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Issues relating to the clean development mechanism

Annual report of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol*

Summary

This report covers the work of the Executive Board of the clean development mechanism (CDM) during the period from 17 October 2009 to 14 October 2010, during which the CDM saw continued growth and the Board and its support structure undertook a wide range of work to enhance the mechanism.

Over the reporting period, the Board finalized 631 requests for registration and 588 requests for issuance. There are now more than 6,300 CDM project activities (registered projects and those seeking registration), including some 962 component project activities registered under a programme of activities during the reporting period. Were all of the registered projects to deliver their estimated emission reductions, about 1.84 billion certified emission reductions would be generated during the first commitment period of the Kyoto Protocol.

The report highlights achievements and challenges faced by the Board in its supervision of the mechanism. It also highlights work undertaken in the areas of accreditation, methodologies and registration and issuance. Further, it includes a number of recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

* This document was submitted after the due date in order to include information on the reporting period stipulated by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its second and third sessions.

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I. Introduction

A. Mandate

1. In accordance with the modalities and procedures for a clean development mechanism (CDM),¹ the Executive Board of the CDM (hereinafter referred to as the Board) shall report on its activities to each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). In exercising its authority over the CDM, the CMP will review these annual reports, provide guidance and take decisions, as appropriate.

B. Scope of the report

2. This annual report of the Board provides information on progress made towards the implementation of the CDM during its ninth year of operation (2009–2010),² hereinafter referred to as the reporting period, and recommends decisions for adoption by the CMP at its sixth session. It refers to operational achievements leading to the registration of CDM project activities and the issuance of certified emission reductions (CERs), governance matters, measures taken and anticipated to streamline and scale up the CDM, resource requirements, and actual resources available for the work on the CDM during the reporting period.

3. The report highlights successes and challenges over the reporting period and summarizes work on the CDM and matters agreed by the Board. Full details on operations and functions are available on the UNFCCC CDM website,³ which is the central repository for reports of meetings of the Board and for documentation on all matters agreed by the Board.

4. The challenges and achievements during the ninth year of operation of the CDM, as well as the challenges lying ahead, will be highlighted by the Chair of the Board, Mr. Clifford Mahlung, in his oral presentation to the CMP.

C. Action to be taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

5. In exercising its authority over, and in providing guidance to, the CDM in accordance with the CDM modalities and procedures,⁴ the CMP, at its sixth session, taking note of the annual report of the Board, may wish:

- (a) To note that the Board has responded to guidance provided by the CMP at its fifth session, concluded most response actions and made progress on resolving the few remaining issues;
- (b) To designate operational entities that have been accredited, and provisionally designated, by the Board (see chapter III B below);
- (c) To provide guidance on matters arising from this report, in particular on:

¹ Decision 3/CMP.1, annex, paragraph 5 (c).

² The report covers the period from 17 October 2009 to 14 October 2010, in accordance with decision 1/CMP.2, paragraph 11, and decision 2/CMP.3, paragraph 7.

³ <<http://cdm.unfccc.int>>.

⁴ Decision 3/CMP.1, paragraphs 2 and 3.

- (i) The procedure for appeals against adverse rulings by the Board on requests for registration or issuance;
 - (ii) The modalities and procedures of a loan scheme for operationalizing activities in countries with fewer than 10 registered CDM project activities;
 - (iii) The terms of reference for membership of the Board;
 - (iv) Matters related to the excess issuance of CERs;
 - (v) Matters related to the remuneration of members and alternate members of the Board.
6. The CMP will elect the following to the Board for a term of two years upon nominations being received from Parties:
- (a) One member and one alternate member from the African regional group;
 - (b) One member and one alternate member from the Asian regional group;
 - (c) One member and one alternate member from the Latin America and Caribbean regional group;
 - (d) One member and one alternate member from the Western Europe and Other regional group;
 - (e) One member and one alternate member from Parties included in Annex I to the Convention (Annex I Parties).
7. The CMP may also wish to consider the work relating to the CDM being carried out by the Subsidiary Body for Scientific and Technological Advice.

II. Achievements and challenges

A. Milestones and achievements

1. Milestones

8. The CDM passed some important operational milestones in the reporting period, most notably the registration of the 2,000th project activity and the first inclusion of component project activities (CPAs) into a registered programme of activities (PoA).

9. However, the main achievement of the Board during the reporting period was the streamlining of procedures; such work was informed by policy retreats in 2009 and carried out in response to a request from Parties at CMP 5. The new procedures lay the foundation for significantly improving the efficiency and transparency of the operations of the CDM.

10. Also of note, during the reporting period the Board adopted a new standard for accrediting designated operational entities (DOEs). This was done in response to three requests from Parties at CMP 5, relating to impartiality, reporting, and technical areas and competence, in the context of improving the capacity of DOEs.

11. To further address the matter of the regional distribution of CDM project activities, a key interest of Parties, the Board agreed on a loan scheme, for recommendation to the CMP, designed to help alleviate barriers to the development of CDM projects in countries with fewer than 10 registered projects. In addition, the Board postponed the timing of the payment of the registration fee until the first issuance of CERs for project activities in host countries with fewer than 10 projects.

12. Furthermore, in what should be seen as a leap forward for small-scale projects, the Board adopted simplified modalities for demonstrating additionality in relation to renewable energy project activities up to 5 MW in capacity. This work could pave the way for further simplification of CDM baseline and monitoring methodologies.

2. Improving the efficiency of clean development mechanism processes

13. As requested by Parties at CMP 5, the Board adopted and has applied revised procedures for the registration of project activities and issuance of CERs, together with revised procedures for the review by the Board of requests for registration and issuance of CERs. The revised procedures, which include clear timelines for each stage of registration and issuance, place emphasis on the need for DOEs to ensure the quality of their submissions and for the secretariat to identify, early in the processing stage, submissions that do not meet the expected quality standards. Problems are thereby reduced, and problems that do exist are more often addressed before they reach the Board, thus allowing the Board to devote more of its time to supervising CDM operations and developing policy guidance.

14. In addition, much effort was made in the reporting period to increase the consistency and quality of the work done by DOEs, by following up on their performance, adopting a new accreditation standard, training those who assess DOEs, and harmonizing the interpretation of requirements.

15. As part of a further streamlining of the CDM project cycle, the procedures for the consideration of methodology-related submissions were also revised in the reporting period.

3. Enhancing transparency

16. Transparency of information and involvement of stakeholders are key features of the CDM. These features were further enhanced in the reporting period through the changes made to: the registration, issuance and review procedures; the procedures for approval and revision of methodologies; and the accreditation process. The new procedures for registration and issuance allow for the publication of the reasons for the rejection of submissions at the stage of the completeness check, thus enabling more stakeholders to understand and learn from the regulator's interpretation of the applicable rules. Under the new review procedures, in cases where a request for registration or issuance is rejected, the Board will publish a formal ruling explaining its reasons for the rejection. This is particularly important if the CMP, at its sixth session, agrees to establish an appeals process, as recommended by the Board. The revised procedures for approval and revision of methodologies allow project participants to be more directly involved in clarifying the concepts behind proposals and in assessing the recommendations of the Board's Methodologies Panel. Meanwhile, the revised procedures for accreditation allow entities to appeal all negative recommendations of the Board's Accreditation Panel, and expand the scope of the allowed appeals. These procedures also introduce, for the first time, a system for handling complaints, both against entities and from entities against the Board's support structure of panels and working groups.

4. Maintaining and enhancing the quality of emission reductions

17. The procedural changes outlined in paragraph 13 above were also designed to maintain and enhance the quality of the submissions received as well as the quality of the work of the Board's support structure. The Board is committed to ensuring that the CERs issued under the CDM meet Parties' expectations for environmental integrity. Likewise, the Board is committed to ensuring that the products delivered and work carried out on behalf of the Board meet established quality standards. During the reporting period, the Board

introduced a framework for monitoring the performance of DOEs. The results generated will also be used to support a system-wide quality assessment process, aiming to identify and address the areas causing the greatest difficulty for stakeholders and the Board's support structure in complying with quality standards.

18. Regarding additionality, work is progressing on the development of a tool that will facilitate the more objective determination of additionality, the matter of which remains the single biggest cause of projects going under review and being rejected.

B. Challenges

1. Regional and subregional distribution of project activities

19. Since the CMP met at its first session to give guidance to the Board, the equitable regional and subregional distribution of CDM project activities has been a significant concern of Parties. Acting under the direction of Parties, the Board has worked to remove as many of the regulatory barriers to the broader development of the CDM as possible. The increase in PoAs, under which an unlimited number of similar project activities can be administered under the umbrella of a single registered programme, indicates that the CDM can be successful at promoting sustainable development in least developed countries. The Board remains committed to addressing the remaining barriers within its control. Meanwhile, the secretariat will expand the support it provides to capacity-building initiatives, both through the Nairobi Framework⁵ and other bilateral and multilateral initiatives within the United Nations and with other interested organizations.

20. As part of the work to enhance the reach of the CDM, methodologies for use in economic sectors of particular relevance to countries with fewer than 10 registered projects have been developed and are in the process of being approved. That said, developing or stimulating the development of methodologies appropriate for places yet to adequately reap the benefits of the CDM remains a challenge.

21. To help further spur the regional and subregional distribution of CDM project activities, the Board recommends that the CMP adopt the Board's proposed guidelines and modalities for operationalization of a loan scheme to support the development of CDM project activities in countries with fewer than 10 registered CDM project activities, which were developed in response to a request from Parties at CMP 5.

2. Project-related submissions

22. The Board continues to receive large volumes of requests for registration of project activities and of requests for issuance, and the rate of projects commencing validation increased slightly in the reporting period. While, in terms of investor confidence in the CDM, these are positive signals, as a result the Board faces a significant challenge in ensuring that the CDM processes are conducted in a timely and efficient manner. During the reporting period, the Board worked with the secretariat to ensure that the support available for the processing of project-related submissions was commensurate with the rate of receipt of submissions. The combination of streamlining administrative processes, as discussed in paragraph 13 above, and increasing the secretariat's number of staff in line with the Board's management plan is just starting to yield results in terms of processing times. Based on the current rates of submission and processing, the Executive Board expects the waiting times for the processing of new submissions to be in line with the procedural requirements in early 2011. Further, it is expected that the volume of project-related submissions processed in the coming reporting period will be substantially greater

⁵ <http://cdm.unfccc.int/Nairobi_Framework/index.html>.

than in the current and past reporting periods. This will certainly be necessary given the expected continuous increase in the volume of requests of issuance in the coming two years.

3. Simplification of standards and requirements relating to projects

23. Ensuring that greenhouse gas (GHG) emission reductions produced under the CDM are real, measurable, verifiable and additional remains the main priority of the Board. In the course of implementing the mechanism – approving methodologies and reviewing project-related submissions – the Board continually identifies areas where the simplification of requirements could improve the efficiency of the process, as well as the understanding of stakeholders, without affecting the environmental integrity of the CERs produced.

24. In addition, the Board, with the assistance of its support structure, has initiated a systematic review of the current rules and requirements of the CDM to ensure that unnecessary complications are removed or reduced. In this regard, particular focus will be on simplifying the criteria for the demonstration of additionality and the establishment of emission baseline scenarios. The first steps have been taken to explore how methodologies, including the establishment of baselines, can be made more consistent and further simplified.

4. Enhancing governance

25. Establishing the CDM required the direct involvement of the Board in many operational aspects of the mechanism. However, the Board has noted the requests from Parties that it now play a more executive and supervisory role. In September, in Brasilia, Brazil, in conjunction with its fifty-sixth meeting, the Board held a policy retreat to discuss its working relationship with its support structure, including the secretariat, and to explore opportunities for enhancing complementarity. A number of areas for improvement in the internal operations of the Board and the secretariat were identified. Not least, the Board identified the need to more clearly develop, define and document roles in order to ensure its ability to further scale up the CDM and respond to the expectations of Parties.

C. Looking ahead

26. The Board has made significant progress in improving the efficiency and transparency of the operations of the CDM. However, the full benefits of most of the changes agreed in this reporting period will only be seen in the next reporting period. Looking ahead, the Board sees a number of other challenges that need to be addressed. At its past two sessions, the CMP provided the Board with a substantial number of requests and amount of additional guidance. The Board believes that its work in the coming reporting period would be facilitated by a reduced number of specific and detailed requests from the CMP, at its sixth session, thus allowing the Board to focus on the implementation and monitoring of the improvements that have already been initiated. The Board would appreciate further guidance and direction from the CMP on matters related to governance structure and the delivery of a more equitable regional and subregional distribution of CDM project activities. The Board will continue to work in the coming year to simplify project requirements and streamline operational procedures.

27. The Board notes with concern, however, the potential impact of the uncertainty regarding the future of the CDM, which stems from the slow pace of discussions on the second commitment period of the Kyoto Protocol. The Board's concern relates, in particular, to the impact on the market and the difficulties which this uncertainty creates for the Board in terms of developing a medium-term work plan.

III. Work undertaken in the reporting period

28. This chapter describes ongoing work of the Board and its responses to requests and encouragement of the CMP. Annex I to this report contains a summary of the deliverables of the Board in response to the requests and encouragements of the CMP at its fifth session. The work of the Board can be categorized into four broad areas, and the work undertaken in the reporting period is reported in this chapter in line with these functions:

- (a) Establishing standards, both for entities and CDM project activities;
- (b) Ensuring that entities comply with these standards;
- (c) Ensuring that project activities registered under the CDM and the CERs issued to them comply with these standards;
- (d) Facilitating a more equitable regional and subregional distribution of CDM project activities.

A. Establishing standards and related requirements

1. Standards related to accreditation of operational entities

29. During the reporting period, the Board worked on improving the standards with which applicant entities (AEs) and DOEs are expected to comply. In particular, the Board revised its “CDM accreditation standard for operational entities” to more clearly define the required competences of DOEs and enhance their ability to deliver the performance expected by the Board.

30. With regard to the work undertaken related to the *Clean Development Mechanism Validation and Verification Manual* (VVM),⁶ the Board decided to review the VVM every six months. It was decided that such a review would include the incorporation, as appropriate, of evolving decisions of the Board. The first revised version of the VVM was adopted at the fifty-first meeting of the Board and the second and latest version (version 1.2) at the fifty-fifth meeting.

31. The Board also worked on the standard regarding the use of the concept of materiality under the CDM and will continue this work in the future.

2. Standards related to clean development mechanism project activities

32. With regard to the work undertaken by the Board on standards related to CDM project activities, such as methodologies, methodological tools and related guidelines, the Board, at the beginning of the reporting period, prioritized its work and the work of its support structure by defining the order of priority of specific sectors and processes, following the guidance provided by the CMP.

33. During this reporting period, the Board approved 20 new methodologies, revised 56 approved methodologies and released two new tools. In detail, the Board:

- (a) Approved eight large-scale methodologies, 10 small-scale (SSC) methodologies and two afforestation and reforestation (A/R) methodologies;
- (b) Revised 32 large-scale methodologies, 21 SSC methodologies and three A/R methodologies;
- (c) Approved two tools for A/R methodologies.

⁶ <<http://cdm.unfccc.int/Reference/Manuals/index.html>>.

34. The revision of methodologies and tools was undertaken in order to broaden their applicability and to enhance the objectivity and transparency of the approaches used to demonstrate and assess additionality and for selection of the baseline scenario.

35. In addition, the Board adopted the following new or revised guidelines in the area of project-related standards:

- (a) “Guidelines on apportioning emissions from production processes between main product and co- and by-products” (version 02);
- (b) “Guidelines for completing the CDM A/R forms for: the project design document (CDM-AR-PDD) and the proposed new baseline and monitoring methodology (CDM-AR-NM)” (version 10);
- (c) “General Guidelines to SSC CDM methodologies” (version 14.1);
- (d) “Guidelines for demonstrating additionality of renewable energy projects =<5 MW and energy efficiency projects with energy savings <=20 GWH per year” (version 01);
- (e) “Guidelines on assessment of de-bundling for SSC project activities” (version 03);
- (f) “Guidelines for assessing compliance with the calibration frequency requirements” (version 01);
- (g) “Guidelines on conditions under which increase in GHG emissions related to displacement of pre-project grazing activities in A/R CDM project activity is insignificant” (version 01);
- (h) “Guidelines on conditions under which increase in GHG emissions attributable to displacement of pre-project crop cultivation activities in A/R CDM project activity is insignificant” (version 01);
- (i) “Guidelines on the assessment of investment analysis” (version 03.1).

36. The Board also considered draft guidelines on the treatment of national and sectoral policies in the demonstration and assessment of additionality and informed its stakeholders on the implementation of E+/E- in the context of projects. Further, it agreed not to address the issue of the treatment of national and sectoral policies in the demonstration and assessment of additionality through a guideline but rather to assess the possible impact of such policies on a case-by-case basis.

37. The Board has continued to work on the development of guidance for project participants on the use of a first-of-its-kind barrier and the assessment of common practice, including the definition of the applicable region, similar technologies and thresholds for penetration rates.

3. Improving the process of developing standards

38. The Board revised its procedures related to methodologies in order to increase the direct interaction between the secretariat and the entities involved in developing methodologies, including project proponents, during the assessment of methodologies, in advance of panel and working group meetings, and in order to streamline the process of consideration of these methodologies. The main trend in these procedural changes was the facilitation of the top-down revision of methodologies and the improvement of consistency, broadening of applicability and removal of unnecessary complexity. In particular the Board approved and revised the following:

- (a) “Procedure for the submission and consideration of requests for revision of approved baseline and monitoring methodologies and tools for large scale CDM project activities” (version 01);
- (b) “Procedure for the submission and consideration of requests for revision of approved baseline and monitoring methodologies and tools for A/R CDM project activities” (version 01);
- (c) “Procedures for the submission and consideration of a proposed new baseline and monitoring methodology for large scale afforestation and reforestation CDM project activities” (version 01);
- (d) “Procedure for the submission and consideration of a proposed new baseline and monitoring methodology for large scale CDM project activities” (version 01);
- (e) “Project design document form for A/R CDM project activities (CDM-AR-PDD)” (version 05).

B. Managing entities

1. The process of accrediting and supervising operational entities

39. The Board revised the “Procedure for accrediting operational entities by the Executive Board of the clean development mechanism (CDM)” (version 10.1). This revision further streamlines the process, specifically in the spot-check and suspension sections, reducing the timelines for the re-accreditation process and developing procedures to handle complaints from and against AEs and DOEs.

40. The Board revised its “Guidelines for the preparation of the annual activity report by a DOE to the Executive Board” to incorporate the various requests from the CMP to enhance the reporting of DOEs on their activities, including those undertaken in countries with fewer than 10 registered CDM project activities.

41. The Board approved a policy framework to monitor the performance and address the non-compliance of DOEs, which includes a categorization of non-compliance issues related to the performance of DOEs, identification of thresholds and applicable sanctions.

42. The Board established and implemented a system for the continuous monitoring of the performance of DOEs. The Board agreed that the sanctions that would apply under this framework are mandatory root-cause analysis and spot checks, and also agreed to the performance thresholds that would trigger such actions.

43. The Board has continued to work on the monitoring of the performance of DOEs by agreeing on the format to be used for reporting on their performance and agreeing on the frequency of this monitoring.

44. The Board also addressed the matter of the liability of the DOEs for excess issuance of CERs in the context of the validation and verification activities which they have carried out. In doing so the Board considered a draft procedure regarding the correction of significant deficiencies and the excess issuance of CERs, and sought stakeholders’ comments on this proposed procedure. In this regard, the Board recommends that the CMP request the Board to adopt, and apply, as required on an interim basis, a procedure to address significant deficiencies, if any, in validation or verification reports, following a review of the provisions contained in the annex to decision 3/CMP.1, paragraphs 22–24, in particular the provisions requiring:

- (a) A DOE to be suspended prior to the application of such a procedure;

- (b) A second DOE to be appointed to conduct the review or correct the deficiency;
- (c) Units to be cancelled within 30 days of the end of the review.

45. Two training workshops for CDM assessment team members were organized in Bonn to improve the efficiency of the assessment process and contribute to enhancing the operations of the CDM. The first workshop was held on 19–20 May 2010 and the second on 22–24 September 2010. During these workshops, numerous assessors were trained and the secretariat and the assessors worked to harmonize criteria and clarify issues surrounding the application of the requirements under the accreditation standard with the members of the CDM Accreditation Panel.

2. Entities recommended for designation

46. In the reporting period, the Board accredited and provisionally designated 15 operational entities for validation and 15 for verification (see table 1). If these designations are confirmed, it would take the total number of operational entities accredited for validation of projects to 34, and the number of entities accredited for verification and certification of emission reductions to 34.

47. The Board recommends the entities listed in table 1 for designation by the CMP at its sixth session, for the sectoral scopes indicated.

48. The geographical distribution of the total 43 designated and applicant entities is reflected in table 2, together with the number from Parties not included in Annex I to the Convention (non-Annex I Parties) by region. Of the four applications received in the reporting period, three were from entities in non-Annex I Parties. Information on all applications, and the stage of consideration reached, is available on the UNFCCC CDM website.

Table 1

Entities accredited and provisionally designated by the Executive Board in the reporting period

<i>Name of entity</i>	<i>Provisionally designated and recommended for designation for sectoral scopes^a</i>	
	<i>Project validation</i>	<i>Emission reduction verification</i>
Bureau Veritas Certification Holding SAS	1–15	1–15
Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd.	1–10, 12, 13 and 15	1–10, 12, 13 and 15
Japan Consulting Institute	1, 2 and 13	1, 2 and 13
KPMG AZSA Sustainability Co. Ltd.	1, 2, 3 and 10	1, 2, 3 and 10
Conestoga Rovers & Associates Limited	1, 4, 5, 10, 12 and 13	1, 4, 5, 10, 12 and 13
Spanish Association for Standardisation and Certification	1–15	1–15
TÜV NORD CERT GmbH	1–15	1–15
Lloyd's Register Quality Assurance Ltd.	1–13	1–13
Korean Foundation for Quality	1–5, 9–11 and 13	1–5, 9–11 and 13
Ernst & Young ShinNihon Sustainability Institute Co., Ltd.	1, 2 and 3	1, 2 and 3
Nippon Kaiji Kentei Quality Assurance Ltd.	1, 3, 4, 5, 7, 12 and 13	1, 3, 4, 5, 7, 12 and 13

<i>Name of entity</i>	<i>Provisionally designated and recommended for designation for sectoral scopes^a</i>		<i>Emission reduction verification</i>
	<i>Project validation</i>	<i>1 and 13</i>	
Perry Johnson Registrars Clean Development Mechanism, Inc.	1, 2, 3, 7, 9, 12, 13 and 15	1, 2, 3, 7, 9, 12, 13 and 15	
LGAI Technological Center, S.A.		1 and 13	1 and 13
CEPREI certification body	1–5, 8–10, 13 and 15		1–5, 8–10, 13 and 15
Deloitte Cert Umweltgutachter GmbH	1, 2, 3 and 5		1, 2, 3 and 5

^a The numbers indicate sectoral scopes. For details see <<http://cdm.unfccc.int/DOE/scopelist.pdf>>.

Table 2

Geographical distribution of entities that are designated or have applied to validate clean development mechanism projects and verify and certify emission reductions

<i>Region</i>	<i>Total number of designated/applicant entities</i>	<i>Number of designated/applicant entities from non-Annex I Parties</i>
Western Europe and Other	15/0	0/0
Asia and the Pacific	18/8	8/7
Latin America and the Caribbean	1/0	1/0
Eastern Europe	0	0
Africa	0/1	0/1

C. Managing projects, programmes, certified emission reductions and the clean development mechanism registry

1. The process of registering clean development mechanism project activities and issuing certified emission reductions

49. To respond to the request from the CMP and to the emerging needs of project participants, the Board revised its procedures for registration and issuance and its procedures for review of requests for registration and issuance. The revision of these procedures represents a step forward in improving the system for both registration and issuance, ensuring the efficient and timely consideration of requests for registration and issuance while still providing adequate opportunity for project participants and DOEs to address the issues raised in the review.

50. Following the adoption by the Board of revised registration and issuance procedures and revised procedures for review of requests for registration and issuance in May and July 2010, respectively, the secretariat began expeditious implementation of these new procedures. At the time of the drafting of this report, the secretariat was processing all new submissions in accordance with the new procedures, although in some cases, where a review was requested prior to the adoption of the new procedures, the submissions were still to be processed in accordance with the old procedures. The necessary revisions to various workflows have largely been completed and any remaining implementation issues will be resolved by the end of the year.

51. In accordance with the request from Parties at CMP 5, the Board considered a procedure for considering appeals, taking into account comments from stakeholders. Due to the requirements in paragraphs 45 and 61 of decision 3/CMP.1 for the Board to register

project activities and issue CERs, the Board was not in a position to implement an appropriate appeals mechanism. Therefore the Board recommends the procedures as contained in annex II to this report. If the CMP wishes to approve this procedure, it may want to consider the following options for the establishment of the appellate body:

- (a) The designation of the enforcement branch of the Compliance Committee;
- (b) The creation of a new body under the authority of the CMP;
- (c) The delegation of the authority to an official designated by the Executive Secretary to establish ad hoc or standing appeals panels in consultation with the Bureau of the CMP;
- (d) The Delegation of the authority to the Board to establish ad hoc or standing appeals panels;
- (e) The selection of any other body considered appropriate by the CMP.

52. During the reporting period, the Board adopted the following new or revised procedures and guidelines in the area of the registration of CDM project activities and the issuance of CERs:⁷

- (a) “Procedures for requests for registration of proposed CDM project activities” (version 01.1);
- (b) “Procedures for requests for issuance of CERs” (version 01.2);
- (c) “Procedures for review of requests for registration” (version 01.2);
- (d) “Procedures for review of requests for issuance” (version 01.3);
- (e) “Guidelines on the registration fee schedule for proposed project activities under the CDM” (version 02);
- (f) “Procedures for requesting post-registration changes to the start of the crediting period” (version 02);
- (g) “Guidelines for completing the Monitoring Report form (CDM-MR)” (version 01);
- (h) “Procedures for withdrawal of a request for registration” (version 01);
- (i) “Procedures for withdrawal of requests for issuance” (version 01).

53. Furthermore, the secretariat published the following documents to support the transparency of the process, in addition to information notes providing further explanations and rationale regarding case-specific decisions:

- (a) “Registration completeness checklist” (version 01);
- (b) “Registration information and reporting checklist” (version 01);
- (c) “Issuance completeness checklist” (version 01);
- (d) “Issuance information and reporting checklist” (version 01);
- (e) “Information note on the highest tariffs applied by the Board in its decisions on registration of projects in the People’s Republic of China” (version 01).

⁷ Reports of the meetings of the Board can be found at <<http://cdm.unfccc.int/EB/index.html>>.

2. The process of registering programmes of activities as single clean development mechanism project activities

54. As requested by Parties at CMP 5, the Board continued to revise the relevant procedures and guidance on PoAs, including by defining more clearly the situation in which DOEs could be held liable for erroneous inclusion of a CPA, in order to reduce barriers to the development of PoAs under the CDM.

55. In this regard, the development of PoAs continued throughout the reporting period. The Board adopted or revised the following procedures and/or guidelines in the area of PoAs under the CDM:

- (a) “Procedures for review of erroneous inclusion of a CPA” (version 02);
- (b) “Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emission reductions for a programme of activities” (version 04.1);
- (c) “Procedures for approval of the application of multiple methodologies to a programme of activities” (version 01).

3. Management of work

56. The Board continued to rely on the support of the secretariat and the registration and issuance team to process the caseload during the reporting period. Additional resources, approved by the Board in its management plan for 2010, and structural changes within the secretariat have strengthened its technical support to the Board on registration and issuance matters. In order to provide the Board with more flexible support and to deliver faster processing times, the secretariat has complemented the additional full-time resources with 16 external contractors.

57. While the administrative process and capacity constraints with regard to human resources are core factors contributing to the delays in the processing of project-related submissions, the quality of the inputs received is also a contributing factor. Therefore, the Board, through its management plan, mandated the secretariat to work closely with the DOEs to improve the quality of their submissions. The secretariat has delivered on this mandate by scaling up its contribution to the DOE Coordination Forum, establishing direct channels of communication with DOEs and organizing activities such as the VVM regional workshops.

4. Progress in the registration of clean development mechanism project activities and the issuance of certified emission reductions

58. During the reporting period, the caseload continued to grow. An overview of submissions of requests for registration and issuance, as well as for PoAs, revisions of monitoring plans, changes to project design documents and deviations, is reflected in table 3.

Table 3
Processing of clean development mechanism registration- and issuance-related requests within the reporting period of 17 October 2009 to 14 October 2010

<i>Request</i>	<i>Pending requests submitted during the reporting period</i>			
	<i>Number of requests submitted in the reporting period</i>	<i>Awaiting commencement of completeness check</i>	<i>Already commenced completeness check</i>	<i>Number of finalized requests within the reporting period^a</i>
Registration	783	234	323	631
Issuance	839	267	221	588
Programme of activities	2	0	0	4
Renewal of crediting period	12		4	13
Revision of monitoring plans	180		69	156
Changes to project design documents	66		27	41
Deviations	107		NA	NA

Abbreviation: NA = not applicable.

^a Finalized requests comprise both requests submitted within the reporting period and requests submitted prior to the reporting period which had entered the processing pipeline.

59. Of the 631 requests for registration finalized within the reporting period, 405 requests were submitted prior to the reporting period. Ten of the finalized requests were withdrawn and 47 requests could not be registered (were rejected) by the Board.

60. Of the 588 requests for issuance finalized within the reporting period (representing 111,487,709 CERs), 237 requests were submitted prior to the reporting period. Twenty of the finalized requests (representing 1,590,151 CERs) were withdrawn and five requests (representing 224,693 CERs) were rejected by the Board.

61. More detailed statistics can be found on the UNFCCC CDM website.⁸

5. The clean development mechanism registry

62. The operation of the CDM registry continued during the reporting period. An overview of the issuance and distribution of CERs to date and during the reporting period is provided in table 4.

Table 4
Overview of certified emission reductions issued and distributed

<i>Transaction type</i>	<i>Total to date</i>	<i>Total for the reporting period</i>
Total certified emission reductions (CERs) issued	444 991 872	109 672 865
CERs forwarded to holding accounts of Annex I Parties in national registries	416 955 277	104 548 503
CERs forwarded to permanent holding accounts of non-Annex I Parties in the clean development mechanism (CDM) registry	5 772 037	781 229

⁸ <<http://cdm.unfccc.int/Statistics/index.html>>.

<i>Transaction type</i>	<i>Total to date</i>	<i>Total for the reporting period</i>
CERs forwarded to the Share of Proceeds Adaptation Fund holding account in the CDM registry	8 899 506	2 193 137
Balance in the pending account of the CDM registry (CERs issued but not yet forwarded)	13 365 052	2 149 996

63. The CDM registry currently has 55 fully operational holding accounts, of which 49 are associated with non-Annex I Parties, one temporary holding account is associated with an Annex I Party and five are special purpose accounts.

D. Regional and subregional distribution of project activities under the clean development mechanism

64. Facilitating the equitable regional and subregional distribution of project activities remains a high priority for the Board, and the impact of regulatory decisions on this goal is a key criterium assessed by the Board in the development of new standards, procedures and guidelines.

65. The Board adopted the revised “Guidelines for the preparation of the annual activity report by a DOE to the Executive Board”. This revision reflects the various requests from the CMP to enhance the reporting of DOEs on their activities, including those undertaken in countries with fewer than 10 registered CDM project activities.

66. The Board agreed on its recommendation to the CMP of the modalities and procedures of a loan scheme for operationalizing activities in countries with fewer than 10 registered CDM project activities, as contained in annex III to this report.

67. As part of its efforts to facilitate the development and approval of new and revised methodologies to enhance the equal distribution of CDM project, the Board has worked on the revision of the “Tool to calculate the emission factor for an electricity system” for project activities hosted in countries with a paucity of relevant data, including by providing flexibility for the calculation of grid emission factors.

68. The Board has been following up on the issues raised by and concerns of the designated national authorities (DNAs) between meetings of the Designated National Authorities Forum (DNA Forum) and has continued to consider any unsolicited communications received from DNAs at the next meeting of the Board.

69. The secretariat undertook a survey of the potential of the CDM and identified types of project activity with the potential for reducing emissions for which there are no approved methodologies or the applicability of existing approved methodologies is too narrow to make them applicable to underrepresented types of project activity or regions.

70. The secretariat has continued to coordinate the Nairobi Framework, helping developing countries, especially those in sub-Saharan Africa, to improve their level of participation in the CDM.

71. The geographical distribution of project activities and issuance of CERs can be found on the UNFCCC CDM website.⁹

⁹ <<http://cdm.unfccc.int/Statistics/index.html>>.

IV. Governance matters

A. Evolution of the work of the Executive Board

Improving the efficiency of the clean development mechanism

72. The Board has been continuously monitoring the status of implementation of the requests made by the CMP to the Board in accordance with decision 2/CMP.5, along with the measures agreed by the Board for making strategic improvements to the efficiency of the operation of the CDM. In this regard, the Board held a policy retreat in conjunction with its fifty-sixth meeting. This retreat provided opportunities to, *inter alia*, clarify and strengthen the relationship between the Board and its support structure, including by identifying specific measures for the Board and its support structure to improve the effectiveness and complementarity of their work.

Transparency

73. The Board agreed on a revision to the “CDM Executive Board decision framework: Decision hierarchy and document types issued by the Board”. Efforts to improve consistency in decision-making are ongoing. A new and improved version of the catalogue of decisions has been released.

74. As part of its efforts to be more transparent in its decision-making, the Board released an information note on previous rulings related to the appropriateness of benchmarks for project activities using waste heat gas for power generation.

75. During the reporting period, various procedures were revised to improve the transparency of the decision-making of the Board.

B. Interaction with its fora and stakeholders

1. Designated National Authorities Forum

76. The secretariat has responsibility for coordinating the Nairobi Framework, as well as meetings of the DNA Forum, which also helps to improve the regional distribution of the CDM. As part of this work, the secretariat organized or is organizing:

- (a) The eighth meeting of the DNA Forum, held on 26–28 October 2009 in Singapore, in conjunction with the Asian Carbon Forum;
- (b) The regional meeting of the DNA Forum for the African region, held on 1-2 March 2010 in Nairobi, Kenya;
- (c) The DNA Forum training held on 28–29 June 2010 in Bonn, Germany;
- (d) The ninth meeting of the DNA Forum, held from 30 June to 1 July 2010 in Bonn, Germany;
- (e) The regional DNA Forum training held on 10 October 2010 in Santo Domingo, the Dominican Republic;
- (f) The regional meeting of the DNA Forum for the Latin America and Caribbean region, held on 11–12 October 2010 in Santo Domingo, the Dominican Republic;
- (g) The tenth meeting of the DNA Forum, scheduled to be held on 27-28 November 2010 in conjunction with CMP 6 in Cancun, Mexico.

2. Designated Operational Entities Forum

77. The following activities were organized in this reporting period by the Board:
- (a) A meeting on the accreditation standard, held on 5 July 2010 in Bonn, Germany;
 - (b) A meeting of the DOE Forum, held on 6 July 2010 in Bonn, Germany;
 - (c) A VVM regional workshop held on 30–31 March 2010 in Tokyo, Japan;
 - (d) A VVM workshop held on 12–13 July 2010 in Bonn, Germany;
 - (e) A VVM workshop held on 29–30 September 2010 in New Delhi, India;
 - (f) A VVM workshop scheduled to be held on 18–19 November 2010 in Cancun, Mexico.

3. Project participants and other stakeholders

78. During the reporting period, the secretariat organized various activities, including a new initiative of CDM round tables, the first of which was held on 12 June 2010 and the second of which is scheduled for 15 October 2010, both in Bonn, Germany. The purpose of these events is to enhance the interaction and communication with CDM stakeholders and project participants without going through the DOEs.

79. The secretariat also organized a practitioners' workshop on “Energy efficiency methodologies for small-scale project activities”, held on 14 June 2010 in Bonn, Germany, to highlight real-world difficulties in complying with existing requirements and to support the Small-Scale Working Group in developing solutions to these difficulties. The Board launched a call for inputs regarding themes for future workshops and a more detailed programme will be developed by the secretariat for 2011.

80. Various procedures were revised to include and subsequently improve the interaction with stakeholders.

81. The Board, through the secretariat, established a systematic way of answering unsolicited submissions and a formal procedure for considering stakeholder correspondence.

C. Membership issues

82. At CMP 5, new members and alternate members of the Board were elected to fill vacancies arising from the expiration of terms of tenure. During the reporting period, the Board comprised the members and alternate members listed in table 5.

**Table 5
Members and alternate members of the Executive Board of the clean development mechanism**

Members	Alternate members	Nominated by
Mr. Pedro Martins Barata ^b	Mr. Lex de Jonge ^b	Annex I Parties
Mr. Maosheng Duan ^b	Ms. June Hughes ^b	Non-Annex I Parties
Mr. Philip M. Gwage ^b	Mr. Paulo Manso ^b	Non-Annex I Parties
Mr. Kamel Djemouai ^a (resigned in August 2010) replaced by Mr. Tahar Hadj-Sadok (for the	Mr. Samuel Adeoye Adejuwon ^a	African regional group

<i>Members</i>	<i>Alternate members</i>	<i>Nominated by</i>
remainder of the term)		
Ms. Diana Harutyunyan ^b	Ms. Danijela Bozanic ^b	Eastern European regional group
Mr. Martin Hession ^a	Mr. Thomas Bernheim ^a	Western European and other States regional group
Mr. Shafqat Kakhakel ^a	Mr. Rajesh Kumar Sethi ^a	Asian regional group
Mr. Clifford Mahlung ^b	Mr. Asterio Takesy ^b	Small island developing States
Mr. Hugh Sealy ^a ,	Mr. José Domingos Miguez ^a	Latin America and the Caribbean regional group
Mr. Peer Stiansen ^a	Mr. Akihiro Kuroki ^a	Annex I Parties

^a Term: two years ending at the first meeting in 2011.

^b Term: two years ending at the first meeting in 2012.

83. The Board recommends terms of reference for membership of the Board, as contained in annex IV, which clarify the desired set of skills and expertise as well as the expected time commitment required of members and alternate members.

84. Based on this recommendation, Board members and alternate members are required to dedicate a considerable amount of time to the work of the Board. Currently, the time that they must devote to attending Board meetings and the related travel amounts to 45–75 working days per year, plus approximately 20–30 working days per year for preparation. Members who assume additional roles and functions, such as chairing panels and working groups or serving as members on panels, invest even more time.

85. To help achieve an even distribution of the workload, the Board requests that Parties and the CMP, when assigning new members to the Board, take into special consideration the specific skills and expertise needed for the Board's work as well as whether the candidate is able to devote sufficient time.

86. Taking into account the amount of work required of its members and alternate members, the Board recommends that the CMP remove the cap of USD 5,000 per year, established by decision 7/CMP.1 on the increased daily subsistence allowance of the members and alternate members of the Board.

87. The curricula vitae of Board members and details of any past and current professional affiliations of members are now publicly available on the UNFCCC CDM website. In addition, the statements of conflicts of interest of Board members have been made available to the other members of the Board and are also posted on the UNFCCC CDM website.

88. The Board reiterates its concern that neither the Conference of the Parties nor the CMP has established an international legal framework for privileges and immunities for Board members performing their functions relating to the CDM. Members enjoy privileges and immunities only in Germany, in accordance with the Headquarters Agreement of the secretariat, and in countries where Board meetings are convened pursuant to an agreement with the host country that contains provisions on privileges and immunities. The Board urges the CMP to take further action as a matter of urgency to ensure that Board members are fully protected when taking decisions for which they have been mandated. The Board notes the progress of deliberations on this matter and requests the CMP to find an interim solution at CMP 6, even if a long-term solution cannot be concluded during the present commitment period.

D. Election of the Chair and the Vice-Chair of the Board

89. The Board, at its fifty-second meeting, elected Mr. Clifford Mahlung, a member from a non-Annex I Party, and Mr. Pedro Barata, from an Annex I Party, as Chair and Vice-Chair, respectively. In July 2010, Mr. Barata resigned from his position as Vice-Chair of the Board, for personal reasons, and, at the fifty-fifth meeting of the Board, Mr. Martin Hession was elected as the new Vice-Chair. Their tenures as Chair and Vice-Chair will end at the first meeting of the Board in 2011.¹⁰

90. The Board expressed its appreciation to the Chair, Mr. Mahlung, and Vice-Chair, Mr. Hession, as well as to the former Vice-Chair, Mr. Barata, for their excellent leadership of the Board during its ninth year of operation.

E. Calendar of meetings of the Board

91. The Board adopted its calendar of meetings for 2010 at its first meeting of the calendar year, but revised it various times during the year in order to adjust the meetings to fit in with other scheduled meetings in the climate change process. The Board planned to meet six times during 2010 and, further, agreed to hold one extraordinary meeting to focus on the finalization of this report (see table 6).

92. The annotated agendas for the Board meetings, supporting documentation and reports containing all decisions reached by the Board are available on the UNFCCC CDM website.¹¹ To ensure efficient organization and management of work, meetings of the Board are preceded by informal consultations lasting a half or whole day. The Board has tentatively agreed to the schedule of meetings for 2011 (see table 7).

Table 6
Meetings of the Executive Board in 2010^a

<i>Meeting</i>	<i>Date</i>	<i>Location</i>
Fifty-second	8–12 February	Bonn, Germany
Fifty-third	22–26 March	Bonn, Germany
Fifty-fourth	24–28 May	Bonn, Germany (in conjunction with the thirty-second sessions of the SBSTA and the SBI, allowing for interaction with Parties)
Fifty-fifth	26–30 July	Bonn, Germany
Fifty-sixth	13–17 September	Brasília, Brazil
Fifty-seventh	12–14 October	Bonn, Germany
Fifty-eighth	22–26 November	Cancun, Mexico (in conjunction with the sixth session of the CMP, allowing for interaction with Parties)

Abbreviations: CMP = Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, SBI = Subsidiary Body for Implementation, SBSTA = Subsidiary Body for Scientific and Technological Advice.

^a Meetings of the Board are preceded by a half or whole day of consultations.

¹⁰ Rule 12 of the rules of procedure of the Board. See <<https://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=31>>.

¹¹ <<http://cdm.unfccc.int/EB/>>.

Table 7
Tentative schedule of meetings of the Executive Board in 2011^a

<i>Meeting</i>	<i>Date</i>	<i>Location (subject to change)</i>
Fifty-ninth	7–11 February	Bonn, Germany
Sixtieth	4–8 April	Bonn, Germany
	30 May to 3 June	Bonn, Germany (in conjunction with the thirty-fourth sessions of the SBSTA and the SBI, allowing for interaction with Parties)
Sixty-first		
Sixty-second	25–29 July	Bonn, Germany
Sixty-third	19–23 September	Bonn, Germany
Sixty-fourth	21–25 November	In conjunction with the seventh session of the CMP, allowing for interaction with Parties

Abbreviations: CMP = Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, SBI = Subsidiary Body for Implementation, SBSTA = Subsidiary Body for Scientific and Technological Advice.

^a Meetings of the Board are preceded by a half or whole day of consultations.

F. Meetings of panels and working groups

1. Accreditation Panel

93. The CDM Accreditation Panel met seven times during the reporting period as part of its work in support of the Board. The Board appointed Mr. Samuel Adejuwon as Chair and Mr. Hession as Vice-Chair of the Panel. Owing to the resignation of the Vice-Chair of the Board and the election of Mr. Hession at the fifty-fifth meeting of the Board as the new Vice-Chair of the Board, Mr. Akihiro Kuroki was elected as the new Vice-Chair of the Panel.¹²

2. Methodologies Panel

94. The Methodologies Panel met six times during the reporting period as part of its work in support of the Board. The Board appointed Mr. Lex de Jonge as Chair and Mr. Phillip Gwage as Vice-Chair of the Methodologies Panel. Board members Mr. Kamel Djemouai and Mr. Thomas Bernheim were selected to support the Chair and Vice-Chair.¹³

3. Afforestation and Reforestation Working Group

95. The Afforestation and Reforestation Working Group met three times during the reporting period as part of its work in support of the Board. The Board appointed Mr. José Domingos Miguez as Chair and Ms. Diana Harutyunyan as Vice-Chair of the working group.¹⁴

¹² Details of the membership and work of the working group are available at <<http://cdm.unfccc.int/Panels/index.html>>.

¹³ Details of the membership and work of the working group are available at <<http://cdm.unfccc.int/Panels/index.html>>.

¹⁴ Details of the membership and work of the working group are available at <<http://cdm.unfccc.int/Panels/index.html>>.

4. Small-Scale Working Group

96. The Small-Scale Working Group met five times during the reporting period as part of its work in support of the Board. The Board appointed Mr. Peer Stiansen as Chair and Mr. Hugh Sealy as Vice-Chair of the working group.¹⁵

V. The management plan and resources for work on the clean development mechanism

A. Budget and expenditures for work on the clean development mechanism

97. At each of its meetings during the reporting period, the Board reviewed the requirements and status of resources for work on the CDM, on the basis of reports by the secretariat. The CDM management plan (CDM-MAP) 2010 shows that fees and share of proceeds were to cover USD 34.5 million of the 2010 budget. As can be seen in table 8, as of 14 October 2010 the expenditure level in the fee-based budget was USD 21.9 million (63.5 per cent of the budget for 2010). A further USD 608,829 was to come from the secretariat's core budget, 65 per cent of which was expended as at 14 October 2010.

Table 8
Clean development mechanism supplementary resources: expenditure trends
(United States dollars)

Resource item	2004–2005	2006	2007	2008	2009	2010 (as at 14 October)
Budget	10 242 134	9 053 763	13 065 281	21 679 358	28 116 403	34 525 997
Expenditure	3 071 617	5 102 901	10 250 849	17 612 253	20 653 450	21 938 262
Expenditure as a percentage of the budget	30.0	56.4	78.5	81.2	73.5	63.5
Expenditure from core budget	3 877 894	1 684 521	2 217 648	1 337 889	1 903 190	465 064

^a The amount for 2004–2005 is an estimate of the portion expended on clean development mechanism activities and of the Kyoto Protocol Interim Allocation.

98. The costs in 2010 indicate that the main expenditures were for staff and related costs (57 per cent), followed by fees and travel for experts and consultants (21.5 per cent).

99. At its forty-fifth meeting, the Board set a CDM reserve of USD 45 million, based on projected expenditure over a period of 18 months.

100. As at 14 October 2010, expenditure was USD 8.7 million higher than in the same period in 2009 (USD 13.2 million); this can be attributed largely to the increase in the number of activities and posts.

101. In order to implement the staffing requirements in the CDM-MAP to support the work of the Board, the secretariat developed and reported to the Board on its recruitment strategy. This strategy includes measures for increasing the pool of potential applicants, while seeking to improve the efficiency of the recruitment process to fill the various vacant

¹⁵ Details of the membership and work of the working group are available at <<http://cdm.unfccc.int/Panels/index.html>>.

positions and ensuring the principles of a fair and transparent process are upheld. Regular updates on progress with recruitment have been included as an annex to the report of the Board as from its fifty-fifth meeting.

102. In addition, the secretariat now provides the Board and the general public with more detailed and transparent reports on the current status of income and expenditure. In particular, a unit-level breakdown is now provided. Graphic representation of the components of income and expenditure has also been introduced as an annex to the report of Board, as from its fifty-second meeting.

103. Table 9 shows the trends in the geographical representation and gender balance of staff in posts funded by the CDM-MAP.

Table 9

Trend in geographical and gender balance of staff in the clean development mechanism subprogramme

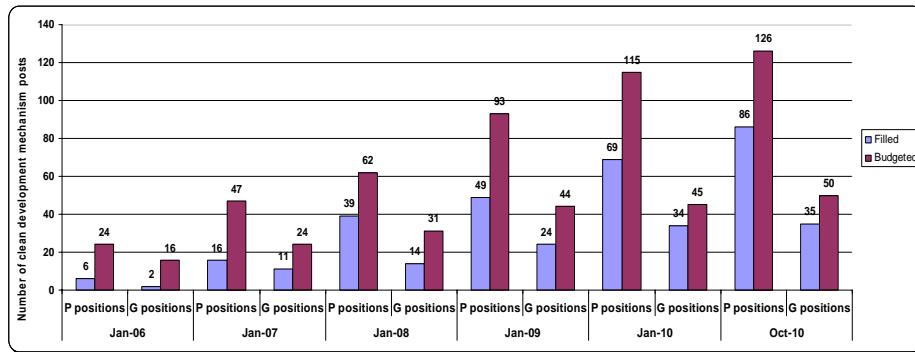
(percentage of staff at Professional level and above)

	December 2006	December 2007	September 2008	September 2009	September 2010	October 2010
Non-Annex I Party staff	33	51	56	68	55	57
Staff from each regional group						
Africa	4	5	6	8	7	7
Asia and the Pacific	25	29	37	44	33	34
Latin America and the Caribbean	4	15	15	16	17	18
Eastern Europe	8	10	11	10	7	7
Western Europe and Other	59	41	31	21	18	20
Female staff	21	31	31	38	36	36

104. Table 9 reflects only those posts which were funded by the CDM-MAP; the posts funded from the core budget, which during 2006 and 2007 represented nearly 50 per cent of the CDM workforce, are not included.

105. The figure below shows the number of posts which were approved through the various CDM-MAPs and the progress in filling such posts. It is relevant to highlight that in both 2006 and 2007 the respective CDM-MAPs were approved in the first quarter and then revised again in the third quarter of the same year, adding a substantial number of new positions.

Growth in filled and budgeted clean development mechanism Professional and General Service level positions



Abbreviations: P = Professional, G = General service.

B. Resources available as at 14 October 2010, and current balance

106. The resources to support the Board in 2010 came from the Convention programme budget, contributions made by Parties, fees and share of proceeds and a carry-over of unspent income from fees and share of proceeds from 2009 (as shown in table 10).

107. Expenditure in 2010, up to 14 October 2010, was USD 21,938,262; this means that the CDM has a current balance of USD 32,846,625 million available. In the light of an income forecast of approximately USD 5.7 million until the end of 2010, it is expected that there will be a carry-over from 2010 to 2011 of approximately USD 32 million, excluding the USD 45 million reserve, based on the current rate of expenditure.

Table 10
Fee-based resources
(United States dollars)

Carry-over figure from 2009 ^a	35 972 219
Fees from Application Operational Entities	78 120
Fees from the accreditation process	10 342
Registration fees ^b	11 181 794
Methodology fees ^c	23 767
Share of proceeds ^d	10 602 408
Subtotal	21 896 431
Total	57 868 650
Less expenditure as at 14 October 2010 ^e	-21 938 262
Reallocation of prompt start for joint implementation	3 083 763
Balance available	32 846 625

^a Carry-over does not include USD 45 million reserve; it does include interest for 2009 of USD 3,099,000.

^b This fee is based on the average annual issuance of certified emission reductions (CERs) over the first crediting period and is calculated as a share of proceeds to cover administrative expenses, as defined in decision 7/CMP.1, paragraph 37. Projects with annual average emission reductions of less than 15,000 tonnes of carbon dioxide equivalent are exempt from the registration fee, and the

maximum fee applicable is USD 350,000. This fee is considered to be a prepayment of the share of proceeds to cover administrative expenses.

^c A methodology fee of USD 1,000 is payable at the time a new methodology is proposed. If the proposal leads to an approved methodology, the project participants receive a credit of USD 1,000 against payment of the registration fee.

^d The share of proceeds, payable at the time of issuance of CERs, is USD 0.10 per CER issued for the first 15,000 CERs for which issuance is requested in a given calendar year, and USD 0.20 per CER issued for any amount in excess of these per year.

^e Reflects pro rata Total cost of ownership.

Annex I

[English only]

Deliverables of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its sixth session

Table 11
Deliverables of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its sixth session

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
Requests		
5	To continue its efforts to improve the efficiency and impartiality of the operation of the clean development mechanism (CDM) and strengthen its executive and supervisory role by, inter alia, ensuring effective use of its support structure, including its panels, other outside expertise and the secretariat, taking into consideration the increasing caseload, and to make recommendations on further improving and reforming the system and its efficiency and impartiality to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) for consideration at its sixth and subsequent sessions	The Executive Board of the clean development mechanism (hereinafter referred to as the Board) continuously monitors the status of implementation of the requests made by the CMP to the Board through decision 2/CMP.5, along with the measures agreed by the Board for making strategic improvements to the efficiency of the operation of the CDM The Board held a policy retreat in conjunction with its fifty-sixth meeting (in September 2010) to, inter alia, clarify and strengthen the relationship between the Board and its support structure, including by identifying specific measures for the Board and its support structure to improve the effectiveness and complementarity of their work
7	To continue to significantly improve transparency, consistency and impartiality in its work by, inter alia:	The Board revised the “CDM Executive Board decision framework: Decision hierarchy and document types issued by the Board” (Report of the fifty-third meeting of the Board (EB 53), annex 38)
7 (a)	Continuing its efforts to improve consistency in its decision-making	
7 (b)		
7 (c)	Publishing detailed explanations of and the rationale for decisions taken, including sources of information used, without compromising the confidentiality of the opinion of any individual Executive Board member or	Efforts to improve consistency in decision-making are ongoing. A new and improved version of the catalogue of decisions was released in May 2010

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
	alternate member Taking into account input from relevant international organizations and Parties involved in addition to project participants (PPs) and the designated operational entities (DOEs) in its decision-making process	The Board revised its procedures for registration and issuance (EB 54 report, annexes 28 and 35) and its procedures for review (EB 55 report, annexes 40 and 41). These procedures require the Board to publish formal rulings regarding decisions to reject requests for registration and issuance The Board launched various calls for input to receive input from stakeholders before taking decisions
8	To enhance its communications with PPs and stakeholders, including through the establishment of modalities and procedures for direct communication between the Board and PPs in relation to individual projects, and to report on actions taken to the CMP at its sixth session	The secretariat has organized various activities to enhance the interaction and communication with CDM stakeholders and to enhance communication with PPs without going through the DOEs Various procedures have been revised to include more interaction with stakeholders The Board, through the secretariat, has established a systematic way of answering unsolicited submissions and a formal procedure for considering stakeholder correspondence The Board worked on modalities and procedures for communication between the Board and PPs, in particular a procedure for the authorization of the participation of entities in the CDM, including an analysis of its impacts on the market and the regulatory system, in order to facilitate improved communication with PPs. At its fifty-seventh meeting, the Board agreed to continue work on this
9 and 11	To take fully into account, in its work and in the work of its support structure, the laws, regulations, policies, standards and guidelines that apply in the host countries, and, in case of need, seek inputs from the designated national authorities (DNAs) of the host countries To ensure that its rules and guidelines related to the introduction or	This is continuously implemented by the Board The CDM Methodologies Panel and the working groups take into account, in the revision of methodologies, tools and guidelines, whether the applicability of the host countries' laws, regulations and policies may

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
	implementation of the policies referred to in paragraph 10 of decision 2/CMP.5 promote the achievement of the ultimate objective of the Convention and do not create perverse incentives for emission reduction efforts	be explicitly covered in the draft revision
12	To consolidate, clarify and revise, as appropriate, its guidance on the treatment of national policies	The Board worked on guidelines on the treatment of national and sectoral policies in the demonstration and assessment of additionality, and agreed not to continue the consideration of the treatment of such policies. The Board also agreed that the possible impact of such policies shall be assessed on a case-by-case basis (EB 55 report, paragraph 27)
14	To recommend terms of reference for membership of the Board that clarify the desired set of skills and expertise as well as the expected time commitment required of members and alternate members, for consideration by the CMP at its sixth session	The Board recommended to the CMP “Terms of reference in relation to the membership of the Executive Board of the clean development mechanism”, with a view to clarifying the desired set of skills and expertise as well as the expected time commitment required of members and alternate members (EB 57 report, annex 1)
15	To publish the curricula vitae of Board members, statements on conflicts of interest and details of any past and current professional affiliations of members on the UNFCCC CDM website	Curricula vitae of Board members, including details of any past and current professional affiliations of members, are publicly available on the UNFCCC CDM website Statements on conflicts of interest of Board members are also posted on the UNFCCC CDM website
17	To develop and apply, as a priority, a system for continuous monitoring of the performance of DOEs and a system to improve the performance of these entities. and to report on the implementation of these systems to the CMP at its sixth session	Data collection and classification of issues are ongoing The Board considered updates provided by the secretariat on the performance of DOEs based on the implementation of the policy framework to monitor the performance of DOEs. The Board took note of the calculation of indicators for DOEs related to requests for registration and issuance submitted between 1 January 2010 and 30 June 2010.

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
18	To improve access to information on the performance of DOEs, including through improved reporting on performance, capacity and accessibility of the services of these entities	<p>Performance-related information has been integrated into all regular presentations of accreditation cases to the CDM Accreditation Panel and the Board</p> <p>The Board agreed on the type of information regarding the performance of DOEs to be made publicly available (EB 57 report, annex 2)</p>
19	To adopt measures to increase the capacity and improve the performance of DOEs, including systems to promote improved levels of training for auditors involved in validating and verifying activities	<p>A workshop with DOEs and the CDM Accreditation Panel was organized to increase the interaction with DOEs</p> <p>Various Clean Development Mechanism Validation and Verification Manual (VVM) workshops have been organized by the secretariat at the regional and global levels</p> <p>The Board revised the “CDM accreditation standard for operational entities”, with a view to including measures to promote improved levels of training for validators and verifiers (EB 56 report, annex 1)</p>
20	To adopt a procedure for DOEs to provide the secretariat with information on the number of project activities under validation or verification per qualified auditor, and the time frames and average fees for the validation and verification of CDM project activities hosted in developing countries, divided by region	The Board adopted revised guidelines for the annual reporting by DOEs to incorporate the various requests from the CMP to enhance the reporting of DOEs on their activities (EB 53 report, annex 4)
22	To continue to update the VVM, including by further exploring the possible introduction of the concepts of materiality and the level of assurance, and to report thereon to the CMP at its sixth session	<p>In accordance with its agreed approach and as mandated by the CMP, the Board released an update (version 1.2) of the VVM in July 2010 (EB 55 report, annex 1)</p> <p>The Board considered the possible introduction of the concepts of materiality and level of assurance, and requested input from relevant stakeholders on this matter. The Board agreed that a discussion on the threshold and the scope of the application of materiality, and how to implement in practice the</p>

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
24	To further work and report to the CMP on the enhancement of objectivity and transparency in the approaches for demonstration and assessment of additionality and selection of the baseline scenario by means of the following activities:	concept in the CDM, is required at a future Board meeting (EB 56 report, paragraph 16) The Board considered a draft revision of the “Combined tool to demonstrate additionality and identify the baseline scenario” and requested the CDM Methodologies Panel to continue work on the tool in order to include definition of the potential alternative scenarios to the proposed project activity available to PPs that can/cannot be implemented in parallel with the proposed project activity, and to make the revised tool available for consideration by the Board at a future Board meeting (EB 56 report, paragraph 28)
24 (a) and (b)	Further development of guidelines for demonstration and assessment of barriers and of standardized methods to calculate financial parameters Development of guidance for PPs on the use of a first-of-its-kind barrier and the assessment of common practice, including the definition of the applicable region, similar technologies and thresholds for penetration rates	The Board requested the secretariat to further work on the general principles for the development of guidance for PPs on the use of a first-of-its-kind barrier and the assessment of common practice, including the definition of the applicable region, similar technologies and thresholds for penetration rates, to be considered by the Board at a future Board meeting (EB 57 report, paragraph 11) The Board requested the CDM Methodologies Panel to work on the determination of financial benchmarks (tool/guidance to calculate Weighted Average Cost of Capital), with inputs from financial experts and the results of tests applying official data from a representative sample of the CDM host countries, for consideration by the Board not later than at its fifty-eighth meeting (in November 2010)
24 (c)	Establishment of simplified modalities for demonstrating additionality for project activities up to 5 MW that employ renewable energy as their primary technology and for energy efficiency project activities that aim to	The Board adopted “Guidelines for demonstrating additionality of renewable energy projects ≤5 MW and energy efficiency projects with energy savings ≤20 GWH per year”

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
	achieve energy savings at a scale of no more than 20 GWH per year	(EB 54 report, annex 15)
24 (d)	Development of guidance for the treatment of feed-in tariffs in the additionality analysis for renewable energy project activities	The Board worked on guidelines on the treatment of national and sectoral policies in the demonstration and assessment of additionality, and agreed, at its fifty-fifth meeting, not to continue the consideration of the treatment of such policies. The Board agreed that the possible impact of such policies shall be assessed on a case-by-case basis (EB 55 report, paragraph 27)
34	To further improve the “Tool to calculate the emission factor for an electricity system” for project activities hosted in countries with a paucity of relevant data, including by providing flexibility for the calculation of grid emission factors	The Board, at its fifty-eighth meeting (in November 2010), will consider work undertaken by the CDM Methodologies Panel with regard to the “Tool to calculate the emission factor for an electricity system”
36	To continue to revise the relevant procedures and guidance on programmes of activities, including by defining more clearly the situations in which DOEs could be held liable for erroneous inclusion of a component project activity (CPA), in order to reduce barriers to the development of programmes of activities under the CDM	The Board approved “Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emission reductions for a programme of activities” and “Procedures for review of erroneous inclusion of a CPA” (EB 55 report, annexes 37 and 38)
		The Board will continue to work on the draft “Guidelines for determining the eligibility criteria related to the inclusion of CPAs in registered programmes of activities”
37 and 39– 41	To adopt as soon as possible, and subsequently apply on an interim basis, revised procedures for registration, issuance and review, under which alternative timelines to those defined in decision 3/CMP.1, annex, paragraphs 41 and 65, and decision 4/CMP.1, annex II, paragraph 24, can be applied To ensure that the revised procedures for review:	On the basis of this request, the Board approved revised procedures for requests for registration of proposed CDM project activities and procedures for request for issuance of CERs (EB 54 report, annexes 28 and 35) and approved procedures for review of requests for registration and procedures for review of requests for issuance (EB 55 report, annexes 40 and 41)
39 (a)	Provide DOEs and PPs with adequate opportunity to address issues raised in	

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
	reviews	
39 (b)	Include an independent technical assessment of the analysis conducted by the secretariat	The Board provided a report to the CMP on the progress made with regard to the introduction of the revised registration, issuance and review processes (EB 57 report, paragraphs 13 and 14). A more comprehensive report will be provided at the fifty-eighth meeting of the Board (in November 2010), once more cases have been processed using the new procedures
39 (c)	Include a process for the Board to consider objections raised by members of the Board to outcomes of assessments	
39 (d)	Ensure efficient and timely consideration of registration and issuance requests	
40	To continue applying its existing procedures for registration, issuance and review until the revised procedures are adopted by the Board	
41	To report to the CMP at its sixth session on the revised procedures and the impact of their interim implementation, with a view to adoption of the revised procedures by the CMP at that session	
42 and 43	To establish, following consultation with stakeholders, procedures for considering appeals that are brought by stakeholders directly involved, defined in a conservative manner, in the design, approval or implementation of CDM project activities or proposed CDM project activities, in relation to:	Taking into account comments received in response to the call for inputs launched by the Board on views on procedures for appeals, the Board provided guidance to the secretariat in order to prepare draft procedures for appeals
42 (a)	Situations where a DOE may not have performed its duties in accordance with the rules or requirements of the CMP and/or the Board	The Board recommended to the CMP “Procedure for appeals, taking into account legal inputs and feedback from stakeholders” (EB 57 report, annex 3)
42 (b)	Rulings taken by or under the authority of the Board in accordance with the revised procedures for review referred to in paragraph 39 of decision 2/CMP.5 regarding the rejection or alteration of requests for registration or issuance	
43	To design the revised procedures for review focusing on, but not limited to, ensuring due process, and to report on their implementation to the CMP at its sixth session	
48 and 48 (a)	To undertake the following measures for countries hosting fewer than 10 registered CDM project activities, without compromising environmental integrity:	The Board agreed on the prioritization of methodologies through the work programme of the CDM Methodologies Panel (EB 52 report, annex 14, and EB 55 report,

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
48 (a)	Developing top-down methodologies that are particularly suited for application in these countries in accordance with principles and guidelines to be established by the Board	annex 20) The Board considered the results of a survey that it conducted on DNAs to identify sectors with potential for developing CDM project activities in countries with fewer than 10 registered CDM project activities, including the feedback provided by the DNAs. The Board requested the secretariat to take into account this feedback when developing top-down methodologies The Board will consider top-down methodologies at its fifty-eighth meeting (in November 2010)
48 (b)	Introducing a requirement that DOEs indicate the work they are undertaking on projects originated in these countries as part of their annual activity reports and ensure that this item be included in the subsequent synthesis report presented by the secretariat to the Board for appropriate follow-up	The Board adopted revised guidelines for the annual reporting by DOEs to incorporate the various requests from the CMP to enhance the reporting of DOEs on their activities, including those undertaken in countries with fewer than 10 registered CDM project activities (EB 53 report, annex 4)
49 and 51	To allocate financial resources from the interest accrued on the principal of the Trust Fund for the Clean Development Mechanism, as well as any voluntary contributions from donors, in order to provide loans to support the following activities in countries with fewer than 10 registered CDM project activities:	The Board agreed to recommend to the CMP the “Guidelines and modalities for operationalization of a loan scheme to support the development of CDM project activities in countries with fewer than 10 registered project activities” for consideration at its sixth session (EB 56 report, annex 57)
49 (a) 49 (b)	To cover the costs of the development of project design documents To cover the costs of validation and the first verification for these project activities To recommend guidelines and modalities for operationalizing the activities outlined in paragraphs 49 and 50 of decision 2/CMP.5 for consideration by the CMP at its sixth session	

Encouragements

- 16 To continue to develop measures to enhance the impartiality, independence and technical competence of DOEs and to develop arrangements to protect from
- The Board revised the “CDM accreditation standard for operational entities”, incorporating further measures to increase the

<i>Decision 2/CMP.5, paragraph reference</i>	<i>Action to be taken by the Executive Board of the clean development mechanism</i>	<i>Status of implementation</i>
	undue prejudice proposed CDM project activities that are undergoing validation and verification by a DOE that has lost its accreditation status or had this status suspended	impartiality, independence and technical competence of DOEs and to protect project activities from undue prejudice caused by a suspension or withdrawal of the accreditation status of a DOE (EB 56 report, annex 1)
35	To further explore the possibility of including in baseline and monitoring methodologies, as appropriate, a scenario where future anthropogenic emissions by sources are projected to rise above current levels owing to specific circumstances of the host Party	The Board agreed that the Small-Scale Working Group should continue to address options for identifying and addressing scenarios where future anthropogenic emissions by sources are projected to rise above current levels owing to specific circumstances of the host Party, where relevant, in specific new methodologies and revisions of methodologies, taking into account relevant approaches found in the methodologies approved by the Board (EB 56 report, paragraph 56)
45	To follow up on issues raised by the Designated National Authorities Forum (DNA Forum) between meetings of the DNA Forum	The Board regularly considers updates on the activities of the DNA Forum. Selected members of the Board attend the meetings of the DNA Forum to increase the interaction with DNAs

Abbreviation: EB report to the CMP = Annual report of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol.

Annex II

Recommendation on the procedure for appeals against rulings by the Executive Board of the clean development mechanism regarding requests for registration or issuance

I. Background

1. The modalities and procedures for a clean development mechanism (CDM)¹ mandate the Executive Board of the CDM (hereinafter referred to as the Executive Board) to supervise the CDM. In this regard, the Executive Board is responsible for the registration of CDM project activities and the issuance of certified emission reductions (CERs). In its supervision of these activities, the Executive Board may decide to reject requests for registration and issuance or to approve such requests with alterations.
2. This procedure provides for a mechanism for specific stakeholders to appeal such rulings by the Executive Board.

II. Notification of the ruling of the Executive Board

3. Within three days of the Executive Board's adoption of the ruling in accordance with the procedures for review of requests for registration or issuance, the secretariat shall publish the ruling on the UNFCCC CDM website² and notify the following parties of the publication of the ruling: the project participants (as identified on the modalities of communication form); the designated operational entity (DOE); and the Parties involved, through each Party's designated national authority (DNA).

III. Stakeholders allowed to appeal

4. The [appellate body] shall consider appeals filed by the following stakeholders (hereinafter referred to as appellants) only:
 - (a) Project participants (as identified on the modalities of communication form);
 - (b) The DNAs of the host country and of Parties included in Annex I to the Convention identified as being Parties involved in the request for registration or subsequently included as Parties involved.
5. Stakeholders allowed to file a written appeal may file appeals individually or jointly. Multiple appeals (individually or jointly) may be filed against the same ruling, so long as no single stakeholder is a signatory to more than one appeal.

IV. Grounds for filing an appeal

6. A stakeholder allowed to file an appeal may file a written appeal against a ruling of the Executive Board that rejects or requires an alteration to a request for issuance or registration on the following grounds only:

¹ Annex to decision 3, CMP1.

² <<http://cdm.unfccc.int>>.

- (a) Factual grounds, as specified in paragraph 7 below;
- (b) Grounds of interpretation or application of one or more of the CDM rules and requirements, as specified in paragraph 8 below;
- (c) Grounds that the reconsidered ruling of the Executive Board is inconsistent with the previous judgment of the [appellate body] on the same request for registration or issuance, as specified in paragraph 9 below.

7. For an appeal based on factual grounds, all of the following elements must be present and argued:

- (a) That the ruling contained a clearly erroneous finding of fact, or set of facts, and/or did not consider a fact, or set of facts;
- (b) That the fact, or set of facts, was sufficiently validated or verified as part of the Record of the request for registration or issuance;
- (c) That the fact, or set of facts, if corrected and considered, would not have resulted in the ruling that rejected or required an alteration to the request for registration or issuance.

8. For an appeal grounded on the interpretation or application of one or more of the CDM rules and requirements, all of the following elements must be present and argued:

- (a) That the ruling contained an unreasonable interpretation or application of one or more of the CDM rules and requirements, in the light of the text of the CDM rules and requirements and past judgments of the [appellate body];
- (b) That the CDM rules and requirements, if interpreted or applied differently, would not have resulted in the ruling that rejected or required an alteration to the request for registration or issuance.

9. For an appeal based on the grounds that the reconsidered ruling of the Executive Board is inconsistent with the previous judgment of the [appellate body] on the same request for registration or issuance, all of the following elements must be present and argued:

- (a) That the reconsidered ruling is inconsistent with the judgment of the [appellate body];
- (b) That the reconsidered ruling, if consistent with the judgment of the [appellate body], would not have rejected or required an alteration to the request for registration or issuance.

V. Filing an appeal

A. Action required by appellants

10. If a stakeholder wishes to file an appeal against a ruling of the Executive Board, then within 60 days of receipt of the notification of the publication of the ruling it shall:

- (a) File an appeal with the [appellate body];
- (b) Pay the required filing fee.

11. The written appeal shall include the following information:

- (a) The grounds for the appeal, as specified in paragraph 6 above;

- (b) A list of each stakeholder appealing the ruling;
 - (c) The relationship of each stakeholder to the project activity;
 - (d) The signature of each stakeholder;
 - (e) The name of the person who shall act as the focal point for all communications with the [appellate body] regarding the appeal;
 - (f) The e-mail address, phone number and physical address of the focal point; and
 - (g) The signature of the focal point.
12. For an appeal based, in whole or in part, on factual grounds, the written appeal must:
- (a) State each fact, or set of facts, that forms the grounds for the appeal;
 - (b) Provide references to where each fact, or set of facts, can be located in the Record by the [appellate body];
 - (c) Explain how each fact, or set of facts, meets the requirements of each element specified in paragraph 7 above.
13. For an appeal grounded, in whole or in part, on the interpretation or application of one or more of the CDM rules and requirements, the written appeal must:
- (a) State each of the CDM rules and requirements that form the grounds for the appeal;
 - (b) Explain how each of the stated CDM rules and requirements meets each element specified in paragraph 8 above.
14. For an appeal based on the grounds that the reconsidered ruling of the Executive Board is inconsistent with the previous judgment of the [appellate body], the written appeal must:
- (a) State each fact, or set of facts, that is inconsistent with the judgment of the [appellate body];
 - (b) Provide references to where each fact, or set of facts, can be located in the Record by the [appellate body];
 - (c) State each interpretation or application of a CDM rule or requirement that is inconsistent with the judgment of the [appellate body];
 - (d) Explain how the reconsidered ruling meets each element specified in paragraph 9 above.

B. Consideration by the [appellate body]

15. The [appellate body] shall undertake an initial consideration of the appeal to determine whether it meets all of the requirements contained in the procedure for filing an appeal.
16. If the [appellate body] determines that the appeal has been filed by an entity that is not a stakeholder allowed to appeal, then the [appellate body] shall dismiss the appeal and notify the appellant and the Executive Board of the dismissal.
17. If the [appellate body] determines that the appeal does not comply or sufficiently comply with all of the requirements of the procedure, then the [appellate body] shall take one of the following actions:

(a) Dismiss the appeal;

(b) Order the appellant to clarify its appeal by a specified date, in accordance with the direction provided to it by the [appellate body] in its order. Such an order for clarification may require the submission of additional information;

(c) Find that the appellant has substantially complied with the requirements of the procedure, but, nevertheless, strike portions of the appeal from further consideration that do not comply with the requirements of the procedure (e.g. the facts that are not referenced, are not contained in the Record or have not been validated/verified).

18. If the [appellate body] has ordered the appellant to clarify its appeal, then, upon resubmission of the appeal, it shall determine whether the appeal complies, or sufficiently complies, with the requirements of the procedure. If the appeal does not comply, or sufficiently comply, then the [appellate body] shall take one of the following actions:

(a) Dismiss the appeal;

(b) Find that the appellant has substantially complied with the requirements of the procedure or the order for clarification, but, nevertheless, strike portions of the appeal from further consideration that do not comply with the requirements of the procedure or the order for clarification (e.g. the facts that are not referenced, the facts that are not contained in the Record and/or the portions of the clarification that are insufficient).

19. If the [appellate body] determines that the appellant has complied with all of the requirements of the procedure for filing an appeal (or substantially complied, but nevertheless the [appellate body] has stricken portions of the appeal from further consideration), then it shall notify the Executive Board and the appellant of its determination. The notification shall include the determination, explain the reasons for the determination and identify any portions stricken.

20. If the [appellate body] dismisses the appeal, then it shall notify the Executive Board and the appellant of the dismissal, which shall include an explanation of the reasons for the dismissal.

21. At any time during its consideration of the appeal, the [appellate body] may request the DOE that validated or verified the request for registration or issuance under appeal to clarify any information contained in its validation or verification report or submitted to the Executive Board in response to a request for review. The [appellate body] shall not consider any further validation or verification of information in the clarification of the DOE. The clarification shall provide references to where each fact, or set of facts, can be located in the Record by the [appellate body]. The DOE shall file its clarification within 14 days of receipt of the order for such clarification.

VI. The response of the Executive Board

A. Action required by the Executive Board

22. After receiving notice that the appellant has complied (or substantially complied) with all of the requirements of the procedure for filing an appeal and after the filing of any clarification by the DOE, the Executive Board shall file a written response to the appeal.

23. If the notice or the clarification of the DOE is received more than 21 days prior to the next Executive Board meeting, then the Executive Board shall file its response by the last day of the second Executive Board meeting following its receipt of the notice;

otherwise, it shall file its response by the last day of the third Executive Board meeting following its receipt of the notice.

24. The response shall be signed by the Chair of the Executive Board.

25. The response shall:

(a) Be limited to addressing the issues raised by the appellant in the appeal and, where applicable, any issues contained in the clarification submitted by the DOE;

(b) Provide references to where each fact, or set of facts, can be located in the Record by the [appellate body];

(c) Provide a reference for each of the CDM rules and requirements relied upon in the response.

B. Consideration by the [appellate body]

26. The [appellate body] shall undertake a review of the response to determine whether it meets all of the requirements contained in the procedure for filing a response.

27. If the [appellate body] finds that the response does not comply, or sufficiently comply, with the requirements of the procedure, then the [appellate body] shall take one of the following actions:

(a) Dismiss the response;

(b) Order the Executive Board to clarify its response by a specified date, in accordance with the direction provided to it by the [appellate body] in its order. Such an order for clarification may require the submission of additional information;

(c) Find that the response substantially complies with the requirements of the procedure, but, nevertheless, strike portions of the response from further consideration that do not comply with the requirements of the procedure (e.g. the facts that are not referenced, the facts that are not contained in the Record and/or the portions of the response that are not limited to addressing the issues raised by the appellant in the appeal).

28. If the [appellate body] has ordered the Executive Board to clarify its response, then, upon resubmission of the response, it shall determine whether it complies, or sufficiently complies, with the requirements of the procedure. If the response does not comply, or sufficiently comply, then the [appellate body] shall take one of the following actions:

(a) Dismiss the response;

(b) Find that the Executive Board has substantially complied with the requirements of the procedure or the order for clarification by the [appellate body], but, nevertheless, strike portions of the response from further consideration that do not comply with the requirements of the procedure or the order for clarification (e.g. the facts that are not referenced, the facts that are not contained in the Record or the portions of the clarification that are insufficient).

29. If the [appellate body] determines that the Executive Board has complied with all of the requirements of the procedure for filing a response (or substantially complied, but nevertheless the [appellate body] has stricken portions of the appeal from further consideration), then it shall notify the Executive Board and the appellant of its determination. The notification shall include the determination, explain the reasons for the determination and identify any portions stricken.

30. If the [appellate body] dismisses the response, then it shall notify the Executive Board and the appellant of the dismissal, which shall include an explanation of the reasons for the dismissal.

VII. The Record

A. Appeals in relation to requests for registration

31. For appeals in relation to requests for registration, the information that constitutes the Record falls into two categories:

- (a) Information that shall automatically be deemed to be introduced into the Record;
- (b) Information that may be introduced into the Record, but only for the purposes of:
 - (i) Asserting, in the Executive Board's ruling or response, that the previously submitted information is inconsistent with, or contrary to, the information submitted as part of the request for registration under appeal, without sufficient explanation;
 - (ii) Rebutting, in the appellant's appeal, an assertion by the Executive Board in its ruling or response that the previously submitted information is inconsistent with, or contrary to, the information submitted as part of the request for registration under appeal, without sufficient explanation.

32. The following information shall automatically be deemed to be introduced into the Record:

- (a) Any previous judgments by the [appellate body] on the same request for registration under appeal;
- (b) The Executive Board's ruling and any previous ruling of the Executive Board on the same request for registration under appeal;
- (c) Any appeal or response that was previously filed with the [appellate body] by the same appellant as part of a previous appeal in relation to the same request for registration currently under appeal;
- (d) All written information submitted to the Executive Board as part of the current request for registration under appeal.

33. The following information may be introduced into the Record, but only for the purposes specified in paragraph 31 (b) above:

- (a) All written information submitted to the Executive Board as part of any previous request for registration for the same proposed project activity;
- (b) The project design document submitted and published for global stakeholder consultation;
- (c) Any other written information submitted to the Executive Board by a project participant or DOE regarding the request for registration under appeal, as required or allowed by the CDM rules and requirements.

34. Within seven days of the filing of an appeal, the Executive Board shall file the information specified in paragraph 32 above with the [appellate body].

35. Any of the information specified in paragraph 33 above on which the ruling is based shall also be deemed to be introduced into the Record. Within seven days of the filing of an appeal, the Executive Board shall file that information with the [appellate body].

36. The appellant shall attach to its appeal, and thereby introduce into the Record, all of the information specified in paragraph 33 above that it relies on in its appeal.

37. The Executive Board shall attach to its response, and thereby introduce into the Record, all of the information specified in paragraph 33 above that it relies on in its response.

B. Appeals in relation to requests for issuance

38. For appeals in relation to requests for issuance, the information that constitutes the Record falls into two categories:

(a) Information that shall automatically be deemed to be introduced into the Record;

(b) Information that may be introduced into the Record, but only for the purposes of:

(i) Asserting, in the Executive Board's ruling or response, that the previously submitted information is inconsistent with, or contrary to, the information submitted as part of the request for registration under appeal, without sufficient explanation;

(ii) Rebutting, in the appellant's appeal, an assertion by the Executive Board in its ruling or response that the previously submitted information is inconsistent with, or contrary to, the information submitted as part of the request for registration under appeal, without sufficient explanation.

39. The following information shall automatically be deemed to be introduced into the Record:

(a) Any previous judgment by the [appellate body] on the request for issuance under appeal;

(b) The Executive Board's ruling and any previous ruling of the Executive Board on the same request for issuance under appeal;

(c) Any appeal or response that was previously filed with the [appellate body] by the same appellant as part of a previous appeal in relation to the same request for issuance currently under appeal;

(d) All written information submitted to the Executive Board as part of the current request for issuance under appeal.

40. The following information may be introduced into the Record, but only for the purposes specified in paragraph 38 (b) above:

(a) All written information submitted to the Executive Board as part of any previous request for issuance for the same project activity;

(b) All written information submitted to the Executive Board as part of the current request for issuance for the project activity;

(c) The monitoring report published prior to and for the current request for issuance;

(d) Any other written information submitted to the Executive Board by a project participant or DOE regarding the request for issuance under appeal, as required or allowed by the CDM rules and requirements.

41. Within seven days of the filing of an appeal, the Executive Board shall file the information specified in paragraph 39 above with the [appellate body].

42. Any of the information specified in paragraph 40 above on which the ruling is based shall also be deemed to be introduced into the Record. Within seven days of the filing of an appeal, the Executive Board shall file that information with the [appellate body].

43. The appellant shall attach to its appeal, and thereby introduce into the Record, all of the information specified in paragraph 40 above that it relies on in its appeal.

44. The Executive Board shall attach to its response, and thereby introduce into the Record, all of the information specified in paragraph 40 above that it relies on in its response.

VIII. Consideration by and judgment of the [appellate body]

45. In considering the merits of the matter and formulating its judgment, the [appellate body] shall take into consideration only:

- (a) The Record;
- (b) The appellant's appeal;
- (c) The Executive Board's response;
- (d) Any requested clarification filed by the DOE, in accordance with paragraph 21 above;
- (e) Any factual information from a source, the accuracy of which cannot be questioned (e.g. the day of the week on a certain date).

46. In considering the merits of the matter and formulating its judgment, the [appellate body] shall:

- (a) Defer to the Executive Board's finding of facts, unless they are clearly erroneous;
- (b) Defer to the Executive Board's interpretation and application of the CDM rules and requirements, unless they are unreasonable in the light of the text of the CDM rules and requirements and past judgments of the [appellate body].

47. The judgment of the [appellate body] shall conclude in one of the following ways:

- (a) By affirming the ruling of the Executive Board;
- (b) By remanding the request for registration or issuance to the Executive Board for further consideration.

48. The [appellate body] shall prepare a written judgment explaining the rationale for its conclusion:

- (a) If the judgment is based, in whole or in part, on factual grounds, then it shall address each of the elements specified in paragraph 7 above;
- (b) If the judgment is based, in whole or in part, on the grounds of the interpretation or application of the CDM rules and requirements, then it shall address each of the elements specified in paragraph 8 above;

(c) If the judgment is based, in whole or in part, on the grounds that the reconsidered ruling is inconsistent with the previous judgment, then it shall address each of the elements specified in paragraph 0 above.

49. The [appellate body]’s judgment may provide for the conclusion of multiple appeals in relation to the same request for registration or issuance.

50. The [appellate body] shall notify the Executive Board and the appellant of its judgment. The notification shall include the judgment.

IX. Reconsideration by the Executive Board upon remand

A. Reconsidered decisions on requests for registration or issuance

51. After receiving notice of the [appellate body]’s remand, the Executive Board shall reconsider and decide on the request for registration or issuance. The reconsidered decision shall be consistent with the judgment of the [appellate body].

52. If the notice is received more than 21 days prior to the next Executive Board meeting, then the Executive Board shall conclude its reconsideration by the last day of the second Executive Board meeting following its receipt of the notice; otherwise, it shall conclude its reconsideration by the last day of the third Executive Board meeting following its receipt of the notice.

53. In concluding its reconsideration, the Executive Board shall decide to do one of the following:

- (a) Register the proposed project activity or approve the request for issuance;
- (b) Reject the request for registration or issuance.

B. Reconsidered rulings upon decisions to reject

54. If the Executive Board, by its reconsidered decision, rejects the request for registration or issuance, then, on the same date of its reconsidered decision, it shall adopt and provide a reconsidered ruling.

55. The reconsidered ruling shall be consistent with judgment of the [appellate body] and shall contain an explanation of the reasons and rationale for the reconsidered decision, including, but not limited to:

- (a) The facts and any interpretation of the facts that formed the basis of the reconsidered ruling;
- (b) The CDM rules and requirements applied to the facts;
- (c) The interpretation of the CDM rules and requirements as applied to the facts;
- (d) How the reconsidered ruling is consistent with the judgment of the [appellate body].

56. Within three days of the Executive Board’s adoption of the reconsidered ruling, the Executive Board shall publish the ruling on the UNFCCC website and notify the following parties of the publication of the reconsidered ruling: the project participants (as identified on the modalities of communication form); the DOE; and the Parties involved, through each Party’s DNA.

C. Reconsidered decisions to register proposed project activities

57. If the Executive Board's reconsidered decision is to register the proposed project activity, then the secretariat shall register the proposed project activity as a CDM project activity on the first working day subsequent to the finalization of the reconsidered decision.

58. The effective date of registration shall be the date on which the latest revisions to the validation report or supporting documentation were submitted (excluding any documentation submitted as part of an appeal).

D. Reconsidered decisions to approve requests for issuance

59. If the Executive Board's reconsidered decision is to approve the request for issuance, then the Executive Board shall instruct the CDM Registry Administrator to issue a specified quantity of CERs into the pending account of the Executive Board in the CDM registry, in accordance with decision 3/CMP.1, annex, paragraph 66.

60. The Executive Board's instructions to the CDM Registry Administrator shall be communicated to the project participant(s), as identified on the modalities of communication form. The secretariat shall make the instructions publicly available on the UNFCCC website.

X. Filing fee

A. Appeals in relation to requests for registration

61. In order to cover the costs of the appeal process and deter frivolous appeals, the filing fee for appeals in relation to requests for registration shall be USD 7,500 for small-scale proposed project activities or USD 50,000 for large-scale proposed project activities. Based on its experience, the [appellate body] may amend the fee, as required, to cover the costs of the appeal process, to deter frivolous appeals and to ensure that appellants are not discouraged from utilizing the process.

B. Appeals in relation to requests for issuance

62. In order to cover the costs of the appeal process and deter frivolous appeals, the filing fee for appeals in relation to requests for issuance shall be based on the quantity of emission reductions or removals certified by the DOE in the request for issuance under appeal. It shall be the sum of the following: USD 0.10/t for the first 60,000 tonnes of carbon dioxide equivalent (CO₂ eq), plus USD 0.20/t for the quantity in excess of the first 60,000 t CO₂ eq. Based on its experience, the [appellate body] may amend the fee, as required, to cover the costs of the appeal process, to deter frivolous appeals and to ensure that appellants are not discouraged from utilizing the process.

XI. Compensation and damages

63. The [appellate body] shall not have the authority to award any monetary compensation or damages, other than the reimbursement of the filing fee as provided for in paragraph 65 below.

64. If the judgment of the [appellate body] remands the ruling to the Executive Board for further consideration, then the [appellate body] shall specify which appeal(s) led to the remand.

65. The appellant(s) whose appeal(s) led to the remand shall be reimbursed the filing fee.

XII. Other procedural matters

A. Notifications and filings

66. The secretariat shall support the [appellate body]. The Executive Secretary shall appoint an official to act as Registrar to the [appellate body]. This official shall not support the work of the Executive Board on requests for registration or issuance or on the substance of any appeal in relation to a request for registration or issuance.

67. The Registrar shall be responsible for, among other things, transmitting notifications and filings, receiving filings, recording the date of receipt of notifications and filings, and maintaining the Record.

68. Where this procedure specifies that the [appellate body] or the Executive Board shall notify the appellant within a specified time frame, the Registrar shall be responsible for dispatching that notification (and any accompanying documentation) to the appellant within the specified time frame.

69. The filing of an appeal or response shall be accomplished by transmitting it to the Registrar.

B. Computation of time

70. In calculating any period of time prescribed by this procedure:

(a) Days shall mean calendar days, including Saturdays, Sundays and holidays;

(b) The date of the event from which the designated period of time begins to run shall be excluded (e.g. the date of receipt of the notification shall not be included in computing the time required to respond);

(c) The date on which a document is required to be filed shall be included.

71. The date on which a document is filed or received or a notification is provided shall be based on the date in the Greenwich Mean Time zone.

72. A filing shall be considered received by the [appellate body] on the date that the filing is received by the Registrar.

C. Finality of determinations, dismissals, judgments and rulings

73. All determinations, dismissals and judgments of the [appellate body] shall be final and shall not be further considered or appealed.

74. A reconsidered ruling that rejects or requires an alteration to a request for registration or issuance may be appealed by stakeholders allowed to appeal, in accordance with this procedure.

D. Confidential information

75. Information obtained from CDM project participants marked as proprietary or confidential shall not be disclosed by the [appellate body], Executive Board or their support structures without the written consent of the provider of the information, as specified in decision 3/CMP.1, annex, paragraph 6, except for the information specified in paragraph 76 below.

76. The following information, as specified in decision 3/CMP.1, annex, paragraph 6, shall not be considered proprietary or confidential:

- (a) Information required to be disclosed by national law;
- (b) Information used to determine additionality;
- (c) Information used to describe the baseline methodology and its application;
- (d) Information used to support an environmental impact assessment as referred to in decision 3/CMP.1, annex, paragraph 37 (c).

77. In submitting information marked as proprietary or confidential, project participants shall provide an explanation as to why, and the DOE shall validate or verify that, the information does not fall into any of the categories specified in paragraph 76 above.

78. If the [appellate body] determines that the information marked as proprietary or confidential does not constitute proprietary or confidential information, then it shall explain why such information does not constitute proprietary or confidential information in its judgment.

79. If the [appellate body] determines that the information marked as proprietary or confidential constitutes proprietary or confidential information, then it shall issue two judgments:

- (a) One for public consumption, with the confidential and proprietary information blacked out;
- (b) One for the Executive Board and the appellant, with the confidential information not blacked out.

E. Motions and unsolicited submissions

80. The [appellate body] shall not consider any motions.

81. The [appellate body] shall not consider any unsolicited submissions.

F. Communications regarding the appeal

82. As from the date of the filing of an appeal until the final resolution of the matter, informal or formal communications regarding an appeal between or among a member of Executive Board (including its support structure), the appellant and the [appellate body], other than provided for in this procedure, shall be strictly forbidden.

G. Additional procedures established by the [appellate body]

83. The [appellate body] may establish additional rules of procedure that are inconsistent with this procedure.

84. The [appellate body] shall establish procedures for the timely carrying out of its obligations specified in this procedure.

Annex III

Recommendation on the guidelines and modalities for operationalization of a loan scheme to support the development of clean development mechanism project activities in countries with fewer than 10 registered clean development mechanism project activities

I. Background

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its fifth session, through decision 2/CMP.5, paragraph 49, requested the Executive Board of the clean development mechanism (hereinafter referred to as the Board) to allocate financial resources from the interest accrued on the principal of the Trust Fund for the Clean Development Mechanism, as well as any voluntary contributions from donors, in order to provide loans to support the following activities in countries with fewer than 10 registered clean development mechanism (CDM) project activities:
 - (a) To cover the costs of the development of project design documents (PDDs);
 - (b) To cover the costs of validation and the first verification for these project activities.
2. The CMP, at the same session, through decision 2/CMP.5, paragraph 50, decided that these loans are to be repaid starting from the first issuance of certified emission reductions (CERs).
3. Also at that session, the CMP, through decision 2/CMP.5, paragraph 51, requested the Board to recommend guidelines and modalities for operationalizing the activities outlined in paragraphs 1 and 2 above for consideration by the CMP at its sixth session.
4. The Board, at its fifty-sixth meeting, considered the draft guidelines and modalities in question, prepared by the secretariat on the basis of the guidance provided by the Board at previous meetings, and agreed to submit the present draft to the CMP for consideration at its sixth session, as mandated.

II. Definitions

5. For the purpose of the present document, the definitions contained in the annex to decision 3/CMP.1 (CDM modalities and procedures) shall apply.

III. Allocation of funds

6. The CMP hereby establishes a scheme to provide loans to support the following activities in countries with fewer than 10 registered CDM project activities:
 - (a) To cover the costs of the development of PDDs;
 - (b) To cover the costs of validation and the first verification for these project activities.
7. The secretariat shall calculate and identify annually, as at 1 January, the interest accrued on the principal of the Trust Fund of the Clean Development Mechanism, as well as any voluntary contributions from donors for the scheme referred to in paragraph III

above (hereinafter referred to as the loan scheme), as the financial resources to be allocated for loans and associated administrative costs for that year.

IV. Implementing agency

8. The secretariat shall select and make a contract with a public or private institution that will administer the loan scheme (hereinafter referred to as the implementing agency) through a procurement process, unless it is a United Nations agency, in accordance with relevant United Nations rules and regulations. The contract shall have a term of five years, with the possibility of an extension by another three years. After the expiration of the contract, the secretariat shall proceed with a new procurement process to select an implementing agency.

9. In the process of selecting an implementing agency, the secretariat shall select an institution that has, inter alia:

(a) Proven experience in establishing and running grant or loan schemes targeted at developing countries or countries with economies in transition for the financing of CDM, joint implementation or other emission reduction or removal enhancement project activities;

(b) The ability to operate effectively for project activities in the regions of Africa, Asia and the Pacific, Eastern Europe, and Latin America and the Caribbean;

(c) A system to ensure the utilization of human resources with the relevant expertise to successfully undertake all the functions to be performed by the implementing agency;

(d) Sufficient financial strength;

(e) A good performance record;

(f) A cost-effective plan and arrangement of administrative costs for the loan scheme.

10. The implementing agency shall:

(a) Perform the origination of the loans, including:

(i) Marketing the loan scheme to project participants and consultants on CDM project activities through dedicated websites, at conferences and/or using leaflets, etc.;

(ii) Receiving and screening applications for loans;

(b) Perform appraisals of the project activities in the applications and take decisions on whether to extend loans to the applicants;

(c) Administer the flow of funds, including:

(i) Signing loan agreements with successful applicants (hereinafter referred to as loan recipients);

(ii) Disbursing funds to loan recipients;

(iii) Collecting repayments of loans from loan recipients;

(d) Monitor the progress of project activities funded by the loan scheme and the loan recipients' compliance with the loan agreements.

11. The secretariat shall transfer funds to the implementing agency annually, upon the request of the latter, in order for it to perform the functions referred to in paragraph 10 above. This shall be done on the basis of the forecast of loan disbursements and the budget for administrative costs in the corresponding annual period, which the implementing agency shall prepare and submit annually to the secretariat. The secretariat shall approve the documents provided by the implementing agency referred to in paragraph 15 (a) below before making the fund transfer.

12. In the case that the funds are running out, the implementing agency may request the secretariat to transfer additional funds between the annual transfers. In this case, the secretariat shall consider the request and make additional fund transfer(s) as appropriate. In any case, the total amount of funds transferred from the secretariat to the implementing agency in a 12-month period shall not exceed the level of financial resources for the loan scheme identified by the secretariat for that period in accordance with paragraph 7 above.

13. The administrative costs of the implementing agency shall be kept at the optimal level to operate the loan scheme in a cost-efficient manner over the duration of the contract term. In the case that the secretariat finds, through for example the annual financial statements and/or quarterly reports referred to in paragraph 15 (a) and (b) below, that the administrative costs constitute an unreasonably high portion of the total funds expended and disbursed, the secretariat shall review the situation and may: request the implementing agency to revise its operational procedures in order to reduce the administrative costs; terminate the contract with the implementing agency; or report the matter to the CMP for its consideration and guidance.

14. The implementing agency shall establish an internal organizational structure (e.g. a committee) to review and make decisions on extending loans to individual applicants in a systematic and consistent manner, maintaining integrity, as a part of performing the function referred to in paragraph 10 (b) above.

V. Oversight by the secretariat

15. The secretariat shall oversee the performance of the implementing agency through:

(a) The approval of annual business plans, budgets and financial statements. For this purpose, the implementing agency shall prepare and submit to the secretariat:

(i) Annual business plans, setting out its approach, organization, resources, and suggestions for the management of the loan scheme;

(ii) Annual budgets, providing forecasts of disbursements of funds for loans, reflows and administrative costs;

(iii) Annual financial statements, providing information on the amounts of funds disbursed, cancelled, repaid, written off and accelerated;

(b) The review of regular reporting. For this purpose, the implementing agency shall prepare and submit to the secretariat quarterly reports on loan applications (e.g. numbers of applications submitted, at the due diligence stage, accepted, rejected or deferred) and the project portfolio (e.g. number of loan agreements signed, amount of funds disbursed, and progress of funded project activities, such as completion of PDDs, validation, verification, cancellation, repayments and write-off). The last quarterly report of a calendar year shall include a review of performance and a summary of key data for that year (complementing the financial statement referred to in paragraph 15 (a) (iii) above);

(c) The approval of operational procedures, detailed criteria for selecting project activities, and templates. For this purpose, the implementing agency shall prepare draft

operational procedures for the submission and processing of loan applications, detailed criteria for selecting project activities, and various templates, including those for applications, project idea notes and loan agreements, and submit them to the secretariat for approval. The operational procedures shall be in line with chapter VII below, and the detailed criteria for selecting project activities and the template for loan agreements shall be in line with appendices A and B, respectively, to this document;

(d) The evaluation of the loan scheme by an independent expert. For this purpose, the secretariat shall contract an independent expert to conduct the evaluation at the time specified by the secretariat so that any necessary adjustments to the loan scheme can be made at the appropriate time.

16. The secretariat shall, in its contract with the implementing agency, include provisions allowing the secretariat to terminate the contract with the implementing agency before the end of the contractual term, in addition to the standard cases under the United Nations rules and regulations (e.g. force majeure or bankruptcy of the contractor), in case the secretariat finds that the implementing agency is underperforming.

17. The secretariat shall:

(a) Review the performance of the loan scheme and the efficiency and effectiveness of the operations of the implementing agency, with regard to, inter alia:

(i) The rate of utilization of the funds;

(ii) The number and geographical distribution of funded projects;

(iii) The success rate of funded project activities in being approved for registration and issuance;

(b) Review the findings and recommendations of the independent expert on the basis of his/her evaluation of the loan scheme as referred to in paragraph 15 (d) above;

(c) Review and approve the annual budgets, business plans and financial statements of the implementing agency, as referred to in paragraph 15 (a) above;

(d) Report to the CMP on the status of implementation of the loan scheme, as referred to in paragraph 21 below.

18. The secretariat shall have the right to summon the implementing agency if it has serious concerns about the performance of the latter and, in any event, prior to a decision being taken to terminate the contract with the implementing agency.

19. If the secretariat finds, on the basis of the reviews referred to in paragraph 17 above or any other incidents, that any provisions in the guidelines and modalities for the loan scheme need to be modified in order to improve the performance or operability of the loan scheme, it shall seek guidance from the Board. If the Board subsequently revises the guidelines and modalities, then the secretariat shall apply the revised guidelines and modalities on an interim basis.

20. If the Board revises the guidelines and modalities for the loan scheme, in accordance with paragraph 19 above, the secretariat shall include in its annual report to the CMP referred to in paragraph 21 below a recommendation on the revised guidelines and modalities for consideration by the CMP at its next session. After the CMP has decided to adopt, adopt with modifications or reject the revised guidelines and modalities, the secretariat shall make adjustments, as appropriate, to the implementation of the loan scheme as soon as practicable.

VI. Reporting to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

21. The secretariat shall report to the CMP once a year on the status of implementation of the loan scheme, by providing, inter alia:

- (a) The numbers of loans applied for, loans approved and loan agreements signed, and the funds disbursed by country, project type and size;
- (b) The amount of funds committed and disbursed by country, project type and size;
- (c) The amount of funds committed and disbursed, sorted by cost item (i.e. development of PDD, validation and first verification);
- (d) Reviews of the performance of the implementing agency;
- (e) Recommendations on draft revised guidelines and modalities for the loan scheme, prepared in accordance with paragraph 20 above, as applicable.

VII. Procedure for application, approval, fund disbursement and repayment

22. An entity that wishes to apply for a loan shall submit an application to the implementing agency, using templates (e.g. an application form) developed by the implementing agency, as referred to in paragraph 15 (c) above, and by attaching the supporting documentation defined by the implementing agency.

23. The implementing agency shall screen the application to check its completeness and perform an initial eligibility check of the application. At this stage, the implementing agency may seek clarification and ask for additional information from the applicant, as well as visit the (planned) project activity site, as appropriate, to verify the reality of the project activity and/or identify project participants.

24. Once the application is found to be complete and has successfully passed the initial eligibility check, the implementing agency shall perform a detailed appraisal of the project activity proposed in the application, with regard to its financial viability and bankability as well as its eligibility as a CDM project activity, by means of a site visit, as appropriate. The implementing agency shall perform the appraisal against detailed criteria for selecting project activities, which shall be developed by the implementing agency on the basis of appendix A to this document, as referred to in paragraph 15 (c) above.

25. The implementing agency shall decide whether to extend a loan to the project activity. If the decision is positive, the implementing agency shall sign a loan agreement with the applicant, using a template developed by the implementing agency in accordance with the guidelines set out in appendix B to this document.

26. The implementing agency shall disburse funds to the loan recipient in accordance with the signed loan agreement.

27. The loan recipient shall repay the loan to the implementing agency in accordance with the signed loan agreement. The loan recipient shall start repaying the loan starting from the first issuance of CERs to the project activity.

28. The implementing agency shall monitor the progress of the project activity and related events that could trigger, for example, subsequent loan disbursements, cancellation, write-off or acceleration, until the loan has been fully repaid.

29. The implementing agency shall monitor the loan recipient's compliance with the loan agreement and take action, including litigation, as appropriate.

Appendix I

Criteria for selecting clean development mechanism project activities for the extension of a loan

1. The project participants of a project activity to be funded by the loan scheme shall:
 - (a) Have integrity, with no past or current record of judicial process for malpractice, fraud and/or any other activity that gives rise to concerns over their integrity;
 - (b) Have sufficient capacity to implement and operate the project activity, including the support of third parties.
2. A project activity to be funded by the loan scheme shall:
 - (a) Be located in a country with fewer than 10 registered clean development mechanism (CDM) project activities as of 1 January of the year in which the application for a loan is submitted to the implementing agency;
 - (b) Use commercially viable and available technology;
 - (c) Be financially viable;
 - (d) Be highly likely to secure project finance;
 - (e) Be highly likely to be commissioned and completed with regard to permits, licences, political risk, etc.;
 - (f) Have estimated emission reductions or removal enhancements of at least:
 - (g) 15,000 t CO₂ eq annual average over the first crediting period, in countries not classified under the United Nations as least developed countries (LDCs) or small island developing States (SIDS);
 - (h) 7,500 t CO₂ eq annual average over the first crediting period, in countries classified as LDCs or SIDS;
 - (i) Meet the eligibility criteria for a CDM project activity or a CDM programme of activities as defined in relevant documents adopted by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Executive Board of the clean development mechanism.

Appendix II

Guidelines for loan terms and conditions

1. The obligor (loan recipient) shall be a project participant of the project activity.
2. An interest rate shall not be charged on the loan.
3. A one-time fee (upfront fee) shall be charged to the applicant. The implementing agency shall set aside the fee in the budget for the loan scheme and reimburse it to the loan recipient once the repayment starts (e.g. by deducting it from the first repayment).
4. Disbursement of the loan shall be upon the reaching of milestones, for example the implementing agency's decision to extend a loan to the project activity, the publication of the corresponding project design document (PDD) on the UNFCCC website or the registration of the project activity under the UNFCCC clean development mechanism (CDM) process. Staggered disbursement may also be considered in order to mitigate risks to the funds.
5. The loan shall be disbursed directly to the service provider (i.e. the CDM advisor/consultant for developing a PDD, and/or the designated operational entity (DOE) for validation or first verification). Payments to the loan recipient shall be made only if the previous option is not practical.
6. The loan recipient shall repay the loan in cash.
7. The loan recipient shall start repaying the loan to the implementing agency from the first year of issuance of certified emission reductions (CERs) to the project activity. The repayment shall normally be done in one instalment. Exceptionally, the implementing agency may agree to a two- or three-year repayment period.
8. To ensure loan security, the implementing agency may request the secretariat to 'withhold' CERs issued to the project activity until the repayment is complete.
9. If a project activity was not registered under the UNFCCC CDM process but still went on to be commissioned and generated revenue, repayment in cash shall remain due. In this case, if the repayment is not made, the implementing agency may resort to litigation.
10. Covenants shall include the loan recipient's obligation to report periodically to the implementing agency in respect of key aspects of the project activity, and the non-committing of fraud, corruption or misconduct.
11. The loan recipient shall seek the most competitive offer from service providers (i.e. CDM advisors/consultants and/or DOEs) by getting more than one quote on the basis of clear terms of reference.
12. A loan may be cancelled by either party if the project activity is abandoned, if the project participant no longer needs the funds or if the implementing agency finds that the loan recipient has breached the loan agreement (e.g. by way of misconduct).
13. A loan may be accelerated (i.e. the full repayment becomes due immediately) if the implementing agency finds that the loan recipient has breached the loan agreement (e.g. by way of misconduct).
14. A loan may be pre-repaid partly or fully by the loan recipient if the loan recipient no longer needs the funds and has sufficient resources to repay the loan.

15. A loan may be written off by the implementing agency if the project is abandoned, fails to be registered under the UNFCCC CDM process, except for in the case referred to in paragraph 9 above, or is discontinued for other reasons, such as bankruptcy.

16. The loan recipient shall report on a regular basis to the implementing agency on the progress of the project activity with regard to key steps, such as permits and licences, construction and validation, using a template developed by the implementing agency. These reports may be aggregated and summarized in the implementing agency's own periodic reports to the secretariat.

Annex IV

Recommendation on the terms of reference in relation to the membership of the Executive Board of the clean development mechanism

I. Nature of the work

1. The Executive Board of the clean development mechanism (hereinafter referred to as the Board) supervises the clean development mechanism (CDM) under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) and is fully accountable to the CMP.

2. In this context, and in accordance with relevant guidance provided by the CMP, the Board is the regulatory body of the CDM, responsible for, inter alia:

(a) The elaboration of a clear and comprehensive policy framework, by adopting new and revised standards, procedures, guidelines and, where necessary, clarifications;

(b) The conduct of regulatory functions related to the operation of the CDM, including the approval of new methodologies, the accreditation of operational entities, the review of registration and issuance requests, as necessary, and the operation of the CDM registry, to ensure that all CDM activities are undertaken in a manner consistent with the established policy framework;

(c) The public availability of information on the CDM, including the policy framework and information on project activities and issued certified emission reductions;

(d) The provision of support for the realization of specific policy objectives set by the CMP;

(e) The promotion of awareness of the CDM and the work of the Board among stakeholders;

(f) Reporting on its activities to each session of the CMP and, as appropriate, recommending new or revised guidelines to the CMP for its consideration.

3. The Board carries out its work in an executive and supervisory manner, by delegating work to, and considering proposals from, its support structure. The secretariat services the Board and is its primary source of support. In addition, the Board establishes panels and working groups and involves outside expertise, as required, to assist with specific tasks.

II. Skills and expertise

4. All members and alternate members of the Board should:

(a) Have experience and competence in developing policy and strategy frameworks within regulatory processes, preferably but not necessarily in an international environment;

(b) Have an understanding of business perspectives regarding investment in the environmental field;

- (c) Have knowledge on and an understanding of the intergovernmental process in relation to climate change or other environmental agreements, and an appreciation of the nexus of actions to combat climate change and promote sustainable development;
- (d) Be prepared to obtain further knowledge on and understanding of decisions of the CMP relevant to the CDM and guidance previously established by the Board;
- (e) Exhibit the highest levels of professionalism and competence and a commitment to act in their individual capacities and in a manner consistent with the Board's code of conduct¹;
- (f) Show commitment to the effective management of the CDM and to working as a team with other members and alternate members, including in relation to reaching consensus;
- (g) Have competence in English (written and oral).

5. Overall, the membership of the Board should include perspectives from both the public and private sectors, as well as from relevant non-governmental communities, and should leverage in particular technical, legal and economic expertise relevant to the CDM.

6. Members and alternate members have the opportunity to participate in orientation and information activities provided by the secretariat to augment their knowledge on and understanding of existing CDM guidance and specific issues on which they need to engage.

III. Expected time commitment

7. Members and alternate members of the Board are expected to commit to the following:

- (a) Attending approximately 6–8 meetings per calendar year, requiring a time commitment of approximately 45–75 working days per year, including travel time, plus approximately 20–30 working days per year for preparation;
- (b) Chairing or vice-chairing meetings of a panel and/or working group, if appointed, requiring a time commitment of approximately 20–55 working days per year, including travel time, plus approximately 15–30 working days per year for preparation;
- (c) Participating in other activities of the Board and external activities and events relating to membership of the Board, requiring a time commitment of 10–20 working days per year.

8. In addition, the Chair and Vice-Chair of the Board are expected to make available further time for the purpose of coordinating and preparing the Board's activities and representing the Board at events, amounting to up to 50 working days per year.

IV. Election process

9. In accordance with decision 3/CMP.1 and the rules of procedure of the Board², members and alternate members are nominated by the relevant geographical constituencies and are elected by the CMP for a period of two years. They may serve a maximum of two consecutive terms as either a member or an alternate member.

¹ <http://cdm.unfccc.int/EB/047/eb47_repan62.pdf>.

² Decision 4/CMP.1.