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Item 7 of the provisional agenda
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***

Part I

Summary

This report covers the work of the Executive Board of the clean development mechanism (CDM) during the period from 27 October 2011 to 13 September 2012. It highlights achievements and challenges faced by the Executive Board in its supervision of the mechanism, the status of the mechanism, and work undertaken by the Board and its support structure in the areas of accreditation, methodologies, registration and issuance, and other areas. Further, it includes a number of recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eighth session. The CDM is suffering a lack of demand for its certified emission reductions due to the time being taken to agree on ambitious emission targets. In this context, the mechanism's ability to spur private and public-sector action on climate change and sustainable development is severely limited. There is an increasing risk of the CDM losing its momentum, and with it, losing the related intellectual and institutional capacity that has been built up among Parties and other stakeholders. This is outside the control of the CDM Executive Board.

* 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), the CDM Executive Board (hereinafter referred to as the Board) reports 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 reviews these reports, provides guidance and takes decisions, as appropriate.

B. Scope of the report

2. This annual report provides information on progress made in implementing the CDM during its eleventh year of operation (2011–2012),¹ hereinafter referred to as the reporting period, and makes recommendations for consideration by the CMP at its eighth session. It contains an assessment of where the CDM stands at the end of the first commitment period of the Kyoto Protocol, highlights the achievements and challenges relating to the operation of the CDM, and provides information on the governance, management and financial status of the mechanism. Further information is available on the UNFCCC CDM website, which is the central repository for all reports and other documentation relating to the Board.

3. The achievements and challenges during the eleventh year of operation of the CDM, as well as the challenges that lie ahead, will be highlighted further by the Chair of the Board, Mr. Maosheng Duan, in his oral presentation to the CMP at its eighth session.

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

4. The CMP, at its eighth session, taking note of the annual report of the Board, may wish:

(a) To note the work of the Board in response to requests by the CMP at its seventh session;

(b) To designate operational entities that have been accredited, and provisionally designated, by the Board (see chapter III below);

(c) To provide guidance on matters arising from this report, in particular on:

(i) The recommendation on the withdrawal and suspension of letters of approval, as contained in paragraph 103;

(ii) The recommendation on the draft procedure for addressing significant deficiencies in validation, verification or certification reports, as contained in paragraphs 101 and 102.

5. The CMP is to elect the following to the Board, for a term of two years, upon nominations being received from Parties:

¹ The report covers the period from 27 October 2011 to 13 September 2012, in accordance with decision 1/CMP.2, paragraph 11, and decision 2/CMP.3, paragraph 7.

- (a) One member and one alternate member from the African regional group;
- (b) One member and one alternate member from the Asia-Pacific 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).

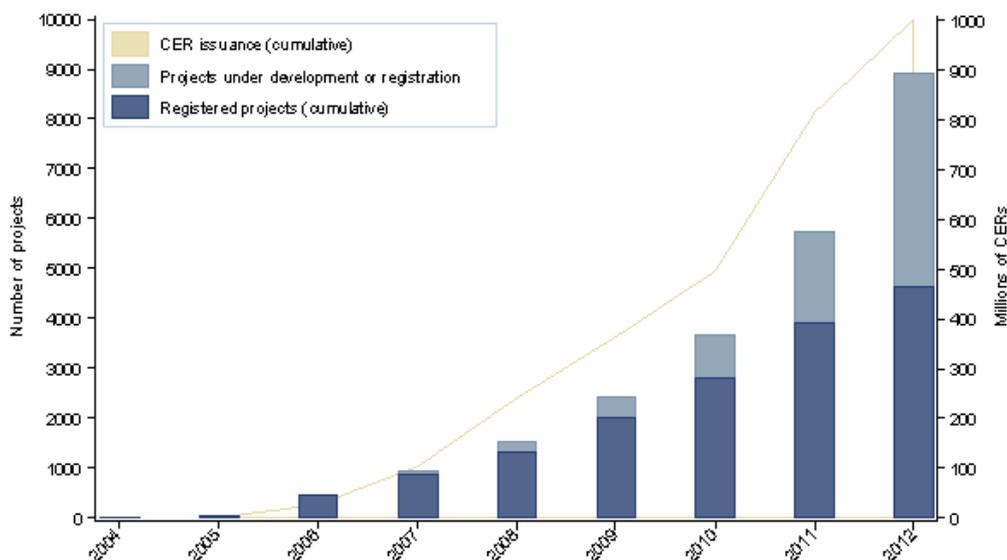
II. The clean development mechanism at the end of the first commitment period

A. The clean development mechanism in numbers

6. The CDM continued to grow over the reporting period, with the number of registered project activities reaching 4,601 in 78 countries by the end of the reporting period. In early September 2012, the number of certified emission reductions (CERs) issued passed the significant milestone of 1 billion CERs (see figure 1). Approximately 3,275 further projects are undergoing validation, a step prior to submission to the Board for registration.

Figure 1

Projects registered and under development and certified emission reductions issued, 2004–2012

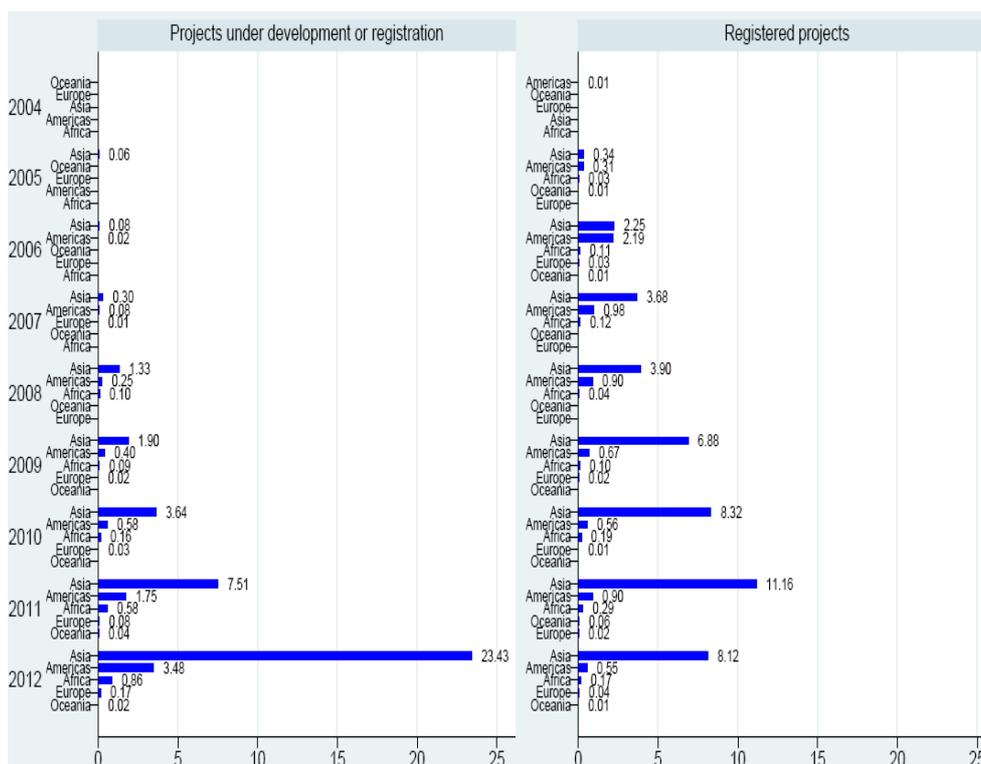


7. The reporting period also saw continued growth in the number of programmes of activities (PoAs). There are now 34 registered PoAs in 21 countries, with a total of 1,171 component project activities. Under a PoA, an unlimited number of component project activities across a country or region can be registered under a single administrative umbrella. The use of PoAs contributes greatly to scaling up and extending the reach of the CDM, especially in underrepresented regions.

8. The number of project activities submitted for registration during the reporting period reached 1,679. Such a surge in new projects in 2012 had long been anticipated ahead of rules coming into effect in the European Union (EU) from 2013. These rules exclude the use, for compliance in the European Union Emissions Trading System (EU ETS), of CERs from projects other than those hosted in least developed countries (LDCs) or other countries with bilateral agreements with the EU, unless the projects were already registered in 2012. These rules also exclude the compliance use of CERs from certain project types.

9. The considerable work done to date by the Board to improve the regional distribution of projects, together with the decision taken by the EU ETS, can be expected to affect the geographical distribution of projects, as more projects under development reach the registration phase (see figure 2).

Figure 2
Projects under development, in registration and registered, by region, 2004–2012



10. Transactions involving CERs were valued at approximately USD 25.2 billion in 2011.² Despite the fall from a peak in market value of around USD 33 billion in 2008, largely as a result of declining CER prices under domestically legislated emissions trading systems, most significantly in Europe, the CDM remains today the world’s largest generator of carbon offset credits.

11. All of this said, the drop in the number of new projects entering pre-validation development, noted by market participants in 2011, continued in 2012, despite a decision at the international level to agree a second commitment period of the Kyoto Protocol and to negotiate a new, comprehensive climate change agreement by 2015.

² World Bank, State and Trends of the Carbon Market 2012.

B. State of the clean development mechanism

12. From its origins in a page and a half of text in Article 12 of the Kyoto Protocol, the CDM has grown into a mature and well-functioning mechanism for the collaboration of Parties in mitigating climate change. The CDM has been a pioneering mechanism; as such, it has faced numerous challenges and not infrequent criticism. Over time, the rich experience gained has been fed into refining the existing CDM guidance and developing new and innovative approaches.

13. The rapid development of projects and growth in demand for CERs quickly overtook the expectations of many of the mechanism's original designers. The mechanism incentivized not hundreds, but thousands of projects, and in the process created an industry producing and trading the world's first international environmental currency.

14. Whereas the Board's initial priority focused on creating standards to ensure the environmental integrity of the mechanism – each CER must represent a true emission reduction – the Board soon had to add to this imperative the need to increase the efficiency of its work. It scaled up its principal support structure, the UNFCCC secretariat, pursued refinements to increase the clarity and objectivity of its methodologies, rules and processes, and worked to increase the understanding of CDM requirements among stakeholders. While there remains more progress to be made, the success of the CDM is now being shown in serving its integrity and efficiency goals in parallel.

15. From the beginning, the Board and the secretariat have worked to improve the geographical distribution of projects. Capacity has been built through the designated national authorities' forum (DNA Forum) and other stakeholder activities. The secretariat has established a loan scheme to assist with project development in countries underrepresented in the CDM and the first loans were approved during this reporting period. These and other initiatives have sought to remove barriers to participation and have benefited from cooperation with stakeholder groups and partner agencies, for example under the banner of the Nairobi Framework.

16. Today, the number of projects in underrepresented countries is on the rise. The groundwork has also been laid, for example through establishing the programme-of-activities approach and adopting rules governing standardized baselines and the treatment of suppressed demand, to enable a significant scaling-up of the CDM.

17. The development of the CDM to date, together with the substantial investment of Parties and other stakeholders, leave the CDM well established and well placed to continue as a channel for collaborative action to meet the mitigation goal agreed by the Parties:

(a) The CDM enjoys a multilateral mandate provided by all Parties to the Kyoto Protocol and wide acceptance by governments the world over;

(b) Channels for flows of finance, technology and capacity-building are well established;

(c) The CDM also enjoys widespread support and ownership among stakeholders, including in the private sector, as a credible and workable system;

(d) The extensive institutional experience and memory is now well established and provides a strong basis on which to build and innovate the mechanism;

(e) A broad range of credible and internationally accepted standards is in place concerning the monitoring, reporting and verification of emission reductions and removals, and is already widely used by programmes and stakeholders outside the CDM;

(f) Large numbers of projects, both registered and under validation, and their improving geographical distribution, bring diversity and necessitate adaptability;

(g) The mechanism's approach to governance embodies transparency and openness to observers.

18. As they meet to discuss the evolving international response to climate change, Parties and stakeholders need to take a "fresh look" at today's much strengthened and improved CDM.

C. Future challenges and priorities

19. The CDM continues to face many challenges. First and foremost, and outside the control of the Board, is a lack of demand for CERs, which is reducing incentives for mitigation among existing and potential users of the CDM. The resulting dampening of CER prices is diminishing the mechanism's ability to spur private and public-sector action on climate change and sustainable development. As for the health of the mechanism itself, there is an increasing risk of the CDM losing its momentum, and with it, losing the intellectual and institutional capacity that has been built up among Parties and other stakeholders in the CDM.

20. This contributes to a loss of confidence, in particular among the private sector participants that have invested a great deal in the growth of the CDM, the designated national authorities (DNAs) of developing countries that have invested time and resources to make the CDM a part of their development strategies, and civil society stakeholders that have helped build the mechanism and have contributed to its continual improvement. Their engagement and capacity, once lost, may be difficult to bring back as and when Parties are able to agree on strong levels of ambition for climate action, and this can be expected to have implications for future engagement not only in the CDM but also in any further market instruments that Parties may agree to at a later stage.

21. In addition, several other challenges within the CDM system itself still require further attention and continue to be prioritized by the Board:

(a) Environmental integrity. Ensuring the environmental integrity of the CDM remains the critical imperative of the Board, which has the further challenge of ensuring that perceptions about CER quality match reality;

(b) Sustainable development. There is a need to do more to make visible the sustainable development co-benefits of CDM projects. Sustainable development is part of the two-pronged objective of the CDM, as stated in Article 12 of the Kyoto Protocol, and yet it has been less visible than the emission impacts of projects. For the Board to ensure that the CDM makes an impact on sustainable development, it is crucial that DNAs set related criteria and ensure that they are met in the projects they approve;

(c) Regional distribution. Further increasing the accessibility of underrepresented countries to the CDM, and further improving the geographical distribution of CDM projects, remain important challenges. The Board and secretariat have been implementing concrete measures to address this issue and continue to explore further measures and collaborative programmes;

(d) Simplicity and efficiency. Despite progress, for example on programmes of activities, standardized baselines, suppressed demand and streamlining and consolidating rules, there remains a need to further simplify the requirements of the CDM and increase the objectivity of both the rules and the assessments they necessitate. This can and must be achieved without compromising the environmental integrity of the CDM. Simplicity and

efficiency will enable the scaling-up of the mechanism and increase its accessibility to underrepresented countries.

22. Support among Parties and stakeholders remains strong for market-based approaches to combat climate change. Parties have agreed to develop a new market mechanism under the UNFCCC and numerous countries are investigating or implementing their own instruments. The CDM should continue demonstrating its relevance and effectiveness for Parties and stakeholders, and be responsive and adaptive to Parties' needs. In ensuring that the mechanism is "fit for the future", the Board sees its role as making the CDM ready to align with any directions that Parties decide upon for its future use.

23. The funds presently available to the Board are sufficient for it to continue its work to strengthen the CDM and carry out new mandates given by Parties, despite the expected future decrease in income. As in past years, Parties may wish to request specific strategic improvements.

24. The CDM has been a leader in creating standards, and in the process has set the benchmark for measurement, reporting and verification of emission reductions and removals for the carbon market. The Board and Parties should now look to how they can ensure that full advantage is taken of the rich body of standards developed under the CDM. The work done under the CDM can provide a shortcut for Parties and institutions needing to account for their emission reductions and removals as part of broader action to mitigate climate change, and in so doing help ensure the environmental integrity of climate action.

25. In view of the achievements and challenges of the CDM highlighted here, the Board considers it crucial that Parties, in addition to providing urgent clarity on ambitious emission targets, send a clear signal on the value of the CDM within the context of future international action on climate change. The need for such a signal is urgent to maintain the momentum of the CDM, retain the capacity of Parties and other stakeholders, and secure the success of newer market-based measures and approaches. In the view of the Board, it is vital that the CMP send such a signal via its decisions at its eighth session.

26. For its part, the Board is committed to examining how the CDM may be of best use to Parties in the future. It is commencing work to develop and submit recommendations next year for consideration by the CMP in the context of the review of the CDM modalities and procedures, as instructed by Parties in decision 3/CMP.1.

D. The clean development mechanism policy dialogue

27. It was against the background of the urgent challenges described above that the Board, at its sixty-fourth meeting last year, launched the CDM Policy Dialogue to review the functions of and lessons learned from the CDM and make recommendations regarding how to best position the CDM to respond to future challenges and opportunities and ensure the effectiveness of the mechanism in contributing to future global climate action, for the Board's consideration in preparing its annual report and recommendations to the eighth session of the CMP.

28. The Board established a High-Level Panel to conduct the dialogue in an independent manner under its own responsibility. The Panel was composed of 11 members drawn from a range of constituencies and geographical regions. Members were jointly invited by the UNFCCC Executive Secretary and the Chair of the Board, based on input provided by members of the Board, and the Panel elected its Chair and Vice-Chair.

29. The Panel commissioned a wide-ranging research programme addressing 22 topics across three main areas comprising: the impact of the CDM to date, the governance and operations of the CDM, and the future context in which the CDM could operate. In

addition, the Panel organized a stakeholder consultation programme, holding about 50 formal and informal meetings between March and July 2012 with stakeholders around the world.

30. The report of the High-Level Panel, presented by its Chair, Mr Valli Moosa, to the Board at its sixty-ninth meeting, highlights the difficult situation currently facing the CDM and urges Parties to substantially increase their mitigation ambition. The recommendations of the Panel call for urgent measures to be taken to address issues across the full spectrum of CDM activities and the broader context of the carbon market and evolving international climate regime. Some of these recommendations fall within the scope of actions that the Board can consider, while others are more relevant to consideration at the level of the CMP.

31. In taking note of the report, the Board thanked the Panel for its hard work and agreed to bring it to the attention of the CMP and Parties. The Board also launched further work to examine the recommendations by requesting the secretariat to undertake an initial analysis of the Panel's report.

III. Work undertaken in the reporting period

32. This chapter describes the ongoing work of the Board and its response to the requests made and encouragements given by the CMP. The work of the Board can be categorized into three broad areas: rulings; regulatory matters; and governance and management matters. Annex I to this report contains a summary of the deliverables of the Board in response to the requests and encouragements of the CMP at its seventh session.

A. Rulings

1. Rulings related to accreditation

33. In the reporting period, the Board accredited and provisionally designated four new operational entities for validation and verification and extended the scope of accreditation of two previously designated operational entities. If the designations are confirmed, it will take the total number of operational entities designated for validation and verification and certification of emission reductions of projects to 41. The Board therefore recommends the entities listed in annex II for designation by the CMP at its eighth session, for the sectoral scopes indicated.

2. Rulings related to registration of project activities and issuance of certified emission reductions

34. The processing of requests for registration and issuance in the reporting period was conducted in an efficient manner, helped by revised registration, issuance, and review procedures adopted by the Board in 2010, planned recruitment, expanded use of trained external experts and the completion of a realignment of staff within the secretariat. During the reporting period, the caseload continued to grow (see table 1).

35. The numbers of requests for registration and issuance have been increasing steadily with the approach of the end of first commitment period of the Kyoto Protocol. This is most likely due to changes in the rules applicable to the EU ETS (see paragraph 8) from 2013. This is supported by the observation that the number of requests for registration has increased significantly, including in comparison to requests for issuance, in the reporting period.

36. Requests for registration and issuance hit a record monthly high in July 2012 of 389 registration and 263 issuance requests, respectively. The secretariat continuously monitors

the growth and fluctuations in submissions. It also receives monthly forecasts submitted by designated operational entities (DOEs). Resources are adjusted accordingly.

37. The average waiting time for the secretariat to start processing a registration/issuance submission was 20 days at the beginning of 2012. This dropped to 10 days in April, and then spiked to 30 days in August, due to the surge in submissions described above. As a result, an intensive assessment period was started at the end of August to handle these peak submissions, which is expected to bring the average waiting time back to within 15 days. In the interest of efficiency and processing speed, planning for the digitization of work streams is ongoing, in the context of a broader programme under way to improve information technology in the secretariat.

38. There was an exciting increase in the number of requests for registration of PoAs in the reporting period; a total of 55 submissions, up 240 per cent compared with the previous period (16 submissions).

Table 1
Clean development mechanism registration and issuance-related requests for the period from 1 October 2011 to 13 September 2012^a

<i>Request</i>	<i>Total number of requests submitted in the reporting period</i>	<i>Number of resubmissions</i>	<i>Pending requests submitted during the reporting period</i>		<i>Number of finalized requests within the reporting period^b</i>
			<i>Awaiting commencement of completeness check</i>	<i>Already commenced completeness check</i>	
Registration	2 243	564	330	433	1 152
Issuance	2 265	425	291	350	1 624
Programme of activities – Registration	67	25	16	36	34
Programme of activities – Issuance	3	0	0	3	0
Renewal of crediting period	25		4	7	30
Post-registration changes ^c	337	20	76	40	344

^a Numbers in this table cover the period beginning 1 October 2011 to avoid a gap in reporting from last year's report to Parties.

^b Finalized requests comprise registered, withdrawn and rejected requests submitted within the reporting period and requests submitted prior to the reporting period that had entered the processing pipeline.

^c Prior to 1 May 2012, post-registration change requests were classified as requests for revision of monitoring plan, deviation and change to the project design documents (PDDs). The figures in this table under post-registration change comprise the three above-mentioned requests.

39. More detailed statistics can be found on the UNFCCC CDM website.³

40. From 1 October 2011 through 13 September 2012, 254,277,841 CERs and 4,072,355 temporary certified emission reductions (tCERs) were issued from the CDM registry, bringing the total numbers of CERs and tCERs issued to 999,205,156 and 4,072,355, respectively. The number of completed transactions in the CDM Registry is reflected in table 2 below.

Table 2

Overview of clean development mechanism registry successfully completed transactions

<i>Transaction type</i>	<i>Total as at 13 Sept. 2012</i>	<i>Total 1 Oct. 2011 –13 Sept. 2012</i>
Total CER issuance transactions	4 742	1 587
Total tCER issuance transactions	1	1
Total forwarding transactions to holding accounts of Annex I Parties in national registries	8 280	2 363
Total forwarding transactions to permanent holding accounts of non-Annex I Parties in the CDM registry	125	21
Total forwarding transactions to the Share of Proceeds Adaptation Fund holding account in the CDM registry	4 734	1 585

B. Regulatory matters

41. An overview of the regulatory documents (policy-related standards, procedures, clarifications and guidelines) approved or revised by the Board during the reporting period is included in annex III to this report.

1. Policy-related regulations

42. The Board approved new or revised existing policy standards and procedures to further increase their simplicity, clarity and objectivity.

43. During the reporting period, the Board adopted three comprehensive standards to guide the assessment work of DOEs and project participants. The new project validation and verification standard, project standard and project cycle procedure pull together and make clear the bulk of the rules that govern the CDM. They will help remove any scope for interpretation of the rules, thus helping to speed up processes and contribute to higher quality submissions.

44. The Board approved a sampling standard that is expected to facilitate development of PoAs. It also approved procedures for DNAs to propose renewable energy technologies eligible for automatic qualification with regard to additionality.

45. To increase the scalability of emission reductions and efficiency and objectivity in the assessment of projects, the Board agreed guidelines and procedures for the establishment of standardized emission baselines. To further facilitate the establishment of such baselines, against which projects can measure their emission reductions, the Board

³ <<http://cdm.unfccc.int/Statistics/index.html>>.

also approved a plan to extend financial support to countries with 10 or fewer registered projects.

46. In the reporting period, the Board adopted regulations for the submission and consideration of methodologies relating to carbon capture and storage (CCS) projects, and established a CCS Working Group to advise it on matters relating to the implementation of such projects. Everything is now in place for CCS methodologies to be submitted, which is the first step toward having CCS projects registered.

47. As requested by the CMP at its seventh session, the Board has continued its work to develop measures to highlight the sustainable development co-benefits of CDM projects and PoAs. It has been paramount in this work to maintain the prerogative of Parties in determining whether a project or PoA assists in achieving sustainable development and defining their own criteria to be used. The Board has developed a voluntary tool for use by project participants and coordinating/managing entities to describe the expected sustainable development co-benefits in a structured and consistent manner. This will provide an alternative to using the current, free-form, sustainable development section of the project design document and PoA design document. The tool is currently undergoing further refinement and is expected to be available for use in 2013.

48. The Board also adopted procedures for the voluntary cancellation of CERs in the CDM registry account. This feature of the CDM registry is to be available prior to this session of the CMP and will allow project participants to permanently cancel unused CERs. Contact information on project participants wishing to make their CERs available for such cancellation is to be published on the CDM website.

49. Also in response to the request of the CMP at its seventh session, the Board revised its draft procedure for addressing significant deficiencies in validation, verification and certification reports (see paragraphs 101 and 102). To do this, the secretariat worked with experts and consulted directly with DOEs. The revision addresses the potential impacts of the procedures, in particular in relation to insurance approaches to help DOEs address liability implied by the procedure, and to enable DOEs to better quantify and manage such liability. The Board, to address concerns of some DOEs that they may not be able to secure market-based insurance or other appropriate financial measures, has initiated an analysis of how insurance measures could be provided by way of a CER or reserve pool structure within the CDM.

2. Methodology-related regulations

50. The Board approved new standards, and revised existing standards, relating to methodologies to further improve the environmental integrity of standards, to increase the attractiveness of a range of smaller projects while ensuring environmental integrity, and to facilitate the further scaling-up of the CDM.

Large-scale methodologies and tools

51. Three new methodologies were developed for underrepresented power project types. The methodologies make the CDM accessible to countries with isolated grids, and allow claims of emission reductions from the connection of two grids, which could be situated in the same country or different countries.

52. The methodology for new grid-connected fossil fuel-fired power plants using a less greenhouse gas-intensive technology, which accounts for a substantial share of CERs issued to date, was significantly improved with respect to baseline scenario determination and the procedure for calculating the baseline emissions.

53. The methodology for incineration of hydrofluorocarbon-23 (HFC-23) waste streams was significantly improved, mainly with respect to the determination of baseline emissions,

in order to minimize the potential disincentive to reduce the HFC-23 waste generation rate. The projects registered under this methodology account for the largest share of emission credits issued to date. Projects applying for a renewal of crediting period are required to use the latest improved version of the methodology.

54. The Board processed several submissions, resulting in the approval of new methodologies and the revision of existing methodologies. The Board also undertook top-down improvements on various methodologies and tools, simplifying them and broadening their applicability.

55. As part of work to further improve CDM methodological standards, new tools were developed and standardized approaches were provided for in existing methodologies, which included the use of a benchmark approach for additionality demonstration.

Small-scale methodologies and tools

56. In an effort to greatly extend the benefits of the CDM to underrepresented countries, the Board expanded its positive list of small-scale project types that qualify for automatic additionality due to their obvious ability to reduce emissions and the obvious barriers they face to implementation. The change increases the attractiveness of a range of smaller projects, such as those installing efficient cookstoves, solar water heaters, biogas digesters and other small-size renewable energy generating systems. The Board also expanded the applicability of microscale additionality guidelines.

57. The Board was able to approve standardized approaches for rural energy applications (biomass and biogas) and agriculture in small-scale projects and PoAs by providing necessary default parameters (e.g. biogas generation rate, fraction of non-renewable biomass and methane emission factor in rice cultivation).

58. The Board developed several small-scale, top-down methodologies for applications such as efficient lighting, solar cooking and demand-side energy efficiency in buildings; two methodologies for electrification of communities with no access to electricity, using renewable electricity generation technologies (e.g. solar, wind and hydro) or via the extension of a grid; two small-scale methodologies in the transport sector; and one methodology in the agricultural sector, applicable to demand-side energy efficiency measures in agricultural pumping systems.

59. The Board simplified and clarified the requirements of several methodologies, for example for demand-side energy efficiency measures in household and commercial buildings and for alternative waste treatment.

Afforestation and reforestation methodologies

60. The Board approved the consolidation of the seven simplified methodologies for small-scale afforestation and reforestation (A/R) project activities into two methodologies, simplifying the standards and enhancing their accessibility for users. The two methodologies are the first ever to have a completely modular (two-tier) structure, which provides project developers full flexibility in project design. The modular structure also facilitates the task of methodology maintenance and improvement.

Standardized baselines

61. As part of its work to ensure the Board's readiness to process submissions of standardized baselines, the Board approved guidelines for the quality control and quality assurance of data required to develop standardized baselines. It also developed modalities for support to countries with fewer than 10 CDM projects in developing assessment reports and sector-specific data templates for proposing standardized baselines.

62. The Board considered draft guidelines on standardized baselines for afforestation and reforestation projects. These are expected to be adopted at the seventieth meeting of the Board in Doha, Qatar, from 19 to 23 November 2012.

63. The Board revised its existing guidelines on the establishment of sector-specific standardized baselines in order to provide the default values, on an interim basis, to define thresholds for baseline and additionality, vintage of data and frequency of update; and further considered proposals on: (i) the development and maintenance of a database on cost and efficiency of technologies; (ii) highlighting the impact of standardized baselines on regulatory documents; (iii) the development of thresholds for baseline and additionality for sector-specific standardized baselines; and (iv) a way forward for developing guidelines for standardized baselines for transport sector projects.

64. The Board received three proposals for standardized baselines in the reporting period, covering the charcoal production sector, from the DNA of Uganda; the cement sector, from the DNA of Ethiopia; and the power sector, from the DNA of Botswana on behalf of a group of countries. The Board is considering these submissions.

Programmes of activities

65. During the reporting period, the Board adopted standards for the demonstration of additionality, the development of eligibility criteria and the application of multiple methodologies for PoAs; adopted a standard and guidelines for sampling and surveys for CDM project activities and PoAs; and agreed a work programme for improving standards and guidelines relating to PoAs.

66. Under a PoA, an unlimited number of similar projects over a wide area can be administered under a single programme umbrella, thus reducing the administrative burden. PoAs are expected to help scale up the CDM, especially involving small projects in underrepresented countries.

Suppressed demand

67. In the previous reporting period, the Board adopted guidelines on the consideration of suppressed demand in CDM methodologies, which in the setting of emission baselines allows for scenarios where future anthropogenic emissions by sources are projected to rise above current levels due to the specific circumstances of the host Party. During the reporting period, the Board introduced: (i) several clarifications to further improve the guidelines; and (ii) revised four existing methodologies and developed two new methodologies including the issue of “suppressed demand” in the area of rural electrification, off-grid lighting and waste management.

Additionality

68. The Board initiated a comprehensive review of the approaches currently implemented for the demonstration of additionality. It considered a concept note identifying areas for improvement and clarified to the secretariat possible areas of future work.

First-of-its-kind and common practice analyses

69. Based on stakeholder input, the Board clarified the guidelines on the use of first-of-its-kind arguments and common practice evidence as a means to show additionality.

Determination of baselines in methodologies

70. The Board adopted guidelines for proposing new methodologies and revising existing methodologies. The guidelines will help the Board and its support structure to evaluate new methodologies, develop top-down methodologies and ensure consistency in existing methodologies. They will also simplify the requirements for the development of PDDs.

Materiality in verification of projects

71. As requested by the CMP (decision 9/CMP.7), the Board adopted guidelines on materiality to facilitate the uniform interpretation and application of the concept of materiality by DOEs conducting verifications, and to improve transparency, consistency and efficiency in verifications and verification/certification reports.

C. Improving regional and subregional distribution of project activities under the clean development mechanism

72. Facilitating the equitable regional and subregional distribution of project activities remains a high priority of the Board, and the impact of regulatory decisions on this goal is a key criterion assessed by the Board in the development of new standards, procedures and guidelines. The Board's work on suppressed demand (paragraph 67), automatic additionality of microscale projects (paragraph 56), and standardized baselines (paragraphs 61–64) are all expected to contribute greatly to improving regional distribution. Another equally important area of work in this regard involves reaching out to stakeholders (see also paragraphs 87–91).

73. The secretariat, on behalf of the Board, has significantly enhanced its interaction with DNAs to help ensure broader participation in the mechanism. The DNA Forum co-chairs were invited to participate in broader stakeholder consultation events; all DNA representatives have been invited to participate in the Joint Coordination workshop; and the DNA Forum co-chairs have the opportunity to interact with the Board at two meetings each year. The Board also interacts with the DNA Forum during the forum meetings held in conjunction with the annual session of the CMP.

74. The secretariat conducted two regional training events on standardized baselines, microscale additionality guidelines and suppressed demand for the regions of Africa (in Addis Ababa, Ethiopia) and Asia-Pacific and Eastern Europe (in Manila, Philippines). Similar training is planned for Latin America and the Caribbean (in Belize). Training on PoAs for all DNAs was held (in Bonn, Germany), and similar training was conducted for DNAs and PoA coordinating and managing entities (CMEs) in collaboration with the United Nations Development Programme (UNDP) within the Nairobi Framework Partnership (in Dakar, Senegal and Luanda, Angola).

75. The secretariat launched two “help desks” for DNAs, including one for focused support to DNAs and projects in Africa, least developed countries (LDCs), small-island developing States and countries with fewer than 10 registered CDM projects (as of 31 December 2010). Both help desks have an interactive function, responding to questions from stakeholders, and a proactive function, whereby the secretariat contacts stakeholders and DNAs to provide support.

76. Following a procurement process, the secretariat selected the United Nations Office for Project Services (UNOPS) as the implementing agency for a loan scheme to promote participation in the CDM. A memorandum of understanding was signed on 23 March 2012 and the CDM Loan Scheme was launched on 18 April 2012, during the fourth Africa Carbon Forum in Addis Ababa. The first loans approved by UNOPS amounted to more than USD 3 million for 23 project activities, mostly PoAs (see annex IV). The Board welcomed with appreciation the work undertaken.

77. Within the Nairobi Framework Partnership, the secretariat has continued to ensure the coordination of the activities of the partners to enhance the regional distribution of the CDM and avoid duplication of efforts.

78. The Board would like to express its gratitude to the DNAs of Ethiopia, Philippines, and Belize for hosting regional DNA training events and to the Nairobi Framework partners for their continued support of the Framework's goals.

IV. Governance and management matters

79. The Board and its panels and working groups met regularly during the reporting period. In addition, the secretariat organized various meetings of the DNA Forum and DOE Forum and workshops with stakeholders (see annex V).

80. During the reporting period, the Board further improved its planning and focused more on developing its strategic direction, to be more executive and provide its support structure with the required guidance. The Board regularly reviewed its work programme and approved workplans for its supporting panels and working groups. In addition, the Board held a planning session focused on its strategic direction and how best to respond to challenges facing the CDM. The discussions held will assist the Board in developing its two-year Business Plan and its 2013 CDM Management Plan, slated to be adopted at the last meeting of 2012.

81. As requested by the CMP (decision 8/CMP.7), the Board reviewed its code of conduct. Having held a workshop to review its code and having considered examples of such codes from a range of public and private organizations, the Board agreed to a revised code of conduct, including a definition of conflict of interest. The Board requested the secretariat to prepare a proposal to apply the code and related measures to panels, working groups, teams and appointed experts.

A. Membership issues

82. At CMP 7, 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 3.

Table 3

Members and alternate members of the Executive Board of the clean development mechanism

<i>Members</i>	<i>Alternate members</i>	<i>Nominated by</i>
Mr. Martin Cames ^a	Ms. Pauline Kennedy ^a	Annex I Parties
Mr. Maosheng Duan ^a	Mr. Qazi Ahmad ^a	Non-Annex I Parties
Mr. José Domingos Miguez ^a	Mr. Washington Zhakata ^a	Non-Annex I Parties
Mr. Victor Kabengele ^{b, c}	Ms. Fatou Gaye ^b	African regional group
Mr. Kazunari Kainou ^{b, e}	Mr. Peer Stiansen ^b	Annex I Parties
Ms. Diana Harutyunyan ^a	Ms. Natalie Kushko ^a	Eastern European regional group
Mr. Martin Hession ^b	Mr. Thomas Bernheim ^b	Western European and other States regional group
Mr. Antonio Huerta-Goldman ^{b, d}	Mr. Eduardo Calvo ^{b, d}	Latin America and the Caribbean regional group
Mr. Shafqat Kakhakel ^b	Mr. Hussein Badarin ^b	Asia-Pacific regional group
Mr. Hugh Sealy ^a	Mr. Amjad Abdulla ^a	Small island developing States

^a Term: two years ending at the first meeting in 2014.

^b Term: two years ending at the first meeting in 2013.

^c Mr. Tosi Mpanu Mpanu resigned effective 10 February 2011.

^d Mr. Antonio Huerta-Goldman and Mr. Eduardo Calvo took over the seats of members/alternate members based on the decision of the Group of Latin America and Caribbean Countries.

^e Mr. Akihiro Kuroki resigned effective 21 September 2011.

83. The Board reiterates its concern that neither the Conference of the Parties nor the CMP has established an international legal framework for privileges and immunities for Board members performing their functions relating to the CDM. Members are entitled to privileges and immunities only in Germany, in accordance with the Headquarters Agreement of the secretariat, and in countries where Board meetings are convened pursuant to an agreement with the host country that contains provisions on privileges and immunities. The Board urges the CMP to take further action as a matter of urgency to ensure that Board members are fully protected when taking decisions for which they have been mandated. The Board notes the progress of deliberations on this matter and requests the CMP to find an interim solution at CMP 8, pending the conclusion of a long-term solution.

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

84. The Board, at its sixty-sixth meeting, elected Mr. Maosheng Duan, a member from a non-Annex I Party, and Mr. Martin Hession, 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 2013.⁴

85. The Board expressed its appreciation to the Chair, Mr. Duan, and Vice-Chair, Mr. Hession, for their excellent leadership of the Board during its eleventh year of operation.

B. Interaction with its forums and stakeholders

86. The Board and its support structure greatly expanded its work with CDM stakeholders during the reporting period, including DNAs through the DNA Forum and interactions with the Forum's co-chairs at Board meetings; DOEs through the DOE Forum, the Chair of which interacts at each meeting of the Board and at at least two meetings a year with the Board's accreditation panel; project participants; and other stakeholder groups. During the reporting period, the secretariat organized some 46 workshops, round-table discussions, forums and training sessions in eight countries.

87. During the previous reporting period, the Board adopted modalities and procedures designed to enhance direct communication with stakeholders. In 2012, the secretariat developed a procedure for project participants to communicate on project-specific matters.

88. Much progress has been made to further open the CDM to stakeholder participation, by giving stakeholders opportunities to comment on the draft annotated agenda of each Board meeting; through calls for input launched on policy issues that have an impact on stakeholders; and through the organization of round-table discussions on specific documents and issues before decision-making by the Board.

89. Work was also started on implementation of the modalities for direct communication between the Board and stakeholders on policy issues.

90. A feedback process was initiated for CDM round-table discussions. The status and outcome of stakeholder inputs is tracked and reported for consideration by the Board. Stakeholders are updated at subsequent events. In the same regard, stakeholder input to the agenda of each Board meeting is summarized and highlighted to the Board.

⁴ Rule 12 of the rules of procedure of the Board. See <https://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=31>.

C. Communication, promotion and outreach

91. The Board gave increased attention to communication, promotion and outreach during the reporting period, adopting a communication and outreach workplan, revised communication and outreach strategy and media engagement plan.

92. Projects of note include the DNA Communicators of the Year Showcase, intended to incentivize and raise the capacity of DNAs to promote the CDM; a radio club and related contest and training for radio journalists in Africa; the CDM Changing Lives photo, video and podcast contests; outreach at targeted carbon market events; and production of videos, audio files and other materials.

93. The reporting period saw the launch of Facebook and Twitter accounts dedicated to the Kyoto Protocol carbon market mechanisms, the setting up of a digital asset management and sharing system, and subscription to a global media monitoring and outreach service.

V. Report on the status of financial resources for work on the clean development mechanism

94. This chapter presents information on income and expenditure to the end of August 2012. The Board is presently in a strong financial position and available funds are sufficient for it to continue its work to strengthen the CDM and carry out new mandates given to it by Parties, despite an expected future decrease in income. As in past years, Parties may wish to request specific strategic improvements.

95. Table 4 shows the total operating income of USD 126,337,704 for 2012. The table indicates a carry-over balance from 2011 of USD 74,516,906 and 2012 revenue from fees and shares of proceeds by type amounting to USD 51,820,798. Fees and shares of proceeds were estimated in the 2012 management plan at USD 55 million.

Table 4
Status of Income 2011–2012
(United States dollars)

<i>CDM Trust Fund fees and carry-over</i>	<i>2011^a</i>	<i>2012^b</i>
Carry-over from previous year	38 045 707	74 516 906
Fee income during the year	69 388 249	51 820 798
Methodology fees ^c	10 908	8 914
Registration fees ^d	21 066 915	25 092 058
Shares of proceeds ^e	47 817 751	26 392 054
Accreditation fee	367 281	108 533
Accreditation process-related fees	125 395	184 238
UNDP contribution for Africa Carbon Forum		35 000
Interest	1 313 137	–
Total operating income for the year	108 747 093	126 337 704

^a 1 January through 31 December 2011.

^b 1 January through 31 August 2012. Not included is a reserve fund of USD 45 million.

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

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

^d A non-refundable submission 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 or a prepayment of share of proceeds.

^e 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 amounts in excess of 15,000 CERs.

96. At its sixty-sixth meeting, the Board approved a management plan and related budget amounting to USD 45,351,746 for the calendar year 2012, including funds for work relating to the high-level policy dialogue on the CDM and to purchase and start implementing a new information technology system (USD 2.15 million and USD 1.22 million was expended on these special projects, respectively, to the end of August). This amounted to a USD 5.6 million, or 14 per cent, increase over the previous year's budget. Expenditure of USD 29,014,365 was incurred to 31 August 2012. On the basis of projected expenditure, the budget utilization rate is expected to approach 100 per cent (see table 5).

Table 5

Comparative status of expenditure against budget
(United States dollars)

<i>Budget and Expenditure</i>	<i>2011^a</i>	<i>2012^b</i>
Budget	39 733 419	45 351 746
Expenditure	34 230 187	29 014 365
Expenditure as percentage of budget	86%	64%

^a 1 January through 31 December 2011.

^b 1 January through 31 August 2012.

97. Income from registration fees and shares of proceeds increased significantly in the past six years, resulting in a substantial reserve, which can comfortably finance activities for the next three years. That said, uncertainty over the impact of changing rules within existing markets and unclear levels of use of CERs in new emerging markets make it impossible to know with any certainty the likely financial position of the mechanism in the medium and longer term.

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

98. This section contains the specific recommendations from the Board to the CMP.

Significant deficiencies

99. The Board revised the draft procedure for addressing significant deficiencies in validation, verification or certification reports so as to enable DOEs to better quantify, and therefore manage, the liability under the draft procedure, including by:

(a) Providing a link to the CDM materiality threshold in the definition of significant deficiency;

(b) Setting a time limit for commencement of reviews counting from the point of submission of validation, verification or certification reports;

(c) Limiting the applicability of the draft procedure to validation, verification or certification reports that are submitted on or after the date that the draft procedure enters into force;

(d) Providing for an independent review of the Board's decision under the draft procedure.

100. The Board recommends that the CMP:

(a) Adopt the draft procedure, as contained as contained in FCCC/KP/CMP/2012/11;

(b) Request the Board to refine the procedure as required, taking into account experience gained in implementing the procedure.

Withdrawal of letters of approval

101. The Board recommends that the CMP decide that if a Party withdraws or suspends a letter of approval, the Party shall, as soon as possible, inform the Board of when the withdrawal or suspension will take effect, and any other relevant implications of the withdrawal or suspension on the particular CDM project activity or programme of activities.
