



Annex 1

PROCEDURE ON PERFORMANCE MONITORING OF DESIGNATED OPERATIONAL ENTITIES

(Version 01.1)

I. Background

1. The Conference of the Parties serving as the meeting of the Parties for the Kyoto Protocol (CMP) at its fourth sessions requested the Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM) to:

- (a) Review its experience gained in the project registration and certified emission reductions issuance processes, to summarize systematically the major issues that trigger a request for review and corresponding justification, to develop a dedicated document compiling the major criteria for decision-making during the review process and to make it publicly available through the UNFCCC CDM website;
- (b) Develop and apply, as a priority, a system for continuous monitoring of the performance of designated operational entities (DOEs) and a system to improve the performance of designated operational entities;
- (c) Develop and apply measures to ensure that DOEs comply with the requirements and meet the standards established by the Board for DOEs;
- (d) Finalize, prior to the fifth session of the CMP (CMP 5), its work on a policy framework to address non-compliance by DOEs in a systematic manner, including transparent criteria for the application of sanctions in cases of non-compliance;
- (e) Enhance the transparency of the performance of DOEs, including by regularly publishing statistics on their performance on the UNFCCC CDM website and report on actions taken to CMP 5 and subsequent sessions.

2. The Board at its forty-ninth meeting (EB 49 report, annex 3) agreed on a policy framework to monitor performance and address non-compliance by DOEs in a systematic manner (hereinafter referred to as the Framework). The Board requested the secretariat to prepare a proposal for implementation of the Framework, including the categorization of non-compliance, proposed thresholds and applicable sanctions, for the consideration of the Board at its fifty-first meeting.

3. The Board at its fifty-first meeting (EB 51 report, annex 2) agreed to the implementation plan of the policy framework to monitor performance and address non-compliance by DOEs.

4. The Board at its fifty-second meeting agreed on the sub-categories and weights used for classifying and grading non compliances as provided in annex 1 of the annotated agenda of EB 52.

5. This document consolidates the information contained in the Framework, the implementation plan and the update and thus, supersedes the documents listed in paragraph 2 through 4 above.

II. Scope

6. This procedure provides for monitoring, classification and rating of all DOEs non-compliances. It is applicable from completion of the initial assessment process and accreditation of an



entity by the Board until expiration of its accreditation. The provisions of this procedure are not applicable during full suspension of the entity.

7. This procedure is based on the following key principles:
 - (a) It should not provide for comparison ranking of DOEs, but to indicate level of performance and compliance of individual DOEs with the CDM requirements;
 - (b) Its implementation should be complemented with system-wide analysis and improvement;
 - (c) Implementation of the Framework should:
 - (i) Provide DOEs with feedback on their performance;
 - (ii) Support the Board and the CDM Accreditation Panel (CDM-AP) in decision making.
8. The output of the DOE performance monitoring is also intended to provide inputs to the accreditation assessment process, as well as appropriate inputs into future revisions of the CDM requirements, standards, and methodologies.

III. Definitions

9. The following definitions of terms are used in this document:
 - (a) **DOE performance:** how successfully a DOE carries out its validation and verification functions, as defined in the annex to decision 3/CMP.1 (CDM M&P), other decisions of the CMP and Board;
 - (b) **Non-compliance:** Failure to meet a CDM requirement.

IV. Classification and grading of non compliances

10. The monitoring performance of a DOE is based on the collection of data through the assessment of the requests for registration and issuance submitted by the DOE, identification of non-compliances if any and their classification into predetermined categories that are as follow:
 - (a) Issues related to reporting ;
 - (b) Issues related to failure to follow procedural requirements;
 - (c) Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements;
 - (d) Other issues, to analyze system-wide gaps and improve classification.
11. Appendices 1 and 2 detail the above identified categories into subcategories for both the registration (appendix 1) and issuance (appendix 2) processes. This further subdivision is provided in order to reduce the level of subjectivity during the assessment and to provide sufficient information to DOEs to allow them to understand their performance and appropriately focus their internal improvement efforts.
12. Appendices 1 and 2 also include a weighting for the various categories, based on the severity and potential impact on the credibility of the processes. A linear scale using values between 1



(minimum) and 5 (maximum) is used in order to minimise subjectivity during rating while still allowing sufficient differentiation between the issues based on their severity.

V. Definition of performance indicators

13. Based on the classification and weights referred to in paragraphs 10-12 above, the two indicators defined in paragraph 14 below shall be measured for each DOE. The indicators shall be used to both monitor the performance of DOEs and to trigger sanctions as appropriate.

14. The following two indicators shall be calculated, for each of the registration and issuance requests:

- (a) **Rate of rejections at completeness check** calculated as the number of requests rejected at completeness check divided by the number of requests submitted, regardless of the number of issues identified in each rejection:

Indicator **I1** = Number of requests rejected at completeness check / Number of requests submitted;

- (b) **Rate of requests for review adjusted by weight of the requests, as referred to in paragraph 12:**

Indicator **I2** = SUM (weights of Request for Reviews) / Number of requests completed;

15. The indicators shall be calculated based on those requests, for which a final decision (approval, rejection, and withdrawal) was taken in a given monitoring period.

VI. Definition of thresholds

16. For the indicator I2, thresholds are defined and are common to all DOEs.

17. For each of registration and issuance processes, two thresholds are identified. On reaching the first threshold a DOE shall be notified of the need to undertake a root-cause analysis and implement corrective actions to improve its performance. On reaching the second threshold, the CDM accreditation panel (CDM-AP) shall initiate a spot-check of the relevant DOE.

18. The defined thresholds are as follow:

- (a) For registration process:

- (i) First threshold is reached when I2 is > 0,5;
(ii) Second threshold is reached when I2 is > 3;

- (b) For issuance process:

- (i) First threshold is reached when I2 is > 0,5;
(ii) Second threshold is reached when I2 is > 1,5.

19. A DOE is considered to be in the “green zone” if its I2 indicator is less than 0.5 (for both the registration and issuance processes). If the indicator is between 0.5 and 3 for the registration process or between 0.5 and 1.5 for the issuance process, it is considered to be in the “yellow zone”. If the



indicator is 3 or above for the registration process and 1.5 or above for the issuance process, it is considered to be in the “red zone”.

VII. Data collection and calculation of the indicators

20. Once a DOE submit a request for registration/issuance, the related documentation shall be assessed by the secretariat at two stages, to determine whether it meets the CDM requirements.
- (a) At the completeness check stage: based on this assessment, the submission shall be either deemed complete or rejected;
 - (b) Based on the rate of rejection the indicator I1 shall be calculated;
 - (c) At the request for review stage: non-compliance issues shall be identified and classified into categories and subcategories based on the nature and the severity of the issue as specified in appendices 1 and 2. A weighing shall be associated to each of the issues identified. Each registration and issuance request will be assigned an overall weight equal to the sum of the identified weights of individual issues, including those that are closed after provision of further information/documentation by the DOE. The weighting of non-compliance issues shall be finalized only after a final decision on the specific request has been reached;
 - (d) Based on the final weighting of the issues identified, the indicator I2 shall be calculated.
21. During the assessment of the requests for registration and issuance, the data specified in appendix 3 shall be collected.
22. The non compliance issues identified at the request for review stage and at the final stage shall be classified in the matrixes in appendix 4 for the registration process and appendix 5 for issuance process.
23. A DOE shall be subject to monitoring only after it has finalized a tenth request of registration or issuance in a given monitoring period.

VIII. Monitoring periods

24. DOE performance shall be monitored and the performance indicators calculated based on requests for registration or issuance submitted during monitoring periods of six months. A monitoring period starts on the first January of each year and finishes on the 30 of June, followed by the next monitoring period that starts on first July and ends on 31 December.
25. For each monitoring period, only projects submitted for registration and issuance within the period shall be monitored. Indicators shall be gradually calculated at the end of the monitoring period as the requests gets finalised.

IX. Reporting on the DOE performance

26. Monitoring the performance of DOEs shall allow improvement of the performance of the DOE and assist the Board in its decision making process.
27. Reporting to DOEs shall have three main objectives:



- (a) Providing feedback on their performance with relevant information that would allow them to conduct out a root-cause analysis of the deficiencies in their validation/ verification work;
- (b) Informing DOEs on their performance and level of their indicators so that they are aware whether thresholds are reached or about to be reached;
- (c) Informing DOEs on whether they are subject to any sanction.

28. Reporting to the CDM-AP shall provide tools for an informed decision making. The accreditation procedure relies in many of its steps (e.g. definition of number and nature of performance assessments, regular on-site surveillance, assessment of non-central sites, and spot-check) on the results of the DOE performance monitoring.

29. The Board as the final decision making body shall be provided with all relevant data for its decision making. Such data also shall also allow system wide improvement via identification of issues where guidance or requirements lack clarity or are non existent.

30. Reporting on DOE performance shall be done using the following forms :

- (a) F-CDM-RTDOE: Report to the Designated Operational Entity (DOE);
- (b) F-CDM-RTAP: Report to the CDM- accreditation panel (CDM-AP);
- (c) F-CDM-RTEB: Report to the CDM- Executive Board (CDM-EB);
- (d) F-CDM-RTP: Report to the public.

X. Frequency of reporting

31. The secretariat shall prepare and issue preliminary reports on the DOE performance based on data related to requests for registration or issuance finalised within three months after the end of each monitoring period. This would ensure having a sufficient number of requests for registration or issuance for which a final decision was made by the Board and a sufficient number of DOEs eligible for monitoring. Such reports shall be issued at the latest four month after the end of each monitoring period.

32. Following reports on DOE performance shall be issued at three monthly intervals after the first preliminary report is issued and until all submitted requests for registration or issuance have been finalized. This would provide a more realistic picture on the performance of the DOE as the indicators would be stabilising and reflecting the real performance of the DOE for a given monitoring period only as a significant majority of submissions have been finalized.

33. Such reports shall be made available by the secretariat to all different actors (DOEs, the Board, CDM-AP and the public).

34. In addition to the regular reports to the Board on individual DOE performance, a report containing a more detailed analysis of the issues arising from the DOE performance especially those identifying shortcomings in the CDM-requirements, procedures and guidance shall be provided to the Board on a bi-annual basis. This report shall assist the Board in developing or revising its workplans and the workplans of its panels and working groups.



XI. Actions to be undertaken based on the DOE performance monitoring

35. Based on the outcome of the DOE performance monitoring, different actors shall take a set of actions as follow:

A. DOEs

36. Once the indicator of a DOE reaches the yellow zone as specified in chapter VI above, the secretariat shall formally request the DOE to undertake a root-cause analysis to identify the causes of the deficiencies in its system.

37. The DOE shall be responsible for ensuring that corrective actions identified as a result of the root causes analysis carried out are adequate and addresses in a systematic manner the identified issues. This provision shall be linked to paragraph 113 of the accreditation standard, which requires entities to continually assess defects within their systems and shall be assessed during accreditation assessment.

B. CDM Accreditation Panel

38. Based on the data collected and reported by the secretariat to the CDM-AP, the CDM-AP at its next meeting or the meeting after, shall decide on the number and nature of performance assessments, the number of non central sites to be assessed and the areas to be assessed during site assessments and regular on-site surveillance assessment. These decisions shall be in accordance with paragraphs 66, 91 and 140 of the accreditation procedure.

39. The CDM-AP shall also initiate a spot-check of a DOE if it has reached the red zone, preparing the scope of the spot-check and providing the CDM assessment team (CDM-AT) with all relevant information on the areas to be assessed based on the performance monitoring reports. The CDM-AP shall also notify the Board of such a decision as specified in the CDM accreditation procedure, paragraph 123.

C. CDM Executive Board

40. The Board, based on the information reported by the secretariat, shall take note of the performance of DOEs.

41. The Board shall also take note of any notification of spot-check decided by the CDM-AP.

42. The Board shall also, based on the analysis provided by the secretariat identify improvement measures to its procedures, clarify the ambiguous requirements and undertake any other relevant improvement action.

**Appendix 1****Categorization and weighting of issues identified at requests for registration**

		Weight
I	Issues related to reporting	
1	This category includes errors covering: - 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; - 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: - 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 - 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	3



	consultation	
2	<p>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:</p> <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	<p>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:</p> <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 interpretation of requirements of methodology / guidance	0



Appendix 2

Categorization and weighting of issues identified at requests for issuance

		Weight
I	Issues related to reporting	
1	This category includes errors covering: - 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: - 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: - 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 : - 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: - Failure to verify installation of monitoring system not per methodology;	5



	- Parameters required by methodology not being monitored; - Incorrect application of meth formulae, factors, default values	
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

**3- Review stage:**

Issue raised in request for review	Category of issue	Subcategory of issue	VVM requirement	Other requirements	Weighing

4- Final decision stage:

Final decision	Date	Final issues	Category of issue	Subcategory of issue	VVM requirement	Other requirements	Final weighing



III	Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements;																						
1	<p>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</p> <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 																						
2	<p>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:</p> <ul style="list-style-type: none"> - The monitoring plan is incomplete; 																						



Appendix 5

Matrix for categorisation of non-compliance issues - Issuance

Categorization and weighting of issues identified at requests for issuance		Implementation of the PA	Compliance of the monitoring plan with the monitoring methodology	Compliance of monitoring with the monitoring plan	Assessment of data and calculation of greenhouse gas emission reductions (BE, PE, ER calculation)	Procedural and related requirements
I	Issues related to reporting					
1	This category includes errors covering - 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					
II	Issues related to failure to follow procedural requirements					
1	Failure to submit the corrections on time					
2	This sub category covers: - CAR/CLs in verification reports are not appropriately closed out; - Failure to follow up FAR from previous verification					
3	This sub category covers failure to conduct site visit as per requirements of verification process; or provide justification					



4	<p>This sub category covers the failure to request, as appropriate:</p> <ul style="list-style-type: none"> - Deviation; - Revision Mon Plan; - Changes from PDD 					
III	Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements;					
1	<p>This sub category covers basic verification to ensure to ensure the quality of required data measured and reported :</p> <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); - Calculation errors 					
2	<p>This sub category covers failure to apply conservativeness approach when required</p>					
3	<p>This sub category covers failures to correctly apply methodology requirements which may lead to incorrect CERs:</p> <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 					



IV	Other issues, to analysis system-wide gaps and improve classification					
1	Absence of requirement/guidance by the Board					
2	Ambiguity of interpretation of requirements of methodology/guidance					

History of the document

Version	Date	Nature of revision
01.1	3 December 2010	This version has been issued to editorially correct cross references in paragraph 13.
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