

EXECUTIVE BOARD ANNUAL REPORT 2010

CLEAN DEVELOPMENT MECHANISM





Figure 1. Registered project activities by host party. Total: 2,453

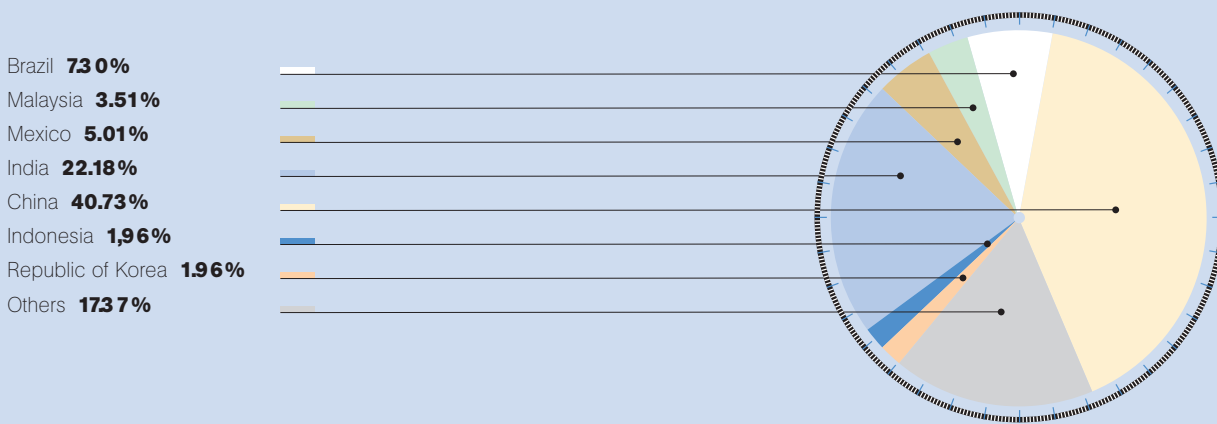


Figure 2. Distribution of registered project activities by scope

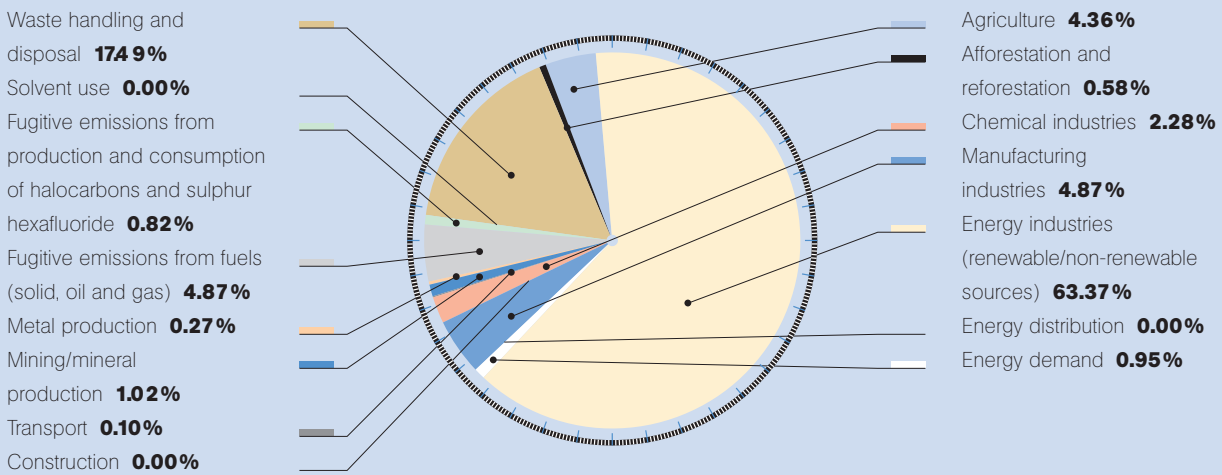
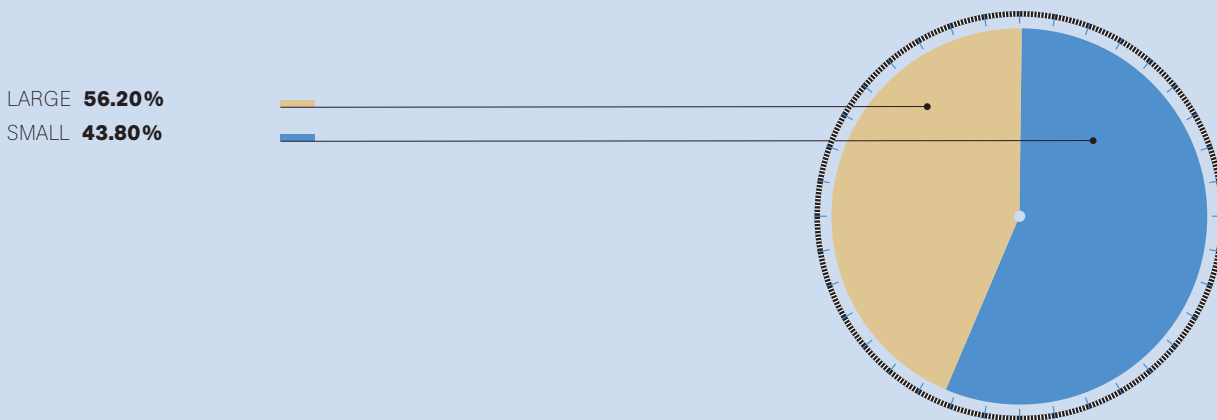


Figure 3. Registered project activities by scale. Total: 2,453



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

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

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

UNFCCC

United Nations Framework Convention on Climate Change

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'Woman Self-Help-Groups replacing GLS bulbs with energy efficient CFL lamps in domestic households in India', photo by **Boris Brongner**
CDM Project T754 - Visakhapatnam (India) OSRAM CFL Distribution CDM Project

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A VIRTUOUS CIRCLE

A year ago I wrote about growing and improving the CDM together. By together I meant CDM stakeholders, the Board and its support structure, and Parties. I described a virtuous circle in which the experiences of the Board and stakeholders would feed an ever-improving, ever-expanding mechanism.

I think this has taken shape. Indeed, we have completed a lot of good work together, and have made important improvements. Yet, there remains much to be done – the frustrations of project developers are palpable, the calls for more projects in more developing countries is louder, and understandably so. Why is it then, that as we approach 3500 registered projects – and here I include the almost 1000 component project activities associated with programmes of activities – we do not have a mechanism that is better able to serve the needs of developing countries and meet the expectations of the market.

Some of the answers lie in the fundamental structure of the CDM, others lie in the performance of the Board and its support structure, still others rest with project developers themselves. The Board is committed to improving and scaling up the CDM, and counts on all stakeholders and Parties to join in the effort, building on what clearly is, despite expectations, a remarkable, ever-improving mechanism. We must work together.

A handwritten signature in blue ink, consisting of several fluid, overlapping loops and lines.

Clifford Mahlung, *Chair*
CDM Executive Board



MEETING THE CHALLENGES OF THE FUTURE

Amid ongoing uncertainty about the future, it is sometimes easy to forget that the CDM has been a remarkable, even unexpected, success, not simply in terms of the projects and emissions it has delivered, but in terms of the institutional and cultural change it has driven. Its success must also be measured in terms of the transformation of attitudes to emission reductions around the world, and how it has brought countries, public institutions and businesses together in delivering them.

Nevertheless, the mechanism faces considerable challenges. Demonstrating the ability to deal with an up-scaling of activities while balancing stakeholder interests and maintaining confidence in assessments that are both robust and efficient will be key.

This year has seen a comprehensive effort to deal with key challenges: clearer, simpler procedures and requirements have been adopted, together with more challenging targets and timelines; the secretariat's programme that supports the CDM was restructured; and dialogue with and between stakeholders was increased.

Many of these changes will take time and effort to deliver. And this is just a start. However, I am confident that they put the CDM in a better place for the future. The mechanism remains the template for international carbon market governance and action.

A handwritten signature in blue ink that reads "Hession". The signature is written in a cursive, slightly slanted style.

Martin Hession, *Vice-Chair*
CDM Executive Board



World's largest O&G CDM project by Qatar Petroleum, photo by Cordilia Elogie
CDM Project 0763: Al-Shaheen Oil Field Gas Recovery and Utilization Project

LAYING A SOLID FOUNDATION FOR SCALED UP, EFFICIENT CDM

The clean development mechanism (CDM) passed some important operational milestones in the reporting period, most notably the registration of the 2000th project activity and the first inclusion of component project activities into a registered programme of activities.

However, the main achievement of the Board during the reporting period was the streamlining of procedures. This work was informed by policy retreats in 2009 and carried out in response to a request from the Parties to the Kyoto Protocol at their fifth session (CMP5). The new procedures lay the foundation for significantly improving the efficiency and transparency of the operations of the CDM.

Also of note during the reporting period, the Board adopted a new standard for accrediting third-party certifiers – designated operational entities (DOEs) – which addresses three requests from Parties at CMP5, relating to impartiality, reporting, and technical areas and competence, in the context of improving DOE capacity.

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

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

IS CDM DELIVERING ON ITS PROMISE?

It is the responsibility of the CDM Executive Board to ensure that the emission reductions produced under the CDM are true emission reductions. The challenge faced by the Board is to do that while ensuring efficient throughput of project registration and issuance case work, promoting equitable participation by developing country Parties, and helping to deliver on CDM's promise for sustainable development.

Most would argue that in all of these areas the CDM has room to improve, especially when assessed against the tremendous need for action on climate change and the great promise that the CDM holds. This is a fair assessment that together with the direction given to it by Parties drives the work of the Board. This work is resulting in important progress on many fronts. Perhaps the single biggest example of that is the registration of many hundreds of component project activities under the umbrella of a programme of activities in 2010, hopefully signalling a new phase in a scaled up CDM.

HEADWIND OF UNCERTAINTY

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



'New horizons', photo by **Julio Alberto Pavese**
CDM Project 0268: Lages Methane Avoidance Project

IMPROVING EFFICIENCY IN CDM PROCESSES

As requested by Parties at CMP5, the Executive Board adopted and has applied revised procedures for registration of project activities and issuance of certified emission reduction (CER) credits, together with revised procedures for the Board's review of requests for registration and CER issuance.

The procedures, which include clear timelines for each stage of registration and issuance, place emphasis on the need for DOEs to ensure the quality of submissions and for the secretariat to identify, at an early stage of processing, submissions that do not meet expected quality standards.

Problems can thus be reduced, and problems that do exist are more often addressed before they reach the Board, allowing the Board to devote more of its time to supervising CDM operations and developing policy guidance.

Much work was also done in the reporting period to increase the consistency and quality of work done by DOEs, through performance follow-up, adoption of a new accreditation standard, training of those who assess DOEs and harmonizing the interpretation of requirements.

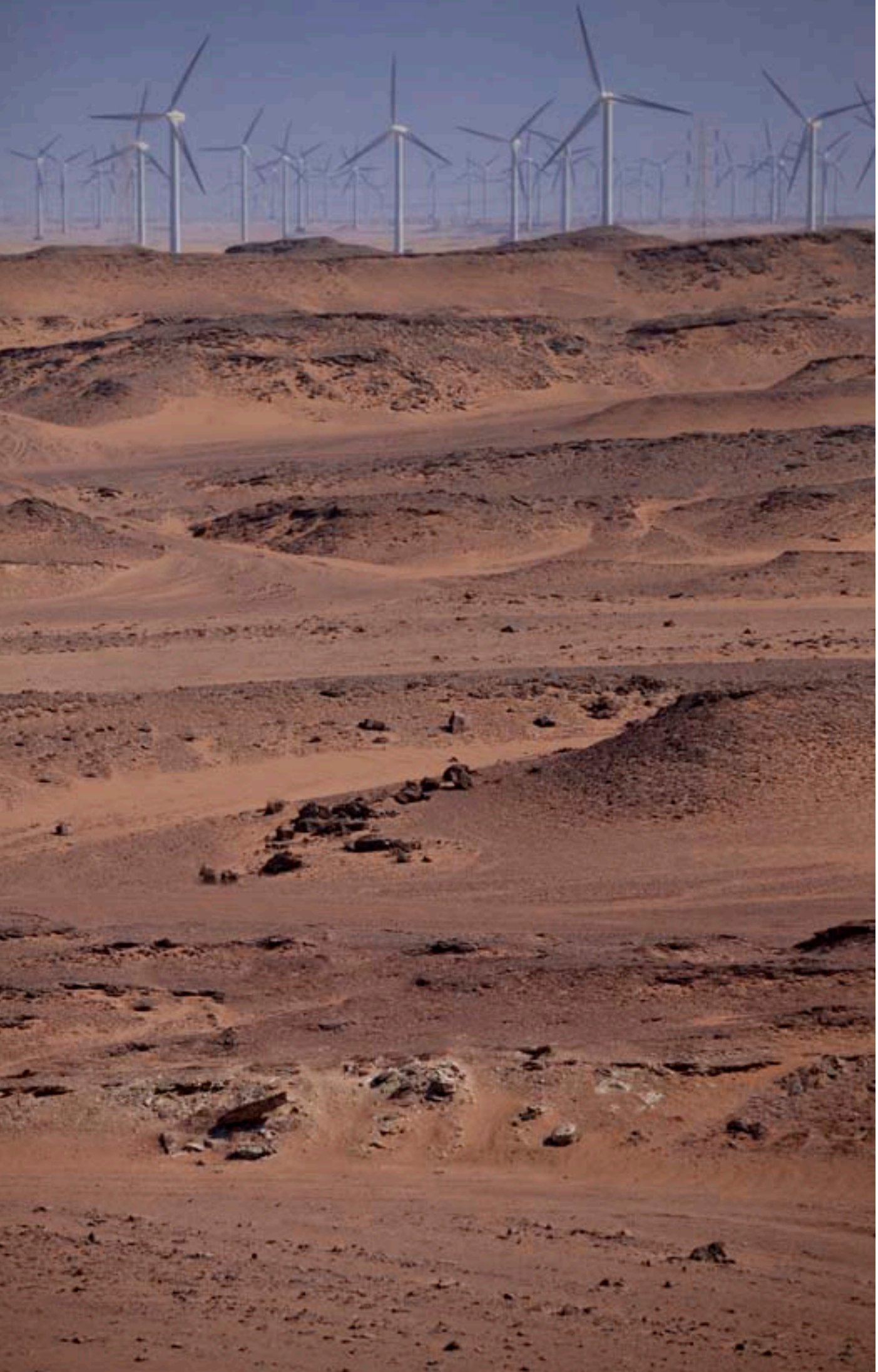
As part of a further streamlining of the CDM project cycle, the procedures for the consideration of methodology-related submissions were also revised in the reporting period.

CONFRONTING DELAYS – WHERE WE STAND

The Board continues to receive large volumes of requests for registration of project activities and requests for issuance, and the rate of projects commencing validation has increased slightly in the reporting period. While these are positive signals regarding investor confidence in the CDM, the result is a significant challenge for the Board in ensuring that CDM processes are conducted in a timely and efficient manner.

During the reporting period, the Board worked with the secretariat to ensure that the support available for processing of project related submissions was commensurate with the rate of submissions. The combination of streamlining administrative processes, and increasing secretariat staffing in line with the Board's management plan, is just starting to yield results in terms of processing times.

Based on the current rates of processing and rates of submission, the Board expects the waiting times for processing of new submissions to be in line with procedural requirements in early 2011. Further, it is expected that the volumes of project related submissions processed in the coming reporting period will be substantially greater than in the current and past reporting periods. This will certainly be necessary given the expected continuous increase in the rate of requests for issuance in the coming two years.



'The farm behind the dunes', photo by **Christos Anagnostopoulos**
CDM Project 0740: Zafarana Wind Power Plant Project

ENHANCING TRANSPARENCY

Transparency of information and active involvement of stakeholders are important features of the CDM. These were further enhanced in the reporting period through changes made to the registration, issuance and review procedures, the methodologies approval and revision process, and the accreditation process.

The new procedures for registration and issuance allow for the publication of the reasons for rejection of submissions at the point of completeness check, allowing more stakeholders to understand and learn from the regulator's interpretation of the applicable rules. Under the new review procedures the Board will publish a formal ruling explaining its reasons in cases where a request for registration or issuance is rejected. This is particularly important if the CMP at its sixth session agrees to establish an appeals process, as recommended by the Board.

The revised procedures for approval and revision of methodologies allow for more direct involvement of project participants in clarifying the concepts behind proposals and in assessing the recommendations of the Board's Methodologies Panel.

The revised procedures for accreditation allow entities to appeal all negative recommendations of the Board's Accreditation Panel, and expand the scope of the allowed appeals. These procedures also introduce for the first time a system for handling complaints, both against entities and from entities against the Board's support structure of panels and working groups.

OPENING LINES OF COMMUNICATION

It is true to say that CDM was built by its stakeholders, and continues to be built and shaped by them, through their writing of methodologies and their suggestions for improvement borne of experience. The Parties to the Kyoto Protocol have called for clearer, more direct lines of communication to the Board and its support structure, in particular the UNFCCC secretariat.

In 2010, the secretariat implemented a thorough restructuring of the programme that supports the Kyoto Protocol mechanisms. An important part of that restructuring was the creation of a separate unit dedicated to organization and stakeholder development.

The unit has already organized various activities, including roundtable discussions with key public and private sector stakeholder groups. The purpose of the events is to enhance interaction and communication, including with project participants directly, and not just through their designated operational entity.

The secretariat also organized a practitioners workshop on energy efficiency methodologies for small scale project activities, to highlight real-world difficulties in applying existing requirements and to support the Board's Small-Scale Working Group to develop solutions. The Board made a call for public input that will inform the planning of future workshops.



'Beautiful', photo by **Salvador Chiquillo**
CDM Project 0297: LaGeo, S.A. de C.V., Berlin Geothermal Project, Phase Two

MAINTAINING THE QUALITY OF EMISSION REDUCTIONS

The procedural changes adopted in 2010 were designed to, among other things, support and promote the quality of submissions received, as well as the quality of work of the Board's support structure – its panels and working groups and the secretariat.

The Board is committed to ensuring that the CERs issued under the CDM meet Parties' expectations for environmental integrity. Likewise, the Board is committed to ensuring that the products delivered and work carried out on behalf of the Board meet established quality standards.

During the reporting period, the Board introduced a performance monitoring framework for DOEs. Beyond indicating performance, the results generated will be used to support a system-wide quality assessment process, to identify and address the areas causing the greatest difficulty for stakeholders and the support structure in complying with quality expectations.

Regarding additionality, work is progressing on development of a tool that will facilitate more objective determination of additionality, which remains the single biggest reason for projects to go under review and be rejected.

SIMPLIFYING STANDARDS, REQUIREMENTS RELATING TO PROJECT ACTIVITIES

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

In addition, the Board, with the assistance of its support structure, has initiated a systematic review of the current rules and requirements of the CDM to ensure that unnecessary complications are removed or reduced. In this regard, particular focus will be placed on simplifying the criteria for the demonstration of additionality and the establishment of emissions baseline scenarios.

ENHANCING GOVERNANCE

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



'Students clean up a beach', photo by **E.V. Sreekumar**
CDM Project 1904: Avoidance of Methane Emissions from Municipal Solid Waste and Food Waste through Composting

IMPORTANT WORK DONE TO ENHANCE REGIONAL, SUB-REGIONAL DISTRIBUTION

Since the CMP met at its first session to give guidance to the Board, the equitable regional and sub-regional distribution of CDM project activities has been a key concern for Parties.

Acting under the direction of Parties, the Board has worked to remove as many of the regulatory barriers to broader development of the CDM as possible. The increase in programmes of activities, under which an unlimited number of similar project activities can be administered under the umbrella of a single registered programme, indicates that the CDM can be successful at promoting sustainable development in least developed countries.

The Board remains committed to addressing the remaining barriers within its control. Meanwhile, the UNFCCC secretariat will expand its support to capacity-building initiatives, both through the Nairobi Framework and other bilateral and multi-lateral initiatives within the United Nations and with other interested organizations.

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

To further help spur regional and sub-regional distribution of CDM project activities, the Board has proposed guidelines and modalities for operationalization of a loan scheme to support the development of CDM project activities in countries with fewer than 10 registered CDM project activities. These guidelines were developed in response to a request by Parties at CMP5.

EXTENDING THE REACH OF THE CDM

There are now CDM projects in about 70 countries. Still, most of the CDM projects registered worldwide are concentrated in just a few countries – 50 countries have fewer than 10 projects and 21 countries have just one project.

Aside from the work that the Board and secretariat are doing to promote participation through methodology development and procedural changes, much work is being done to support full and productive engagement at the national level.

The secretariat, which serves as coordinator of the Nairobi Framework initiative to extend the reach of the CDM, also coordinates regular meetings of the Designated National Authorities Forum and conducts regional training events for national authorities.

The capacity of countries to raise awareness about and participate in the CDM has been noticeably enhanced in the past few years. This, together with methodological and procedural enhancement, not least the simplification and streamlining of the CDM, is expected to lead to ever more equitable participation in the mechanism.

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Back – Moises Alvarez, 'Watching from the flare station'; CDM project 2595: Bionersis project on La Duquesa, Dominican Republic

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* Recycled paper

Figure 4. Registered projects by region. Total: 2,453

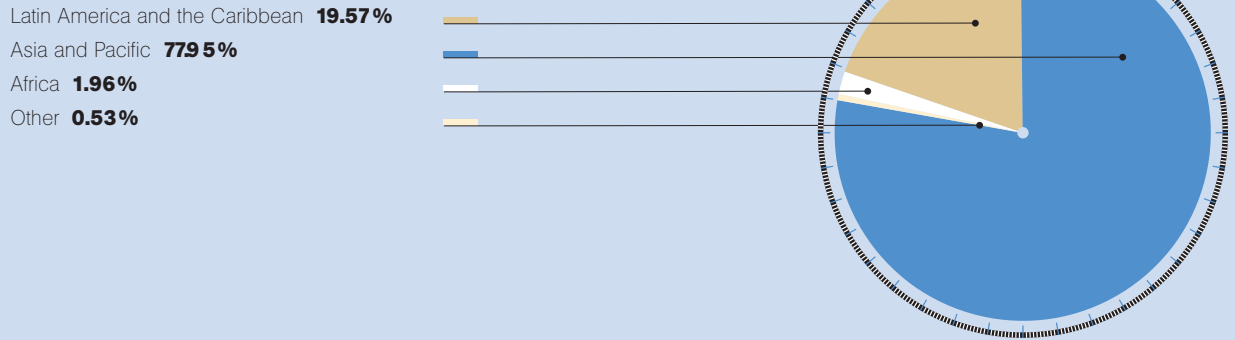


Figure 5. CERs issued, by host party. Total: 448,858,231

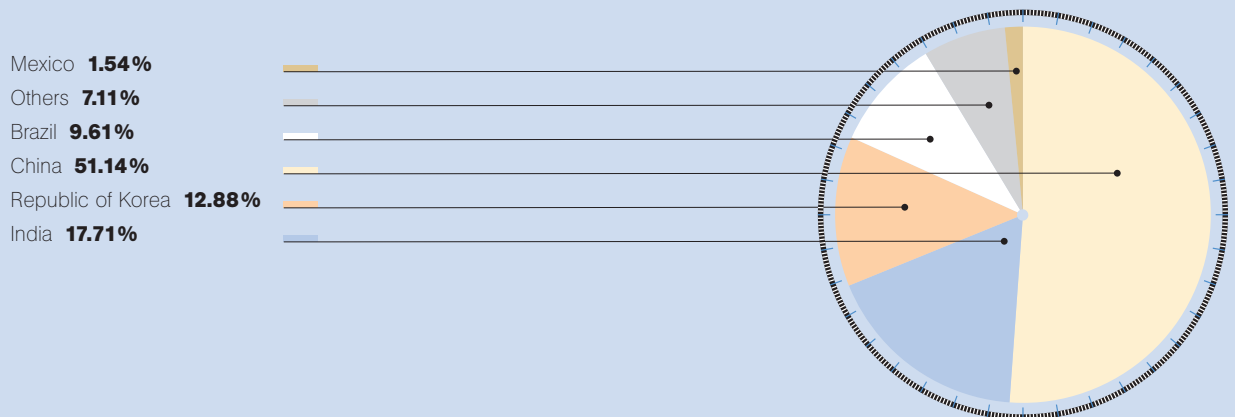
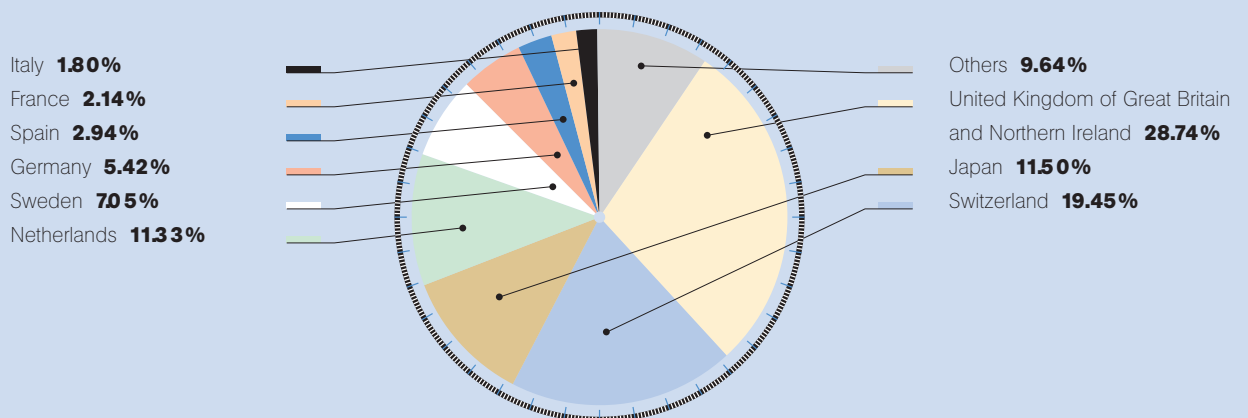


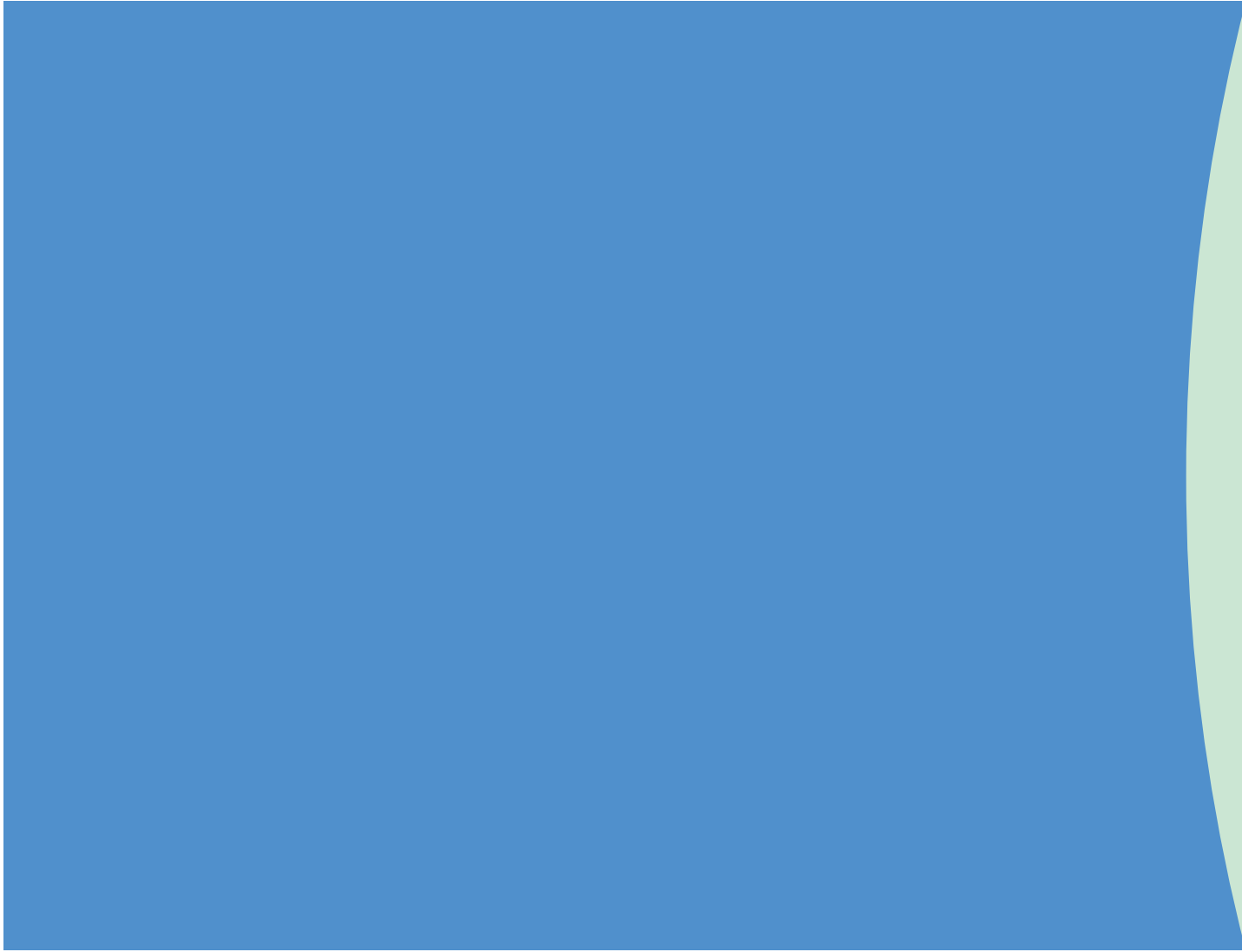
Figure 6. Investor parties



Based on authorization for participation in the CDM, i.e. per cent of total letters of authorization issued, by authorizing party. A project can have more than one investor party involved.







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