

EXECUTIVE BOARD ANNUAL REPORT 2013

CLEAN DEVELOPMENT MECHANISM

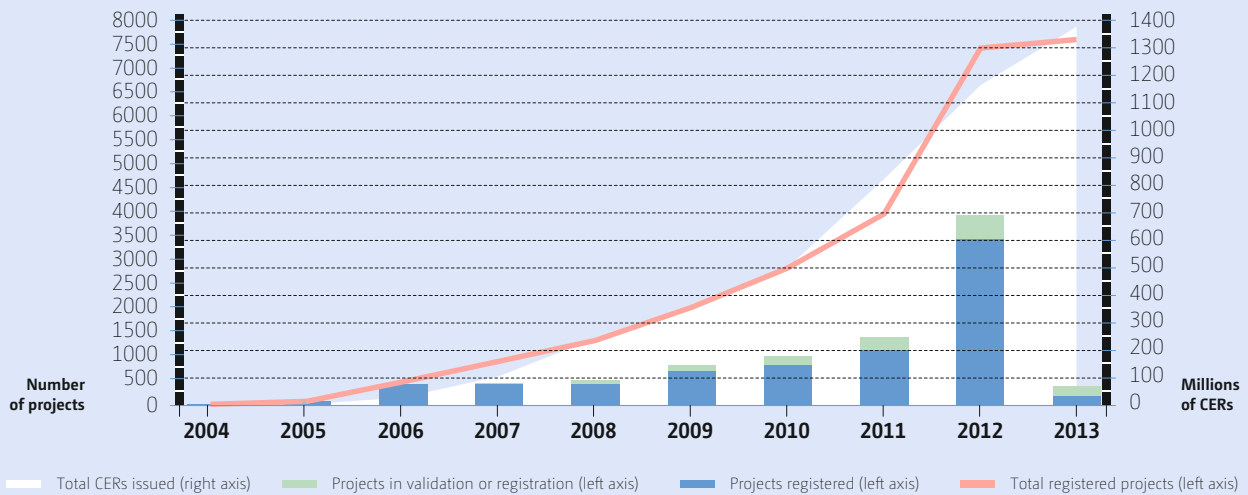


United Nations
Framework Convention on
Climate Change





Figure 1. Certified emission reductions issued cumulative, projects registered cumulative, and projects registered, registering and in validation by year, 2004–2013



Data as of 31 October 2013. Registration numbers reflect the effective date of registration; that is, the date when a complete request for a registration submission was received.

Figure 2. Submissions of requests for registration and issuance for project activities (PA) and programmes of activities (PoA), first quarter 2012 to third quarter 2013

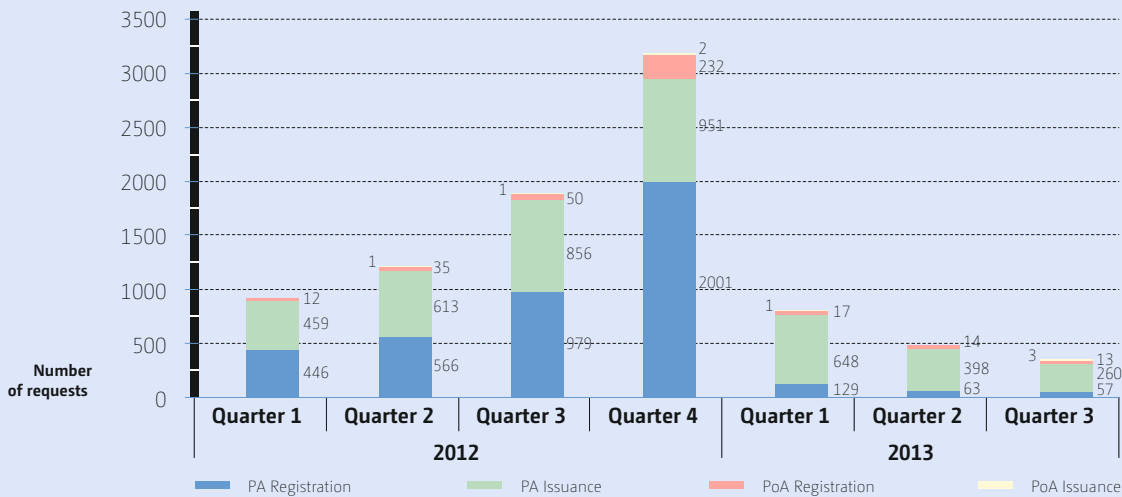
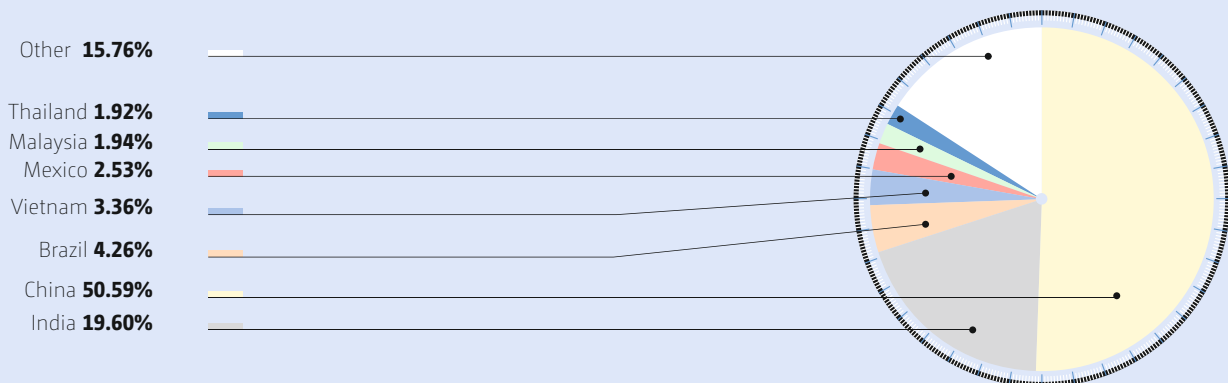


Figure 3. Distribution of registered projects by host party. Total: 7,366



For important decisions go to <<http://cdm.unfccc.int/Reference/COPMOP/index.html>>.

See especially 3/CMP.1, Modalities and procedures for CDM and 4/CMP.1, which includes simplified modalities and procedures for small-scale CDM.

The CDM Executive Board's detailed annual report to the Parties to the Kyoto Protocol is available at <<http://cdm.unfccc.int/Reference/index.html>>.

All figures are as of 31 October 2013

The body of the book covers the reporting period 14 September 2012 to 4 October 2013, in accordance with decision 1/CMP.2, paragraph 11 and decision 2/CMP.3, paragraph 7.

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Photo by: Li Jia
CDM Project 8787: Guohua Yulin Jingbian 20MWp Solar PV Grid Connected Power Generation Project, China

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CLIMATE DEMANDS ACTION, ACTION DEMANDS CDM

For five years I have had the privilege to sit with highly competent representatives from all corners and cultures and be able to make decisions together. This is the United Nations at its best.

The challenges the CDM is facing from today's market realities are well known. I have been quoted as saying that when countries take on the level of ambition that the science tells us is needed to address climate change the CDM and mechanisms like it will be indispensable. That is the logic that underpins the current work of the CDM Executive Board. Despite the present low level of demand for certified emission reductions, the Board is working to ensure that this mechanism continues to facilitate emission reductions and sustainable development, and that it continues to improve. When demand for emission reductions increases, the CDM will be ready.

In the meantime, stakeholders in the CDM can be encouraged by a growing interest from various agencies wishing to make use of the mechanism for its strengths in validation and verification to ensure results. The CDM is truly results-based financing – established 10 years before this became a mantra in the climate finance discussions.

As well, with the rule change last year that made it easier for project participants to cancel their CERs on

behalf third parties, it is now easier for projects to pursue potential buyers wishing to use CDM offsets as part of voluntary social responsibility programmes. Anyone can now approach a project participant. What's more, project participants can use the new voluntary sustainable development tool to highlight the co-benefits of their projects.

The CDM has worked for more than a decade. It has produced emission reductions through hundreds of approaches, transferred technology and spurred significant investment. For the longer term, the most important result might be the capacity it has built around climate change mitigation in thousands of individuals in national governments, as well as in private sector investors and project developers.

We should be proud of these results and convey with passion that this competence is here, that it should be taken good care of and well utilized in a scaled up effort where the carbon market will be increasingly important.

A handwritten signature in blue ink, appearing to read 'Peer Stiansen', written over a light blue grid background.

Peer Stiansen, Chair
CDM Executive Board



CDM SHOWS REMARKABLE SCALABILITY HANDLING FLOOD OF SUBMISSIONS

This year has been a challenging one for the CDM: first due to the decline in demand for certified emission reductions, and second due to a flood of submissions late in 2012.

Some 7200 requests for registration and issuance were received in 2012, more than 5000 in the second half of the year, and more than 1500 in the month of December alone.

This flood of submissions tested the Board, but especially its support structure, principally the UNFCCC secretariat, which backstops the work of the Board. Waiting times did increase, but remarkably, when the dust settled in 2013, the 2012 tally of registered projects had reached close to 3300 for the year, almost half of all projects registered in the CDM to date.

The projects registered in 2012 alone would, if they delivered on all of their estimated reductions, produce 2.8 gigatonnes of certified emission reductions to 2023. What that tells me is that the CDM has a great deal more

potential than most people had thought. Proponents and critics alike have often questioned the CDM's scalability. This criticism should now be put to rest. Granted the influx of submissions posed a serious challenge with respect to resources and workload. However, this kind of challenge is understandable and manageable.

The CDM has registered almost 7300 projects in 89 countries. It has delivered more than 1.38 billion tonnes of emission reductions. It has leveraged an estimated USD 315 billion in capital investment, spurred technology transfer, and delivered a host of sustainable development benefits, from employment, to health to education. Now, as we enter the thirteenth year of operation of the CDM we also know that this mechanism can deliver scale.

A handwritten signature in black ink, appearing to read 'Hugh Sealy', written in a cursive style.

Hugh Sealy, Vice-Chair
CDM Executive Board



Photo by: Subodh Naatu
CDM Project 5863: Wind Energy Project in Dewas, Madhya Pradesh, India

CDM CROSSES MILESTONE 7000TH REGISTERED PROJECT INTO PERIOD OF SOFT DEMAND

FOLLOWING MANY MONTHS OF UNPRECEDENTED SUBMISSIONS THAT SHOWED THE SCALABILITY OF THE CDM, THE MECHANISM SAW A SIXFOLD DECLINE IN PROJECTS ENTERING VALIDATION.

In total, 7,293 projects were registered under the CDM in 89 countries by the end of the reporting period. The mechanism passed its milestone 7,000th registered project in July 2013, about six months into the first year of the Kyoto Protocol's second commitment period. Approximately 1,170 further projects are undergoing validation, a step prior to submission to the Board for registration. With respect to emission reductions, by the end of the reporting period 1.38 billion certified emission reductions (CERs) had been issued (figure 1).

More indicative of the present challenges faced by the mechanism due to a decline in demand for CERs is the number of projects that entered the CDM pipeline. Some 346 projects were submitted to a designated operational entity for validation in the reporting period, compared with 2,276 projects in the previous reporting period, more than a sixfold decline. Also, it is expected that a number of registered projects will not continue their verification activities. The number of affected projects is unknown, although in many cases it can be expected that emission reductions will continue.

The number of project activities submitted for registration during the reporting period reached 2,281. As expected, the number submitted in 2013 declined compared with the latter half of 2012, which saw a surge in new projects ahead of rules that came into effect in the European Union Emissions Trading System from the beginning of 2013 (figure 2).

The CDM has seen continued growth in the number of programmes of activities (PoAs). There are now 224 registered PoAs in 42 countries, with a total of 1,801 component project activities (CPAs). Under a PoA, an unlimited number of CPAs across a sector, country or region can be registered under a single administrative umbrella. This allows for the generation of large-scale emission reductions from the aggregating of smaller project activities that would not otherwise be viable. Thus, PoAs have improved the scalability of the CDM and have helped extend its reach, especially in underrepresented regions.

The CDM helps countries to achieve their climate change mitigation and sustainable development objectives. The CDM is also a source of finance for adaptation. In the reporting period, 2,426,000 CERs were contributed to the Adaptation Fund, bringing the total number of CERs forwarded to the fund by the CDM to 7,160,000.

To summarize, 2012 saw a dramatic increase in registrations, while 2013 saw a dramatic decline in the number of projects registered and a dramatic decline in the number of projects entering the CDM pipeline. This is a result of diminished demand for CERs, tied ultimately to Parties' level of ambition to reduce greenhouse gas (GHG) emissions.



Photo by: Choenporn "Tern" Sawasdivorn
CDM Project 3462: Bangkok Kamphaeng Saen East: Landfill Gas to Electricity Project, Thailand

CDM BOARD BUILDING ON MECHANISM THAT HAS PROVEN ITS WORTH

WITH ENHANCED SIMPLICITY AND OBJECTIVITY,
THE CDM CONTINUES TO EVOLVE, IMPROVE AND BECOME
MORE ACCESSIBLE AS A TOOL TO INCENTIVIZE ACTION
ON CLIMATE CHANGE AND DEVELOPMENT.

The Board is dedicated to ensuring that Parties continue to have at their disposal an efficient and effective tool with which to reduce GHG emissions and contribute to sustainable development. The Board's work builds on a mechanism with recognized expertise as a GHG offsetting mechanism:

- **In assessments**, the CDM maintains and administers rigorous, uniform procedures for registering activities that reduce or remove emissions, issuing credits for such reductions or removals, and accrediting third party validators and verifiers. The CDM validates and verifies at the project level where the actual emission reductions occur;
- **In standards**, the CDM maintains the world's largest source of credible and internationally accepted standards for measuring, reporting, and verifying emission reductions and removals, and these are already widely used by mechanisms and stakeholders outside the CDM;
- **In regulatory management**, the CDM has an established, transparent and trusted governance structure, which is country-driven and subject to the oversight of the Parties to the Kyoto Protocol. The CDM has a fully functional emissions registry and a transparent repository for detailing the description and status of all projects and programmes and for the tracking of and accounting for every issued CER.

The Board has in recent years focused especially on increasing the simplicity and objectivity of the CDM's methodologies, processes and rules. Such improvements increase accessibility to the mechanism while maintaining the environmental integrity of the emission reductions produced by projects. An example is the Board's work in recent years on the PoA approach.

A notable accomplishment in 2013 with respect to simplicity and objectivity was the approval by the Board of the mechanism's first two standardized baselines, a grid emission factor that covers the entire Southern African Power Pool and a standardized baseline containing an emission factor and positive list of technologies for charcoal production in Uganda. Two other standardized baselines are under consideration by the Board, and two others are at an earlier stage of assessment.

With a view to increasing accessibility, through support for registration, issuance, PoA development and development of standardized baselines, by the end of the reporting period four regional collaboration centres had been launched with cooperating organizations: two in Africa, one in the Caribbean and one in Latin America. Another is planned for Asia.

The Board, through the UNFCCC secretariat, supervises a CDM loan scheme, providing financial support for project development in underrepresented countries. Some USD 4.5 million has been committed to 36 projects since the operationalization of the loan scheme in the second quarter of 2012.



Photo by: Elena de Sojo
CDM | Project 0191: Monte Rosa Bagasse Cogeneration Project, Nicaragua

WEAK DEMAND POSES GRAVE CHALLENGE TO CDM

WHEN COUNTRIES TAKE ON THE LEVEL OF AMBITION THAT THE SCIENCE TELLS US IS NEEDED, THE CDM AND MECHANISMS LIKE IT WILL BE INDISPENSABLE.

Despite considerable progress in improving the CDM, making it an increasingly efficient and effective tool for use by Parties, the mechanism faces serious challenges.

Demand for CERs has declined significantly due to, among other reasons, the reduced number of Parties participating in the Kyoto Protocol's second commitment period, the emission targets to which those countries have committed, restrictions by some buyers on the type and origin of CERS and protracted economic recession in several developed countries.

At the same time, Parties are working to develop new means to collaborate on emission reduction efforts, for example through a new market mechanism and bilateral efforts. The challenge for the Board and Parties is to ensure that whatever is developed complements and builds on the strengths of the CDM.

As in past years, the Board devoted attention to safeguarding the reputation of the CDM. It does this primarily through stringent adherence to protocols, a commitment to continual improvement and a commitment to transparency. Virtually every document about each registered CDM project is available on the CDM website, each issued CER can be traced to the project that produced it, Board meetings are webcast and fully documented, and continual improvement is sought in the quality of communication between the Board, its support structure and stakeholders, including the media.

All of this considered, it is the current low level of demand for CERs and resulting low level of activity that is of gravest concern to the Board. This mature and now well-functioning mechanism, which has proven its ability to achieve emission reductions at a scale that can contribute significantly to the global mitigation effort and which has proven that it can attract substantial capital (public and private) and technology to developing countries, is at risk. Capacity built by project developers, designated operational entities, designated national authorities and within the secretariat could be lost, projects may be discontinued and low-cost mitigation opportunities missed.



Photo by: Sudipto Das
Programme of Activities 6328: National Solar Power Development Programme, India

REVIEW OF CDM MODALITIES AND PROCEDURES COULD TAKE CDM TO NEW LEVEL

WEIGHING THE CDM'S STRENGTHS IN VALIDATING AND VERIFYING ACTION, AGENCIES SEE AN EXPANDED ROLE FOR THE CDM AS A TOOL TO MITIGATE CLIMATE CHANGE AND CONTRIBUTE TO SUSTAINABLE DEVELOPMENT.

The CDM has shown its ability to help Parties to achieve their climate change mitigation and sustainable development objectives. In 12 years, the CDM has:

- Leveraged an estimated USD 315 billion in capital investment to underpin climate mitigation efforts and support the achievement of a range of sustainable development outcomes for host Parties;
- Issued over 1.38 billion CERs and stands ready to further contribute through the crediting of a further 1.4 to 6.2 billion emission reductions by 2020;
- Saved countries with a commitment under the Kyoto Protocol more than USD 3.6 billion in compliance costs;
- Generated and supported green growth programmes globally, resulting in co-benefits such as technology transfer, employment, household income generation opportunities, education, rural electrification and improved air quality with resulting health benefits;
- Contributed to the development of 110 gigawatts of new renewable energy capacity.*

Despite the serious recent decline in demand for CERs, it is the Board's view that the need for the CDM remains, as part of the global community's action to combat climate change. This view is supported by the evidence that projects continue to enter the CDM pipeline; almost 200 projects entered validation in the last six months of the reporting period. With respect to meeting potential demand for the CDM, the mechanism has proven its scalability and can capitalize on further efficiency features.

In 2013, the CDM saw its potential being explored by multilateral development banks and development agencies wishing to employ the mechanism in so-called results-based efforts, using the CDM's strengths in validation and verification of emission reductions and contributions to sustainable development, and not to just produce offset units per se.

CDM stakeholders are also exploring how the CDM can contribute to climate change mitigation and sustainable development outside of the compliance system of the Kyoto Protocol. Rules adopted by the Board and Parties in 2012 facilitate easier voluntary cancellation of CERs in the CDM registry and have opened the way to potential demand from companies, agencies and events wishing to reduce their impact on the climate. During the reporting period, and to date, some 286,694 CERs from 58 transactions were voluntarily cancelled in the CDM registry.

The CDM has proven, and did so especially in 2012, that it can take on an expanded role in the global effort to address climate change. Parties' current review of the CDM modalities and procedures is an opportunity to prepare the CDM for a higher level of utility.

In 2013, the Board agreed on 22 recommendations to Parties aimed at making the CDM a more efficient and effective tool in the international response to climate change. The recommendations range from calls for elaboration on the role of countries that host CDM projects to a recommendation that could better ensure that stakeholders' views are taken into account during the vetting of projects.

*References:

Total capital investment as reflected in the project design documents of 85 per cent of project activities considered not dormant (source data: UNFCCC/United Nations Environment Programme (UNEP) Risoe Centre as of 1 October 2013).

Projects which are currently issuing CERs are projected to continue issuing a further 1.4 billion CERs, while all currently registered projects could result in the issuance of up to 6.2 billion additional CERs to 2020.

Benefits of the Clean Development Mechanisms 2012
<https://cdm.unfccc.int/about/dev_ben/ABC_2012.pdf>



Photo by: Jaydip Bhattacharya
CDM Project 0711: Mysore Cements Limited Portland Slag Cement Project, India

ON-THE-GROUND SUPPORT FOR CDM TAPS INTEREST, REMOVES BARRIERS

WORKING ON THE GROUND WITH PROJECT PARTICIPANTS AND OTHER CDM STAKEHOLDERS, THE UNFCCC SECRETARIAT AND PARTNER AGENCIES AND MULTILATERAL DEVELOPMENT BANKS HOPE TO EXTEND THE REACH AND EFFECTIVENESS OF THE CDM.

The secretariat has strengthened its efforts to improve the regional and subregional distribution of CDM projects by developing CDM Regional Collaboration Centres (RCCs) in:

- Lomé, Togo (operational since January 2013), in partnership with Banque Ouest Africaine de Développement
- Kampala, Uganda (May 2013), with the East African Development Bank
- St. George's, Grenada (July 2013), with the Windward Islands Research and Education Foundation, and
- Bogota, Colombia (August 2013), with Banco de desarrollo de América Latina.

The RCCs provide direct support to existing projects and PoAs in moving through the CDM project cycle from idea to issuance (without intervention in the existing regulatory process), in the development of standardized baselines, and in the development of a pipeline of future projects and partnerships.

The work in the RCCs differs substantially from region to region and from project to project. The challenge and priority in the West African region, coordinated through RCC Lomé, due to the limited CDM pipeline there, has been to move projects into the pipeline and have validation started. Work in East Africa places greater emphasis on moving existing registered projects and PoAs to the issuance phase.

RCC Lomé works closely with DNAs and with 55 projects in the region. Notable for that RCC has been the large number of new projects entering the CDM pipeline (26) and project activities that have been helped to move along the project cycle (eight). Work with DNAs in the region is expected to contribute significantly to the submission of grid emission factor standardized baselines in Cape Verde, Guinea Bissau and Sao Tome and Principe, and a cook stove standardized baseline in Senegal.

RCC Kampala has contacted more than a tenth of the 619 projects and close to half of the 116 PoAs being developed across the 24 countries in the East Africa region. Direct support has been given to some 12 PoAs, and in the case of a composting PoA the centre managed to leverage more than USD 50,000 worth of financial and technical assistance through partnerships with various leading development agencies and has helped to stimulate replication of the PoA in six other countries. The Kampala RCC has helped to bring 15 projects into the CDM pipeline and has identified eight standardized baselines to support.

In its less than three months of operation, RCC St. George's has supported the calculation of the grid emission factor for the Dominican Republic and brought to the pipeline eight new project activities. The RCC has also played a critical role in the establishment of two new DNAs in the region. The centre is already recognized by several stakeholders as a key player in CDM development in the region.

RCC Bogota in its first month of operation attracted interest from stakeholders, and two regional DOEs have expressed their intention to collaborate closely with the centre. An important part of its work will be the promotion of voluntary cancellation of CERs for social responsibility programmes.

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CDM Project 9408: Bundled Wind Power Project in Barmer and Jaisalmer, Rajasthan, India

Back – Photo by: Mauricio Grande

CDM Project 1218: Berlin Binary Cycle Power Plant, El Salvador

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Figure 4. Distribution of registered projects by scope. Total: 7,366

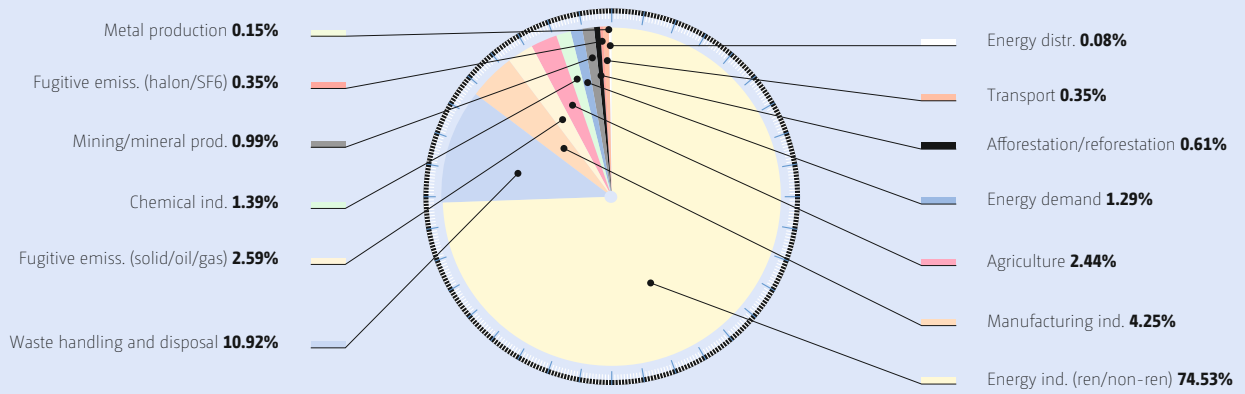


Figure 5. Distribution of registered project activities by region. Total: 7,366

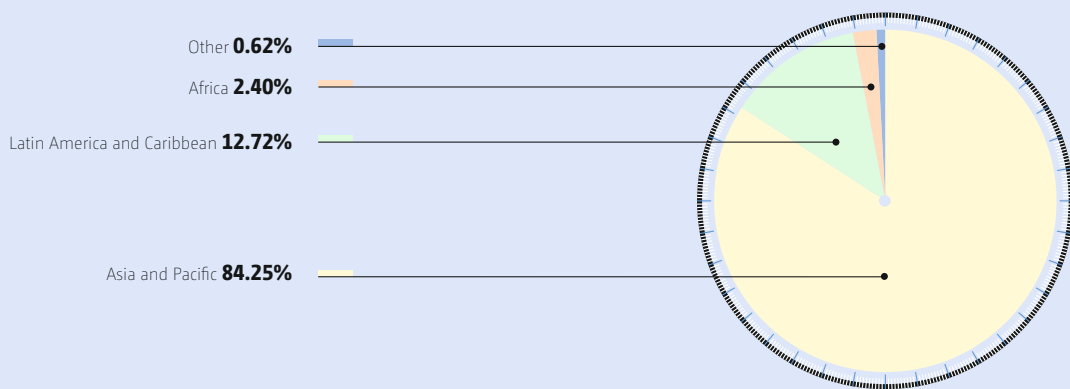
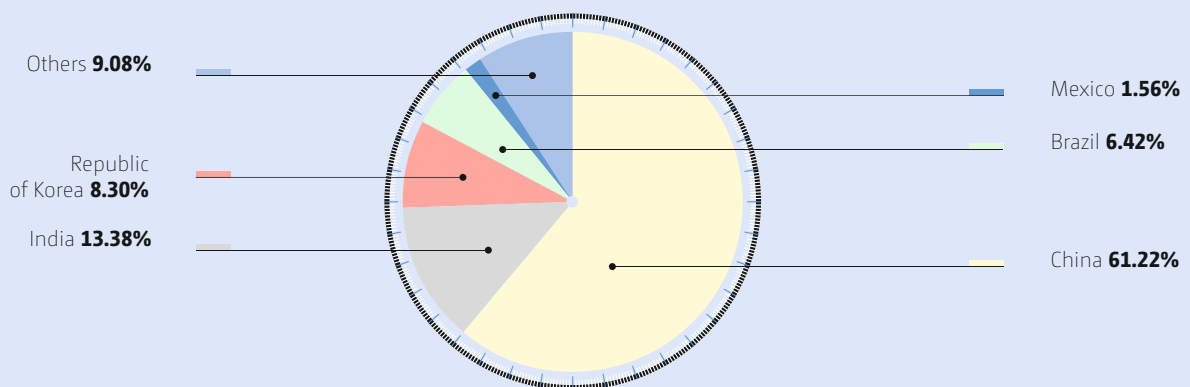


Figure 6. Distribution of CERs issued by host party. Total: 1,400,387,921



All figures above are as of 31 October 2013.
 The body of the book covers the reporting period 14 September 2012 to 4 October 2013, in accordance with decision 1/CMP.2, paragraph 11 and decision 2/CMP.3, paragraph 7.





