

**JI-JISC37-AA-A04**

Concept note

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Options for the JI accreditation system

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Procedural background

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its tenth session, mandated the Joint Implementation Supervisory Committee (JISC) and the Executive Board of the clean development mechanism (CDM) to collaborate in considering the establishment of a joint accreditation committee.<sup>1</sup>
2. The CDM Executive Board, at its eighty-second meeting (20 February 2015), expressed the view that a joint accreditation committee may not be the most appropriate form for synergy on this matter.
3. The JISC, at its thirty-sixth meeting (13 March 2015), agreed, in principle, to fully rely on the accreditation system under the CDM for its accreditation decisions under joint implementation (JI), i.e. entities accredited as designated operational entities (DOEs) under the CDM (accredited under the authority of the CDM Executive Board) will be used to perform determinations and verifications under JI. In this regard, the JISC requested the secretariat to prepare a concept note **identifying possible impacts, measures to address risks, and a plan for how to implement the approach**, to be considered by the JISC at its thirty-seventh meeting with a view to taking a final decision to fully rely on the accreditation system under the CDM.
4. Under the mandate contained in decision 6/CMP.10, the chairs and vice-chairs of the JISC and the CDM Executive Board held an informal interaction on the side-lines of the subsidiary body meetings in Bonn in June 2015, including a discussion on the synergies related to accreditation.
5. The CDM Executive Board, at its eighty-fifth meeting further discussed the collaboration with the JISC on synergies relating to accreditation under the mechanisms of the Kyoto Protocol and, as there was no consensus on the matter, agreed not to consider the matter further.

## 2. Purpose

6. The purpose of this paper is to provide information on possible impacts, measures to address risks and a plan for how to implement the approach for the full reliance on the CDM accreditation system, so that the JISC may take an informed decision regarding its the reliance on the CDM accreditation system.

## 3. Key issues and proposed solutions

### 3.1. Key issues

7. Several issues currently confront the JI accreditation system:
  - (a) The number of accredited independent entities (AIEs) decreased significantly in recent years and now only two AIEs remain (AENOR JI-E-0009 and TUV NORD JI-E-0012). The accreditation of these two AIEs will expire in 2016 (June and August respectively) and there is no certainty that they will apply for

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<sup>1</sup> Decision 6/CMP.10.

reaccreditation. Therefore it is possible that there may be only one or no AIEs by the end of 2016;

- (b) Very little work is foreseen for AIEs and subsequently for the JI Accreditation Panel (JI-AP), and the JI accreditation system as a whole. There are costs associated with maintaining the JI accreditation system and the expected workload may not justify the continuing maintenance of the JI accreditation system;
- (c) A duopoly, of two AIEs, is insufficient to provide competitive services to the market.

### 3.2. Option 1: Maintain the status quo

- 8. This option would see the maintenance of the JI accreditation system without any changes.
- 9. The JI accreditation system consists of the following main elements:
  - (a) **Governance:**
    - (i) The JI-AP and its membership;
    - (ii) Meetings of the JISC, as the policy and accreditation standard setting body;
  - (b) **Regulatory framework:**
    - (i) Appendix A to the JI guidelines<sup>2</sup>, the JI accreditation standard (version 1) and the JI accreditation procedure (version 7)<sup>3</sup>;
  - (c) **Operations:**
    - (i) Accreditation assessments (initial accreditation, performance assessments, regular surveillance etc.) and associate fees;
    - (ii) AIEs;
    - (iii) JI accreditation roster of experts;
  - (d) Secretariat support and policy work regarding the above items.

### 3.3. Option 2: Reliance on CDM accreditation system

- 10. This option would halt many of the elements outlined in the status quo option above.<sup>4</sup> DOEs would act as AIEs for the provision of determination and verification services in JI.
- 11. Reliance on the CDM accreditation system consists of the following main elements:
  - (a) **Governance:**

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<sup>2</sup> Decision 9/CMP.1, annex

<sup>3</sup> Procedure for accrediting independent entities by the Joint Implementation Supervisory Committee.

<sup>4</sup> This solution was outlined as option 1 in the concept note "Future developments of the JI accreditation system" (JI-JISC34-AA-A01).

- (i) Meetings of the JI-AP would be suspended and membership would be dissolved. The JISC would have no influence over decisions made in the CDM accreditation system;
  - (ii) The JISC would apply immediately, *mutatis mutandis*, all CDM Executive Board decisions regarding accreditation, such as initial accreditations, reaccreditations and suspensions, to activities carried out by DOEs acting as AIEs;
  - (iii) Neither the JISC nor the CDM Executive Board would provide oversight to JI determination and verification activities. The performance of DOE's acting as AIEs would in no way influence the outcomes of DOE performance monitoring;
  - (iv) The JISC, as the accreditation body for JI, would retain the authority to suspend and withdraw the accreditation of DOEs to act as AIEs. Withdrawal or suspension decisions by the JISC would only be in relation to JI functions carried out by the DOE acting as an AIE.
  - (v) Calls for JI assessment team experts would be suspended. The membership of the accreditation roster of experts would be dissolved;
  - (vi) In order to ensure the stability of this proposed option, the JISC should report the approach to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) so that the CMP may endorse the option.
- (b) **Regulatory framework:** All previous decisions and regulatory documents related to JI accreditation would be suspended. Instead, the JISC would rely on the CDM to supply DOEs that may wish to act as AIEs;
- (c) **Operations:**
- (i) Effective immediately, the JISC would not accept any application for reaccreditation or initial accreditation;
  - (ii) DOEs **may** act as AIEs; that is, DOE participation in JI would be voluntary. DOEs acting as AIEs would be used within the JI system to conduct JI determinations and verifications;
  - (iii) DOEs would only act as AIEs for the same sectoral scopes for which they are designated under the CDM. DOEs designated for sectoral scope 15 would be able to act as AIEs for the sectoral scope of land use, land-use change and forestry under JI. As there is no corresponding scope in JI, DOEs designated for sectoral scope 16 (under the CDM accreditation standard) would not be able to act as AIEs for carbon capture and storage activities;
  - (iv) Entity assessment activities would be suspended;
  - (v) AIEs would maintain all internal systems until the effective date.
12. Reliance on the CDM accreditation system would be effective from 2 August 2016.

### 3.4. Option 3: Dormant mode for JI accreditation system

13. Option 3 would see the retention of the current JI accreditation governance system, regulatory framework and operations while freezing any new policy developments and minimizing, to the extent possible, overhead costs. The two remaining AIEs would have their assessment costs (and application fees) for reaccreditation waived and their accreditation would be extended automatically by up to five years. The application fee for any applicant entities would equally be waived although they would be charged the initial-accreditation assessment fee. Further, the two remaining AIEs would not be subject to regular surveillance; rather, a request for determination or verification would trigger a regular surveillance and a performance assessment.

## 4. Impacts

### 4.1. Option 1: Maintain the status quo

14. This option is the maintenance of the JI accreditation system with oversight by the JISC.

#### 4.1.1. Positive impact

15. The **stability** of the regulatory framework would be maintained.
16. “Normal” operations of the JI accreditation system would **maintain capacity** of all the actors involved in the JI accreditation system (e.g. JI-AP, secretariat staff, JI accreditation roster of experts and AIEs).
17. **Independent oversight** would be maintained. The JISC would continue its oversight over the JI accreditation system allowing flexibility to address policy issues as and when they arise.
18. The JISC would **ensure competence** of the AIEs. Where necessary the JISC could demand additional assessments to ensure that AIEs meet the requirements of the JI accreditation standard.

#### 4.1.2. Negative impact

19. The number of **AIEs decreased significantly** in recent years and now only two AIEs remain. Therefore it is possible that there may be only one or no AIEs by the end of 2016.
  - (a) Magnitude: AIEs are a pre-requisite for JI track 2. Without AIEs, JI track 2 would cease to function, and no determinations or verifications could be carried out. Host Parties for JI track 1 projects may also use AIEs and would be similarly impacted. Therefore the magnitude is considered high.
  - (b) Measures:
    - (i) If this option is selected the JISC may agree to accept this risk;
    - (ii) Consider subsidizing the costs of entity accreditation to encourage continued participation in the system.

20. There are **costs arising from maintaining the JI accreditation system** and the expected workload may not justify the continuing maintenance of the JI accreditation system. Little work is foreseen for AIEs and subsequently little work is expected for the JI-AP and the JI accreditation system as a whole.
- (a) Magnitude: Given the low volumes of work associated with the JI accreditation system, the cost is low.
  - (b) Measures: If this option is selected the JISC may agree to accept the costs associated with maintaining the status quo.
21. A duopoly, of two AIEs, is insufficient to provide **competitive services** to the market.
- (a) Magnitude: Given the low volumes of work there is little opportunity for AIEs to be charging potentially uncompetitive rates to project participants. Therefore the magnitude is low.
  - (b) Measure: If this option is selected the JISC may agree to accept this risk.

#### 4.2. Option 2: Reliance on CDM accreditation system

22. Reliance on the CDM accreditation system has several impacts as compared to maintaining the status quo. However, these impacts need to be considered within the context of the very low levels of JI track 2 activities (one verification in 2014, no submissions so far in 2015 and none expected for 2016). Therefore the magnitude of all the impacts outlined below is limited.

##### 4.2.1. Positive impacts:

23. **Decrease in costs to the JISC** – savings would be realized from not maintaining the JI accreditation system. While the system is already largely dormant, there would be savings regarding secretariat support to accreditation assessments, electronic decision-making by the JI-AP and membership of the JI-AP and JI accreditation roster of experts.
- (a) Magnitude: Savings would be in the form of staff time from not maintaining the JI accreditation system.
24. **Decrease in costs to AIEs** – the remaining two AIEs are also DOEs. Allowing DOEs to act as AIEs would save these entities the cost of maintaining multiple accreditations.
- (a) Magnitude: JI accreditation costs borne by AIEs are at least USD 7,000 per entity per year.<sup>5</sup>
25. **Certainty of supply of determination/verification services** – there are 39 DOEs that could potentially act as AIEs, giving confidence that project participants could get access to determination/verification services. Currently there are only two AIEs and there is no certainty that they will apply for reaccreditation (due by the end of 2015). Without DOEs acting as AIEs, JI could find itself without any capacity to independently determine and verify JI projects.

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<sup>5</sup> This only represents the costs of the accreditation assessments and the application fee. In addition, entities bear costs from maintaining compliance with the accreditation standard (internal audits, quality management system, impartiality committee meetings, etc.).

- (a) Magnitude: Accredited entities for determination/verification services are a precondition for the JI mechanism to function. Non-existence of entities providing determination/verification services would effectively halt the JI mechanism. Therefore the positive magnitude of this option would be high.
26. **Decrease in costs to project participants** – allowing DOEs to act as AIEs will increase competition for JI determination and verification services. This will benefit the customers (project participants and project developers) in the form of more competitive pricing and a wider range of service providers to choose from.
- (a) Magnitude: Given the low number of submissions of determination/verification reports forecasted, few customers would be able to benefit from the increase in competition. The magnitude of decreased costs is considered to be low.
27. **Adopt best practice** – JI can benefit from the track record and experience of the CDM accreditation system. In addition, DOEs are subject to more assessments compared to AIEs (e.g. AIEs are subject to one regular surveillance per five-year term compared to DOEs which are subject to two regular surveillances per five-year term).
- (a) Magnitude: Given the low number of submissions of determination/verification reports forecasted, there would be few opportunities for DOEs to bring their experience to bear in the JI context. Therefore the magnitude is considered to be low.

#### 4.2.2. Negative impacts:

28. **Regulatory instability** – The remaining two AIEs may perceive unfairness from extending accreditation to DOEs after they had paid and made the effort to have their JI accreditation renewed.
- (a) Magnitude: The accreditation of the existing AIEs is due to expire in 2016 and both entities have already paid for their most recent reaccreditations and regular surveillances (completed earlier in 2015 year). No further JI accreditation costs are foreseen for the two remaining AIEs. However, until the expiry of accreditation the AIEs should continuously bear costs for maintaining systems and staff competencies for JI determination/verification activities. In being granted accreditation, the AIEs were given a right to be the exclusive determination/verification service providers for JI. If such right is given to all DOEs without necessitating any additional efforts or costs, it would be perceived that the regulator is not treating entities fairly. On the other hand, this unfairness is of a transitory nature (until the expiry of accreditation of the remaining two AIEs) and the activity of these AIEs in determination and verification has been low, with no activity in more than one year (under track 2). Therefore, the magnitude of this impact is considered to be moderate;
- (b) Measures:
- (i) Delay the entry into force of this option until 2 August 2016, allowing time for the accreditation of the existing AIEs to expire;
- (ii) Communicate the changes and the rationale to the AIEs.



29. **Loss of JI accreditation capacity** – specific JI accreditation expertise and capacity would be lost as the JI-AP, JI accreditation roster of experts and related activities cease.
- (a) Magnitude: The most recent physical meeting of the JI-AP was in August 2013. Suspending the work of the JI-AP will give some formality to the current de facto dormancy of the JI accreditation work. The most recent accreditation assessments (regular surveillance) were concluded at the thirty-sixth meeting of the JISC. Therefore the magnitude is low;
  - (b) Measures: The secretariat could report to the JISC on a regular basis regarding experience of using the CDM accreditation system for JI.
30. **Dependence on CDM** – the JISC would forfeit its decision and oversight role regarding accreditation activities, given that decisions by the CDM Executive Board on accreditation would apply immediately, mutatis mutandis. Entities only wishing to be active in JI would no longer have that option open to them. The only way to become active in JI would be to first seek DOE accreditation.
- (a) Magnitude: The magnitude is considered to be low:
    - (i) There have been few accreditation decisions, few complaints and the JISC may re-introduce its accreditation system at any time;
    - (ii) The systems of DOEs acting as AIEs would be periodically assessed through the regular surveillance process under the CDM. The regular surveillance process is conducted twice as often under CDM than under JI;
    - (iii) Loss of the complaints process would erode the rights of clients and stakeholders vis-à-vis the status quo and would present a reputational risk;
    - (iv) To date there have only been a few instances where an AIE was not also a DOE. Therefore it is deemed unlikely that an entity would come forward to seek DOE accreditation only to act as an AIE;
  - (b) Measures:
    - (i) The secretariat or the JISC would respond immediately to any egregious breaches, by DOEs acting as AIEs, of the JI regulatory framework. Based on such breaches the JISC could exercise its authority as the accreditation body to suspend or withdraw the accreditation of DOEs acting as AIEs.
    - (ii) The secretariat could monitor the evolution of the CDM accreditation system and report relevant changes to the JISC;
    - (iii) Starting in the first quarter of 2017, the JISC could review on a yearly basis the experience of adopting the CDM accreditation system and the need to re-introduce an independent JI accreditation system;
    - (iv) The JISC could review and confirm all CDM Executive Board decisions impacting the accreditation status of DOEs (i.e. initial accreditation/reaccreditation, suspension, etc.). Such a review would be narrow in scope as information on the compliance of DOEs with accreditation requirements is confidential to the CDM Executive Board.

31. **Lack of competence** – DOEs acting as AIEs may not have sufficient competence to conduct determinations and verifications under JI, in particular for projects applying the JI-specific approach.
- (a) Magnitude: Approximately 65 per cent of the track 2 projects deemed final (as per paragraph 35 of the JI guidelines) apply CDM methodologies in totality. The remaining track 2 projects apply the JI-specific approach, which often relies on parts of CDM methodologies. In addition, the number of forecast submissions is low and therefore the overall magnitude is considered to be low;
  - (b) Measures:
    - (i) The JISC would need to determine a new way to assess the quality of the work performed by DOEs acting as AIEs. This could be done by enhancing the project appraisal of track 2 requests for determination and verification. Project appraisal is currently done by two external experts. To ensure the ongoing quality of submissions, appraisals of requests for determination and verification could be done by one external expert and by secretariat staff;
    - (ii) Require all DOEs that wish to act as AIEs to submit, before or with the first request to the JISC, a self-declaration that they are competent to determine and verify projects applying the JI-specific approach. Thereafter, require the DOEs to submit their self-declaration annually;
    - (iii) Starting in the first quarter of 2017, the JISC could review on a yearly basis the experience of adopting the CDM accreditation system and the need to re-introduce an independent JI accreditation system.

#### 4.3. Option 3. Dormant mode for JI accreditation system

32. This option has the potential to maintain the JI accreditation system as a viable contender, with accredited entities, with the downside that it will be more expensive.

##### 4.3.1. Positive impacts

33. This option increases the likelihood that the **two existing AIEs will remain accredited** and may even encourage additional entities to apply for accreditation.
34. **Overhead costs** associated with maintaining the accreditation system would be reduced (less policy work and less effort devoted to accreditation).

##### 4.3.2. Negative impacts

35. While the overhead costs would be reduced, waiving the application fee would mean **forgoing fees** and subsidizing accreditation assessments would **increase the costs** to the JISC.
- (a) Magnitude: The application fee is USD 15,000. If both AIEs were to automatically extend their accreditation it would mean forgoing USD 30,000 in revenue in 2016. Should further entities be encouraged to apply it would mean forgoing further revenue. In addition, costs would have to be borne from waiving the accreditation assessment costs (between USD 9,500 and USD 11,500 per assessment). In

relation to the size of the JI budget (around 0.8 million USD for 2016) this cost is small and therefore the magnitude is low;

- (b) Measure: The JISC may agree to accept this increase in cost.
36. Automatic extension of accreditation would mean that the entity would not have to submit itself to the reaccreditation assessment. This would **weaken the oversight of the JISC** over the entity and lapses in compliance with the JI accreditation standard would go unaddressed.
- (a) Magnitude: The systems of an AIE are checked at initial accreditation, regular surveillance and at reaccreditation. Skipping the reaccreditation assessment would approximately halve the oversight. However, the entities would not be submitting many requests for determination or verification. Therefore the impact is moderate.
  - (b) Measures:
    - (i) Rather than triggering a regular surveillance when the request for determination or verification is received, the option could be amended to demand that a regular surveillance be concluded before a project determination or verification request is submitted to the secretariat or concluded before the entity even begins work on the project. This would ensure that the entity is compliant with the accreditation standard before the request for determination or verification is submitted to the secretariat;
    - (ii) Increase scrutiny of requests for determination and verification of track 2 projects.
37. The JISC would face **reputational risks** from decreasing oversight of compliance of AIEs with the JI accreditation standard.
- (a) Magnitude: In light of the recent high-profile publication of articles by the Stockholm Environment Institute and by Nature Climate Change regarding the integrity of emission reductions under JI, the magnitude is moderate;
  - (b) Measures: The JISC may wish to elaborate a communications strategy to mitigate any reputational risk.

## 5. Subsequent work and timelines

38. Table 1 below provides an overview of the timeline and a more detailed implementation plan. This section corresponds to the implementation of option 2 above (reliance on the CDM accreditation system).

**Table 1. Implementation plan**

Nr	Activity	Q4 15'	Q1 16'	Q2 16'	Q3 16'	Q1 17'
1	JISC 37 decision and communication to AIEs and DOEs	✓				
2	Report to the CMP	✓				

Nr	Activity	Q4 15'	Q1 16'	Q2 16'	Q3 16'	Q1 17'
3	Effective date				✓	
4	Report to the JISC on experience					✓

39. JISC 37 decision and communication to AIEs and DOEs:
- (a) Inform the AIEs, via e-mail, of the JISC decision regarding reliance on the CDM accreditation system;
  - (b) Inform DOEs, via e-mail, of the JISC decision regarding reliance on the CDM accreditation system and that DOEs may voluntarily opt to act as AIEs.
40. Report to the CMP: Inform the CMP regarding the response of the JISC to decision 6/CMP.10 and seek endorsement of the agreed solution.
41. Effective date:
- (a) Grant DOEs that opt to act as AIEs access rights to the JI interface and send them a communication confirming that they may henceforth act as AIEs;
  - (b) Update the AIE pages on the UNFCCC JI website to reflect the fact that DOEs may act as AIEs;
  - (c) Dissolve the JI accreditation roster of experts and send roster members a communication accordingly;
  - (d) Dissolve the JI-AP and send panel members a communication accordingly.
42. Report to the JISC on experience: After one year of experience, the secretariat is to provide the JISC with an update on the implementation of the decision to rely on the CDM accreditation system.

## 6. Budget and costs

43. Costs due to option 1 (status quo) can be borne within the existing system assuming that the present scenario of minimal or no JI activities continues.
44. Option 2 (reliance on the CDM accreditation system) does not foresee any additional costs to the JISC.
45. Option 3 (dormant mode for JI accreditation system) foresees a loss of revenue and a possible increase in costs to the JISC. The magnitude for 2016 would be forgone revenue of USD 30,000.<sup>6</sup>

## 7. Recommendations to the JISC

46. The secretariat recommends that the JISC:

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<sup>6</sup> Based on foregone revenue of USD 30,000. This cost estimate assumes that both the current AIEs elect to renew their accreditation and that no determination or verification requests are submitted in 2016 – which would trigger the regular surveillance assessment entailing subsidy costs to the JISC.

- (a) Consider the impacts and risks of full reliance on the CDM accreditation system before taking a final decision;
- (b) Decide on a policy option for the JI accreditation system.

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### Document information

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