



Necessary level of resources for the functioning and operation of the processes and institutions under the clean development mechanism

Technical paper by the secretariat

Summary

This technical paper was prepared to support the Subsidiary Body for Scientific and Technological Advice at its sixtieth session in considering the functioning and operation of the processes and institutions under the clean development mechanism in the future. The paper presents estimates of the financial resources required for future operations under the clean development mechanism for various time frames related to the deadline for submitting requests for issuance of certified emission reductions, and the projected year-end balances of the trust fund for the clean development mechanism under those scenarios. It includes the assumptions and considerations applied in the estimation and a list of the activities and processes under the clean development mechanism considered essential to its operations and functions.



I. Introduction

A. Mandate

1. At its eighteenth session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) requested the secretariat to prepare a technical paper on the necessary level of resources for the functioning and operation of the processes and institutions under the clean development mechanism (CDM), taking into account the deadline for submitting requests for issuance of certified emission reductions (CERs) proposed in the technical paper by the secretariat on the functioning and operation of the processes and institutions under the CDM in the future,¹ for consideration by the Subsidiary Body for Scientific and Technological Advice (SBSTA) at its sixtieth session.²

B. Scope

2. This technical paper presents estimates of the resources required for operations under the CDM for time frames between 2025 and 2032.

3. The resource estimates presented in the paper are indicative and do not prejudice the outcome of future discussions on the CDM two-year business and management plans or other decisions of the CDM Executive Board.

C. Possible action by the Subsidiary Body for Scientific and Technological Advice

4. The SBSTA may wish to consider the resource estimates herein and decide on possible time frames regarding the functioning and operation of the processes and institutions under the CDM.

II. Estimation of resources for future operations under the clean development mechanism

A. Assumptions

5. Requests for issuance of CERs are the main driver necessitating the continuation of certain operations under the CDM. According to the analysis by the secretariat presented in the technical paper referred to in paragraph 1 above, more than 90 per cent of the monitoring reports for CDM projects or programmes of activities have been submitted within five years of the occurrence of the corresponding emission reductions.

6. Therefore, considering that the latest possible end date of the monitoring period under the CDM was 31 December 2020, the requests for issuance of CERs relating to emission reductions occurring until 31 December 2020 are expected to be submitted in the time remaining until 31 December 2025 or any other later date.

7. According to the same analysis, the projected number of such requests for issuance is between 700 and 850.³ The narrow range of these figures can be attributed to the clear definition of possible use of the CERs towards achieving first and first updated nationally determined contributions and for voluntary cancellation purposes.

8. For the purpose of estimating the necessary level of resources for the functioning and operation of the processes and institutions under the CDM, taking into account the deadline for submitting such requests proposed in the technical paper referred to in paragraph 1 above,

¹ FCCC/TP/2023/3.

² Decision 1/CMP.18, para. 13.

³ Approximately 150 million to 180 million CERs are associated with the 700–850 requests.

approximately 750 requests for issuance of CERs (i.e. near the lower end of the range presented in para. 7 above) was the number used to estimate staff time and associated costs should the deadline for submitting issuance requests be between 2025 and 2030.

9. The operations under the CDM that would continue to function until the year in which the processing of CER issuance requests concludes are listed in the annex.

10. For the subsequent years in which requests for CER issuance are being processed after the deadline for submitting such requests, the cost estimates provided in the table below do not cover activities such as secretariat interaction with stakeholders, including the regional forums for designated national authorities; Nairobi Framework coordination and other regional activities; external engagement activities, communications and media-related activities; skills development and learning activities; and quality management of CDM products.

11. The key components of the resource estimates are staff costs, including salaries and benefits; non-staff costs, such as overhead and administrative costs; and fixed costs for the annual maintenance of CDM information technology (IT) infrastructure (including both software and systems) such as the CDM registry, the CDM information system and the United Nations online platform for the voluntary cancellation of CERs.

12. The table below presents the projected year-end balances for the trust fund for the CDM under various scenarios of time frame for winding down CDM operations and associated costs. The end balance is based on the estimate of carry-over from 2024 into 2025, which is USD 29,254,683.⁴

Projected year-end balances of the trust fund for the clean development mechanism under various scenarios

<i>Last CER issuance request</i>	<i>Processing years</i>	<i>Year in which CDM operations cease</i>	<i>Estimated costs (USD)^a</i>	<i>Projected year-end balance (USD)^b</i>
2025	2025–2026	2027	16 465 306	12 780 377
2026	2025–2027	2028	19 065 764	10 179 919
2027	2025–2028	2029	21 863 129	7 382 554
2028	2025–2029	2030	23 872 865	5 372 818
2029	2025–2030	2031	25 094 970	4 150 713
2030	2025–2031	2032	25 529 445	3 716 238

^a Excludes any potential future increases in staff costs due to inflation and excludes grants for the CDM Executive Board for administrative support and IT-related expenses (e.g. software and equipment).

^b Excludes USD 45 million held in reserve and any potential future income.

B. Other cost considerations

13. It is anticipated that additional financial resources will be needed to support the continuation of CDM registry operations until the CMP decides how long they will continue and how any Kyoto Protocol units remaining in the CDM registry will be handled.

14. Other costs to be considered include those associated with the possibility of CDM project participants requesting withdrawal of submitted requests for registration that were not successful due to incompleteness or were rejected and requesting reimbursement of an appropriate level of fees paid during the registration process. The potential liability related to the withdrawal of requests for registration is estimated at USD 10 million.

15. Additionally, there will be liabilities in the form of administrative and personnel expenses, such as indemnity and entitlement payments related to staff contracts.

16. The above-mentioned liabilities would likely need to be paid from the USD 45 million held in reserve in the CDM trust fund.

⁴ See CDM Executive Board document CDM-EB119-A06, table 11.

C. Income from share of proceeds

17. The amount of income from the share of proceeds to cover administrative expenses is dependent on the number of CER issuance requests received, while the timing of income receipt depends on the year that the CMP selects as that in which the last issuance requests can be submitted for processing.

18. Assuming there will be 750 issuance requests, some of which are expected to come from the least developed countries and small island developing States, income from the share of proceeds is conservatively estimated at USD 20 million.

Annex

Activities and processes included in the resource estimates for future operations under the clean development mechanism

<i>Process</i>	<i>Activities</i>
Project assessment	Processing requests for issuance of CERs for project activities and programmes of activities for emission reductions occurring until 31 December 2020 Processing requests for post-registration changes linked to the above
CDM registry operations	Implementing changes to modalities of communication and transaction Preparing registry reports Maintaining the United Nations online platform for voluntary cancellation of CERs
Accreditation of designated operational entities	Conducting performance assessments Conducting both regular surveillance and spot checks
Servicing of panels	Providing support for CDM Accreditation Panel meetings Providing support for CDM Methodologies Panel meetings
Servicing of the regulatory body	Providing support for CDM Executive Board meetings ^a Providing legal support Providing advice on governance matters related to the CDM Executive Board Managing the documents of the CDM Executive Board and its support structure
Accreditation	Carrying out designated operational entity administration Planning designated operational entity assessments Implementing designated operational entity performance monitoring system Handling complaints and requests for review
Methodologies	Processing requests for new methodologies and for clarification of, deviation from, and revision to methodologies and methodological tools, as well as other methodological requests ^b Processing methodological requests from the CDM Executive Board
Regulatory management	Maintaining regulatory documents
Interaction with stakeholders	Responding to external queries
Cross-cutting internal administrative activities	Providing strategic coordination and oversight Providing human resources and financial management Providing data management Providing information and knowledge management

^a Excludes providing additional benefits for members and alternate members of the CDM Executive Board.

^b For example, submissions from designated national authorities on automatic additionality of micro-scale technologies, on recognition of a special underdeveloped zone or on changes to the definition of forest.