. If a project activity was not registered under the UNFCCC CDM process but still went on to be commissioned and generated revenue, repayment in cash shall remain due. In this case, if the repayment is not made, the implementing agency may resort to litigation.
10. Covenants shall include the loan recipient's obligation to report periodically to the implementing agency in respect of key aspects of the project activity, and the non-committing of fraud, corruption or misconduct.
11. The loan recipient shall seek the most competitive offer from service providers (i.e. CDM advisors/consultants and/or DOEs) by getting more than one quote on the basis of clear terms of reference.
12. A loan may be cancelled by either party if the project activity is abandoned, if the project participant no longer needs the funds or if the implementing agency finds that the loan recipient has breached the loan agreement (e.g. by way of misconduct).
13. A loan may be accelerated (i.e. the full repayment becomes due immediately) if the implementing agency finds that the loan recipient has breached the loan agreement (e.g. by way of misconduct).
14. A loan may be pre-repaid partly or fully by the loan recipient if the loan recipient no longer needs the funds and has sufficient resources to repay the loan.

15. A loan may be written off by the implementing agency if the project is abandoned, fails to be registered under the UNFCCC CDM process, except for in the case referred to in paragraph 9 above, or is discontinued for other reasons, such as bankruptcy.

16. The loan recipient shall report on a regular basis to the implementing agency on the progress of the project activity with regard to key steps, such as permits and licences, construction and validation, using a template developed by the implementing agency. These reports may be aggregated and summarized in the implementing agency's own periodic reports to the secretariat.

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