



ADAPTATION FUND

AFB/EFC.11/5
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Ethics and Finance Committee
Eleventh Meeting
Bonn, Germany, 2-3 April 2013

**OPTIONS TO VERIFY CER BALANCES AT THE
CLEAN DEVELOPMENT MECHANISM (CDM) REGISTRY**

(PREPARED BY THE TRUSTEE)

Background

1. The Adaptation Fund Board has requested the World Bank, in its capacity as interim trustee (“trustee”) for the Adaptation Fund (AF), to present options the Board may wish to pursue to ensure that the Certified Emission Reduction certificates (CERs) allocated to the Adaptation Fund Share of Proceeds account at the Clean Development Mechanism (CDM) Registry of the UNFCCC Secretariat are allocated in a timely and accurate manner by the CDM. The Adaptation Fund Board Report to CMP8¹ included a request to the trustee as follows:

“The Board decides to request the Trustee to examine the report prepared by the consultant entitled “Performance Review of the Interim Arrangements of the Adaptation Fund” and advise at its next meeting about possible options/measures to ensure that information about the amount of CERs available to the Adaptation Fund in its Share of Proceeds Account held with the Clean Development Mechanism is complete, accurate and received in a timely manner before the CERs are made available to the Trustee for monetization. Each option should include a cost estimate and a time line for implementation.” (Intersessional Decision B.18-19/9, para 10)²

2. The purpose of this note is to provide advice on possible options and measures the Board may wish to consider.

Overview of Current Practice

3. The CDM makes information available publicly on the UNFCCC website with respect to CERs issued by the CDM. The CDM also provides information to the trustee on the inflows and outflows from the inventory of CERs maintained in the AF Share of Proceeds on a monthly basis. The report prepared by the Adaptation Fund Board consultant entitled *“Performance Review of the Interim Arrangements of the Adaptation Fund”* (dated 5 November 2011) contained a recommendation that: “...the Secretariat should ensure that the CERs available to the Adaptation Fund in its Share of Proceeds Account held with the Clean Development Mechanism is complete, accurate, and received in a timely manner.” While the trustee has no reason to believe there any issues with the accuracy and timeliness of receipt of CERs into the Adaptation Fund Share of Proceeds, the trustee welcomed the recommendation and noted that it was presently the responsibility of neither the secretariat, nor the trustee. Under the Terms and Conditions between the trustee and the CMP, and Guidelines for CER Monetization approved by the AF Board, the trustee monetizes CERs already made available by the CDM Registry in the Adaptation Fund Share of Proceeds account maintained at the CDM. Accordingly, the trustee has no role or responsibility to verify that the amount of CERs allocated to the Adaptation Fund by the CDM is accurate, or that they have been deposited in a timely manner. Instead, the Adaptation Fund Board presently relies on the internal controls, audit, and other systems in place at the UNFCCC Secretariat and CDM Registry.

¹ FCCC/KP/CMP/2012/7

² Document B.18-19/2-9, September 3, 2012

Options for the Adaptation Fund Board

Option 1: The Board could request the CDM Registry to provide a monthly reconciliation based on total CER issuance data published by the CDM (excluding CDM project activities in least developed country Parties), and the total amount of CERs added to the AF Share of Proceeds account during the month. The effectiveness of such reconciliation will depend on the accuracy of the total CER issuance data published by CDM. A possible reconciliation methodology could include the following:

- ⇒ CDM publishes cumulative CER issuance by country on monthly basis³. Monthly CER issuance in respect of non-LDC countries can therefore be derived based on such CER issuance statistics.
- ⇒ Total CER proceeds in the AF Share of Proceeds provided by CDM can then be reconciled to total monthly issuance, as the amount allocated to the AF Share of Proceeds should equal 2% of the total CER issuance for projects from non-LDC countries.
- ⇒ A threshold and issue resolution mechanism would need to be established in the event of any discrepancies found during the reconciliation process.

Timeline: This option could be implemented relatively quickly.

Cost estimate: Monthly reconciliation costs should be minimal (estimate of one-half staff-day per month), however the time and resources required to follow up and resolve any discrepancies found could be considerable. The trustee would not be in a position to perform such a function.

Option 2: The Board, through its secretariat, could commission a one-time independent review of the CDM's CER allocation process to ensure such process carries low systemic and operational risks. Such an independent review should be leveraged on the existing CDM internal control and external auditing processes, where possible. This option would require the concurrence of the CDM, to ensure feasibility of such a review under the CDM's policies and procedures (e.g. not violating archival or other immunities of the UNFCCC or CDM).

Timeline: estimated at 3 to 6 months from the point of consultant selection to completion of work.

Cost estimate: Estimated costs would be high (minimum of US\$ 50 thousand, possibly as much as several hundred thousand dollars).

Option 3: The least-cost approach would be for the Board to request the CDM to provide periodic (e.g. quarterly) written attestations to the Board, via the AF Secretariat, confirming the accuracy and timeliness of the allocation of CERs to the AF Share of Proceeds. The

³ The monthly CDM update can be found at <http://cdm.unfccc.int/Statistics/Public/CDMinsights/index.html>

request would be in the form of a letter prepared by the AF Secretariat in consultation with the trustee, and signed by the AF Board Chair. The CDM would then send attestation letters to the AF Secretariat on a regular basis confirming the following: i) the number of CERs issued to countries in the non-LDC category during the period; and ii) the number of CERs allocated to the Adaptation Fund Share of Proceeds during the period. In the event the latter does not equal an amount of 2% of the former, the Board could seek explanation of the discrepancy from the CDM, for follow up actions as appropriate.

Timeline: could be implemented quickly.

Cost estimate: minimal (one-time level of effort of less than one-half staff day)

Recommendation

4. It is recommended that the Board take note of these options. In the view of the trustee, the risk of potential discrepancies is probably low, and the financial implications of any discrepancy would be minimal, particularly in the current CER market context⁴. In this context, the least-cost option (Option 3) would be sufficient to meet the Board's objective.

⁴ Current CER spot prices at approximately EUR 10-20 cents per tonne.