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GERMAN CDM MANUAL - GUIDANCE FOR APPLICANTS

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Federal Environment Agency
German Emissions Trading Authority
Postfach 33 00 22
14191 Berlin
Germany
emissionshandel@uba.de
<http://www.umweltbundesamt.de/emissionshandel/>

Editors:

Martina Jung, Niklas Höhne, Christian Ellermann
Ecofys Germany GmbH
Niederlassung Köln
Eupener Straße 59
D-50933 Köln
info@ecofys.de
www.ecofys.de

Technical and scientific steering:

Malin Ahlberg, Sebastian Hönicke, Kartsen Karschunke, Wolfgang Seidel
Section E 1.5 JI/CDM of the German Emissions Trading Authority (German DNA an DFP)

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INTRODUCTION

1.1. Goal of the manual

This manual has been developed by the German DNA (DEHSt) in order to offer guidance to project proponents of a Clean Development Mechanism's (CDM) project under the Kyoto Protocol. The manual contains some background information on the carbon market and the Clean Development Mechanism but focuses on the concrete steps related to the CDM project cycle and its related procedures as well as guidance for those wishing to submit a request for investor country approval with the German DNA. Furthermore, project proponents may consult the [FAQ section of the DEHSt website](#)¹.

For those searching for more general information on international climate policy and the project-based mechanisms of the Kyoto Protocol, the Federal Ministry for Environment, Nature Conservation and Nuclear Safety (BMU) has elaborated the brochure [Die projekt-basierten Mechanismen CDM & JI - Einführung und praktische Beispiele](#) (in German only).

More background information on CDM and JI, especially on current activities of the BMU fostering the engagement of the private sector in the field of the project-based mechanisms can be found at the website: <http://www.jiko-bmu.de>.

1.2. How to use this manual

The manual is designed in a way which allows its use as

- a navigable document for online use (with external and internal links)
- a printable manual

In order to keep the manual as up-to-date as possible, we have only incorporated the most important information in the text, while working with hyperlinks to direct the user to the relevant websites (mostly the UNFCCC website) for information which change more or less frequently. By clicking on the hyperlinks ([underlined, blue text elements](#)), the user is directed to the respective website (or section of the manual). Additionally, the URL of the hyperlink is

¹ http://www.dehst.de/cIn_007/nn_946810/DE/Service/FAQs/JI_CDM/faqJI_CDM_node.html_nnn=true

repeated in a footnote. When using links inside this manual you can go back to the previous section in the document by clicking the right button of your mouse and then select 'previous view'.

Furthermore, the manual includes a glossary of the most important terms related to the Clean Development Mechanism.

2. CARBON MARKET - THE BASICS

2.1. The Kyoto Protocol and the flexible mechanisms

In 1992, at the 'Earth Summit' in Rio de Janeiro, the international community adopted the United Nations Framework Convention on Climate Change (UNFCCC). Five years later, the Parties to the UNFCCC agreed to binding emission reduction or stabilisation targets, known as the 'Kyoto Protocol'. In the Kyoto Protocol, industrialized countries and some countries with economies in transition (the so-called Annex I countries) committed themselves to reducing their greenhouse gas emissions in the period 2008-2012 by in total five percent below 1990 levels. Emission reduction targets however are different from one country to the other. This agreement creates international emission certificates, and thus the international carbon market, the EU emissions trading system and its linking to JI and CDM.

The Kyoto Protocol comprises three innovative market mechanisms, the so-called flexible mechanisms:

- Emissions Trading (ET)
- Joint Implementation (JI)
- Clean Development Mechanism (CDM)

Flexible mechanisms can be used by Annex I countries to meet their greenhouse gas reduction targets. JI and the CDM are project-based mechanisms under which emission reductions can be achieved through climate projects in other countries. While projects under JI take place in countries with a Kyoto target (Annex I countries), the CDM involves climate projects in developing countries. The idea behind project-based mechanisms is that (public and private) Annex I country entities invest in climate projects in other countries and receive in return emission credits generated in the project which can be used for the fulfillment of the Kyoto target of the respective Annex I country. The flexible mechanisms allow emission reductions to take place where they are most cost-effective, thus reducing the cost of compliance with the Kyoto targets.

The text of the Kyoto Protocol is rather general in nature. Therefore, technical details relating to the Kyoto Protocol and concrete rules and modalities for the implementation of the flexible

mechanisms were elaborated in the following years. The most important package of these rules was finalized at COP 7 in Marrakech, therefore often referred to as the Marrakech Accords.

2.2. Types of emission certificates under the Kyoto Protocol

In order to be able to compare the six greenhouse gases included in the Kyoto Protocol, the amount of each gas is expressed in Carbon dioxide equivalents, abbreviated CO_{2eq}. For each ton of CO_{2eq} a country emits into the atmosphere, it has to present an internationally accepted emission certificate at the end of the Kyoto commitment period. Four types of emission units can be used for compliance under the Kyoto Protocol:

- **Assigned Amount Units (AAU):** Emission allowances assigned to the Annex I countries
- **Emission Reduction Units (ERU):** Credits generated by JI projects (in Annex I countries)
- **Certified Emission Reductions (CER):** Credits generated by CDM projects (in developing countries)²
- **Removal Units (RMU):** Certificates granted for removal of CO₂ due to land use activities in Annex I countries (under Article 3.3 and 3.4 of the Kyoto Protocol).

2.3. The European Emission Trading Scheme

For the first commitment period (2008-2012) of the Kyoto Protocol, the European Union has accepted an emission reduction target³ of eight percent as compared to 1990 levels. The Kyoto Protocol does not specify how countries have to achieve targets and what measures they have to take. The Marrakech Accords⁴ state however that the use of the flexible mechanisms shall be “supplemental to domestic action and that domestic action shall thus constitute a significant element of the effort made by each Party included in Annex I”. This rule is relevant for the maximum contributed by JI and CDM to the individual national target.

In order to be able to meet the Kyoto target, the European Union has implemented the European Emission Trading Scheme (EU ETS) to which JI and CDM is linked. The EU ETS started in January 2005 and fixes emission limits for around 12,000 plants in the power sector and emission

² Afforestation and reforestation projects under the CDM generate expiring credits only. Two types of expiring credits exist, called tCER and ICERs.

³ The option for a group of countries to take over a common target is called a ‘bubble’.

⁴ See decision 2/CMP.1

intensive industries. The EU ETS is a cap-and-trade system just like that of the Kyoto Protocol, with the difference that emission limits of the EU ETS apply to installations (of certain sectors in the EU) and not to states as under Kyoto. It therefore transfers the incentive to reduce emissions from the country level to the respective sectors and individual installations of the EU member states. Installations covered by the EU ETS may trade emission certificates (called EUAs) allocated to them. This offers the opportunity for those installations which are 'short' of emission certificates to buy additional certificates on the carbon market, while installations with a surplus of certificates may sell certificates.

2.4. The EU Linking Directive

The [EU Linking directive](#)⁵ enables installations to also use emission credits from JI and CDM projects for compliance under the EU ETS, thus linking the EU ETS with the project-based mechanisms of the Kyoto Protocol. The most important restrictions of the EU law on the use of credits under the EU ETS are the following:

- Based on the Marrakech Accords, emission credits from projects involving **nuclear energy** are not eligible.
- Companies are not allowed to use credits from **Land use, Land-use change and Forestry (LULUCF) projects** towards compliance.
- In approving **large hydro projects** (greater than 20 MW), member states have to guarantee that the international criteria and guidelines of the World Commission of Dams have been taken into account.
- In order to avoid double counting, ERUs and CERs deriving (directly or indirectly) from projects involving installations covered by the EU ETS can only be issued if the same amount of EUAs is cancelled. The decision of the European Commission (November 13, 2006) on double counting is available here:
http://ec.europa.eu/environment/climat/emission/pdf/l_31620061116en00120017.pdf
- Each member state has to decide on the **maximum amount of CERs and ERUs** it will allow to be used towards compliance. In Germany installation operators taking part in the EU ETS may use up to 22 % of their allocated EUAs for surrendering.

⁵ Directive 2004/101/EC of the European Parliament and the Council of 27 October 2004
(http://ec.europa.eu/environment/climat/emission/pdf/dir_2004_101_en.pdf)

For recent decisions regarding the EU ETS and allocation plans, see the [website of the European commission](#)⁶.

2.5. The German Act Implementing the Project-Based Mechanism of the Kyoto Protocol (ProMechG)

On 22 September 2006, the “Act Implementing the Project-Based Mechanism of the Kyoto Protocol” (ProMechG)⁷ entered into force. With this act, the German government transposed the EU Directive that regulates integration of JI and CDM into the EU ETS according to the Linking Directive into German law.

Figure 1 illustrates the international context of the ProMechG. Since this act has entered into force, German companies involved in emissions trading may fulfil a part of their reduction commitments by emission certificates from climate projects abroad.

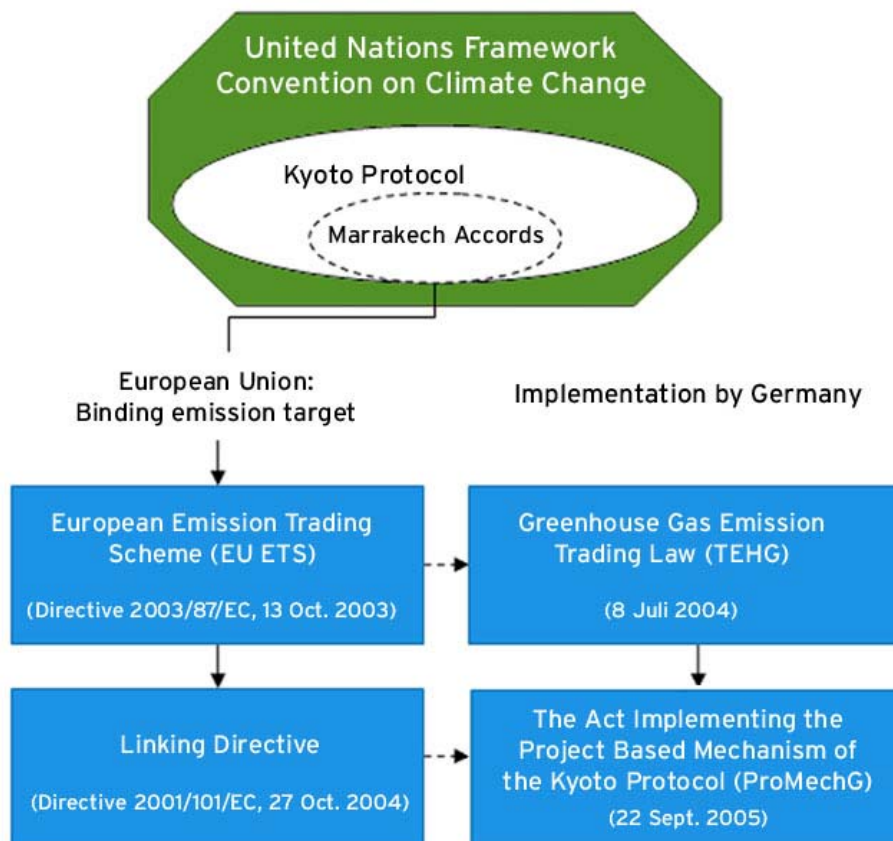


Figure 1: The international context of the ProMechG

⁶ http://ec.europa.eu/environment/climat/emission_plans.htm

⁷ In German called the Projekt-Mechanismen-Gesetz (ProMechG)

The Federal Environment Agency (Umweltbundesamt, UBA) which is the affiliated agency of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) is the legal authority for the administration of matters related to emission trading as well as JI and CDM. As the responsible division inside the Federal Environment Agency, the DEHSt (Deutsche Emissionshandelsstelle) is the Designated National Authority (DNA)/Designated Focal Point (DFP) and thus responsible for approval of CDM and JI projects.

The ProMechG and the international regulations, especially Article 12 of the Kyoto Protocol, the Marrakech Accords and the Linking Directive (Directive 2004/101/EC) determine the approach of the DEHSt for identifying, reviewing and approving CDM projects.

The ProMechG explicitly mentions that CDM projects must support sustainable development and have to be in line with national sustainable development strategies of the host country.

Furthermore, no serious adverse environmental impacts are to result from the projects.

The Linking Directive as mentioned excludes the use of credits from projects including nuclear as well as Land use, Land-use change and Forestry (LULUCF)⁸ under the EU ETS.

⁸ The treatment of credits from forestry projects is an issue in the revision of the EU ETS post 2012.

3. THE CLEAN DEVELOPMENT MECHANISM (CDM)

3.1. What is the Clean Development Mechanism (CDM)?

The CDM is one of the market mechanisms (the so-called flexible mechanisms) under the Kyoto Protocol. It allows countries with emission targets under the Kyoto Protocol (Annex I countries) to engage in emission reduction projects in developing countries (the so-called [non-Annex I countries](#)⁹) and use the emission reduction credits generated by these projects (the so-called Certified Emission Reductions, CERs) towards meeting their Kyoto target.

The purpose of the CDM is twofold: It is supposed to help Annex I country, the industrialised country in complying with its Kyoto target, while contributing to technology transfer to and sustainable development in the host country, the developing country.

3.2. Institutions relevant to the CDM

3.2.1. The COP/MOP

As the highest body of the Kyoto Protocol, the COP/MOP¹⁰ has the authority over the CDM. The parties to the Kyoto Protocol meet annually at the COP/MOP to discuss issues of the further development and implementation of the Kyoto Protocol.

⁹ http://unfccc.int/parties_and_observers/parties/non_annex_i/items/2833.php

¹⁰ COP/MOP is the abbreviation for 'Conference of the Parties (to the UNFCCC) serving as the Meeting of the Parties (to the Kyoto Protocol)'

3.2.2. CDM Executive Board

The CDM Executive Board (EB) supervises the actual operation of the CDM, under the authority and guidance of COP/MOP. The most important responsibilities¹¹ of the EB are:

- The approval of new baseline and monitoring methodologies;
- The approval and registration of CDM projects;
- The issuance of CERs;
- The development and maintenance of the CDM registry;
- The accreditation of [Designated Operational Entities \(DOEs\)](#);
- Making recommendations to the COP/MOP on further modalities and procedures for the CDM.

The EB consists of ten members and ten alternate members of the Parties to the Kyoto Protocol.¹² Since 2001, it has held meetings every two to three months.

Agendas of these meetings, meeting reports, relevant documents and webcasts are available at the [EB website](#)¹³.

¹¹ For more details see [Decision 3/CMP.1](#) 'Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol'

¹² One member from each of the five United Nations regional groups, two members each from Annex B and non-Annex B Parties (i.e., developing countries) and one from the group of small island developing states.

¹³ <http://cdm.unfccc.int/EB/index.html>

3.2.3. Panels and Working groups

A number of working groups and panels (see Figure 2) are supporting the EB in the fulfilment of its functions.

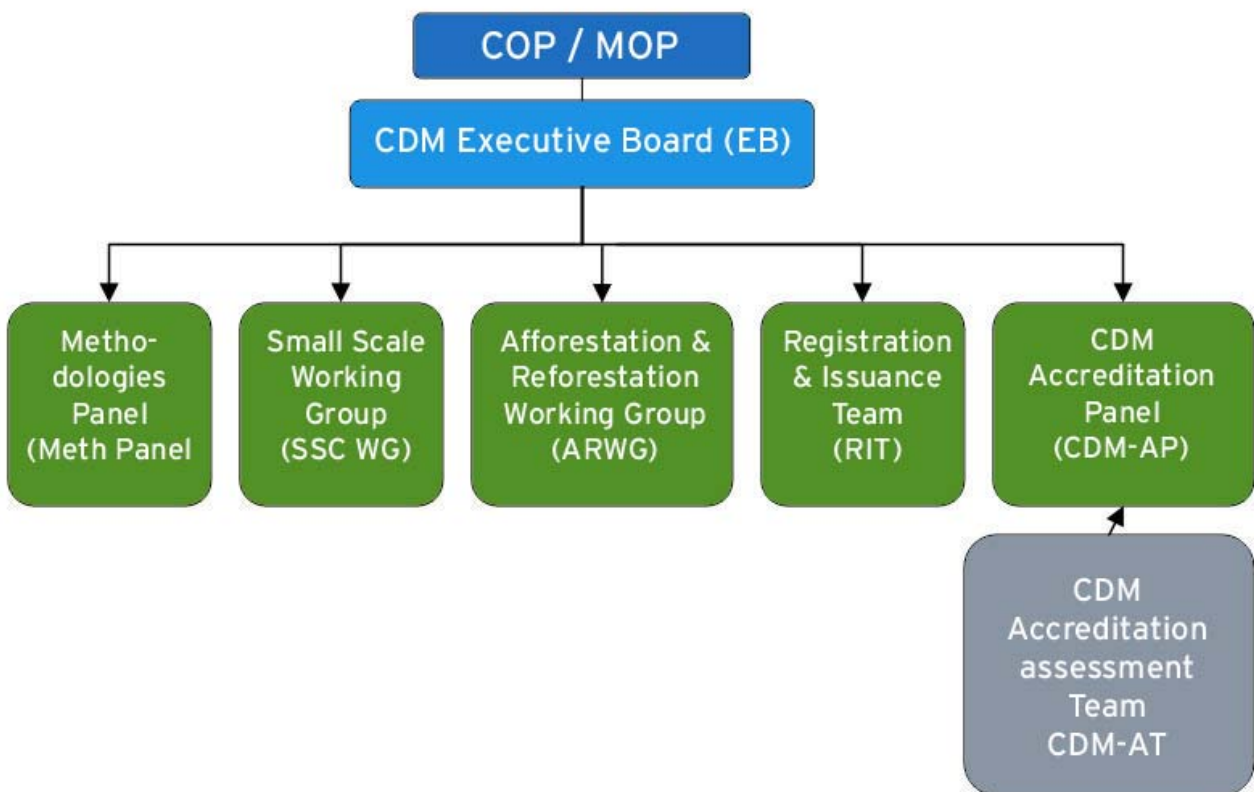


Figure 2: CDM institutions

As of March 2007, the EB is supported as follows:

- **Methodologies Panel (Meth Panel)**

The Methodologies Panel (Meth Panel) was established to develop recommendations to the Executive Board on guidelines for methodologies for baselines and monitoring plans and prepare recommendations on submitted proposals for new baseline and monitoring methodologies. The Meth Panel chooses two expert reviewers from a roster of experts to undertake a desk review of new methodologies submitted to the EB. Based on the results of the desk review, the Meth Panel prepares its recommendations to the EB.

Agendas, meeting reports and relevant documents of the [Meth Panel](#)¹⁴ can be found at the UNFCCC website.

- **Small scale working group (SSC WG)**

The SSC WG was established to prepare recommendations on submitted proposals for new baseline and monitoring methodologies for [CDM small scale project activities](#). The **small scale Panel (SSC Panel)** was operational from April 2002 to August 2002 and recommended draft simplified modalities and procedures for small-scale CDM project activities to the Executive Board.

Agendas, meeting reports and relevant documents of the SSC WG can be found at the [UNFCCC](#)¹⁵.

- **Afforestation and reforestation working group (AR WG)**

The AR WG was established to prepare recommendations on submitted proposals for new baseline and monitoring methodologies for CDM A&R; project activities.

Agendas, meeting reports and relevant documents can be found at the [UNFCCC website](#)¹⁶.

¹⁴ <http://cdm.unfccc.int/Panels/meth/index.html>

¹⁵ http://cdm.unfccc.int/Panels/ssc_wg

¹⁶ <http://cdm.unfccc.int/Panels/ar>

- **CDM Registration and Issuance Team (RIT)**

The RIT assists the CDM Executive Board by appraising requests for registration of project activities and requests for issuance of CERs.

Further information on the RIT is available at the [UNFCCC website](#)¹⁷.

- **Accreditation Panel and Assessment Teams (CDM-AP)**

The Accreditation Panel (CDM-AP) prepares the decision-making of the Executive Board in accordance with the procedure for accrediting [Designated Operational Entities \(DOEs\)](#). Under the guidance of the Accreditation Panel, the Accreditation Assessment Teams (CDM-AT) undertake the detailed assessment of the applicant entities (AEs) and/or DOEs, identify non-conformities and report to the CDM-AP.

Further information on the CDM-AP can be found at the [UNFCCC website](#))¹⁸.

The EB at any time may establish new working groups and panels. For the current status of panels and working groups, see the [EB website](#)¹⁹.

3.2.4. Designated National Authorities (DNA)

Besides the institutions and bodies at the international level, the Kyoto Protocol requires all Parties (Annex I and non-Annex I) participating in the CDM to designate a national authority for the CDM, called Designated National Authority (DNA). Host country approval is a necessary condition for the registration of a CDM project.

A [list of established DNAs](#)²⁰ and their contact information is available at the UNFCCC website. The German DNA is the German Emission Trading Authority (Deutsche Emissionshandelsstelle ([DEHSt](#))²¹) at the Federal Environment Agency (Umweltbundesamt). Approval procedures of the DEHSt are described in [Chapter 4.4](#).

¹⁷ <http://cdm.unfccc.int/Panels/RIT/index.html>

¹⁸ <http://cdm.unfccc.int/Panels/accreditation/index.html>

¹⁹ <http://cdm.unfccc.int/Panels/index.html>

²⁰ <http://cdm.unfccc.int/DNA/index.html>

²¹ <http://www.dehst.de>

3.2.5. Designated Operational Entities (DOE)

A Designated Operational Entity (DOE) is an independent third party responsible for checking if the project and related documents meet the requirements for being registered as a CDM project ([validation](#)). Furthermore, DOEs verify the actual emission reductions of registered CDM projects ([verification](#)) and request the EB to issue CERs accordingly. The EB has to accredit DOEs separately for validation and verification as well as for different sectoral scopes.

More detailed information on the tasks of DOEs and an up-to-date [list of accredited DOEs](#)²² (and the respective sectoral scopes they are accredited for) can be found at the UNFCCC website.

Those entities which have applied to the EB for accreditation but have not yet been accredited and designated a DOE are called Applicant Entity (AE). AEs have to carry out certain activities witnessed by the CDM-AT in order to prove their capacity to validate and verify CDM projects in the respective sectoral scopes they are applying for.

3.3. Eligible countries

Host countries eligible to participate in the CDM are all [non-Annex I countries](#)²³ which have ratified the Kyoto Protocol and set up a DNA.

In addition, Annex I Parties have to fulfill a list of reporting and inventory requirements in order to use CERs generated under the CDM, e.g. having set up a national registry.²⁴ Germany has been subject to this eligibility test and it is expected that COP/MOP 13 will pass this test. For more information of eligible countries see

http://unfccc.int/national_reports/initial_reports_under_the_kyoto_protocol/items/3765.php.

If a country does not fulfil the eligibility criteria, it cannot participate in the international transfer of emission credits or the use of the flexible mechanisms.

A [list of established DNAs](#)²⁵ and their contact information is available at the UNFCCC website.

²² <http://cdm.unfccc.int/DOE/index.html>

²³ http://unfccc.int/parties_and_observers/parties/non_annex_i/items/2833.php

²⁴ For details see [Annex to Decision 3/CMP.1, Para 31.](#), available at:

<http://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=4>

²⁵ <http://cdm.unfccc.int/DNA/index.html>

3.4. Eligible projects

In general, all projects reducing emissions of any of the six GHG in any of the sectors included in Annex A of the [Kyoto Protocol](#)²⁶ can be a CDM project.

Thus, CDM projects may cover the following sectoral scopes²⁷:

1. Energy industries (renewable-/non-renewable sources)
2. Energy distribution
3. Energy demand
4. Manufacturing industries
5. Chemical industries
6. Construction
7. Transport
8. Mining/Mineral production
9. Metal production
10. Fugitive emissions from fuels
11. Fugitive emissions from production and consumption of halocarbons and sulphur hexafluoride
12. Solvent use
13. Waste handling and disposal
14. Afforestation and reforestation²⁸
15. Agriculture

Projects reducing emissions or enhancing removals of greenhouse gases have to be [additional](#) and support [sustainable development](#) in the host country. Furthermore, nuclear projects are not allowed under the CDM.

The German Greenhouse Gas Emissions Trading Act stipulates that CERs coming from unilateral project activities in which no Annex I Party participate are not eligible. According to international

²⁶ Annex A of the Kyoto Protocol specifies the six target gases (CO₂, CH₄, N₂O, HFC, PFC, SF₆) and sector/source categories where emission reduction activities can take place.

²⁷ DOEs have to qualify for certain sectoral scopes which are based on this categorisation of sectors (<http://cdm.unfccc.int/DOE/scopes.html>)

²⁸ For enhancing removals of GHGs, only afforestation and reforestation are eligible activities under the CDM.

regulations a written approval of an Annex I country has to be provided at the latest for the transfer of CERs to the respective Annex I country registry, thus allowing a CDM project to be developed by a developing country (entity) only. Therefore, all CERs which are forwarded to national registries are not regarded as CERs coming from unilateral project activities.

3.5. Concepts relevant to the CDM

3.5.1. Baseline and additionality

Under the CDM, Certified Emissions Reductions (CERs) are issued for the amount of reductions or removals of greenhouse gases as compared to a reference scenario (baseline). The baseline is a fundamental concept of the CDM. The baseline represents the emissions within the project boundary in the 'business as usual' (BAU) scenario.²⁹

The additionality of a project is closely related to the baseline. A project is additional if emissions are reduced below³⁰ those that would have occurred in the absence of the registered CDM project activity, which means that the emission reductions would not have taken place anyway. Only those projects for which additionality is demonstrated clearly in the project documentation are eligible to generate credits under the CDM. As CDM host countries do not have emission reduction targets under the Kyoto Protocol, granting CERs to non-additional projects would inflate the overall emission cap of the Kyoto Protocol, and would thus endanger its environmental effectiveness. In order to clarify the additionality concept, the Executive Board (EB) has elaborated an '[additionality tool](#)'³¹. This tool guides through the demonstration of additionality of a project, involving the following steps:

1. Identification of alternatives to the project activity
2. Investment analysis
3. Barrier analysis
4. Common practice analysis

²⁹ A baseline for a CDM project is define in the Annex of Decision 3/CMP.1, para 44 as "the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity."

³⁰ For afforestation and reforestation projects, it should read: 'removals are increased above those...'

³¹http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf.

In the first step, alternatives to the project activity which could be the baseline scenario have to be determined. The investment analysis in step 2 examines if the project activity is economically attractive. If this analysis shows that the project is likely to be financially attractive, and does not face any barriers (step 3), the project is not additional. If the project is not financially attractive, no barrier analysis is necessary. In the common practice analysis (step 4), it has to be elaborated whether the project activity has already diffused in the relevant sector and region. Thus, this step represents a complementing credibility check of step 2 and 3.

The additionality tool is used by the majority of approved methodologies for the demonstration of additionality. Project proponents wanting to submit a new methodology can incorporate the existing tool into their methodology, adapt the tool to their specific project type or propose an alternative tool. The use of the tool does not replace the need for the baseline methodology to justify the selection and determination of the most plausible baseline scenarios. The '[Combined tool to identify the baseline scenario and demonstrate additionality](#)'³² assists proponents of a new methodology in ensuring consistency between the determination of additionality and the baseline scenario.

A separate additionality tool is available for AR project activities ([Tool for the demonstration and assessment of additionality in A/R CDM project activities](#))³³. For small-scale projects, only a barrier analysis ([see Attachment A: information on additionality](#)³⁴) has to be provided.

3.5.2. Sustainability of CDM projects

It is the prerogative of the host country to determine, if the project supports sustainable development in the country. The definition of sustainable development is provided by the host country DNA. The confirmation that the project meets national sustainability criteria is an integral part of the host country approval of CDM projects.

Germany as an investor country is strongly supporting sustainable development and affirms that CDM projects should not be conflicting with national sustainable development strategies of the host country.

³² http://cdm.unfccc.int/Reference/Guidclarif/EB28_repan14_Combined_tool_ver02.pdf

³³ <http://cdm.unfccc.int/EB/O21/eb21repan16.pdf>

³⁴ http://cdm.unfccc.int/methodologies/SSCmethodologies/AppB_SSC_AttachmentA.pdf

3.5.3. Crediting periods

The period during which a CDM project can generate CERs (crediting period) is limited. Project participants can select a crediting period from two alternative options with or without a renewal process:

- **A maximum of 7 years renewable twice or**
- **A maximum of 10 years with no option of renewal.**

For afforestation and reforestation projects under the CDM the options are:

- **A maximum of 20 years renewable twice or**
- **A maximum of 30 years with no option of renewal.**

3.5.4. Small-scale projects

Under the CDM, projects considered as small scale CDM project activities can benefit from the simplified modalities and procedures which aim at reducing transaction costs related to the CDM project cycle. The [threshold criteria for the definition of small scale projects](#)³⁵ have been revised by COP/MOP 2, defining small-scale projects reducing emissions from sources as follows:

- **Type I:** Renewable energy project activities with a maximum output capacity of 15 MW (or an appropriate equivalent);
- **Type II:** Energy efficiency projects reducing energy consumption on the supply and/or demand side with a maximum output of 60 GWh per year (or an appropriate equivalent);
- **Type III:** Other project activities resulting in emission reductions of less than or equal to 60 kt CO_{2eq} annually.

³⁵ <http://unfccc.int/resource/docs/2006/cmp2/eng/10a01.pdf#page=8>

Separate small-scale rules exist for forestry projects under the CDM.³⁶ At the time of writing, it still has to be decided if the small-scale threshold for forestry projects will be increased in a similar way as it has been done for the other project types.

Current information on small-scale project activities can be found on the UNFCCC website on [Small Scale CDM Project Activities](#)³⁷. The differences in modalities and procedures for small-scale projects are described in [Chapter 4.9](#).

3.5.5. Bundling versus Programme of Activities (PoA)

Projects may be bundled and submitted to the UNFCCC (as well as validated, registered, monitored, verified and certified) as one single CDM project. For details see the document on [General Principles for bundling](#).³⁸ While bundling was only allowed for small-scale projects at first, in decision 7/CMP.1, para 21 it is recognized that also large-scale projects can be bundled if they are validated and registered as one clean development mechanism project activity. De-bundling of projects, i.e. the fragmentation of large projects into smaller projects and to leaner approval processes is not allowed.

The EB has developed [criteria for the determination of the occurrence of de-bundling](#).³⁹ The debundling criteria for AR projects can be found in [Appendix C](#)⁴⁰ of decision 6/CMP.1.

Furthermore, project activities (CPAs) under a Programme of Activities (PoA) can be registered as a single CDM project. The EB provided guidance on the definition of a Programme of Activities⁴¹ according to which a PoA is a “voluntary coordinated action by a private or public entity which coordinates and implements any policy/measure or stated goal leading to emission reductions or enhanced removals of greenhouse gases...” However, this means that local/regional/national policies or standards are not allowed to generate credits under the CDM. The differences between a bundle and a PoA are illustrated in Table 1.

³⁶ Beside a threshold expressed in removal in kilo-tons of CO₂ per year, small-scale forestry projects have to be implemented by low-income communities and individuals as determined by the host country.

³⁷ http://cdm.unfccc.int/Projects/pac/pac_ssc.html

³⁸ <http://cdm.unfccc.int/EB/021/eb21repan21.pdf>

³⁹ <http://cdm.unfccc.int/EB/007/eb7ra07.pdf>

⁴⁰ <http://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=4>

⁴¹ http://cdm.unfccc.int/EB/028/eb28_repan15.pdf

Table 1: Bundle vs. Programme of Activities

	Programme	↔	Bundle
Sites	Exact sites of project activities may not be known in advance	↔	Ex ante identification of exact sites.
Project activities	The sum of all individual activities under the programme is the CDM project activity. At submission only targeted activities are identified, while actual activities are not confirmed until verification.	↔	Each activity in the bundle is an individual CDM project activity.
Project participants	Only the entity implementing the programme and not the individual project stakeholders represent the project activity as a CDM project participant.	↔	Each single activity is represented by a CDM project participant.

The guidance given by the EB in this field as well may be revised as the body of knowledge expands on project activities under a programme of activities. Project proponents are therefore advised to consult the section on [Programme of activities guidance](#) at the UNFCCC website for more recent decisions on the issue.

[Current versions of respective PDD forms](#) for PoAs etc. will be available at the UNFCCC website.

4. THE CDM PROJECT CYCLE

Until the issuance of Certified Emission Reductions (CERs), all CDM projects have to pass through a project cycle which is illustrated in Figure 3.

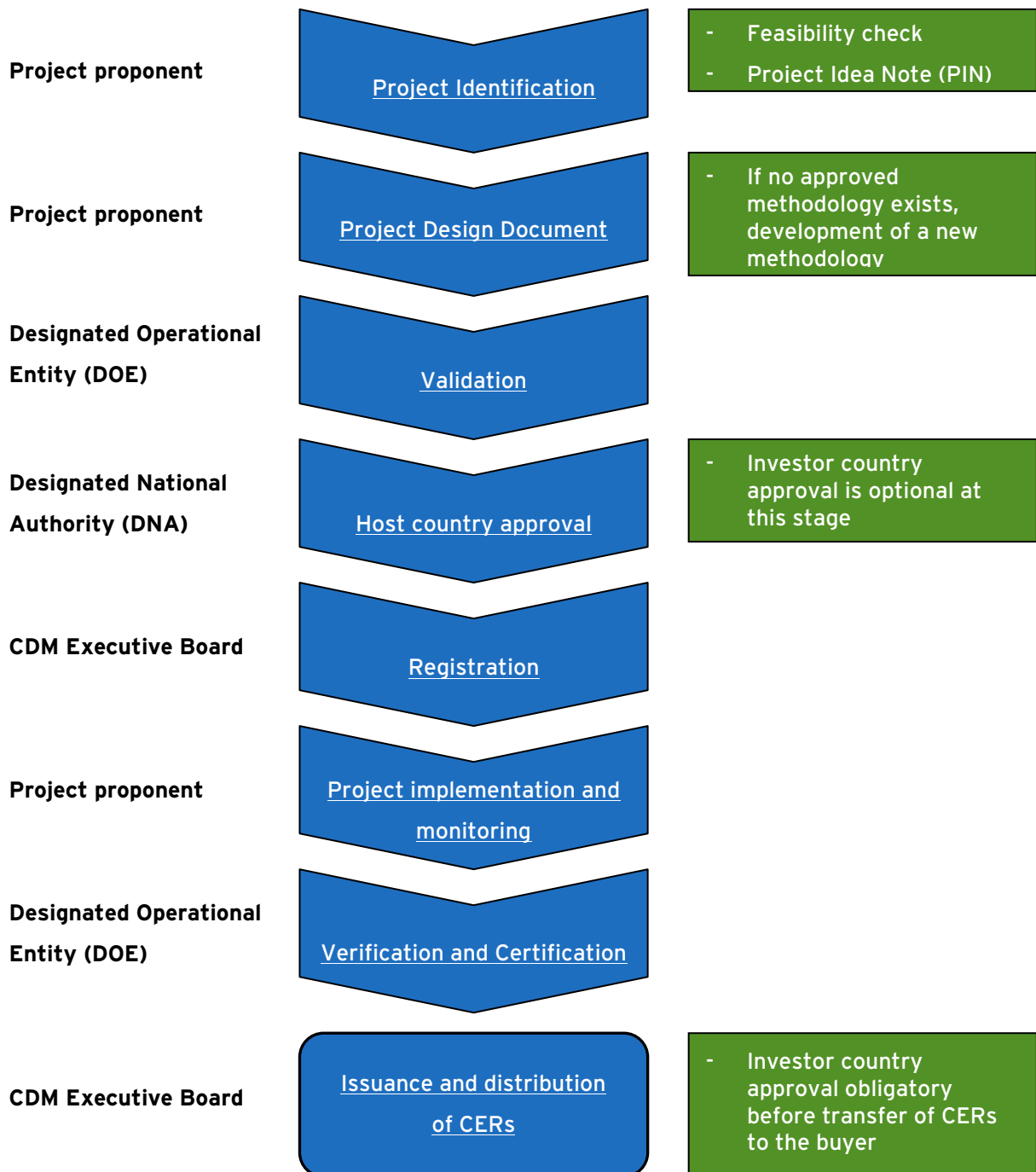


Figure 3: CDM project cycle

4.1. Project identification

Each project starts with a project idea by the project proponent(s). Often, project proponents conduct a **feasibility study** in order to assess if it is worth proceeding with a project idea. A feasibility study includes a rough estimation of the potential emission reductions or removals of the project, the cost to achieve these emission reductions, a check if the project can be considered additional and an appraisal of the likelihood of project approval by the host country, the Executive Board and, if the investor country is known already by the investor country.

A **project idea note (PIN)** is elaborated either as part of the feasibility study or as a next step, based on a positive judgement on the suitability of the projects for the CDM. A PIN is a document providing a rough overview of the project, including indicative information on anticipated emission reductions, information regarding the additionality and a preliminary overview of the financials of the project. Although, the development of a PIN is not an obligatory step of the CDM project cycle, it is useful for the presentation of the project to the host and investor country authorities (DNA) and potential investors.

It is recommended that project proponents already contact the DNAs of the participating countries at this stage in order to check for the exact requirements of the participating countries. It is common that at this stage the DNAs provide a Letter of Endorsement (LoE). This letter is issued to the project proponents if the DNA - based on the information provided in the PIN - comes to the conclusion that a later official approval (Letter of Approval, LoA) is likely.

4.2. Development of the Project Design Document (PDD)

4.2.1. What is a PDD?

The next step in the CDM project cycle is the development of the project design document (PDD) which contains a detailed description of the proposed project, an approved baseline and monitoring methodology and their application to the project, the duration of the project and the crediting period selected, information on environmental impacts and stakeholder comments. The PDD is the key document for the validation, registration and verification of the CDM project.

The main sections of a PDD include the following:

- A. General description of the project
- B. Application of a baseline and monitoring methodology
- C. Duration of the project activity/crediting period
- D. Environmental impacts
- E. Stakeholders' comment

Annex 1: Contact information on participants in project activity

Annex 2: Information regarding public funding

Annex 3: Baseline information

Annex 4: Monitoring plan

The most recent versions of the [official PDD templates](#) can be downloaded.⁴² Please note that different PDD templates have to be used for bundled projects, project activities under a Programme of Activities (PoA), A/R projects as well as small-scale projects.

The EB has provided [guidelines](#) for completing the PDD form which can be downloaded.⁴³

⁴² http://cdm.unfccc.int/Reference/PDDs_Forms/PDDs/index.html

⁴³ <http://cdm.unfccc.int/Reference/Guidclarif/index.html>

4.2.2. Types of projects and approval process

The PDD template and the approval process vary according to the type and size of the project (see Figure 4).

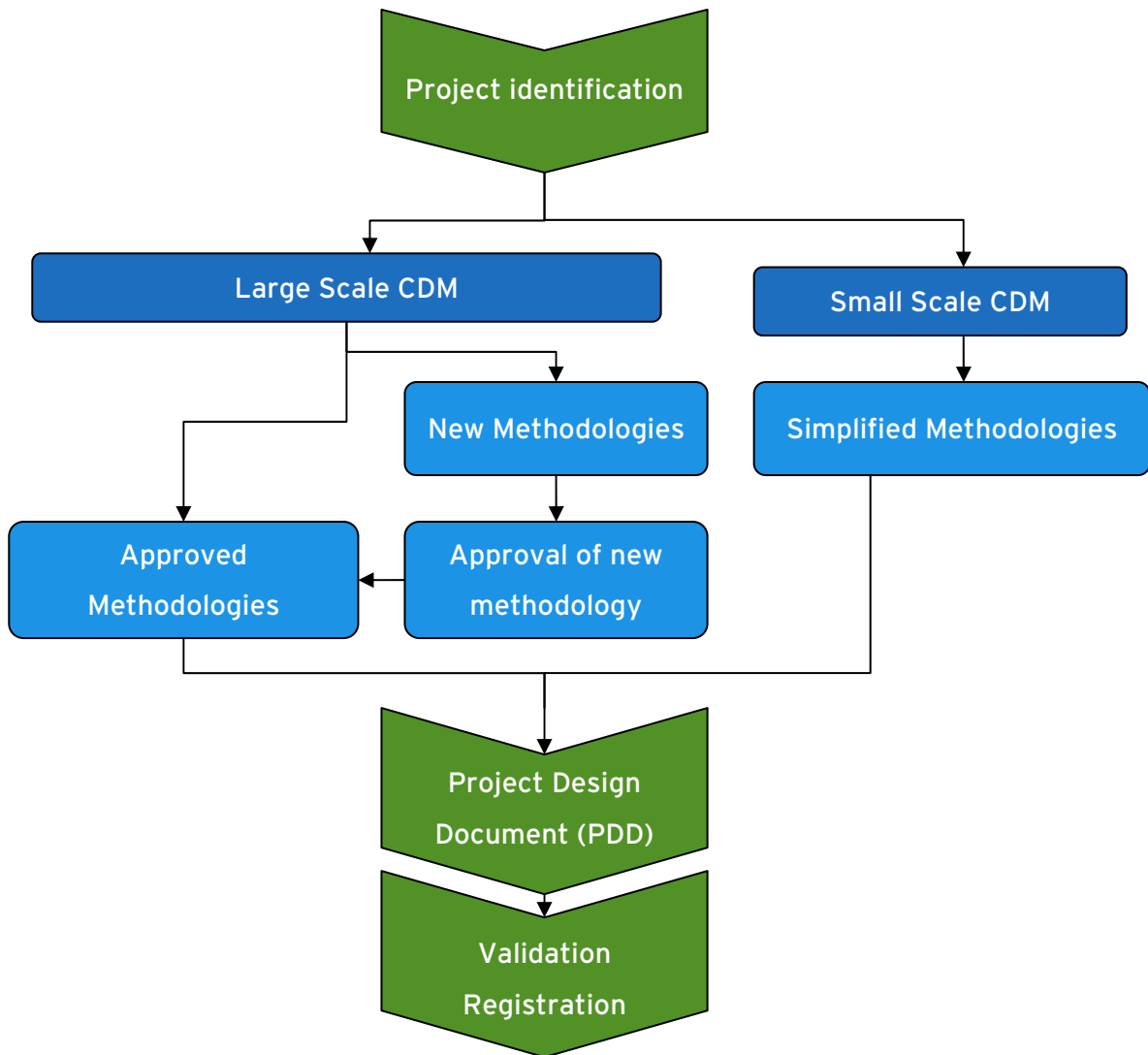


Figure 4: Approval process depending on size and type of project

Simplified modalities and procedures applying to small-scale projects are described in [Chapter 4.9](#). In the following, we describe the project cycle for large-scale projects. In a PDD, project proponents should describe how the baseline and monitoring methodologies are applied to the project.

A baseline methodology is a standardized procedure for identification of the baseline, determination of additionality, and calculation of emission reductions of similar projects under the CDM. A monitoring methodology standardizes the parameters and methods for monitoring of similar projects. Each methodology specifies conditions for its applicability to similar projects.

Baseline and monitoring methodologies have to be approved by the EB before they can be used by project proponents. Once a methodology is approved by the EB, it can be used by other projects of the same type. If no approved baseline methodology exists for the project type, the project proponents have to develop a new methodology on their own.

4.2.3. CDM project with approved methodologies

In order to find out if there is an already approved baseline and monitoring methodology which can be used for the project, project proponents have to check the applicability of the approved methodologies. A separate paragraph in each approved methodology includes the conditions for the application of the respective methodology to other projects. Applicability of the approved methodology will be checked by the DOE at validation.

The website of the EB provides a [list of all approved methodologies](#)⁴⁴ as well as a [search tool](#)⁴⁵ for easier identification of approved methodologies.

Approved methodologies are subject to continuous review and can be changed, substituted or consolidated (merging different methodologies of similar projects types).

Such changes in methodologies however do not imply that registered projects have to change their methodologies. Once registered, a project can use the methodology on the basis of which the project has been approved and registered.

⁴⁴ <http://cdm.unfccc.int/methodologies/PAMethodologies/approved.html>

⁴⁵ <http://cdm.unfccc.int/methodologies/PAMethodologies/approved.html?searchon=1&searchmode=advanced>

Once a submitted methodology is approved by the EB, it is given an identification number starting with the letters AM (e.g. AM003) and listed at the [website for approved baseline and monitoring methodologies](#)⁴⁶ (including the sectoral scope to which it is linked as well as its approval history).

Approved Consolidated methodologies are drafted by the Meth Panel on request of the EB based on common elements in new and approved methodologies with similar applicability (identification numbers of consolidated methodologies start with the letters ACM, e.g. ACM007). Figure 5 provides an overview of different types of [approved methodologies](#).

If an approved methodology is also covered by a consolidated methodology, it remains to be valid as a separate methodology unless it is withdrawn by the EB. Information on withdrawn methodologies can be found via the [Methodology Progress Table](#)⁴⁷.

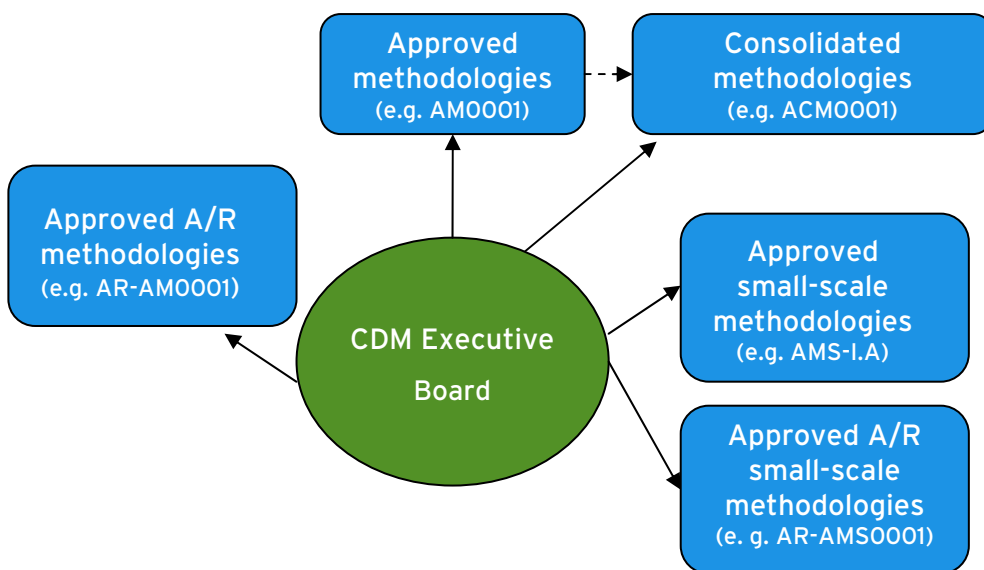


Figure 5: Types of approved methodologies

⁴⁶ <http://cdm.unfccc.int/methodologies/PAMethodologies/approved.html>

⁴⁷ <http://cdm.unfccc.int/methodologies/PAMethodologies/publicview.html>

Information on methodologies for A/R projects, small-scale projects as well as A/R small-scale projects is given in separate sections of the UNFCCC website on [Methodologies](#)⁴⁸. Approved A/R methodology identification numbers start with AR-AM (e.g. AR-AM0001), and approved A/R small-scale methodologies with AR-AMS (e.g. AR-AMSO01). (Non-forestry) small-scale projects are named based on the small-scale categories they belong to (e.g. AMS-I.D). For further details on small-scale methodologies, see [section 4.9](#).

4.2.4. CDM project without approved methodology

In case no applicable approved methodology exists, a new baseline and monitoring methodology has to be proposed by the project proponents for consideration and approval by the EB. Project proponents have to be aware that this will lead to additional costs and prolong the project approval procedure as compared to the development of a CDM project with an applicable approved methodology. However, there is already a good coverage of project types by approved methodologies which can be expected to increase over time. Thus, the likelihood of having to develop a new methodology is decreasing with each new methodology approved by the EB.

To propose a new methodology, project proponents have to submit the methodologies form (CDM-NM) together with a draft project design document (CDM-PDD). This has to be forwarded to the EB by a DOE accredited to perform validation of the sectoral scope of the proposed project. For information on which DOE is accredited for which sectoral scope, see the [list of DOEs](#)⁴⁹ at the UNFCCC website. Project participants have to pay a fee of USD 1,000 when submitting a proposed new methodology (not applicable to methodologies for small-scale or afforestation or reforestation project activities). This fee will be deducted from the fees to be paid at registration. A member of the Meth Panel (or the DOE) conducts a pre-assessment of the proposed methodologies. If the documentation is not found to be of satisfactory quality based on this pre-assessment (grade 2), it is sent back to the project proponents. If the quality is found to be satisfactory (grade 1), the proposed methodology is made available to the public at the UNFCCC website on [Methodologies](#)⁵⁰ and public comments are invited during a period of 15 working days. After this public consultation, two members of the Meth Panel elaborate a draft recommendation regarding the approval of the methodologies based on the judgment of two desk reviewers taken

⁴⁸ <http://cdm.unfccc.int/methodologies/index.html>

⁴⁹ <http://cdm.unfccc.int/DOE/list/index.html>

⁵⁰ <http://cdm.unfccc.int/methodologies/index.html>

from a roster of experts. Clarifications on technical questions by the Meth Panel can be provided by project proponents within four weeks.

The preliminary recommendation becomes final, if it is in favor of approving or not approving the proposed methodology or no clarifications are provided by project proponents. In case project proponents provide clarifications, they have to be considered by the Meth Panel at its next meeting. At this meeting, the Meth Panel has to formulate a final recommendation to the EB which will be made public. Recommendations by the Meth Panel are based on the following rating scheme:

- A case: Recommendation to approve the proposed methodology with minor changes;
- B case: Recommendation to reconsider the proposed methodology subject to required changes;
- C case: Recommendation not to approve the proposed methodology.

The EB considers the final recommendation by the Meth Panel at its next meeting but no later than four months after the date of receipt of the proposed methodology. Once approved, the EB makes the approved methodology publicly available and the Designated Operational Entity may proceed with the **validation** of the project activity and submit the project design document (CDM-PDD) for **registration**.

Project proponents of those methodologies falling under the 'B cases' can resubmit the proposal once. If it is not resubmitted within five months, it is considered to be withdrawn.

Project proponents wishing to submit a new methodology for approval should consult the [CDM procedures website](http://cdm.unfccc.int/Reference/Procedures/index.html)⁵¹ of the UNFCCC for the most current version of applicable procedural documents regarding registration and review of CDM projects.

⁵¹ <http://cdm.unfccc.int/Reference/Procedures/index.html>

4.3. Validation

Validation is the process of independent evaluation of a project activity by a designated operational entity (DOE) against the requirements of the CDM on the basis of the project design document.

Project proponents contract a DOE of their choice ([list of currently accredited DOEs](#)⁵²) which on the basis of the PDD checks - among others - that:

- The PDD fulfills the CDM requirements;
- The methodology is applicable and correctly applied;
- The project is additional;
- The required government approvals and documentation have been issued.

For a detailed list of requirements see the relevant COP/MOP decision (Annex of decision 3/CMP.1, para 37), available at [Overview of COP/MOP decisions](#)⁵³.

At this stage, the DOE makes the PDD publicly available on the UNFCCC website under [Validation](#)⁵⁴ and invites public comments during a period of 30 days. During the review of the PDD, the DOE can give the project proponents the opportunity to provide clarifications and improvements through Corrective Action Requests (CARs). After the deadline for public comments, the DOE decides if the project should be validated. Usually, the validation is conducted as a desk review. However, the DOE may also undertake site-visits and interview project participants and stakeholders. The result of the validation is a final validation report which is submitted to the EB. If the DOE in the validation report comes to the conclusion that all CDM requirements are met, it submits the project for registration. If the result of validation is negative, the DOE informs project participants of the reasons for non-acceptance. The PDD can be resubmitted for validation after an appropriate revision.

⁵² <http://cdm.unfccc.int/DOE/index.html>

⁵³ <http://cdm.unfccc.int/Reference/COPMOP/index.html>

⁵⁴ <http://cdm.unfccc.int/Projects/Validation/index.html>

4.4. Government approval

4.4.1. Host country approval

It is a requirement for registration that the Designated National Authority (DNA) of the host country has issued a Letter of Approval (LoA) to project proponents. Such a Letter of Approval includes the confirmation by the host country DNA that the participation in the CDM project is voluntary and that the project meets national sustainability criteria. Often, only a preliminary confirmation - Letter of Endorsement (LoE) - stating that the host government is generally supporting the project is submitted with the documents for validation. However, the LoA of the host country shall -at latest- be included in the request for registration of the project.

4.4.2. Investor country approval

If an Annex I country entity/party is involved in the development of the project, the DNA of that party has to approve the project as well. In practice, a project can as well be developed without Annex I involvement as only host approval is obligatory for registration under UNFCCC rules. But investor country approval is required at the time of transfer of credits to a registry of an Annex I country and the involvement of the Annex I country's DNA at the earliest possible stage is highly recommendable.

Even in the case that the investor country does not fulfill the eligibility criteria, the credits will be forwarded to the account of the project participant(s) if the respective investor country approved the project and authorized the entity to take part in the project beforehand. In this case credits can then be used towards the commitment by the Annex I country, but cannot be traded internationally.

Each State Party of the Kyoto Protocol can decide how to structure its approval procedure and criteria according to the international structure. Project proponents should get in touch with the DNA(s) to find out about the respective requirements and procedures.

A [list of established DNAs](#)⁵⁵ and their contact information is available at the UNFCCC website.

⁵⁵ <http://cdm.unfccc.int/DNA/index.html>

4.4.3. Approval procedure of the DEHSt

The German DNA (Deutsche Emissionshandelsstelle, DEHSt) at the Federal Environment Agency (UBA) is an affiliated agency of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

The ProMechG distinguishes approval and endorsement of a CDM project by the DEHSt. A **'Letter of Endorsement'** (LoE) represents a non-binding statement that the DEHSt generally supports the respective CDM project. A LoE is issued if - based on the information available - the DEHSt has come to the conclusion that a later approval of the project is very likely. In order to apply for a LoE, applicants have to submit following documents to the DEHSt:

- Written request for endorsement
- Project Idea Note (PIN)

'Approval' as defined by the ProMechG is the official authorization by the German DNA of a CDM project generating CERs. The following documentation has to be submitted for receiving a Letter of Approval (LoA):

- Written request for approval
- Project Design Document (PDD)
- Validation report
- Approval of the host country (if available)

Requests and the accompanying documents can be submitted in German or English. The requests have to be sent in hard copy, while the other required documents can be provided in digital format (by e-mail) or CD-ROM.

Only the project initiator or an officially authorized representative can request endorsement or approval of a CDM project to the DEHSt. "Project initiator" means the natural or legal person with decision-making authority over a project activity. If there is more than one project initiator involved in the project, one person has to be authorised as the official representative for communication with the DEHSt.

If a person intends to be "Project Participant" and wants to start the German approval procedure they should submit a "Declaration of Authorisation to request the issuance of a Letter of Approval" with the following text:

"The signatories to this letter confirm that [Project Participant's Name] is authorised to request a Letter of Approval from the German Emissions Trading Authority for the CDM-Project [Name] in [Host Country] on behalf of [Project Initiator's Name] and to request authorisation as Project Participant."

Signatures of Project Initiator and the to-be Project Participant

The new project participant may request authorisation of additional project participants if they are empowered to do so by an internal agreement of the project participants, e.g. in the modalities for communicating with the CDM EB and the UNFCCC Secretariat.

The DEHSt will decide within two months after the receipt of the complete documentation on the request for approval of a CDM project.

The DEHSt charges fees for the endorsement and approval of projects until 2007 based on the cost ordinance (see ProMechGebV). However, currently this fee structure is under revision and the new legal framework for it will probably be in place in autumn 2007. In future, fees will range from 20 to 600€. For information on currently applicable fees, please consult the [DEHSt website](#).

The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety has signed Memoranda of Understanding (MoU) with various CDM countries. For a list of currently existing MoUs, visit the CDM section of the [DEHSt website](#)⁵⁶. MoUs are agreements between two countries specifying areas and goals of cooperation related to JI and CDM, but are not obligatory under the international CDM rules. The existence of a MoU is therefore not necessary for project approval by the DEHSt.

Umweltbundesamt

[Deutsche Emissionshandelsstelle \(DEHSt\)](#)

Bismarckplatz 1

14193 Berlin

Phone.: +49 (0)30 8903-5050

Fax: +49 (0)30 8903-5010

E-Mail: German.dna.dfp@uba.de

For further information on the DEHSt, visit the DEHSt website under <http://www.dehst.de>.

⁵⁶ http://www.dehst.de/cIn_007/nn_946798/DE/JI_CDM/CDM/CDM_node.html_nnn=true

4.5. Registration by the Executive Board

After the project has been successfully validated, the DOE submits the PDD, the validation report, and the LoA(s) to the EB for registration of the project. If there are no objections on the side of the EB, the project will be considered registered eight weeks after the receipt of the request for registration (four weeks for SSC projects). If a Party involved in the project activity or at least three members of the EB request a review of the project, the project has to enter a review process.

A registration fee has to be paid when submitting a project to the EB for registration. The registration fee is deducted from the fee which has to be paid to cover administrative expenses at the first issuance of credits. Thus, it is an advance payment of the share of proceeds to cover the cost of administration (SOP-Admin) for the emission reductions achieved during the first year. The EB revised the [fee structure](#)⁵⁷ of the CDM in February 2006 (EB 23). According to this decision:

- For projects with expected emission reductions of more than 15,000 t CO₂ equivalent per year, the revised registration fee is the share of proceeds (SOP-Admin) applied to the expected average annual emission reduction for the project activity over its crediting period (maximum USD 350,000). The current SOP-Admin is
 - USD 0.10 per CER issued for the first 15,000 t CO_{2eq} per year;
 - USD 0.20 per CER issued for any amount in excess of 15,000 t CO_{2eq}.
- No fee has to be paid for CDM project activities with expected average annual emission reduction over the crediting period below 15,000 t CO_{2eq}.

Project proponents should consult the [CDM procedures website](#)⁵⁸ for the most current versions of the documents regarding registration and review of CDM projects.

⁵⁷ http://cdm.unfccc.int/EB/O23/eb23_repan35.pdf

⁵⁸ <http://cdm.unfccc.int/Reference/Procedures/index.html>

4.6. Project implementation and monitoring

Project participants are obliged to collect the necessary data and quantify emission reductions achieved by the project in an accurate way. Monitoring has to be implemented as specified in the monitoring plan submitted together with the PDD. Project proponents have to prepare a monitoring report covering all the items in the monitoring plan for each verification period for which they wish to have CERs issued.

For details on the items which are required to be included in the monitoring report, see the relevant COP/MOP decision (Annex of decision 3/CMP.1, para 53) available at the EB website [Overview of COP/MOP decisions](#)⁵⁹.

4.7. Verification and Certification

Project proponents have to forward the monitoring report to a DOE of their choice for verification. The DOE has to be different from the one which had validated the project. For [small-scale projects](#), the project can be validated and verified by the same DOE.

[A list of currently accredited DOEs](#)⁶⁰ can be found at the UNFCCC website.

During verification, the DOE checks if the monitored emission reductions claimed in the monitoring report of the respective project have actually occurred.

The EB website provides information and access to the [submitted monitoring reports](#). Details on the tasks of the DOEs during verification can be found in the relevant COP/MOP decision (Annex of decision 3/CMP.1, para 62) available at the EB website '[Overview of COP/MOP decisions](#)⁶¹.

Besides a review of the monitoring report⁶⁰, the DOE can also undertake on-site inspections, interview stakeholders, control measurement equipment etc. While under normal circumstances verification is undertaken on an annual basis, project participants can decide to have a different verifications schedule.

⁵⁹ <http://cdm.unfccc.int/Reference/COPMOP/index.html>

⁶⁰ <http://cdm.unfccc.int/DOE/index.html>

⁶¹ <http://cdm.unfccc.int/Reference/COPMOP/index.html>

Based on the verification report, the DOE will provide written assurance, called certification, that the project activity achieved the verified emission reductions. It will further immediately inform project proponents, the EB and involved Parties of its decision.

4.8. Issuance and distribution of CERs

By submitting the certification report to the EB, the DOE requests the issuance of CERs equal to the certified amount of emission reductions.

Upon receipt of the certification report, the EB will issue CERs within 15 days, unless a Party involved in the project or at least three EB members requests a review (due to fraud, malfeasance or incompetence of the DOE involved).

A separate CDM registry is set up by the UNFCCC secretariat to handle issuance and transfers of CERs. The registry administrator of the CDM registry only transfers CERs to the account(s) of project participants after the respective levies (share of proceeds) are subtracted from the amount of CERs to be issued (see Figure 6).

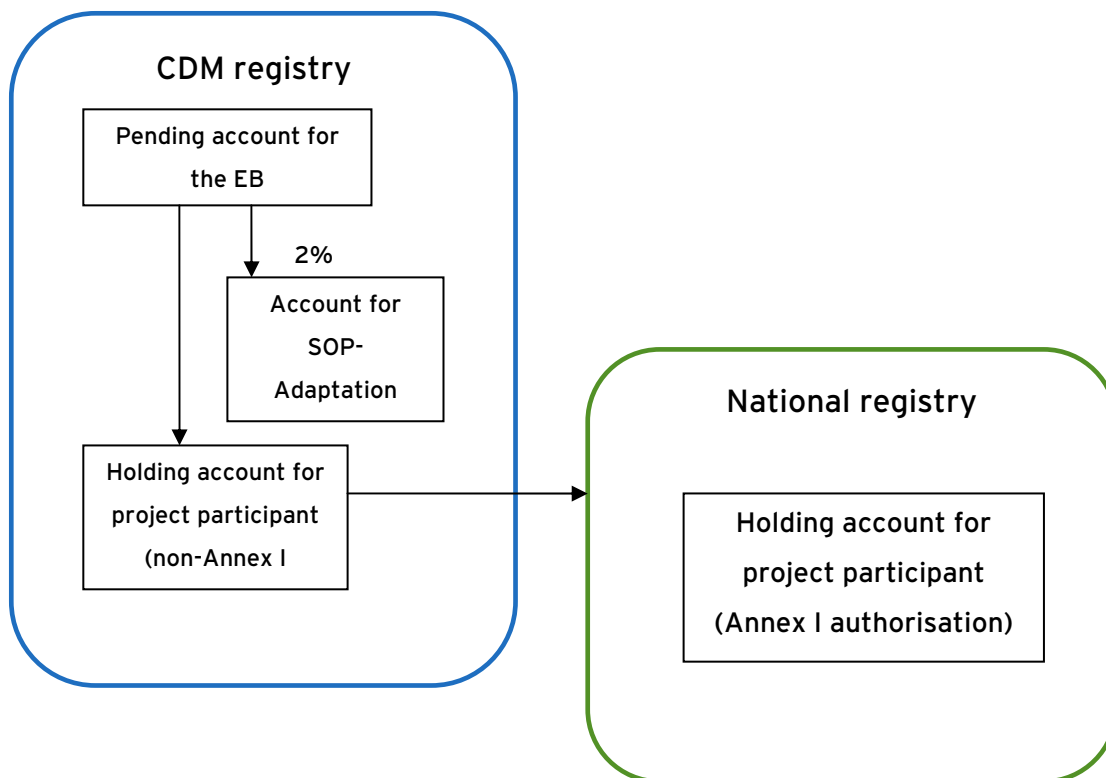


Figure 6: Simplified illustration of the issuance and distribution of CERs

These levies include the:

- **Share of proceeds to cover administrative expenses (SOP-Admin)**
This fee covers the costs of administration of the EB. The share of proceeds (SOP-Admin) is deducted based on the expected average annual emission reduction for the project activity over its crediting period (maximum USD 350.000). The amount to be paid is:
 - USD 0.10 per certified emission reduction issued for the first 15,000 t CO_{2eq} per year
 - USD 0.20 per certified emission reduction issued for any amount in excess of 15,000 t CO_{2eq}
- **Share of proceeds for the Adaption Fund (SOP-Adaptation)**
An amount of two percent of CERs is subtracted from the amount of CERs to be issued to project participants and is used to finance the [Adaptation Fund](#)⁶² under the UNFCCC.

The decision on the distribution of CERs is exclusively taken by project participants, which can be:

- Parties involved (only if explicitly stated in PDD or formally announced to UNFCCC) and/or
- a private or public entity authorized by a Party involved to participate in a CDM project

Project participants have to agree on how the CERs will be distributed among themselves and communicate this to the CDM registry administrator. A project participant should be appointed to manage communication with the Executive Board. The CDM registry administrator forwards CERs to the account(s) of project participants and Parties involved in accordance with the instructions received. Each project participant wishing to receive CERs has to open a holding account in the respective national registry.

The EB website provides information on the [current requests for issuance of CERs](#)⁶³. For any further information on the issuance of CERs and the CDM registry, project proponents should refer to the [EB website](#)⁶⁴.

⁶² http://unfccc.int/cooperation_and_support/financial_mechanism/items/3659.php

⁶³ <http://cdm.unfccc.int/Issuance/index.html>

⁶⁴ <http://cdm.unfccc.int/Issuance/IssuanceCERs.html>

4.9. Simplified modalities and procedures for small scale projects

In order to reduce transaction costs of small-scale projects, projects meeting certain threshold criteria are subject to [simplified modalities and procedures for small scale clean development mechanism project activities](#)⁶⁵. The [threshold criteria for the definition of small scale projects](#)⁶⁶ have been revised by COP/MOP 2 and are described in detail in section 3.5.4)

Fragmenting a large project into many small-scale projects (de-bundling) in order to be able to use the simplified modalities and procedures for small-scale CDM project is not allowed.

The COP/MOP has provided a tool for the [determination of the occurrence for debundling](#)⁶⁷.

Simplified modalities and procedures for small-scale projects include the following:

- **A simplified project design document**

For the most recent version of the [CDM-SSC-PDD](#), see the UNFCCC website.

- **Simplified methodologies** for baseline determination and monitoring. Contrary to large scale projects, the EB has provided a set of approved baseline and monitoring methodologies for a set of categories of small-scale projects (see Table 2). However, new methodologies can be submitted as well.
- Simplified provisions for **environmental impact analysis**
- [No registration fee to be paid for projects](#) with expected average annual emission reduction over the crediting period below 15,000 t CO₂ equivalent
- **A shorter review period** for the registration of SSC CDM project activities
- **The same DOE** can validate as well as verify and certify emission reductions for a specific SSC CDM project activity

⁶⁵Decision 4/CMP.1, Annex II. Note that [Decision 6/CMP.1](#) includes simplified modalities and procedures for small-scale afforestation and reforestation projects under the CDM (available at: <http://cdm.unfccc.int/Reference/COPMOP/index.html>)

⁶⁶ <http://unfccc.int/resource/docs/2006/cmp2/eng/10a01.pdf#page=8>

⁶⁷ <http://cdm.unfccc.int/Projects/pac/howto/SmallScalePA/sscdebund.pdf>

Table 2: Categories of approved small-scale methodologies

Reference	Approved small-Scale methodologies
AMS-I.A.	Electricity generation by the user
AMS-I.B.	Mechanical energy for the user
AMS-I.C.	Thermal energy for the user
AMS-I.D.	Grid connected renewable electricity generation
AMS-II.A.	Supply side energy efficiency improvements - transmission and distribution
AMS-II.B.	Supply side energy efficiency improvements - generation
AMS-II.C.	Demand-side energy efficiency programmes for specific technologies
AMS-II.D.	Energy efficiency and fuel switching measures for industrial facilities
AMS-II.E.	Energy efficiency and fuel switching measures for buildings
AMS-II.F.	Energy efficiency and fuel switching measures for agricultural fac. and activ.
AMS-III.A.	Agriculture
AMS-III.B.	Switching fossil fuels
AMS-III.C.	Emission reductions by low-greenhouse gas emitting vehicles
AMS-III.D.	Methane recovery in agricultural and agro industrial activities
AMS-III.E.	Avoidance of methane production from biomass decay through controlled combustion
AMS-III.F.	Avoidance of methane production from biomass decay through composting
AMS-III.G.	Landfill methane recovery
AMS-III.H.	Methane recovery in wastewater treatment
AMS-III.I.	Avoidance of methane production in wastewater treatment through replacement of anaerobic lagoons by aerobic systems
AMS-III.J.	Avoidance of fossil fuel combustion for carbon dioxide production to be used as raw material for industrial processes
AMS-III.K.	Avoidance of methane release from charcoal production by shifting from pit method to mechanized charcoaling process

The EB website provides an [overview of approved small-scale methodologies](#)⁶⁸. For further details on small-scale methodologies, see the [EB website](#)⁶⁹. A number of documents providing clarification and guidance on small-scale projects are available under [small-scale related guidance/clarifications](#)⁷⁰

⁶⁸ <http://cdm.unfccc.int/methodologies/SSCmethodologies/approved.html>

⁶⁹ <http://cdm.unfccc.int/methodologies/SSCmethodologies/index.html>

⁷⁰ <http://cdm.unfccc.int/Reference/Guidclarif/index.html>

5. GLOSSARY⁷¹

Afforestation/Reforestation projects (A/R)

Projects which lead to direct human-induced conversion of land that has not been forested to forested land through planting, seeding and/or human-induced promotion of natural seed sources.

Applicant Entity (AE)

Entity applying for accreditation as a Designated Operational Entity with the EB. In accordance with the procedure for accreditation, an AE has to carry out activities witnessed by the CDM-AT. Validation and/or verification and certification activities, witnessed during the accreditation procedure, are considered valid if the applicant entity is successfully accredited by the EB.

Assigned amount unit (AAU)

A Kyoto Protocol unit equal to 1 metric tonne of CO₂ equivalent. Each Annex I Party issues AAUs up to the level of its assigned amount, established pursuant to Article 3, paragraphs 7 and 8, of the Kyoto Protocol. Assigned amount units may be exchanged through emissions trading.

Annex I Parties

The industrialized countries listed in this Annex to the Convention which committed to reduce their greenhouse-gas emissions to 1990 levels by the year 2000. They include the 24 original OECD members, the European Union, and 14 countries with economies in transition. (Croatia, Liechtenstein, Monaco, and Slovenia joined Annex 1 at COP-3, and the Czech Republic and Slovakia replaced Czechoslovakia.). All Annex I Parties except Turkey have taken over emission targets under the Kyoto Protocol. As these targets are listed in Annex B of the Kyoto Protocol, countries with Kyoto targets are sometimes also called Annex B countries. Frequently, the terms Annex I and Annex B are used interchangeably.

⁷¹ This glossary is based on the '[Glossary of CDM terms, Version 01](#)' elaborated by the EB.

BMU

German abbreviation for the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

Carbon market

A popular but misleading term for a trading system through which countries may buy or sell units of greenhouse-gas emissions in an effort to meet their national limits on emissions, either under the Kyoto Protocol or under other agreements, such as that among member states of the European Union. The term comes from the fact that carbon dioxide is the predominant greenhouse gas and other gases are measured in units called carbon-dioxide equivalents.

Carbon sequestration

The process of removing carbon from the atmosphere and depositing it in a reservoir.

Certified emission reductions (CER)

A Kyoto Protocol unit equal to 1 metric tonne of CO₂ equivalent. CERs are issued for emission reductions from CDM project activities. Two special types of CERs called temporary certified emission reduction (tCERs) and long-term certified emission reductions (lCERs) are issued for emission removals from afforestation and reforestation CDM projects.

CFC

Chlorofluorocarbon.

CH₄

Methane.

Clean Development Mechanism (CDM)

A mechanism under the Kyoto Protocol through which public or private entities of developed countries may finance greenhouse-gas emission reduction or removal projects in developing countries (non-Annex I countries). Annex I countries may use emission credits generated by CDM projects towards meeting their Kyoto target.

Deutsche Emissionshandelsstelle (DEHSt)

Division of the Federal Environmental Agency (UBA) designated to implement the market-based climate change mechanisms. The DEHST is the German Designated National Authority (DNA) and thus responsible for approval of CDM projects under the Kyoto Protocol.

European Emission Trading System (EU ETS)

Cap and trade system which fixes emission limits for installations in the power sector and energy-intensive industries. Installations covered by the EU ETS can trade emission certificates (called EUAs) granted to them. This offers the opportunity for those installations which are 'short' of emission certificates to buy additional certificates on the carbon market, while installations with a surplus of certificates will be able to act as sellers.

Executive Board of the Clean Development Mechanism (EB)

The CDM Executive Board (EB) supervises the actual operation of the CDM, under the authority and guidance of COP/MOP. The EB consists of ten members and ten alternate members of the Parties to the Kyoto Protocol.

CO₂

Carbon dioxide

Compliance

Fulfilment by countries/businesses/individuals of emission and reporting commitments under the UNFCCC and the Kyoto Protocol.

Conference of the Parties (COP)

The supreme body of the Convention. It currently meets once a year to review the Convention's progress. The word "conference" is not used here in the sense of "meeting" but rather of "association," which explains the seemingly redundant expression "fourth session of the Conference of the Parties." Decisions taken by the COP are labelled as illustrated in the following example: Decision 15/CP.7 (e.g. Decision 15 taken by COP 7)

Conference of the Parties serving as the Meeting of the Parties (COP/MOP)

The Convention's supreme body is the COP, which serves as the meeting of the Parties to the Kyoto Protocol. The sessions of the COP and the COP/MOP are held during the same period to reduce costs and improve coordination between the Convention and the Protocol. Decisions taken by the COP/MOP are labelled as illustrated in the following example: Decision 1/CMP.1 (e.g. Decision 1 taken by COP/MOP 1)

Countries with Economies in Transition (EIT)

Countries in a stage of transition from a centrally planned economic system to a social order based on a market economy. These include the Central and Eastern European Countries (CEEC), the New Independent States (NIS) on the territory of the former Soviet Union, and the Southeast Asian countries of Viet Nam, Laos and Cambodia. Some EITs are Annex I countries (e.g. Russia, Ukraine) and are therefore potential JI host countries, while other EITs belong to the potential CDM host countries.

CPA

CDM program activity (which is a **a project activity under a programme of activities**)

Decision (under the UNFCCC)

A formal agreement that (unlike a resolution) leads to binding actions. It becomes part of the agreed body of decisions that direct the work of the COP.

Designated National Authority (DNA)

An office, ministry, or other official entity appointed by a Party to the Kyoto Protocol to review and give national approval to projects proposed under the Clean Development Mechanism.

Designated Operation Entity (DOE)

Independent third party responsible for checking if the project and related documents meet the requirements for being registered as a CDM project (validation). Furthermore, DOEs verify the actual emission reductions of registered CDM projects (verification) and request the EB to issue CERs accordingly. The EB has to accredit DOEs separately for validation and verification as well as for different sectoral scopes.

Emission reduction unit (ERU)

A Kyoto Protocol unit equal to 1 metric tonne of CO₂ equivalent. ERUs are generated for emission reductions or emission removals from joint implementation project.

Flexible mechanisms

Three procedures established under the Kyoto Protocol to increase the flexibility and reduce the costs of reducing greenhouse-gas emissions: Joint implementation, the Clean Development Mechanism and Emission Trading.

Global warming potential (GWP)

Global warming potentials (GWPs) are used to compare the abilities of different greenhouse gases to trap heat in the atmosphere. GWPs are based on the radiative efficiency (heat-absorbing ability) of each gas relative to that of carbon dioxide (CO₂), as well as the decay rate of each gas (the amount removed from the atmosphere over a given number of years) relative to that of CO₂. The GWP provides a construct for converting emissions of various gases into a common measure, which allows climate analysts to aggregate the radiative impacts of various greenhouse gases into a uniform measure denominated in carbon dioxide equivalents.

Greenhouse gases (GHGs)

The atmospheric gases responsible for causing global warming and climate change. The major GHGs are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O). Further GHGs covered by the Kyoto Protocol are hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

HFC

Hydrofluorocarbons.

Joint implementation (JI)

A mechanism under the Kyoto Protocol through which an Annex I country can receive emissions reduction units when it helps to finance projects that reduce net greenhouse-gas emissions in another Annex I country. An Annex I Party must meet specific eligibility requirements to participate in joint implementation.

Kyoto Protocol

An international agreement standing on its own, and requiring separate ratification by governments, but linked to the UNFCCC. The Kyoto Protocol, among other things, sets binding targets for the reduction of greenhouse-gas emissions by industrialized countries.

Land use, land-use change, and forestry (LULUCF)

A greenhouse gas inventory sector that covers emissions and removals of greenhouse gases resulting from direct human-induced land use, land-use change and forestry activities.

Letter of Approval (LoA)

Official document by which a participating government of a CDM project authorizes the respective CDM project. A LoA of the host country is obligatory for registration, while investor country approval is necessary latest for the transfer of CERs to the national registry of the investor country.

Letter of Endorsement (LoE)

Preliminary confirmation by a participating government that it generally supports a CDM project. The LoE is issued to the project proponents if the DNA - based on the information provided in the PIN - comes to the conclusion that a later official approval (Letter of Approval, LoA) is likely. Sometimes this is also called Letter of no-objection (LoNo)

Memorandum of Understanding (MoU)

Legal document describing a bilateral agreement between parties. It expresses a convergence of will between the parties, indicating an intended common line of action, rather than a legal commitment. Often a MoU are signed between a host and an investor country with the goal to facilitate the implementation of CDM projects. A MoU is however not a necessary condition for the approval of a CDM project.

N2O

Nitrous oxide.

Non-Annex I Parties

All countries not listed in the annex of the UNFCCC, among which are all developing countries and some EITs.

PFC

Perfluorocarbon.

Parties involved

A Party involved is a country that provides written approval (LoA) for a project.

Programme of Activities (PoA)

A voluntary coordinated action by a private or public entity which coordinates and implements any policy/measure or stated goal (i.e. incentive schemes and voluntary programmes), which leads to GHG emission reductions or increase net greenhouse gas removals by sinks that are additional to any that would occur in the absence of the PoA, via an unlimited number of CDM program activities (CPAs).

Project Idea Note (PIN)

Document providing an overview of the project, including indicative information on anticipated emission reductions, information regarding additionality and a preliminary overview of the financials of the project.

Project participant

Project participant is (a) a Party involved, which has indicated to be a project participant, or (b) a private and/or public entity authorized by a Party involved to participate in a CDM project activity.

Registries, registry systems

Electronic databases that will track and record all transactions under the Kyoto Protocol's greenhouse-gas emissions trading system (the "carbon market") and under mechanisms such as the Clean Development Mechanism.

Removal unit (RMU)

A Kyoto Protocol unit equal to 1 metric tonne of carbon dioxide equivalent. RMUs are generated in Annex I Parties by LULUCF activities that absorb carbon dioxide.

SF6

Sulphur hexafluoride.

Sustainable development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

UBA

German abbreviation for the Federal Environment Agency (Umweltbundesamt)

UNFCCC

United Nations Framework Convention on Climate Change.