

**JI-JISC34-AA-A01**

## Concept note

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# Future development of the JI accreditation system

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Procedural background

1. The Joint Implementation Supervisory Committee (JISC), at its thirty-third meeting, considered the concept note on the strategic direction of the joint implementation (JI) accreditation system<sup>1</sup>, which outlined four options for the direction of the JI accreditation system, three of which implementable in the short term (items (a) to (c)) and one implementable in the long term (item (d)):
  - (a) Close alignment with CDM regulatory documents;
  - (b) Regulatory adoption of the CDM;
  - (c) Adoption of CDM accreditation;
  - (d) Unified accreditation system.
2. At its thirty-third meeting, the JISC considered the options and:
  - (a) In line with item (c) above, and as a short-term measure, the JISC “agreed in principle to rely upon the accreditation system under the CDM for its accreditation decisions under JI. This would mean that entities accredited as designated operational entities under the CDM would be used to perform JI determinations and verifications. The JISC requested the secretariat to prepare an implementation plan for this approach, including the identification of possible measures to address risks and take account of current differences between the accreditation systems of the two mechanisms, to be considered at its next meeting”;
  - (b) In line with item (d) above, and as a long-term measure, the JISC agreed to recommend to the Conference of the Parties serving as the meeting of the Parties to Kyoto Protocol (CMP) to “consider establishing a unified accreditation system for both project-based mechanisms under the Kyoto Protocol: the clean development mechanism (CDM) and JI.”<sup>2</sup>
3. This document addresses the JISC 33 mandate to the secretariat referred to in paragraph 2(a) above.
4. The elaboration of the long-term accreditation system outlined in paragraph 2(b) above is contained in document JI-JISC34-AA-A02.

## 2. Purpose

5. The purpose of this paper is to provide to the JISC:
  - (a) Possible options to use CDM designated operational entities (DOEs) to perform JI determinations and verifications;

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<sup>1</sup> JI-JISC33-AA-A01 (<[http://ji.unfccc.int/Sup\\_Committee/Meetings/033/annex\\_1.pdf](http://ji.unfccc.int/Sup_Committee/Meetings/033/annex_1.pdf)>).

<sup>2</sup> FCCC/KP/CMP/2013/4 (<<http://unfccc.int/resource/docs/2013/cmp9/eng/04.pdf>>).

- (b) Possible measures to address risks, taking account of current differences between the accreditation systems of the two mechanisms and outlining the respective positive and negative implications for the mechanism;
- (c) An implementation plan for each of the possible approaches;
- (d) Recommendations for actions by the JISC.

### **3. Context**

#### **3.1. Markets**

- 6. The demand for emission reduction units from the compliance market under the Kyoto Protocol is in decline. There has been a significant drop in unit prices, eroding the incentive to develop new projects and impacting the business potential of JI accredited independent entities (AIEs).
- 7. Similarities and potential synergies between the CDM and JI accreditation systems provide an opportunity to increase consistency in operations while simultaneously reducing costs for both the overall system and for accredited entities – thus facilitating JI operations and the business potential of AIEs.

#### **3.2. Differences between the CDM and JI accreditation systems**

- 8. The CDM and JI accreditation systems are regulated at two levels: CMP and CDM-EB/JISC.
- 9. The CDM and JI accreditation regulation at CMP level (mainly Appendix A to both decision 3/CMP.1, Annex, and decision 9/CMP.1, Annex) is very similar. The CDM and JI accreditation texts set by the CMP are nearly identical, and differences relate largely to language and terminology, with differences in substantive accreditation requirements being few and small. The main substantive difference between the two mechanisms is that the CMP formally designates operational entities under the CDM as a result of Article 12, paragraph 5 of the Kyoto Protocol whereas under joint implementation, designation is not required.
- 10. At the CDM-EB and JISC level the differences are broader. The detailed accreditation procedures and standards differ in terms of terminology, provisions for monitoring of accredited entities, list of sectoral scopes, competence requirements for personnel, impartiality requirements, and procedural requirements.<sup>3</sup> Notwithstanding these differences, in principle, the systems, their implementation and their operation are very similar.

### **4. Proposed options, impacts and timelines**

- 11. As outlined in paragraph 2(a) above, the JISC at its thirty-third meeting considered several options and agreed, in line with option C of JI-JISC33-AA-A01, to rely upon the accreditation system under the CDM for its accreditation decisions under JI. This

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<sup>3</sup> A high-level list of the main regulatory differences between the CDM and JI – as at September 2013 – from the point of view of accreditation is available in Appendix 2 to document JI-JISC33-AA-A01.

decision offers a spectrum of possible implementations. The sections below outline the options for the JISC to implement the decision taken at JISC 33.

12. In both options, the CDM Executive Board (CDM-EB) and the JISC would remain separately accountable to the CMP in accordance with decisions 3/CMP.1 and 9/CMP.1, respectively.
13. Table 1 below provides a comparison between options 1 and 2.

























#### **4.1. Option 1: Use the CDM accreditation system entirely**

14. In option 1, the CDM accreditation system would be used in its entirety, by relying on DOEs for JI determinations and verifications.
15. In terms of **governance**, JI would rely on the CDM accreditation system for all accreditation functions, and no activities would be carried out by the JI accreditation panel or JI assessment teams.
16. In terms of **regulatory framework**, CDM accreditation regulatory documents would be used, with no JISC authority to change or adjust them.
17. In terms of **operations**, DOEs would be used within the JI system to conduct JI determinations and verifications. There would be no oversight over JI determination and verification activities, and CDM decisions on punitive measures over DOEs, such as suspensions, would have an automatic impact on JI.
18. In practice, option 1 means that the JI would no longer conduct accreditation activities.

#### **4.2. Option 2: Use the CDM accreditation system partially**

19. In option 2, JI would rely only partially on the CDM accreditation system, by maintaining oversight over AIEs. In this option, the JISC would grant JI accreditation to DOEs carrying out JI work, and would and monitor their performance through JI accreditation assessments.
20. In terms of **governance**, in option 2 the JISC would grant JI accreditation and monitor entities using the CDM infrastructure. No activities would be carried out by the JI accreditation panel or JI assessment teams. A formal agreement would be required between both mechanisms to cover budgetary and administrative aspects.
21. In terms of **regulatory framework**, CDM accreditation regulatory documents would be used, with no JISC authority to change or adjust them.
22. In terms of **operations**, DOEs carrying out JI work would be granted JI accreditation. These entities would then be assessed against CDM accreditation requirements and JI determination and verification requirements. CDM assessment teams would conduct the JI accreditation assessments, which would then be considered by the CDM Accreditation Panel (CDM-AP) and finally by the JISC for decision. CDM decisions on punitive measures over DOEs (such as suspensions) not would have an automatic impact on JI activities, and would instead require a specific recommendation by the CDM-AP.

**Table 1. Key considerations for each of the options**

Consideration	Option 1: use the CDM accreditation system entirely	Option 2: use the CDM accreditation system partially
<b>Governance</b>		
JISC relies on CDM for <u>all</u> accreditation functions		
JISC grants JI accreditation to DOEs and monitors them through JI accreditation assessments		
JISC maintains oversight of JI activities and maintains JI accreditation through JI accreditation assessments		
No activities by the JI accreditation panel or by the JI assessment team		
CDM-AP considers JI accreditation assessments		
Agreement between CDM-EB and JISC is needed to allow CDM-AP to consider JI activities		
<b>Regulatory framework</b>		
JI uses the CDM accreditation regulatory framework		
JISC has the authority to change or adjust CDM accreditation regulatory documents		
<b>Operations</b>		
JI relies on CDM DOEs for JI determinations and verifications		
CDM-EB decisions on punitive measures over DOEs (e.g. suspensions) are automatically applied to JI		
JISC grants JI accreditation to DOEs and monitors them through JI accreditation assessments		
JI accreditation assessments are conducted. They are considered by the CDM-AP and decided upon by the JISC		

#### 4.3. Option 1 assessment

23. The following are possible advantages and disadvantages of option 1, as compared to the current JI accreditation system.
24. Advantages:
- (a) Cost: Lowest possible costs in implementing accreditation functions for the JISC, the secretariat and the independent entities under JI. Accredited entities would maintain only the CDM accreditation;
  - (b) Operational aspects: Operational simplicity by relying entirely on the CDM system;

- (c) Transition:
  - (i) No major disruption of JI determinations and verifications, since all active AIEs are also accredited DOEs;<sup>4</sup>
  - (ii) Simple implementation and no additional infrastructure is needed beyond what is already available in the CDM.
- (d) Coherence: Option 1 allows for the JI use of CDM best practices in accreditation by adopting the CDM accreditation system, which is more developed. It would also ensure a consistent approach on accreditation between CDM and JI.

25. Disadvantages:

- (a) Environmental integrity: Removing JI accreditation requirements significantly reduces the oversight of the JISC in monitoring and protecting the quality of JI determinations and verifications; the project assessment of track 2 submissions would be the only remaining quality control. This could lead to a decrease in the quality of determination and verification work and, consequently, a decrease of the environmental integrity of the mechanism;
- (b) Credibility and reputation: There is no guarantee that an entity performing well under the CDM will perform appropriately under JI. In the absence of JI oversight, and given the environmental integrity risk described above, the JISC and JI as a mechanism could be open to credibility and reputational damage;
- (c) Dependence: Full dependence on the CDM, at regulatory and accreditation decisions levels. The JISC would have no discretion to act on the accreditation status of entities;
- (d) Capacity: Loss of JI accreditation capacity and know-how at the JISC and JI Accreditation Panel levels due to decreased activity in this area.

26. Table 2 below presents the risks associated with option 1 and proposed mitigation actions. Table 3 below presents a possible implementation plan.

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<sup>4</sup> Only one AIE (which is inactive) is not accredited under the CDM.

**Table 2. Risk assessment and proposed mitigation measures for option 1**

Item	Magnitude (M)	Frequency (F)	Risk (MxF)	Possible mitigation measures
<b>Decreased environmental integrity</b>	High	High	High	- Increase scrutiny of track 2 project submissions; - Introduce a procedure for direct communication with stakeholders; - Monitor impacts on the system and periodically review the need for the reintroduction of a JI accreditation system.
<b>Decreased credibility and reputation</b>	High	Medium	High	- Actively communicate the rationale of the changes to the JI accreditation system through increased activity by communications team and engagements by the JISC chair and vice-chair. - Increase scrutiny of track 2 project submissions.
<b>Dependence on the CDM</b>	High	Medium	Medium	- Monitor CDM developments closely; - Monitor impacts on the system and periodically review the need for the reintroduction of a JI accreditation system.
<b>Loss of JI accreditation capacity</b>	Medium	Medium	Medium	- Keep JISC abreast of accreditation issues.

**Table 3. Implementation plan for option 1**

Action	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Decision by JISC 34	X							
Development of transitional provisions		X						
Approval of transitional provisions by JISC			X					
Finalization of ongoing JI assessments				X				
Reporting and monitoring to the JISC/CMP				X				X
Effective date of change					X			

#### 4.4. Option 2 assessment

27. The following are possible advantages and disadvantages of option 2, as compared to option 1.
28. Advantages:
- (a) Environmental integrity: Enhanced oversight and hence higher confidence as compared to option 1;
  - (b) Credibility and reputation: Enhanced oversight and hence reduced credibility and reputational risk in comparison with option 1;



- (c) Dependence: By retaining a certain degree of oversight over JI accreditation, option 2 offers increased independence from the CDM as compared to option 1. The level of oversight will allow the JISC to monitor the quality of determination/verification work, and to implement punitive sanctions (e.g. suspensions) when required;
- (d) Capacity: Maintenance of a minimum level of capacity and accreditation know-how in the JI system;
- (e) Coherence: Option 2 allows for the consistent application of best practices in accreditation across the CDM and JI, by moving JI towards the CDM accreditation system, which is more developed. It would also ensure a consistent approach on accreditation between CDM and JI.

29. Disadvantages:

- (a) Cost: Additional costs as compared to option 1 for both the system and entities, as JI accreditation would be maintained and accreditation assessments would be conducted;
- (b) Operational aspects: Option 2 is significantly more complex than option 1, and it requires the CDM Executive Board and the JISC to coordinate on matters related to accreditation. Challenges include:
  - (i) Managing operational costs of the CDM-AP between CDM and JI;
  - (ii) Managing the reporting lines of the CDM-AP to both the CDM Executive Board and the JISC;
- (c) Transition: Option 2 requires an unprecedented level of collaboration across CDM and JI. Agreements would have to be put in place to address the challenges listed in this paragraph, with the close involvement of accredited entities so as to minimize disruptions of JI determinations and verifications.

30. Table 4 below presents the risks associated with option 2 and proposed mitigation actions. Table 5 below presents a possible implementation plan.

**Table 4. Risk assessment and proposed mitigation measures for option 2**

Item	Magnitude (M)	Frequency (F)	Risk (MxF)	Proposed mitigation measures
<b>Decreased environmental integrity</b>	Medium	Medium	Medium	- Introduce a procedure for direct communication with stakeholders; - Monitor impacts on the system and periodically review the need for the reintroduction of an independent JI accreditation system.
<b>Decreased credibility and reputation</b>	Low	Medium	Low	- Actively communicate the rationale of the changes to the JI accreditation system through increased activity

Item	Magnitude (M)	Frequency (F)	Risk (MxF)	Proposed mitigation measures
				by communications team and engagements by the JISC chair and vice-chair.
<b>Dependence on the CDM</b>	Medium	Medium	Medium	- Monitor CDM developments; - Monitor impacts on the system and periodically review the need for the reintroduction of an independent JI accreditation system.
<b>Operational complexity</b>	High	High	High	- Establish an effective communication channel with the CDM-EB.
<b>Transitional complexity</b>	High	Medium	High	- Establish an effective communication channel with the CDM-EB; - Ensure availability of resources to build the required transitional structure.

Table 5. Implementation plan for option 2

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Decision by JISC 34	X							
Dialogue with CDM-EB		X	X					
Development of transitional provisions				X				
Approval of transitional provisions by JISC and CDM-EB						X		
Finalization of ongoing JI assessments							X	
CDM system amendments (workflow/report templates)							X	
Training of CDM Assessment Team and CDM-AP on JI determinations and verifications							X	
Effective date of change								X
Transfer of determinations and verifications activities to DOEs								X
Reporting and monitoring to the JISC/CMP								X

## 5. Recommendations to the JISC

31. The secretariat recommends that the JISC:

- (a) Adopt option 2, subject to endorsement by the CDM Executive Board;
- (b) Initiate a dialogue with the CDM Executive Board with a view to reaching a common decision on accreditation.

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### Document information

<i>Version</i>	<i>Date</i>	<i>Description</i>
01.0	3 March 2014	Initial publication as an annex to the annotated agenda of JISC 34. See also JI-JISC33-AA-A01 and JI-JISC32-AA-A01.
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