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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 20 October 2007 to 24 October 2008, during which the CDM grew steadily. An additional 0.4 billion certified emission reductions (CERs) are expected to be delivered by the end of the first commitment period of the Kyoto Protocol. The now nearly 4,200 CDM project activities are expected to deliver about 2.9 billion CERs of which 1.3 billion CERs are generated by 1,186 registered CDM project activities. The 437 CDM project activities that have reached the phase of issuance have generated more than 202 million CERs. Over the period, the Board considered 1,086 requests for registration and issuance resulting in 359 additional CDM project activities and issuance of 107,604,113 CERs. The report highlights achievements and challenges faced by the Board in its supervision of this mechanism. It highlights work undertaken in the areas of accreditation, methodologies, registration and issuance. It includes a number of recommended actions 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 seventh year of operation (2007–2008)², hereinafter referred to as the reporting period, and recommends decisions for adoption by the CMP at its fourth 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 strengthen the management and supervision of the CDM, resource requirements, and actual resources available for the work on the CDM during the 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 seventh year of operation of the CDM, as well as the challenges lying ahead, will be highlighted by the Chair of the Board, Mr. Rajesh Kumar Sethi, 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 fourth session, taking note of the annual report of the Board, may wish:

- (a) To note that the Board responded to guidance provided by the CMP at its third session, concluded most response actions and made progress on resolving remaining issues;⁵
- (b) To designate operational entities that have been accredited, and provisionally designated, by the Board (see chapter III A below);
- (c) To amend the “Procedures for review as referred to in paragraph 41 of the modalities and procedures for a clean development mechanism” and the “Procedures for review referred

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

² The report covers the period from 20 October 2007 to 24 October 2008, 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.

⁵ Annex I to this report contains the requests and encouragements by the CMP at its third session and a brief description of the responses.

to in paragraph 65 of the modalities and procedures for a clean development mechanism” as indicated in paragraph 65 below;

- (d) To take note that the Board is working to enhance its operationalization of the accreditation procedure by considering a number of measures including continuous monitoring of the performance of designated operational entities (DOEs) and a system of incentives and penalties for DOEs including imposing financial penalties on DOEs that do not comply with the quality standards set by the Board;
- (e) To implement an interim solution for providing privileges and immunities for Board members in order to ensure that they are fully protected when taking decisions relating to the CDM even if the CMP concludes that a long-term solution cannot be concluded during the present commitment period;⁶
- (f) To provide guidance on matters arising from this report.

6. The CMP may also wish to consider the outcomes of work relating to the CDM carried out by the Subsidiary Body for Scientific and Technological Advice.⁷

7. 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).

II. Achievements and challenges

A. Milestones and achievements

8. The function of the Board is to supervise the operation, and optimize the functioning, of an innovative, global, environmental market mechanism: the CDM. Despite general expectations in 2007 that fewer new activities would enter the CDM pipeline due to the uncertainty about the future of the CDM beyond 2012, the CDM receives about 160 requests each month to validate project activities; this is about 10 per cent more than in the previous period. This growth will potentially add an additional 0.4 billion CERs up to the end of the commitment period. The CDM project pipeline is now expected to generate nearly 2.9 billion CERs⁸ from more than to 4,200 project activities of which 1,188 already registered (359 registered over the reporting period) are expected to generate 1.33 billion CERs by the

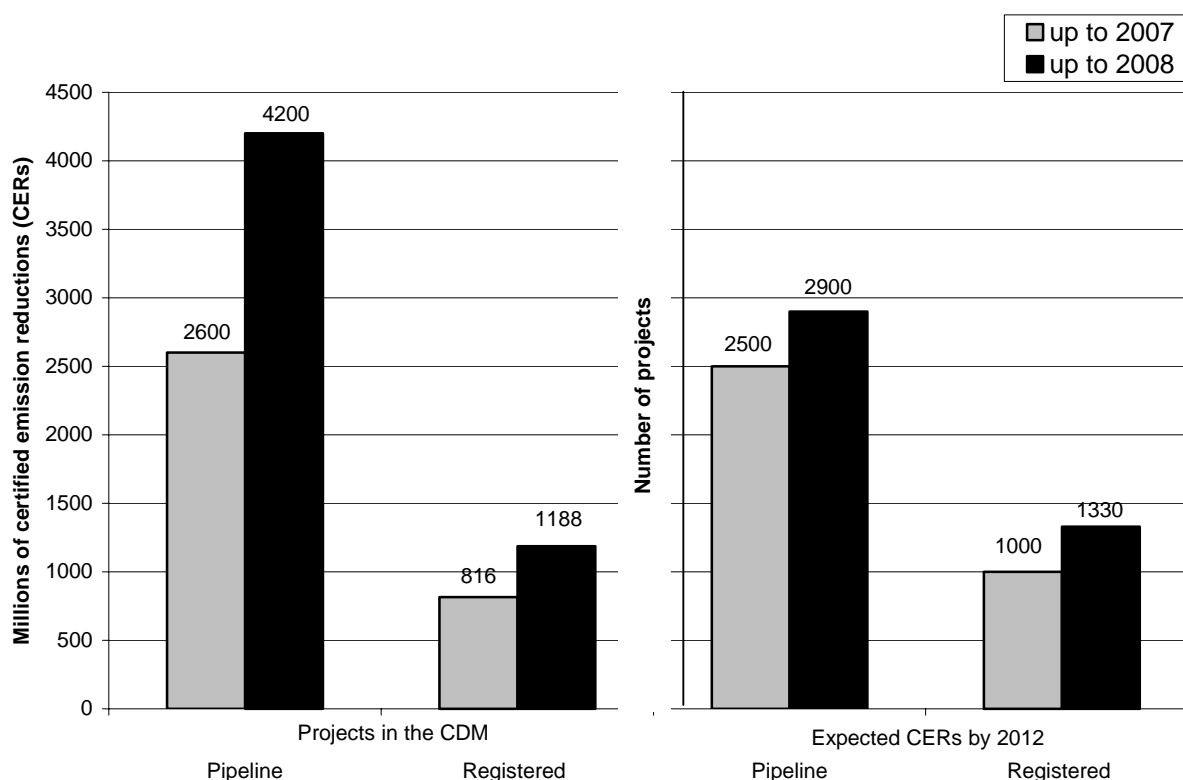
⁶ FCCC/KP/CMP/2008/1, paragraphs 72 and 73.

⁷ See FCCC/SBSTA/2008/7, paragraphs 39 (b) and 40.

⁸ These figures are based on the forecasted delivery expectations indicated by project participants in the project design document. Information is provided by other institutes such as the United Nations Environment Programme (UNEP) Risoe Centre (<www.cdmpipeline.org>) (URC), Denmark, and the Institute for Global Environmental Strategies (IGES), Japan, using direct data streaming from the CDM information system.

end of the first commitment period (see figure below). These projects are of a wide range of types (about 60 per cent are renewable energy or energy efficiency projects) and sizes (about 60 per cent are small-scale projects). During the reporting period, the Board approved 27 methodologies opening up new areas such as the production of energy efficient appliances, agriculture, use of geothermal heat, mass transport (use of low greenhouse gas (GHG) emitting vehicles) and lighting in rural households. Furthermore it agreed to 66 revisions and addressed 76 clarifications which will facilitate the application of the methodologies.

Growth of the clean development mechanism pipeline, 2007–2008



B. Challenges and opportunities

1. Context of work

9. The continuing challenge for the Board is to supervise the operation, and optimize the functioning, of the CDM. Work in 2008 proceeded at the same intense pace as in previous periods, based on a system that is still evolving. Increasing and enhancing human and institutional capacity remains one of the key constraints of the CDM system as a whole (including the capacity of project participants, DOEs and Board support). This constrains the ability of the system to adapt/change (be streamlined), to address caseload (delays), to increase transparency/knowledge and to enhance simplicity while preserving environmental integrity. It is expected that this situation will remain one of the key challenges for this evolving mechanism.

2. Enhancing the system while meeting operational requirements

10. The Board's work programme was determined by the paramount requirement of timely consideration of cases. Nevertheless, the Board prioritized work that would guide project participants and

DOEs. Considerable time was also devoted to determining the level and conditions for further delegation to parts of its support structure, in order to enhance transparency and public information and the overall quality of the system. The pressure to ensure the timely consideration of requests for registration and issuance, and of proposed new methodologies, while considering the request by the CMP to continue to enhance consistency and ensure environmental integrity, leaves little time to systematically address aspects which would allow the system to mature further. Nevertheless, the Board made progress on some important issues:

- (a) Additionality and baseline simplification: For the first time the Board approved a new methodology that uses a benchmark approach to determine additionality and baseline level;
- (b) Predictability and integrity: The Board approved guidelines/clarifications on issues in response to a call for predictability such as:
 - (i) “Guidance on the demonstration and assessment of prior consideration of the CDM”;⁹
 - (ii) Investment analysis option of the additionality tool;
 - (iii) Clarifications on aspects and tools to be used in methodologies;
- (c) Clarity of access to information: The way documents are displayed and interconnected on the CDM website and a workplan to render the Board documentation classification more transparent.

3. Streamlining and enhancing the accreditation system

11. A major challenge of the future work of the Board is in the area of accreditation of operational entities. Operational entities are of crucial importance to the functioning of the CDM and enable a distributed system of responsibilities under the supervision of the Board. Given experiences in the registration and issuance processes, the Board has given particular attention to its accreditation function. In that regard, the role of witnessing in assessing DOE performance has been identified as a priority area, and the Board has agreed to establish a revised and streamlined accreditation system. In addition, the Board identified the shortage of accredited DOEs as a bottleneck in the system. Some of these measures would increase the number of DOEs, but the Board is also exploring other means to increase the number of applications by outreach and analysis of barriers.

12. Increased clarity on validation and verification requirements (e.g. the approval of a Validation and Verification Manual (VVM), guidance on issues such as prior consideration, and investment analysis and elaboration of accreditation standards), will enable DOEs to more effectively determine and establish their competence resources and facilitate the assessment of these resources by the accreditation system.

4. Increase efficiency in the consideration of cases

13. The Board dealt with all requests for registration and issuance without any delay as well as revising the procedures for requesting reviews and the reviews. The Board faced two peak submission

⁹ Report of the forty-first meeting of the Board (EB 41 report), annex 46. Report of the meetings for the Board are available at <<http://cdm.unfccc.int/EB/index.html>>.

periods in 2008.¹⁰ The Board fully met this challenge while building up resources in the scarcity of human and institutional resources to meet the already higher than forecasted average caseload. In turn, this caused delays at a particular stage of the process (the completeness check of requests for registration). With additional resources put in place, it is expected that by mid-December 2008 the present backlog of 209 cases will be dealt with. The Board's responses to the increase in case considerations included:

- (a) Considering cases in groups of similar issues;
- (b) Establishing a system that allows minor issues to be dealt with quickly;
- (c) Increasing the use of input by the secretariat and experts of the Registration and Issuance Team (RIT) to enhance/refine existing guidance on regulation requirements to reduce the number of reviews;
- (d) Developing methodologies and simplifying/consolidating methodologies where possible;
- (e) Providing enhanced guidance to DOEs;
- (f) Refining the existing system of consequences for DOEs for non-performance (costs of a spot-check, withdrawal or suspension of accreditation) to ensure compliance by DOEs. Pending guidance by the CMP on the request of the Board (see paragraph 25 below), these measures may include other incentives including financial penalties for repeated failures to meet expected quality standards;
- (g) Adopting time lines for secretariat tasks such as completeness checks that are benchmarked to the number of cases submitted and the resources available.

5. Development of a Validation and Verification Manual

14. The development of the VVM is a priority exercise. The VVM will be a cornerstone in the overall quality system for the CDM. The VVM is an authoritative document that specifies the validation and verification requirements and expectations for the quality of the work conducted by the DOEs and hence also provides valuable information to project participants. The manual covers all stages from validation to requesting issuance, and defines key concepts including means of validation and reporting requirements for DOEs. The Board aims at having a last technical review at its forty-fourth meeting with a view to adopting the first version of the manual at that meeting. The development of the VVM included time-consuming but important interactions such as public calls for comments (from DOEs, project participants, stakeholders, Parties, panels and working groups) and workshops with DOEs to ensure that their inputs and expectations were adequately considered. The Board will implement a comprehensive roll-out programme to ensure that the VVM is well understood and effectively implemented. The Board is finalizing its work on the VVM with the expectation that its correct application will contribute towards a considerable reduction of the numbers of requests for review.

6. Registration of programmes of activities

15. The Board had issued a revision of its first guidance on programmes of activities (PoA) in June 2007. Since the beginning of 2008, five PoA entered the validation stage, and registration of some may be requested before the start of CMP 4. The Board provided the opportunity for queries and

¹⁰ These peaks were triggered by "last minute" requests by DOEs for registration before the expiration of the eight-month grace period for use of two expiring methodologies. Ninety-one cases were submitted in March, and 242 cases in August. The second peak is equivalent to receiving close to 44 per cent of all 2007 cases in a few days.

comments to be addressed to the secretariat and furthermore organized a call for public inputs on the PoA. The Board initiated its consideration of stakeholder inputs and options, prepared by the secretariat, with a view to determining further action.

7. Setting methodological standards for the CDM

16. The workload of the Methodological Panel and working groups, in particular for small-scale CDM projects, continues to grow. It was almost twice that in the previous reporting period. A large part of this growth is a result of an increase in the number of requests for revisions and clarifications to these methodologies, in order to amend them to broaden their scope, to add technologies and approaches or to clarify detail. This provides increased predictability for existing as well as new methodologies as lessons learned from these requests are used in the development of new methodologies. Experience gained through the registration and issuance process is increasingly taken into account in the design of methodologies. Approved methodologies are already available to cater to a large portion of relatively simple types of project activities possible under the CDM. Recently methodologies have been submitted with more complex technologies and processes; approving these present a challenge, as it often requires the involvement of scarce technical expertise as well as considerable time and effort.

8. Transparency

17. Transparency is a cross-cutting issue and presents a major challenge involving all actors involved in the CDM. The Board undertook the following initiatives to improve transparency and access to information:

- (a) It initiated work to develop a comprehensive document classification system that would facilitate access to documents/decisions and their history;
- (b) It has improved communications with project participants regarding the scope of reviews and corrections.

18. However, there still remains the challenge of going further than making the basis and outcomes of all decisions available. Facilitating the engagement of more designated operational authorities (DNAs) and project participants from Parties not included in Annex I to the Convention (non-Annex I Parties) in the CDM remains a challenge which the Board alone cannot address.

9. Enhancing a broader understanding of the CDM

19. The Board continued to work on increasing its capacity to proactively clarify and correct potential misconceptions by providing information to the media and the public, including by facilitating interviews and media responses by the Chair and members; it also worked towards ensuring a robust system for responding to queries and delivering useful, timely communications about the functioning of the CDM. In some instances these activities have had to address concerns raised by third parties who question the way in which the Board has addressed the challenges in guiding and regulating the concepts of additionality and determination of counterfactual baselines within the guidance provided by the CMP. In some cases the CDM is assessed against aspects which are beyond its stated objectives, as is the case, for example, in the area of sustainable development, where the words “assist in achieving” in the Kyoto Protocol are often misunderstood. However, there is a need for further assessment of the contribution of the CDM to technology transfer and sustainable development. Furthermore, many key players do not have a first-hand understanding of the CDM and formulate their view of the CDM and its future on the basis of second-hand information. This clearly confirms the importance of finding means to broaden the public’s understanding of the CDM to allow for an informed discourse on its design and delivery. The development of a comprehensive, targeted communications strategy will become a priority once planned resources are in place.

10. Enhancing the regional and subregional distribution of the CDM

20. Enhancing the regional and subregional distribution of the CDM represents a complex challenge, as factors beyond the control of the Board play an important role. The Board is committed to continue to facilitate work in this area by allocating resources for the support of interactions between DNAs at its DNA Forum, for maintenance and improvement of the CDM Bazaar (a web portal linking CDM stakeholders, buyers, sellers and service providers), and for work on the Nairobi Framework for catalysing the CDM, principally in Africa; and by considering other means which could assist in achieving this goal. In this context, the First Africa Carbon Forum in Dakar, Senegal, which gathered some 600 participants, is noteworthy. The transaction costs for least developed countries have been reduced by abolishing the payment of the registration fee and share of proceeds at issuance for CDM project activities hosted in these countries. The Board again made recommendations to the CMP on actions that could help address regional distribution (see chapter III E below and annex II). The CMP may wish to provide guidance to the Board in this area.

11. Cooperation with stakeholders

21. It is important to reiterate that the efficiency and effectiveness of the CDM is also facilitated by constructive input from stakeholders, which is appreciated at the appropriate stages of the project and methodology regulatory cycles of the CDM. The Board appreciated the valuable input of 133 stakeholders to seven specific public calls,¹¹ in addition to the inputs received in the context of methodological work where 16 comments assisted the Board in the consideration of 56 proposals for new methodologies.

III. Work undertaken in the reporting period

22. This chapter describes ongoing work and responses by the Board to encouragement and requests by the CMP. To facilitate the review of the responses, an annex I contains a table which lists requests and encouragements from the CMP at its third session, provides a short status description, and guides the reader to relevant parts of this report.

A. Accreditation of operational entities

23. During the reporting period, the Board paid particular attention to its function of accrediting operational entities and identified important aspects of the process that need to be refined, streamlined or strengthened. In carrying out this exercise, the Board identified the elements below as needing attention in the process of further streamlining and strengthening the accreditation process:

- (a) Potential difficulties for the applicant entities in accomplishing their accreditation process through different means and tools without compromising the quality of the assessment process;
- (b) The need to enhance and strengthen the scope of the accreditation process and focus the competence requirements for the DOEs so that the assessment process provides incentives, adds value and establishes confidence about the competence of the DOE to undertake validation and verification functions;
- (c) The need for continuous learning and professionalism with respect to the assessment of the competence requirements at different stages and phases of the process. This need

¹¹ All public calls and inputs received are available at <http://cdm.unfccc.int/public_inputs/index.html>. Public input to methodologies can be accessed through the history information for each methodology.

covers training of accreditation assessment team members and identifying the sector-specific competence requirements for operational entities for undertaking validation and verification functions;

- (d) The need for continuous monitoring of the performance of DOEs combined with incentives and penalties, including financial penalties, for DOEs that do not comply with the quality standards set by the Board;
- (e) The need for more tools, guidance and opportunities for interaction by the applicant entities (AEs)/DOEs, with the secretariat and the Board in order to facilitate the accreditation process, promote common understanding and share experiences.

1. Measures undertaken

24. During the reporting period, in relation to the elements identified in paragraph 23 above as areas needing attention in the process of further streamlining and strengthening the accreditation process, the Board undertook the following measures:

- (a) Streamlining the requirements for operational entities to achieve their accreditation by converting the witnessing requirements into a performance-based assessment;
- (b) Strengthening the requirement for operational entities to demonstrate their competencies by monitoring and assessing the performance of the entities. This performance assessment is based on project activities that are randomly selected using established criteria;
- (c) Shifting the focus of assessment towards more result- or efficiency-based aspects in order to assess the quality management system (QMS) and competencies of operational entities to deliver quality outputs;
- (d) Developing and approving the VVM;
- (e) Elaborating accreditation standards in order to enhance common understanding of the accreditation requirements and facilitate the accreditation process for the operational entities;
- (f) Increasing interaction, communication and information sharing between the Board, AEs and DOEs;
- (g) Enhancing the role of the secretariat in the assessment of operational entities in order to improve consistency, quality and control over time lines for various assessed stages;
- (h) Considering modalities for moving the training of experts involved in the accreditation process towards a long-term professionalized system for building expertise and competencies;
- (i) Revising the accreditation procedure and related assessment tools (forms/checklists used for the assessment purposes).

25. In addition, the Board is considering the establishment of a system for providing incentives and penalties for the DOEs, including imposing financial penalties to the operational entities consistently not complying with CDM requirements. In this regard, the Board seeks guidance from the CMP.

26. During the reporting period, the Board accredited and provisionally designated six operational entities – five for validation and one for verification – for specific sectoral scopes (see table 1). If these

designations are confirmed, it would take the total number of operational entities accredited for validation of projects to 18, and the number of entities accredited for verification and certification of emission reductions to eight. The Board also re-accredited one entity for validation.

2. Entities recommended for designation

27. The Board recommended the entities listed in table 1 for designation by the CMP, at its fourth session, for the sectoral scopes indicated.

Table 1. Entities accredited and provisionally designated by the Board in 2008

Name of entity	Provisionally designated and recommended for designation for sectoral scopes ^a	
	Project validation	Emission reduction verification
Bureau Veritas Certification SAS (BVC)	14	
JACO CDM Ltd.	14	
Japan Quality Assurance Organization (JQA)	15	
Japan Consulting Institute (JCI)	4, 5, 10	
Rina S.p.A.	1, 2, 3	
SGS United Kingdom Ltd. (SGS)	14, 13 (re-accreditation)	14

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

28. During the reporting period, three new applications for accreditation were received, taking the total number of applications received for accreditation to 45. Five entities have withdrawn their applications and the application for one entity has been rejected by the Board, so 39 applications are under consideration by the Board. Twelve applications have been received for re-accreditation.

29. The geographical distribution of the 39 applicant entities is reflected in table 2, which also indicates the number of applications received from non-Annex I Parties. Of the three applications received in the reporting period, two were from entities representing non-Annex I Parties. Information on all applications, and the stage of consideration reached, is available on the UNFCCC CDM website.

Table 2. Geographical distribution of entities to validate clean development mechanism projects and verify and certify emission reductions from registered projects

Region	Total number of applications	Number of applications from non-Annex I Parties
Western Europe and Other	17	0
Asia and the Pacific	20	8
Latin America and the Caribbean	2	2
Africa	0	0

Abbreviation: non-Annex I Parties = Parties not included in Annex I to the Convention.

30. Thirty-two entities have passed the desk review and on-site assessment stage but only 18 have managed to accomplish their sector-specific accreditation functions. The other 14 entities are seeking witnessing activities to complete their accreditation in the various sectoral scopes. Lack of availability of witnessing activities has caused delays in the accreditation process, in particular for smaller entities.

31. The measures listed in paragraph 24 above are aimed at further strengthening the accreditation system being applied by the Board, and at facilitating the regulatory functions of DOEs and clarifying their role in relation to project participants.

3. Meetings of the Accreditation Panel

32. The CDM Accreditation Panel met six times during the reporting period as part of its work in support of the Board. The Board appointed Mr. Martin Hession as Chair and Mr. Samuel Adeoye Adejuwon as Vice-Chair of the Panel.

B. Methodologies for setting and monitoring emission baselines

33. Work during the reporting period focused on further improving the methodologies for setting and monitoring emission baselines through an enhanced process for considering and approving methodologies. The Board focused on resolving inconsistencies and presenting options at an early stage and communicating with project participants to clarify issues in advance. In addition, measures have been put in place to improve the quality and consistency of more than 121 approved methodologies. Some aspects of these methodologies have been updated by additional Board guidance. Innovative approaches to determining additionality and the baselines have been applied (e.g. industry sector benchmarks). As indicated in paragraph 16 above, the Board still faces several challenges in setting methodological standards for the CDM.

34. With regard to facilitating regional distribution of CDM project activities, the Board has further facilitated the development of methodologies for project activities suitable for less developed regions in sectors such as agriculture, transport, domestic use of renewable energy, water purification and biofuels.

35. The Board has also identified issues and constraints for the application of methodologies, in sectors such as demand-side energy-efficiency measures, energy efficiency improvements in supply-side domestic appliances and mass transport. Furthermore, in its efforts to speed up the process of clarifying approved methodologies, the Board introduced a fast-track process to its procedure requests for clarifications to methodologies, such that these can be addressed rapidly and between meetings of the respective methodology bodies of the Board.

36. The Board further revised the “Tool for assessment and demonstration of additionality” to include further clarification on the use of the investment analysis step, and on the appropriate choice of the benchmark for the assessment of additionality.

1. Large-scale methodologies

37. During the reporting period the Board approved 15 methodologies for large-scale project activities (not including A/R projects; see paragraph 43 below), including two consolidated methodologies to further expand the availability of methodologies for the CDM. This increased the number of approved non-A/R large-scale methodologies to 70, including 14 consolidated methodologies.

Measures taken to broaden and simplify the development of methodologies

38. The Board consolidated four approved methodologies into two consolidated methodologies to broaden their applicability while maintaining their environmental integrity and ensuring that they cover the full range of approaches and applicability conditions in the underlying approved methodologies.

39. The Board also approved three user-friendly tools¹² to assist project participants in the design and development of methodologies for small-scale and large-scale project activities, bringing the total number of approved methodological tools for non-A/R project activities to seven, three of which were revised to enhance the ease of use and broaden applicability. These new tools provide several options for project participants, providing flexibility while ensuring that the estimation of emission reductions is conservative. These tools have been referenced in 65 (93 per cent) of the approved large-scale non-A/R methodologies and in 27 (71 per cent) of the small-scale non-A/R methodologies, and are increasingly being referenced in new approved methodologies.

40. The Board, with the assistance of the secretariat and based on proposals from project participants, assessed several approved methodologies to improve their consistency and expand their applicability, and integrated new proposals into approved methodological tools. Based on this assessment, the Board improved and expanded the applicability of 40 methodologies.

41. All 70 approved methodologies are available for use under the programme of activities.

Guidance to project developers

42. During the reporting period the Board provided guidance or clarification on:

- (a) Accounting for eligible hydrofluorocarbon-23 projects;
- (b) Submission of methodologies for substitution, recycling, recovery and destruction of SF₆;
- (c) Evidence that fluoroketones, used as cover gases in CDM project activities, have a global warming potential value of 1;¹³
- (d) The procedure for the submission and consideration of queries regarding the application of approved methodologies by DOEs to the Methodologies Panel (Meth Panel) to include a fast-track procedure;
- (e) The eligibility of CDM project activities that produce products whose consumption leads to emission reductions;
- (f) Run-of-river hydropower plants with existing reservoirs where the volume of the reservoir is not increased;
- (g) Revisions of forms and guidelines to these forms to align them with Board guidance and to further assist stakeholders.

2. Afforestation and reforestation methodologies

Availability and use of methodologies

43. During the reporting period, the Board approved the first consolidated methodology for A/R project activities, increasing the number of all approved A/R methodologies to 13. Of these methodologies 11 have been revised in order to broaden their applicability, to make them consistent with existing guidance and tools and/or simplify them, thereby making the methodologies easier to use. The

¹² The list of tools is available at <<http://cdm.unfccc.int/goto/Tools>>.

¹³ Based on advice from experts at the Geophysical Fluid Dynamics Laboratory of the National Oceanic and Atmospheric Administration.

consolidation process is based on similarities in the applicability conditions and approaches applied, including unification of common approaches where applicable.

44. This first consolidated methodology (afforestation and reforestation of degraded land) refers to no fewer than nine user-friendly tools and includes an previously approved methodology. This methodology also provides the basis for further consolidation of approved methodologies by broadening and simplifying their applicability and ease of use.

45. In response to requests, the Board agreed to a procedure to allow for changes to values for forest definition, – minimum tree height, tree crown cover and land area – that had been reported to the Board for A/R project activities under the CDM. The values may be amended so long as there are no registered A/R project activities in the host country. The DNA is also required to indicate if the values pertain to palm trees and/or bamboo. To date, two DNAs have amended their national forest definition values.

Measures taken to broaden and simplify the development of methodologies

46. The Board approved five user-friendly A/R tools,¹⁴ including the “Tool for the identification of degraded or degrading lands for consideration in implementing CDM A/R project activities” which is referred to in non-A/R methodologies; two of these tools have been revised. The tools were referenced in all 11 approved large-scale A/R methodologies.

Guidance to project developers

47. In order to simplify demonstration of the eligibility of lands for A/R CDM project activities the Board clarified that it is sufficient to follow the most recent version of the “Procedures to demonstrate the eligibility of land for afforestation and reforestation CDM project activities” and that it is not essential to differentiate between A/R CDM project activities.

48. The Board provided other guidance or clarification on:

- (a) Accounting as zero GHG emissions from several negligible GHG sources, including in A/R CDM project activities;
- (b) Registration fees for proposed large- and small-scale A/R CDM project activities;
- (c) Application of the definition of the project boundary in A/R CDM project activities.

3. Small-scale afforestation and reforestation methodologies

Availability and use of methodologies

49. During the reporting period, the Board continued its development of further methodologies for agroforestry activities implemented on croplands and for restoration of lands having low inherent potential to support living biomass including on sand dunes. These methodologies will further facilitate the participation of small-scale farmers to participate in A/R CDM project activities while practising cropping on their lands. The methodologies were further simplified in structure to facilitate their use by a wider community of small-scale project participants.

Guidance to project developers

50. The Board clarified that, in order to demonstrate the eligibility of land for large- or small-scale A/R CDM project activities, it is sufficient to follow the most recent version of the “Procedures to

¹⁴ The list of tools is available <<http://cdm.unfccc.int/goto/Tools>>.

demonstrate the eligibility of land for afforestation and reforestation CDM project activities” and that it is not essential to differentiate between A/R CDM project activities.

4. Small-scale methodologies

Availability and use of methodologies

51. During the reporting period, the Board approved 11 methodologies for non-A/R small-scale project activities, all of which were proposed by project participants, bringing the total to 38. These include methodologies for efficient utilization of waste energy in industrial facilities, methane capture and destruction in non-hydrocarbon mining, and combined heat and power (cogeneration) and trigeneration project activities.

Measures taken to broaden and simplify methodologies

52. The Board made 15 revisions to small-scale methodologies in order to expand their applicability and to provide more guidance on monitoring and leakage. Technologies for anaerobic digestion treatment, with options to use the biogas for thermal or electrical energy or to bottle the biogas, were included.

53. The Board approved the first methodology for the agriculture sectoral scope (urea offset by inoculant application in soybean–corn rotations on acidic soils on existing crop land). The Board also approved further methodologies in the transport sectoral scope (plant oil production and use for transport applications, low-greenhouse-gas emitting vehicles for commercial passenger and freight transport operating on fixed routes, and mass transport by cable cars).

54. The Board also approved a methodology for demand-side activities for efficient lighting technologies, including improvements to existing methodologies to displace fossil fuel use in lighting of rural households that are not grid connected or are prone to blackouts/brownouts. These methodologies are envisaged to have a high potential for application in least developed countries (LDCs).

Guidance to project developers

55. The Board provided guidance and clarification on:

- (a) Conditions under which charcoal-based energy generation project activities are eligible under the CDM;
- (b) Fuel switch project activities in the transport sector;
- (c) A compendium of guidance for the determination of the occurrence of debundling, including for programmes of activities.

56. The Board revised the process of consideration of small-scale methodologies to clarify the time lines for response to clarifications requested by the Small-Scale Working Group (SSC WG) and when the submission of a new small-scale methodology is considered as withdrawn.

5. Meetings of the Methodologies Panel and the A/R and SSC working groups

57. The Meth Panel, the Afforestation and Reforestation Working Group (A/R WG) and the SSC WG each met five times during the reporting period as part of their work in support of the Board. The Board reappointed Mr. Akihiro Kuroki as Chair and Mr. Philip Gwage as Vice-Chair of the Methodologies Panel; and Board members Mr. Xuedu Lu and Mr. Pedro Martins Barata were selected to support the Chair and Vice-Chair. The Board re-appointed Ms. Ulrike Raab as the Chair of the SSC WG and Mr. Kamel Djemouai as Vice-Chair. The Board also appointed Mr. José Domingos Miguez as Chair

of the A/R WG and Ms. Diana Harutyunyan as Vice-Chair.¹⁵ During the reporting period the Meth Panel welcomed three new members to replace members who had provided excellent service to the work of the panel. The SSC WG and A/R WG welcomed one and two members, respectively.

C. Programmes of activities

58. During the reporting period the Board made progress on providing forms and improving the CDM Glossary of Terms¹⁶ by including terms used in large- and small-scale non-A/R and A/R programmes of activities.

59. The Board offered the opportunity for project requests for clarification on its first guidance to be sent to the Secretary of the Board and also organized a call for public input which closed at the end of September 2008. The Board discussed the options prepared by the secretariat to address issues associated with the development of, and difficulties in, the procedures for validation and submission for registration of programmes of activities. The Board agreed to consider these issues further at its forty-fourth meeting.

60. The Board:

- (a) Approved the forms relating to PoAs for both large- and small-scale afforestation and reforestation project activities;
- (b) Clarified that fuel switch project activities in the transport sector, which include the switch to biofuels, are type III project activities.

D. Registration of project activities under the clean development mechanism and issuance of certified emission reductions

61. This area of work was characterized in the reporting period by an increasing caseload and continuous workflow, placing considerable pressure on the Board and the secretariat. During the reporting period, the Board considered an average of about 80 registration and issuance cases per meeting. The Board was able to deal with this caseload while providing guidance and clarification to project participants and DOEs in order to further enhance the efficiency of the registration and issuance processes and to provide feedback to stakeholders.

62. To deal with this increasing caseload, the Board has been supported by the secretariat throughout the reporting period. This support has been provided through, inter alia, additional analytical inputs and recommendations on decisions for each case, for consideration by the Board. In addition, the secretariat has provided, as mandated by the Board, recommendations for guidance to address recurring issues in the registration and issuance process.

63. The Board has taken note of delays, in particular those relating to completeness checks of new registration requests, and has worked with the secretariat to address structural and resource issues in order to minimize such delays. Therefore, in addition to the ongoing revision and improvement of procedures, the Board has provided instructions to the secretariat regarding the indicative time lines for the processing of completeness checks and correction of registration and issuance requests (EB 41 report, paragraphs 64 and 79).¹⁷

¹⁵ Details of the membership of panels and working groups are available on the CDM website at <http://cdm.unfccc.int/Panels/index.html>.

¹⁶ <http://cdm.unfccc.int/goto/GoT>.

¹⁷ Reports of the meetings of the Board can be found at <http://cdm.unfccc.int/EB/index.html>.

64. A particular challenge was the sudden peaks in requests for registration triggered by the end of the eight-month validity period of two methodologies (91 requests were received in March 2008 and 242 in August 2008). The second peak was equivalent to receiving in a few days 36 per cent of the total caseload for 2008 or close to 44 per cent of the total submissions received in 2007. With additional resources put in place, it is expected that by mid-December 2008 the backlog of 209 submissions will be dealt with.

65. Taking into account the experience gained during the reporting period, the Board considered ways and means to improve the following procedures for review: the “Procedures for review as referred to in paragraph 41 of the modalities and procedures for a clean development mechanism”, and “Procedures for review referred to in paragraph 65 of the modalities and procedures for a clean development mechanism”. It agreed to recommend that the CMP:

- (a) Amend paragraph 15 in both procedures to read: “Requests for clarification and further information may be sent to the DOE and the project participants. Answers shall be submitted to the review team, through the secretariat, within two weeks after the receipt of the request for clarification. The secretariat shall acknowledge the receipt of the answers and forward them to the review team”;
- (b) Insert a new paragraph 16 in both procedures stating: “If the deadline for submission of answers to the request for clarification falls on or after the deadline for circulation of the proposed agenda for a Board meeting, the review case shall be placed on the agenda of the subsequent meeting of the Board. Should the DOE/PP wish to have the review case placed on the agenda of the earlier Board meeting, the answers to the clarification requests shall be submitted within five (5) working days of the receipt of the request for clarification.”

1. Projects registered in the reporting period

66. During the reporting period, 546 projects were submitted to the Board for registration, and 359 were registered, taking the total number of projects submitted for registration to 1,558 and the number registered to 1,188.

67. The eight-week period (four weeks for small-scale projects) within which a Party involved or three Board members may request a review has ended for 445 of the 546 requests submitted during the reporting period. The Board has finalized its consideration of 416 of these project activities. Adding the 114 requests for registration that had not been finalized by the Board by the end of the previous reporting period, but which have now been finalized, takes the total number of requests finalized during this reporting period to 530. Of these:

- (a) 199 (37.6 per cent) were registered automatically;
- (b) 21 (3.9 per cent) were registered after the Board had considered but not pursued a request for review and additional submissions from the project participant and/or DOE;
- (c) 145 (27.4 per cent) were registered following corrections made as a result of a request for review (in 59 of these cases the corrections are pending);
- (d) 113 (21.3 per cent) were registered after the Board had conducted a review to ensure that guidance from the Board and the CDM modalities and procedures had been followed (in 60 of these cases, corrections are pending);

- (e) 38 (7.2 per cent) could not be registered by the Board, following consideration of a review;
- (f) 14 (2.6 per cent) were withdrawn by the project participants and the DOE.

68. The Board made all decisions relating to registration within the deadlines set by the CMP. This was undertaken under the constraints resulting from the shortage of DOEs reflected in paragraph 11 above.

69. Three requests for deviation, relating to deviations from approved methodologies discovered during validation, were submitted to the Board during the reporting period. The Board responded to all three requests.

70. During the reporting period, 1,917 project design documents (PDDs) were published on the UNFCCC CDM website, as part of the global stakeholder consultation process which is an important part of the project validation process. This is average of 160 PDDs per month.

71. During the reporting period, two requests for renewal of crediting period were submitted. The Board approved both requests, one automatically and one following a request for review which was not pursued by the Board.

2. Registration of project activities

Work on procedures and clarifications

72. The Board, at its thirty-sixth meeting, revised its “Procedures for renewal of a crediting period of a registered CDM project activity”. A third version of the procedures was issued by the Board to provide greater clarity on how to notify the intention to seek renewal of a crediting period and on the implications of a delay in submitting such a notification. At its forty-third meeting the Board further revised these procedures to clarify that at the point of renewal of a crediting period project participants are not necessary to reassess the suitability of the baseline scenario. The Board, at its thirty-eighth meeting, revised its clarifications of the “Procedures for review as referred to in paragraph 41 of the CDM modalities and procedures”. The eighth version of the clarifications provided more detail on the process for requesting a review for minor issues, the timing of responses to issues raised in a request for review, and the role of the secretariat in the review process. With a view to improving efficiency of the process, an online form for use in requesting a review has been launched to support the Board in performing this task.

73. The Board, at its thirty-eighth meeting, decided to extend the terms of reference for the RIT by one year, until 1 April 2009.

74. The Board, at its fortieth meeting, adopted the “Procedures for processing and reporting on validation of CDM project activities”. These new procedures revise the methods for making PDDs available for global stakeholder consultation and for receiving comments from stakeholders. These procedures also create time lines and reporting requirements for DOEs regarding project activities undergoing validation, thus enabling the Board to better plan its resource requirements. The Board revised these procedures at its forty-third meeting to revise the process for re-publication of PDDs for global stakeholder consultation when a revised version of a methodology is applied.

Work on providing guidance and feedback

75. The Board provided guidance and/or clarification on the following topics:¹⁸
- (a) The identification of and feedback to DOEs regarding recurring issues resulting in requests for review, and reviews being conducted (EB 36 report, para. 74);
 - (b) Registration fees for proposed CDM project activities, to implement decision 2/CMP.3 according to which projects in least developed countries should not be subject to a registration fee (EB 37 report, annex 20);
 - (c) The means of validation of input values used in investment analyses which have been derived from government approved feasibility study reports (EB 38 report, para. 54);
 - (d) The withdrawal of project participants from registered CDM project activities (EB 38 report, para. 57);
 - (e) The treatment of comments from members of the public received during a global stakeholder consultation (EB 38 report, para. 58);
 - (f) The treatment of project activities undergoing validation for the purposes of common practice analysis (EB 38 report, para. 60);
 - (g) The assessment of an investment analysis (EB 39 report, annex 35), which was later revised (EB 41 report, annex 45);
 - (h) The reimbursement of registration fees for project activities withdrawn before the publication of the request for registration (EB 41 report, para. 63);
 - (i) The definition of the start date of a CDM project activity (EB 41 report, para. 67);
 - (j) The demonstration and assessment of prior consideration of the CDM (EB 41 report, annex 46).

3. Issuance of certified emission reductions in the reporting period

76. During the reporting period, 467 requests for issuance were submitted to the Board and 107,604,113 CERs were issued on the basis of 396 requests, taking the total number of CERs issued to date to 202,845,016.

77. The 15-day period within which a Party involved or three Board members may request a review has ended for 455 of the 467 requests for issuance of CERs submitted during this reporting period. The Board has finalized its consideration of 444 of these requests. Adding the 42 requests for issuance that had not been finalized by the Board by the end of the previous reporting period, but which have now been finalized, takes the total number of requests for issuance finalized during this reporting period to 486. Of these:

- (a) 330 (67.9 per cent) resulted in automatic issuance;
- (b) Issuance was granted in 12 (2.5 per cent) cases after the Board had considered a request for review and taken account of comments from the project participant and/or DOE;

¹⁸ Reports of the meetings of the Board can be found at <<http://cdm.unfccc.int/EB/index.html>>.

- (c) 104 (21.4 per cent) resulted in issuance following corrections made as a result of a request for review (in 27 cases the corrections are still pending);
 - (d) 27 (5.6 per cent) resulted in issuance after the Board had conducted a review to ensure that the modalities and procedures and guidance from the Board had been followed (in nine cases the corrections are still pending);
 - (e) Five (1.0 per cent) were rejected by the Board following a review;
 - (f) Eight (1.6 per cent) were withdrawn by the project participant and DOE.
78. The Board took all decisions relating to issuance within the procedurally set deadlines.
79. Thirty-five requests for deviation were submitted during the reporting period; they are related to deviations from provisions in the registered project activity discovered during the verification. The Board responded to 34 of these requests and is still considering one.
80. During the reporting period 77 requests for revision of monitoring plans were submitted. The Board approved 43 of those requests.
81. During the reporting period 663 monitoring reports were published as part of the verification process, an average of 55 reports per month.

4. Matters relating to issuance of certified emission reductions

Work on procedures and clarification

82. The Board, at its thirty-eighth meeting, revised clarifications to the procedures for review referred to in the CDM modalities and procedures (decision 3/CMP.1, annex, paragraph 65). These revised procedures further streamline the issuance review process, including procedures to deal with requests for review on the basis of other issues which are of only a minor nature. With a view to improving the efficiency of the process, an online form for use in requesting a review has been launched to support the Board in performing this task.

Work on providing guidance and feedback

83. The Board provided guidance and clarification on the following issues:¹⁹
- (a) The identification of and feedback to DOEs regarding recurring issues resulting in requests for review and reviews (EB 36 report, para. 87);
 - (b) The application of the monitoring methodology and requests for issuance pertaining to CDM project activities registered using methodology AM0006 (EB 40 report, paras. 52–53);
 - (c) The request for a change of dates of a monitoring period undergoing verification, provided the change is the result of the corrective action request raised by the DOE during the verification process;
 - (d) The situation where the DOE may only submit a request for revision of the monitoring plan covering the monitoring period under verification, for approval by the Board (EB 43 report, para. 58).

¹⁹ Reports of the meetings of the Board can be found at <<http://cdm.unfccc.int/EB/index.html>>.

5. The clean development mechanism registry

84. The operation of the CDM registry continued during the reporting period and, by 24 October 2008, 118,545,814 CERs had been issued. Of these, 77,247,729 CERs were forwarded to holding accounts in national registries of Annex I Parties; 54,177,478 CERs were forwarded to temporary holding accounts of Annex I Parties in the CDM registry; 2,727,017 CERs were forwarded to permanent holding accounts of non-Annex I Parties in the CDM registry; and 2,370,912 CERs were forwarded to the holding account of the Adaptation Fund. The number of CERs issued but not yet forwarded at the end of the reporting period was 29,400,777.

85. The CDM registry currently has 93 fully operational holding accounts, of which 51 are temporary holding accounts associated with Annex I Parties, and 37 are permanent accounts associated with non-Annex I Parties. Eighty-six temporary holding accounts were closed as at the end of October because of the community independent transaction log/international transaction log connection.

E. Regional distribution of project activities under the clean development mechanism

86. Table 3 shows the geographical distribution of the 1,167 projects registered under the CDM (as at 22 September 2008) and of expected CERs resulting from these projects.

Table 3. Distribution of registered projects under the clean development mechanism, by region and group (as at 22 September 2008)

	Projects (number)	Projects (% of total)	CERs expected by 2012 (millions)	CERs expected by 2012 (% of total)
AFR	27	2.31	41.20	3.14
ASP	758	64.95	1 018.08	77.57
LAC	374	32.05	251.44	19.16
Other	8	0.69	1.79	0.14
Total	1 167	100.00	1 312.50	100.00
LDCs	10	0.86	0.61	0.05
SIDS	8	0.69	0.94	0.07

Source: FCCC/KP/CMP/2008/INF.2.

Abbreviations: AFR = Africa, ASP = Asia and the Pacific, CERs = certified emission reductions, LAC = Latin America and the Caribbean, LDCs = least developed countries, SIDS = small island developing States.

87. The Board developed recommendations on regional distribution for consideration by the CMP at its fourth session (see annex II).

88. The CDM Bazaar²⁰ continued its activity and now has more than 1,200 registered users. The CDM Bazaar is a web-based information exchange platform which facilitates access to, and sharing of, information among all stakeholders involved in the CDM process. It allows stakeholders in the CDM to post information on, for example, potential emission reduction projects in need of financing, CERs for sale, buyers of CERs, services available, events relating to carbon markets, and employment opportunities. This cooperative effort on the CDM Bazaar between the UNFCCC secretariat and the United Nations Environmental Programme (UNEP) Risoe Centre on Energy, Climate and Sustainable

²⁰ <<http://www.cdmbazaar.net>>.

Development is now moving to the next phase of development which will include a scale-up of the services offered taking into account the experience gained to date and feedback received from users.

89. During the reporting period, the Board and hence the public were regularly briefed on progress made in the implementation of the Nairobi Framework. The Nairobi Framework was launched by the Secretary-General of the United Nations at CMP 2 and is designed to catalyse the CDM, principally in Africa. Information on this ongoing effort is available on the UNFCCC CDM website²¹. An important recent activity under the Nairobi Framework was the organization of the first ever Africa Carbon Forum, held in Dakar, Senegal, on 3–5 September 2008.

F. Information systems of the clean development mechanism

90. Interaction by the Board with Parties and stakeholders was further promoted by maintaining, updating and improving the UNFCCC CDM website, which is used by more than 14,000 named users (registered users with login and password) out of about 80,000 unique visitors downloading more than 2,700,000 pages and files each month; more than 12,000 subscribers to the CDM News facility regularly received the latest information on the CDM.

91. Other results achieved in the area of information systems include:

- (a) An upgrade of the CDM information system and CDM Registry server infrastructure leading to a substantial increase in their front-end performance and stability;
- (b) Development of a disaster recovery solution for the CDM information system and CDM Registry;
- (c) Establishment of a quality management sub-team, and standardization and improvement of quality assurance and quality control practices, which includes the development of indicators.

92. Further improvements have been made to the registration and issuance workflows, which now feature an online mechanism for requesting reviews, a validation follow-up mechanism and a more complete coverage of the integration functionality between the CDM information system and CDM Registry and the international transaction log.

IV. Governance matters

A. Evolution of the role and functions of the Executive Board

93. The CMP, at its third session, encouraged the Board to emphasize its executive and supervisory role by, inter alia, ensuring the effective use and expansion of its support structure, including its panels, other outside expertise and the secretariat, and strengthening the role of DOEs.

94. During the reporting period the Board put in place measures that allow it to emphasize an executive and supervisory role. It has taken a number of initiatives in this direction, including:

- (a) **Member–alternate member relationship:** In accordance with paragraph 3 of rule 5 of the rules of procedure, and in order to facilitate seamless operation of the CDM, members of the Board decided to delegate more responsibilities to their alternates during specific periods of absence at, and/or between, meetings, including the right to request

²¹ <http://cdm.unfccc.int/Nairobi_Framework/index.html>.

reviews of proposed CDM project activities. The Board noted that alternates participate fully in the work of the Board;

- (b) **Assignment of roles:** The Board delegated additional technical tasks to the secretariat, taking advantage of the secretariat's technical expertise and institutional memory, allowing panels, working groups and the Board itself to work at a more executive level, without diluting the Board's overall supervisory role;
- (c) **Transparency in decision-making:** Measures have been taken by the Board to contribute to a more transparent, equitable, consistent and predictable CDM system, including adopting a workplan to categorize documentation and include a clear history of changes approved by the Board. This would also provide a basis for enhancing the usefulness of the catalogue of decisions.

95. The Board reiterated that its members must collectively provide the professional and regulatory competence needed to supervise the CDM, which is a mechanism of substantial size, global spread and sectoral diversity. It also reiterated that members and alternate members need to invest a considerable amount of time to provide their professional services. Currently, Board responsibilities take up an average of five months per year, of which two months are devoted to attending Board meetings and related travel. Members who assume additional roles and functions, such as being Chair or Vice-Chair of panels, invest even more time.

96. The Board also noted that it is important that the terms, mandates, nominations, selection process and tenure of members ensure that the Board can carry out its functions effectively.

B. Membership issues

97. At CMP 2, 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 4 (in alphabetical order by member). One member resigned during the period and was replaced if the constituency provided new nominations to the Board.

98. The Board reiterated its concern that neither the COP nor the CMP has established an international legal framework for privileges and immunities for Board members performing their functions relating to the CDM. Members therefore enjoy privileges and immunities only in Germany, in accordance with the Headquarters Agreement of the UNFCCC secretariat, and in countries where Board meetings are convened pursuant to an agreement with the host country that contains provisions on privileges and immunities. Although the CMP, at its second session, requested the Executive Secretary to take a number of actions to minimize the risk of disputes, complaints or claims against individuals serving on the Board, the Board urges the CMP to take further action with 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 by Parties at CMP 3 and requests the CMP to find an interim solution at CMP 4 even if the CMP concludes that a long-term solution cannot be concluded during the present commitment period.

Table 4. Members and alternate members of the Board

Members	Alternate members	Nominated by
Mr. Samuel Adeoye Adejuwon ^a	Mr. Kamel Djemouai ^a	African regional group
Ms. Natalia Berghi (resigned end May 2008 and was replaced by Mr. Victor Nicolae ^b for the remainder of the term)	Ms. Diana Harutyunyan ^b	Eastern European regional group
Mr. Lex de Jonge ^b	Mr. Pedro Martins Barata ^b	Annex I Parties
Mr. Philip M. Gwage ^b	Mr. Xuedu Lu ^b	non-Annex I Parties
Mr. Akihiro Kuroki ^a	Ms. Jeanne-Marie Huddleston ^a	Annex I Parties
Mr. Clifford Mahlung ^b	Mr. Tuiloma Neroni Slade ^b	Small island developing States
Mr. Paulo Manso ^b	Mr. Hussein Badarin ^b	non-Annex I Parties
Ms. Ulrika Raab ^a	Mr. Martin Hession ^a	Western Europe and Other regional group
Mr. Hugh Sealy ^a	Mr. José Domingos Miguez ^a	Latin America and the Caribbean regional group
Mr. Rajesh Kumar Sethi ^{a, c}	Ms. Liana Bratasida ^{a, c}	Asian regional group

^a Term: two years ending at the first meeting in 2009.

^b Term: two years ending at the first meeting in 2010.

^c Member may not be re-elected in the same role.

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

99. The Board, at its thirty-seventh meeting, elected by consensus Mr. Rajesh Kumar Sethi, member from a non-Annex I Party, and Mr. Lex de Jonge, from an Annex I Party, as Chair and Vice-Chair, respectively. Their tenures as Chair and Vice-Chair will end at the first meeting of the Board in 2009.²²

100. The Board expressed its appreciation to the outgoing Chair, Mr. Hans Jürgen Stehr, and Vice-Chair, Mr. Sethi, for their excellent leadership of the Board during its fifth year of operation.

D. Calendar of meetings of the Board in 2008

101. The Board, at its thirty-seventh meeting, adopted its calendar of meetings for 2008 (table 5).

²² Rule 12 of the rules of procedure of the Board <<https://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=31>>.

Table 5. Board meetings in 2008

Meeting	Date	Location
Thirty-seventh	30 January to 1 February	Bonn, Germany
Thirty-eighth	12–14 March	Bonn
Thirty-ninth	14–16 May	Bonn
Fortieth	15–17 June	Bonn (in conjunction with the twenty-eighth sessions of the subsidiary bodies)
Forty-first	30 July to 2 August	Bonn
Forty-second	24–26 September	Bonn
Forty-third	22–24 October	Santiago, Chile
Forty-fourth	26–28 November	Poznan, Poland (in conjunction with the fourth session of the CMP)

102. The annotated agendas for Board meetings, supporting documentation and reports containing all decisions reached by the Board are available on the UNFCCC CDM website.²³ To ensure the efficient organization and management of work, meetings of the Board were preceded by informal consultations lasting one to two days. In two cases the meeting stretched over six full days. During the reporting period, the workload of the Board frequently required that the Board be in session or in consultations for well over the eight hours planned for a typical meeting day. The Board has tentatively agreed to the schedule of meetings for 2009 (table 6).

Table 6. Board meetings planned in 2009^a

Meeting	Date	Location
Forty-fifth	11–13 February	Bonn, Germany
Forty-sixth	25–27 March	Bonn
Forty-seventh	27–29 May	Bonn (in conjunction with the thirtieth sessions of the subsidiary bodies)
Forty-eighth	15–17 July	Bonn
Forty-ninth	9–11 September	Bonn
Fiftieth	14–16 October	Bonn
Fifty-first	25–27 November	Copenhagen, Denmark (in conjunction with the fifth session of the CMP, allowing for interactions with Parties)

^a Meetings of the Board are preceded by two days of consultations.

²³ Reports of the meetings of the Board can be found at <<http://cdm.unfccc.int/EB/>>.

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

A. Management plans for 2007 and 2008

103. In February 2008, the Board, supported by the secretariat, revised the CDM management plan (CDM-MAP) in order to reflect additional needs emerging as a result of an increased caseload in the first half of 2008 and requests by the CMP at its third session. In October 2008, the Board initiated a review of the operating assumptions of the CDM-MAP, including the increases in project registrations and issuance of CERs, in the activities under the Nairobi Framework and the DNA Forum, in the programme of activities and CDM registry, in the opening of accounts, and in transfers. Based on identified needs, a draft version of the CDM-MAP for 2009 will be presented at the forty-fourth meeting of the Board in Poznan, Poland. The latest version of the CDM-MAP is available on the UNFCCC CDM website²⁴.

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

104. At each meeting of its meetings during the reporting period, the Board monitored and reviewed the requirements and status of resources²⁵ for work on the CDM, based on reports by the secretariat. Based on the 2008 budget contained in the CDM-MAP 2008 version 1.1, the financial resources budgeted for 2008, and to be financed from fees and share of proceeds, amounted to USD 21.7 million. In the first nine months of 2008, the expenditure level in the fee-based budget was USD 13 million (60 per cent of the budget for 2008). The 2008 core expenditures over the same period in support of CDM amounted to USD 0.2 million – which represents 62 per cent of the budgeted core resources (USD 0.34 million for 2008). The CDM has also received contributions from Parties to support DNA activities, namely the DNA Forum in Chile and the Carbon Forum in Africa.

105. The costs in 2008 indicate that the main expenditures were for staff and related costs (52 per cent), travel of participants and fees for experts. As indicated above, the current fee-based expenditure rate is 60 per cent which is lower than an expected 75 per cent as of 30 September 2008; this lower expenditure is attributable mainly to the difficulties in recruiting new staff and natural attrition of staff. Currently 26 per cent of CDM positions are unfilled. Over the past two years, the programme has been able to improve both its geographical distribution and the gender balance of staff, as indicated in table 7 below.

106. In the first nine months of 2008, expenditure was nearly USD 6 million higher than in the same period in 2007. This sharp increase is due to an increase in the number of activities and, at the same time, compensation for a reduction of core resources allocated to the CDM programme in the biennium 2008–2009 in accordance with decisions of the COP and the CMP. This trend is shown in table 8 below.

²⁴ <<http://cdm.unfccc.int/EB/map.html>>.

²⁵ <<http://unfccc.int/resource/docs/2007/cmp3/eng/09a01.pdf#page=9>>.

Table 7. Trend in geographical and gender balance of staff in the clean development mechanism subprogramme (Professional level)
(percentage of Professional staff in the subprogramme)

	July 2006	December 2006	December 2007	September 2008
Non-Annex I staff				
All P staff and above	30	33	51	56
Female staff				
All P staff and above	15	21	31	31
Regional groups				
Africa	5	4	5	6
Asia and the Pacific	20	25	29	37
Latin America and the Caribbean	5	4	15	15
Eastern Europe	10	8	10	11
Western Europe and Other	60	59	41	31

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

Resource items	2004–2005	2006	2007	As at 30 September 2008
Budget	10 242 134	9 053 763	13 065 281	21 679 358
Expenditure	3 071 617	5 102 901	10 250 849	12 926 817
Expenditure as a percentage of budget	30	34	78	60
Expenditure from core budget	3 877 894 ^a	1 684 521	2 217 648	242 550

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

107. In the first nine months of 2008, the CDM subprogramme employed 34 consultants (47 contracts) at a cost of USD 366,613. Thirty-five per cent of the consultants were from non-Annex I Parties. In the previous reporting period, eighteen per cent of the consultants employed were from non-Annex I Parties. This demonstrates an improved regional balance.

108. The total costs of the support for work on methodologies amounted to USD 102,800. The work was carried out by 41 desk reviewers, of whom 17 are experts from non-Annex I Parties. In the first nine months of 2008, the total costs of the support by RIT members amounted to USD 442,400, of which 79 per cent was paid to members from non-Annex I Parties.

C. Resources available as at 30 September 2008, and current balance

109. The resources to support the Board in 2008 came from the UNFCCC programme budget, contributions by Parties, fees and share of proceeds and a carry over of unspent income from fees and share of proceeds from 2007 (as shown in table 9). Expenditure in 2008, up to 30 September, was USD 12.9 million; this means that the CDM has USD 25.3 million available for the last quarter of 2008 (see table 10).

Table 9. Supplementary and fee-based resources
(United States dollars)

Carry over figure from 2007		9 439 831
Contributions in 2008		
Canada ^a	1 973	
Sweden (sixteenth meeting of the Small-Scale Working Group) ^b	10 975	
Belgium	114 266	
United Kingdom of Great Britain and Northern Ireland (participation in the African Carbon Forum) ^d	49 762	
Austria (participation to the African Carbon Forum)	15 552	
Sub-Total		192 528
Fees from Application Operational Entities	59 975	
Fees from the accreditation process	0	
Registration fees	15 919 875	
Methodology fees	49 617	
Share of proceeds	13 389 940	
Subtotal		29 419 407
Total		39 051 766

^a Received from Canada as compensation for the banking charges which were imposed upon the Canadian contribution of USD 1.5 million in December 2007

^b Sweden contributed to the sixteenth meeting of the Small-Scale Working Group panel meeting.

^c Belgium's contribution will be used towards Designated National Authorities activities.

^d USD 20,000 has been pledged by, but not received yet from United Kingdom of Great Britain and Northern Ireland.

110. In the light of an income forecast of about USD 8 million from 1 October until the end of 2008, it is expected that there will be a carry over from 2008 to 2009 of more than USD 25 million.

Table 10. Income from fees and share of proceeds in 2008, and amount available for expenditure
(United States dollars)

Total resources received	39 051 766
Minus contributions to support Designated National Authorities (DNA)	(585 083)
Less contribution from Belgium in 2008 for DNA	(114 266)
Less contribution from the United Kingdom of Great Britain and Northern Ireland and Austria in 2008 for the African Carbon Forum	(65 314)
Grand total to support CDM-MAP 2008	38 287 103
Less expenditure as at 30 September 2008	(12 926 817)
Balance available	25 360 286

^a This fee is based on the annual average 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 CO₂ 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.

^b 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.

^c 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.

Annex I

**Deliveries by the Executive Board of the clean development mechanisms
to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourth session**

Decision 2/CMP.3	Action to be taken	Status	Reference in this annual report
<i>Requests</i>			
Paragraph 7	To provide its annual report, prior to a session of Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP); this report shall cover the period from the previous session of the CMP to the Board meeting that takes place just prior to the one held in conjunction with the session of the CMP	The report was finalized at the forty-third meeting of the Executive Board (EB 43)	Footnote 2 of Chapter I B
Paragraph 15 (a)	To continue improving the efficient, cost-effective, transparent and consistent functioning of the clean development mechanisms (CDM) by continuing to keep the management plan (MAP) under review and making adjustments as necessary	CDM-MAP was revised at EB 37 and work on the second revision has been initiated for consideration of approval by EB 44	Chapter V B, paragraphs 103–106
Paragraph 15 (b)	To conclude, as its highest priority, the CDM Validation and Verification Manual (VVM) as a standard for designated operational entities (DOEs)	The Board considered the VVM at EB 40 to EB 43, with a view to adopting it at EB 44. Two VVM workshops held with DOEs in 2008 and a public commenting process undertaken	Chapter II B, paragraphs 12 and 14 Chapter III A, paragraph 24

Decision 2/CMP.3	Action to be taken	Status	Reference in this annual report
Paragraph 15 (c)	To identify and implement other means to promote quality and consistency in validation and verification work	The Board will consider for approval at its forty-fourth meeting the “elaboration and application of accreditation standards for the applicant entities/designated operational entities (AEs/DOEs)” to improve quality and enhance the accreditation standards	Chapter II B, paragraph 12 and 14 Chapter III A, paragraph 24
Paragraph 15 (d)	To take appropriate action to address minor issues in a transparent manner early on in the registration and issuance process to allow the Board to focus on major issues	The review procedure to allow minor issues to be addressed early in the registration and issuance process. The Board worked with the secretariat and DOEs on the CDM process time lines	Chapter II B, paragraph 13 Chapter III D, paragraphs 61–75, 72–75, 82 and 83
Paragraph 15 (e)	To further improve the substantiation of the Board’s decisions to increase the understanding of the underlying rationale by users, facilitate broader public understanding and correct misconceptions as they arise	The Board substantiates the rationale of the decisions by providing background information, as appropriate in light of the workload. The language of scopes and decisions has been further elaborated. The Board is implementing a communication strategy	Chapter II B, paragraph 17–19 Chapter III D, paragraph 61–65, 72–75, 82 and 83 Chapter IV A, paragraph 94
Paragraph 15 (f)	To further develop, as a priority, management indicators and to report on this work to the CMP	The Board is working on a set of management indicators derived from the repositories of data, in order to provide a framework with which to measure the performance and state of the CDM. These indicators will be included in the revised version of the CDM-MAP	Chapter III F, paragraph 91 Chapter V A, paragraph 103 Chapter V B, paragraph 104–105

Decision 2/CMP.3	Action to be taken	Status	Reference in this annual report
Paragraph 17 (a)	To approve more methodologies with broad applicability conditions to increase the availability of different technologies and measures and thereby ease the use of approved methodologies	Twenty-seven new methodologies have been approved during the reporting period, introducing several new technologies and measures not available previously	Chapter III B, paragraph 33–56
Paragraph 24	To approve, at its first meeting in 2008, the simplified methodologies for “Switch from non-renewable biomass for thermal application by the user” and “Energy efficiency measures in thermal applications of non-renewable biomass”	The Board approved at its first meeting in 2008 the simplified methodologies (EB 37 report, para. 26)	Chapter III B, paragraph 51
Paragraph 43	To continue to provide information in its annual report on the status and the forecast of the revenue from the share of proceeds in order to cover administrative expenses	The Board has provided details in its annual report.	Chapter V B, paragraph 104–108
<i>Encouragements</i>			
Paragraph 9 (a)	To emphasize the Board’s executive and supervisory role by, inter alia, ensuring effective use and expansion of its support structure, including its panels, other outside expertise and the secretariat, strengthening the role of DOEs and providing dedicated secretarial and information technology support to members and alternate members	A retreat was held at EB 40. Reallocation of work between the Board, panels and the secretariat. Board members to delegate more responsibilities to their alternates during periods of absence at, and/or between, meetings, including the right to request reviews of proposed CDM project activities. Information technology support to members and alternate members provided during first quarter of 2008	Chapter II B, paragraph 13 Chapter IV A, paragraph 93–96 Chapter IV B, paragraph 97 and 98

Decision 2/CMP.3	Action to be taken	Status	Reference in this annual report
Paragraph 9 (b)	To strive to take concrete actions to improve, and where possible simplify, the operational aspects of the CDM, such as the review processes, ensuring that its environmental integrity is not affected	A revision of the review procedures was adopted at EB 38. CDM process time lines were considered at EB 39 to EB 41, with a view to elaborating indicative time lines for secretariat roles in the registration and issuance processes	Chapter II B, paragraph 13 Chapter III D, paragraph 61–65, 75, 82–83
Paragraph 9 (c)	To further improve the Board’s functions to ensure a fair and equitable regulatory system	The Board provided guidance and clarifications in various areas	Chapter III A, paragraph 24–25 Chapter III B, paragraph 38–56 Chapter III C, paragraph 59–60 Chapter III D, paragraph 61–65, 82–83
Paragraph 11	To ensure a balance in applying the Board’s resources between satisfying caseload needs and making general policy and system improvements	CDM-MAP was revised at EB 37 and work for the second revision has been initiated to on a consideration of approval by EB 44	Chapter II B, paragraph 13 Chapter V, paragraph 104–108
Paragraph 13	To make every effort to contribute towards a more transparent, equitable, consistent and predictable CDM system	The Board provided guidance and clarifications in various areas. In order to enhance transparency, the Board included in its documents the document with additional contextual information	Chapter II A, paragraph 17–19, Chapter III A, paragraph 24–25 Chapter III B, paragraph 38–56 Chapter III C, paragraph 59 Chapter III D, paragraph 61–65, 82–83 Chapter IV A, paragraph 94
Paragraph 18 (a)	To continue the Board’s efforts to broaden the application of methodologies while maintaining their environmental integrity and to ensure that consolidated methodologies cover the full range of methodological approaches and applicability conditions covered by the underlying approved methodologies;	The Board revised 66 approved methodologies, including three new consolidations. The Board ensured that consolidated methodologies covered a range of methodological approaches and applicability conditions covered by the underlying approved methodologies	Chapter III B, paragraph 33–56

Decision 2/CMP.3	Action to be taken	Status	Reference in this annual report
Paragraph 18 (b)	To continue the Board's work relating to energy efficiency and renewable energy activities as CDM project activities, given that such project activities contribute to sustainable development but face difficulties under the CDM, while continuing to ensure environmental integrity	The Board considered energy efficiency issues, requested expert reports for guidance/tool(s). Small- and large- methodologies were approved for energy efficient lighting and refrigeration technologies. The development of guidance and tools is in progress	Chapter III B, paragraph 35
Paragraph 18 (c)	To further develop generic and user-friendly methodological tools that can assist project participants in designing or applying methodologies and thereby ensure the simplicity and consistency of methodologies	The Board revised various methodologies tools to assist project participants in the design and development of methodologies	Chapter III B, paragraph 39, 40, 44 and 46
Paragraph 18 (d)	To continue to improve the additionality tool, in cooperation with the Board's support structure and relevant stakeholders, by providing clear guidance on the application of the tool, bearing in mind the need not to add undue complexity	Guidance on the assessment of investment analysis and guidance on the demonstration and assessment of prior consideration of the CDM were adopted during the reporting period	Chapter III B, paragraph 36
Paragraph 29	To continue to facilitate the regional and subregional distribution of project activities	Recommendation to the CMP included in annex II to this annual report	Chapter II B, paragraph 20 Chapter III B, paragraph 34 Chapter III E, paragraph 86–89 Annex 2

Annex II

Regional distribution of clean development mechanism project activities

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) by its decision 7/CMP.1 (para. 33), requested the Executive Board of the clean development mechanism (CDM) to provide at its second session information on systematic or systemic barriers to the equitable regional and subregional distribution of CDM project activities, and options to address these issues.
2. By its decision 1/CMP.2 (paras. 31–42), the CMP took note of the recommendation of the Executive Board in response to the request contained in paragraph 33 of decision 7/CMP.1, and provided further guidance in this area.
3. By its decision 2/CMP.3 (paras. 26–42), the CMP acknowledged the recommendation of the Executive Board to the CMP relating to information on regional and subregional distribution of CDM project activities, and to systematic or systemic barriers to their equitable distribution and options to address these, and encouraged the Executive Board and the secretariat to continue to facilitate the regional and subregional distribution of project activities.

B. Progress to date

4. In its report to the CMP at its second session¹, the Executive Board highlighted decisions it had taken on the following measures in order to alleviate some of the concerns on this issue:
 - (a) Simplified modalities and procedures for small-scale projects;
 - (b) Removal of the registration fee for projects that achieve fewer than 15,000 tonnes of carbon dioxide equivalent (CO₂ eq) of emission reductions per year;
 - (c) A lower share of proceeds applied to the first 15,000 certified emission reductions (CERs) issued per year;
 - (d) Differentiation in the method of payment of the application fee for applicant entities from Parties not included in Annex I to the Convention (non-Annex I Parties);
 - (e) Establishment of the Designated National Authorities Forum (DNA Forum);
 - (f) Participation in subregional and global capacity-building events or awareness-raising activities;
 - (g) Establishment of the CDM Bazaar.
5. In its report to the CMP at its third session², the Executive Board noted progress in several activities had in this area, in particular that:
 - (a) The CDM Bazaar had been launched to provide a web-based information exchange platform which facilitates access to, and sharing of, information among all stakeholders involved in the CDM process, in particular those from developing countries;

¹ FCCC/KP/CMP/2006/4.

² FCCC/KP/CMP/2007/3.

- (b) Two meetings of the DNA Forum had been held, including one in Addis Ababa, Ethiopia, which focused on the Africa region;
 - (c) The Nairobi Framework was launched by the former United Nations Secretary-General during the second session of the CMP to bring together the United Nations Development Programme, the United Nations Environment Programme, the World Bank Group, the African Development Bank and the UNFCCC secretariat, with the aim of assisting developing countries, especially those in sub-Saharan Africa, to improve their level of participation in the CDM;
 - (d) Several Parties had undertaken activities to broaden the participation of different stakeholders in the CDM process and to address barriers. This cooperation had taken different forms, but most notably included capacity-building programmes. These efforts are being complemented by South–South cooperation;
 - (e) The Executive Board had provided guidance on CDM programmes of activities, and on procedures for their registration and the issuance of CERs, as first steps towards this innovative approach, which facilitates access to the CDM and reduces transaction costs.
6. By its decision 2/CMP.3, the CMP, following a recommendation by the Executive Board, abolished the payment of the registration fee and share of proceeds at issuance for CDM projects hosted in least developed countries (LDCs).
7. The Executive Board continued to undertake work in the area of regional distribution of CDM projects, by facilitating information sharing, by working in the area of methodologies and by providing additional guidance.
8. The Board has also been involved in, and has been regularly updated on, the ongoing work on the possible links between the CDM and microfinance undertaken by the Government of Denmark, and on the developments under the Nairobi Framework, including the recent organization of the first ever Africa Carbon Forum, held in Dakar, Senegal, on 3–5 September 2008.

C. Recommendations

9. In order to further facilitate a more equitable distribution of CDM project activities and CDM programmes of activities, the Board agreed to recommend that the CMP at its fourth session consider, without jeopardizing environmental integrity, options for countries with fewer than five registered projects, especially in LDCs, small island developing States, and Africa:
- (a) To explore specific registration and issuance procedures for CDM project activities;
 - (b) To request the development of more small-scale methodologies with the potential for application in these countries;
 - (c) To explore the possibility of providing default values for parameters used in establishing baselines for some of the methodologies for use in countries where data gathering for baseline setting could be considered an extra barrier to implementation;
 - (d) To facilitate hands-on training workshops (e.g. train the trainers) in these countries on request at no additional cost to them;
 - (e) To explore the possibility for Parties, in a position to do so, in partnership with the private sector:

- (i) To create a CDM project identification and development fund, potentially revolving, to be used to identify and develop project design documents (PDDs) in each of these countries and to pay the cost of validation for these projects;
 - (ii) To purchase at least [X] per cent of CERs from projects hosted in these countries;
 - (f) To encourage Parties, in a position to do so:
 - (i) To provide financial support to these countries, to cover the start-up costs and, if required, technical expertise relating to the development of CDM project activities;
 - (ii) To provide financial support to the activities of the partners in the Nairobi Framework, in particular to empower potential host parties to assess the potential for CDM and share this information at carbon fair/forum events;
 - (iii) To pay particular attention to a more equitable distribution of CDM project activities;
 - (g) To encourage Parties and United Nations organizations, in particular partners in the Nairobi Framework, to focus on capacity-building in areas that are specific to the development of CDM project activities, in close consultation with the recipient countries, and in a coordinated fashion between bilateral and multilateral activities, in particular in relation to:
 - (i) The development of PDDs, assessing proposals, awareness raising, financial engineering, information sharing and the development of methodologies that are more suitable for these countries;
 - (ii) Support to these Parties in the creation of an organized infrastructure such as DNAs or CDM promotion offices;
 - (iii) Provision of financial and technical support to DNAs of these countries, to identify and develop the potential CDM project activities and methodologies;
 - (iv) Developing and making publicly available studies on the CDM potential in these countries.
10. The Board also recommends that the CMP at its fourth session:
- (a) Encourage all Parties:
 - (i) To cooperate bilaterally to develop and implement CDM project activities, and in particular to facilitate South–South cooperation and capacity transfer;
 - (ii) To consider how they may stimulate investments in CDM projects in the context of their broader development and finance policies;
 - (b) Encourage non-Annex I Parties:
 - (i) To provide, as appropriate, incentives to:
 - Project participants in small-scale CDM projects;

- Energy efficient or renewable energy (solar, wind, biogas etc.) technology providers supplying such projects;
 - AEs and DOEs that start their operations in these countries;
 - Regulation/insurance policies for DOEs or project participants to reduce perceived risks;
- (ii) To develop clear guidelines and procedures for CDM investments in their countries;
- (iii) To create an enabling environment for CDM projects;
- (c) Encourage a closer cooperation between the DNAs of Annex I and non-Annex I Parties, in particular through the DNA Forum;
- (d) Encourage the private sector to further engage in the CDM process and encourage all Parties to facilitate the participation by the private sector by creating the appropriate enabling environment;
- (e) Encourage financial institutions, in particular regional development banks, to provide seed funding to develop CDM project activities and to be actively involved in the development and promotion of CDM project activities and cooperation and knowledge transfer regarding CDM between regional development banks;
- (f) Encourage DOEs, to establish offices and partnerships in developing countries in order to reduce the transaction costs for those countries and contribute to a more equitable distribution of CDM project activities;
- (g) Request the Board to further enhance the functionality of the CDM Bazaar in order to scale up the range of services offered and to promote its use in developing countries;
- (h) Request the Board to continue to cooperate with interested institutions on the provision of regular statistical services.
