

EXECUTIVE BOARD ANNUAL REPORT 2011

CLEAN DEVELOPMENT MECHANISM



United Nations
Framework Convention on
Climate Change





Figure 1. Registered project activities by host party. Total: 3,542



Figure 2. Distribution of registered project activities by scope

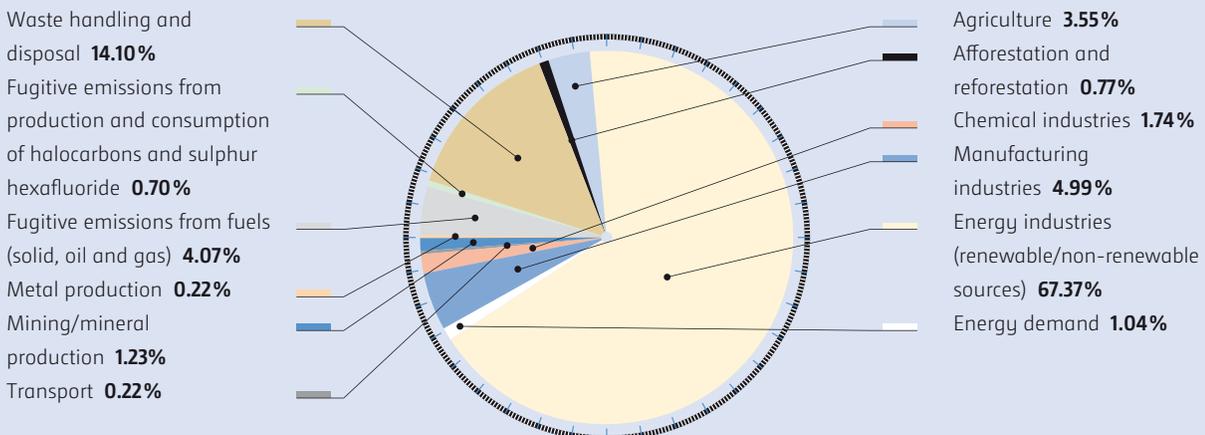
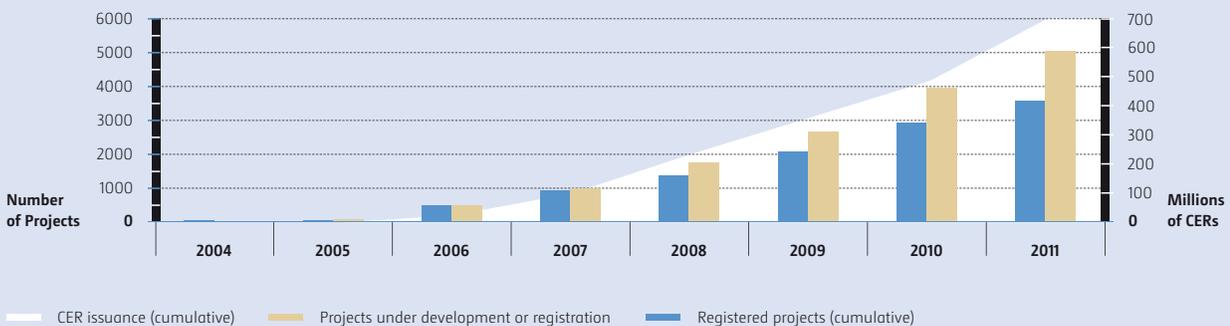


Figure 3. Projects and issuance of certified emission reductions



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

See especially 3/CMP1, Modalities and procedures for CDM and 4/CMP1, which includes simplified modalities and procedures for small-scale CDM.

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

All figures above are as at 21 October 2011.

The body of the book covers the reporting period 15 October 2010 to 26 October 2011, in accordance with decision 1/CMP2, paragraph 11, and decision 2/CMP3, paragraph 7.

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'Delivering corn stalks to the project site', photo by **Xiaodi Cai**
CDM Project 3965: Anhui Suzhou 2x12.5MW Biomass Power Generation Project, China

TABLE OF CONTENTS

A TIME TO RECOGNIZE AND BUILD ON SUCCESS	4
BOARD COMMITTED TO A CONTINUALLY IMPROVING CDM	5
INCREASING NUMBERS, EXPANDED REACH	7
SIMPLIFYING REQUIREMENTS WHILE ENSURING QUALITY	9
REMOVING BARRIERS TO PARTICIPATION IN UNDERREPRESENTED COUNTRIES	11
ENGAGING STAKEHOLDERS IN AN EVOLVING MECHANISM	13
CDM FIT FOR THE PRESENT, FIT FOR THE FUTURE	15



A TIME TO RECOGNIZE AND BUILD ON SUCCESS

In the 10 years since the adoption of the Marrakesh Accords and the prompt start of the CDM, the mechanism has demonstrated the real potential of carbon markets to deliver mitigation, investment and sustainable development in more than 70 developing countries.

More than anything, the CDM has communicated in concrete terms and to the broadest audience how sustainable development and real action to reduce emissions is possible. Of course, the enterprise is complex and implementation has not been without challenges. A lot has been learned along the way. I am hopeful that the high level policy dialogue we have launched will deliver a thorough assessment of these achievements and make recommendations that build on success next year.

The past year has seen a tremendous enhancement in the CDM's potential, through simplification, clarification of our requirements and, most importantly, fundamental improvements to our methods of assessment. Other initiatives have yet to realize their promise. Standardized baselines provide a route whereby scaling up, improved and more broadly based emissions standards, and an increased involvement of host countries in defining crediting thresholds can be implemented. The concept of suppressed

demand provides a route whereby poorer countries and regions not yet benefiting from the CDM can do so, bypassing high carbon development paths.

These are just a few examples of how the CDM is evolving and improving, and they illustrate clearly the potential embodied in this mechanism. As the first commitment period draws to a close, the CDM finds itself busier than ever, even in the face of a fall off of investment due to limited demand and future uncertainty. The Executive Board has worked successfully, guided by the Parties to the Kyoto Protocol, to make the CDM a robust mechanism, effective in the present and fit for the future. I hope that this next year will see Parties recognize our joint achievement and build on the CDM's success.



Martin Hession, *Chair*
CDM Executive Board



BOARD COMMITTED TO A CONTINUALLY IMPROVING CDM

The past year has been extremely productive for the CDM Executive Board, a year which had the Board busily positioning the CDM to meet evolving needs and challenges. The Board's commitment to a more executive approach, combined with enhancements in the regulatory process leading to higher quality submissions, saw the Board devote more of its energy in 2011 to improvements that can expand the use and reach of the CDM.

Countries have been keenly interested in the CDM since its inception. However, growth in terms of number of projects has been uneven. This uneven regional distribution is an important concern of Parties and the Board, and more was done in 2011, compared with previous years, to address this concern. The result is a more accessible, more flexible, more useful market-based mechanism.

It would be a great pity if the potential of the CDM could not be fully realized, after Parties, the Board and so many public and private sector stakeholders have devoted so much energy and resources to make it the effective mechanism it is today. Some developing countries, after much encouragement and considerable investment, are just now beginning to reap the benefits of the CDM. The Board, for its part, will continue to make the CDM an ever more useful tool to mitigate climate change and an ever more useful tool to help developing countries achieve their sustainable development goals.



Duan Maosheng, *Vice-Chair*
CDM Executive Board



'Windmill and excavator', photo by Zhongchao Huang
CDM Project 4256: Putian Shijing Wind Farm Project, China

INCREASING NUMBERS, EXPANDED REACH

The clean development mechanism (CDM) continued to grow in 2011. There are now more than 3500 registered projects in 72 countries and a further 3600 plus projects are in various stages of the vetting process. To date, some 1220 projects in 45 countries have been issued a total of more than 750 million certified emission reductions (CERs). Significant in 2011 was the growth in the number of programmes of activities (PoAs), under which an unlimited number of similar component project activities (CPAs) across a county or region can be registered under a single administrative umbrella. PoA is seen as a way to scale up and extend the reach of the CDM, especially in underrepresented regions. There are now 13 registered PoAs in 11 countries, with a total of 1103 CPAs.

The geographical distribution of projects is expected to continue to change as more projects under development reach the registration phase. This reflects the growing maturity of the CDM as a market instrument that engages ever-broader regions. In particular, 72 projects were registered in Africa by the end of the reporting period, compared with 46 a year earlier.

Transactions involving CERs were valued at approximately USD 20 billion in 2010. Despite the fall from a peak in market value in 2008 of around USD 33 billion, largely as a result of declining CER prices under domestically legislated emissions trading systems, most significantly in Europe, the CDM remains the world's largest generator of carbon offset credits.

In the 10 years since Parties adopted the modalities and procedures that govern the CDM, the mechanism has evolved and matured. With increased maturity has come increased evidence of the CDM's contribution to sustainable development. Among the most measurable impacts is transfer of technology to developing countries, which has been shown to be particularly strong in the early years of a host country's involvement. Overall, up to 44 per cent of projects registered and under development are estimated to involve technology transfer, although rates for specific project types range from 13 to 100 per cent.

GROWTH THREATENED BY UNCERTAINTY

Growth in the CDM further confirms the value that Parties and stakeholders place in the mechanism. At the same time, many market participants note a drop in the number of new projects entering development, largely due to uncertainty over the level, timing and nature of new emission targets under negotiation at the international level. Uncertainty also surrounds the levels of CER demand from domestic emissions trading systems, in terms of volume and ineligibility of certain classes of CERs.

While waiting for clarity on these issues, stakeholders in the CDM are assessing the risks they face and making decisions. A serious contraction is taking place in the businesses that develop projects and service the CDM market, in terms of both staffing and levels of activity. The Board views this development with great concern as there is today a considerable risk of losing the private sector engagement and momentum in the mitigation of climate change that the CDM has been instrumental in generating.

In this context, the CDM Executive Board is reinvigorated in its conviction to ensure, simultaneously, the environmental integrity of the CERs it issues and the efficiency and effectiveness of the mechanism itself. The Board considers that its role, within the guidance set by the Parties to the Kyoto Protocol, is to ensure that the CDM remains a viable and effective instrument for use by Parties and the private sector to combat climate change and achieve the objective of the Convention.



"Brick factory workers in Egypt", photo by **Abeer Ibrahim**
CDM Project 0834: Egyptian Brick Factory GHG Reduction Project, Egypt

SIMPLIFYING REQUIREMENTS WHILE ENSURING QUALITY

The Executive Board and its support structure have enhanced the efficiency of many processes under the CDM by, among other things, increasing the clarity of guidance and removing unnecessarily complex rules, all while ensuring the quality of emission reductions generated.

The Board developed guidelines on standardized emissions baselines that allow countries to calculate the typical emissions for an entire sector and create a list of technologies or measures that are automatically additional. The Board also adopted a straightforward approach for demonstrating additionality using the concept of “first of its kind” and provided guidance on common practice.

The Board worked in 2011 to refine and consolidate the CDM’s general requirements into three new cornerstone documents: a project standard for project participants, a validation and verification standard for designated operational entities, and a project cycle procedure that includes opportunities for direct communication between project participants and the UNFCCC secretariat.

The Board is aware, however, that further simplification of the CDM requirements is necessary in the next year and beyond. In particular, the Board will conduct a comprehensive analysis of its standards and procedures, with a view to determining whether simpler approaches could be applied to achieve the same results. Where necessary, this will be achieved by applying conservative default values, to set emissions baselines for example, or conservativeness factors, to address uncertainty and ensure environmental integrity. The Board considers this to be a crucial further task in ensuring the long-term efficiency and attractiveness of the mechanism.

KEEPING PACE WITH DEMAND

In December 2010, the UNFCCC secretariat cleared a stubborn backlog of requests for registration and issuance. This was achieved through re-focusing resources within the secretariat and engaging 25 external experts, who remain on call to help address spikes in submissions. This and the Board’s elimination of a backlog in the consideration of new methodologies are clear examples of success in enhancing the efficiency in the operation of the CDM. The Board endeavours to ensure that the processing of future registration, issuance, accreditation and methodology requests will remain within established timelines.

The Board expects a further influx of registration cases through 2012, as project participants seek to have their projects registered by the end of the first commitment period under the Kyoto Protocol. The Board is identifying ways to ensure the adequacy of resources to process this anticipated caseload.



'Cook stoves in Nepal', photo by Bhagirath Prasad Ghimire
CDM Project 4530: Efficient fuel wood cooking stoves project, Nepal

REMOVING BARRIERS TO PARTICIPATION IN UNDERREPRESENTED COUNTRIES

The Executive Board's work in the reporting period on clarifying the rules for programmes of activities, establishing standardized baselines and further simplifying the procedures for micro-scale project activities should increase the CDM's potential to be scaled up in underrepresented regions.

In a further important step, the Board agreed on guidelines for "suppressed demand" that allow a project developer in an underrepresented country to assume a level of expected future development when setting the emissions baseline. Thus, a project can earn CERs for avoided emissions. These guidelines incentivize the introduction of clean development technologies, thereby helping host countries to bypass the use of dirtier technologies.

The Board also developed five methodologies specifically suited to projects in underrepresented regions and small communities. In addition to addressing climate change, these methodologies cover activities that help alleviate poverty, for example by purifying water and providing lighting in rural areas.

As well, the secretariat is close to identifying an agency to implement a loan scheme, agreed to by Parties last year, to support the preparation of project design documents in underrepresented countries.

In the next reporting period, the Board and its support structure will conclude on work to create: standardized templates for validation and verification reports and the digitization of project information; reports on the potential for CDM project development in underrepresented regions, including profiles of greenhouse gas emission and reduction potentials in non-Annex I countries and a targeted action plan for outreach and capacity-building; and three more small-scale methodologies targeted specifically at underrepresented areas.

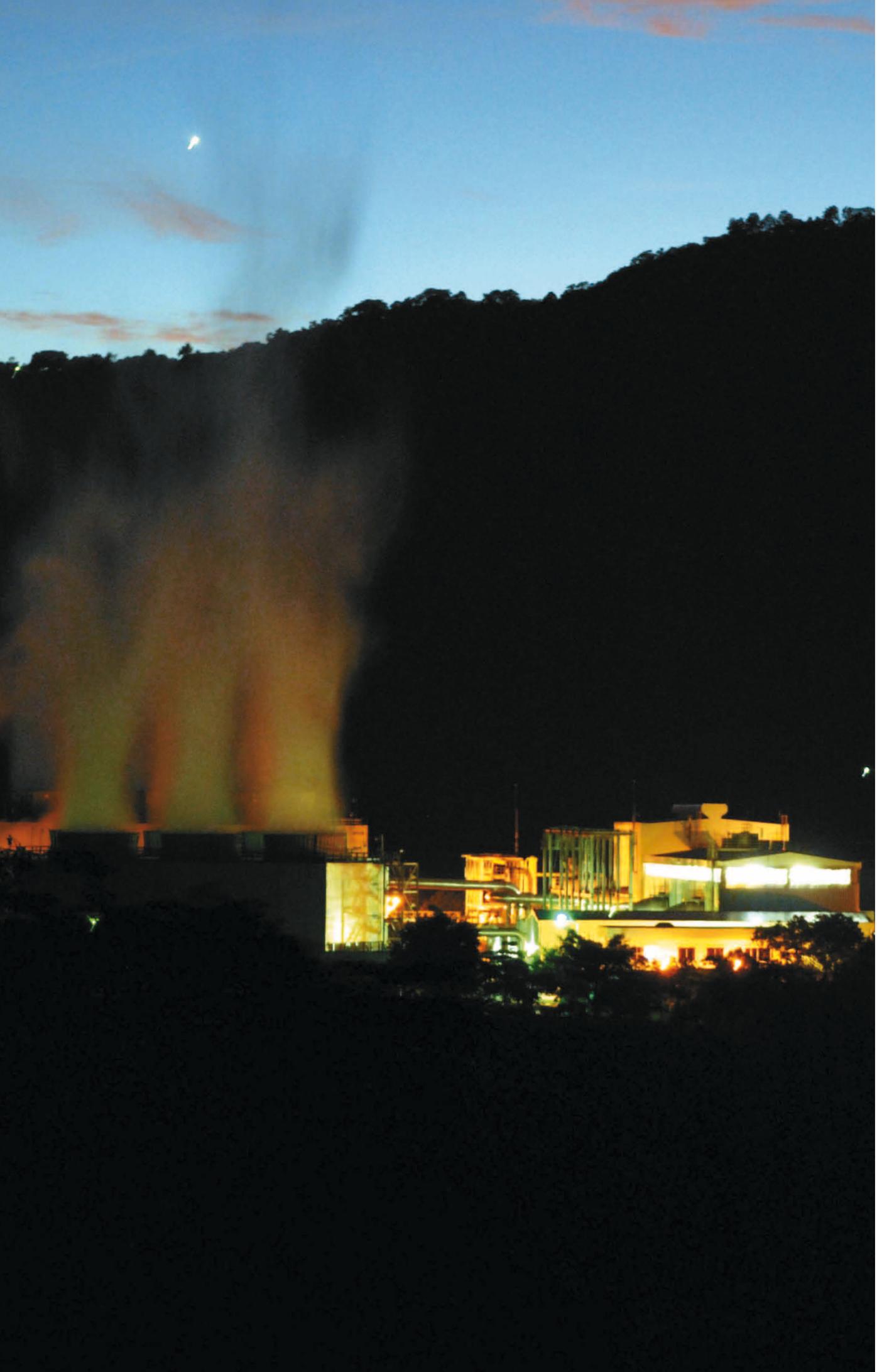
ENHANCING AWARENESS AND UNDERSTANDING OF THE MECHANISM

The Board recognizes the importance of promoting greater awareness and understanding about the CDM. In this regard, the Board worked during the reporting period to enhance awareness among stakeholders and policymakers of the benefits of the CDM, specifically its contribution to climate change mitigation and sustainable development.

The secretariat examined the extent to which technology transfer has occurred to date through the CDM and looked for insights into how this transfer can be expected to continue in the future. Forthcoming studies are expected to provide insight into the further sustainable development benefits of the CDM and levels of investment made in developing countries through the mechanism.

The Board, via the secretariat, also worked with designated national authorities (DNAs) through projects such as the DNA Communicators of the Year Showcase to help them disseminate information on the CDM; with project participants through the CDM Changing Lives Photo and Video Contest; with industry associations through participation in carbon market events; and with private sector communicators through projects such as the Radio for Africa contest.

An important part of the Board's communication and outreach work is focused on enhancing its media outreach. Press highlights were issued after each Board meeting and the Chair of the Board, in his role as principal spokesperson, made himself readily accessible to members of the press.



'Geothermal plant in El Salvador', photo by **Jorge Méndez**
CDM Project Q237. Lagoa, S.A. de C.V. Berlin Geothermal Project, Phase Two. El Salvador

ENGAGING STAKEHOLDERS IN AN EVOLVING MECHANISM

Much progress has been made to further open the CDM to stakeholder participation. This has gone hand-in-hand with progress in capacity-building, covering a range of priority topics and stakeholder groups. In 2011, the secretariat organized some 25 workshops, round-table discussions, forums and training sessions in about 10 countries. These brought together project participants and other private and public sector stakeholders, designated operational entities, and designated national authorities to share information and solicit input that would be used to enhance the workings of the CDM.

The Board is identifying further measures, for inclusion in its next two-year business plan, to ensure greater involvement of stakeholders, including practitioners and industrial associations, in the design of standards and procedures. Similarly, the Board wishes to increase its interaction with other offset and crediting programmes in order to both learn from their operational and institutional approaches and to share the considerable experience gained in implementing the CDM.

During the reporting period, the Board was confronted with the issue of human rights, specifically the rights of people affected or potentially affected by a CDM project. This caused the Board to initiate work to improve the CDM's rules with respect to stakeholder comment, in particular the extent to which comments are solicited and taken into account in the vetting of a project.

ENHANCING TRANSPARENCY FOR A HEALTHY CDM

In addition to increased interaction between the Board, its support structure and CDM stakeholders, the Board has adopted guidelines and changes in its procedures to achieve greater transparency in the mechanism. For example, in response to stakeholders and Parties, the Board adopted guidelines on reviews of requests for registration and issuance, modalities for direct communication with stakeholders and revised procedures for handling communications to the Board.

During the reporting period, the Board translated key documents and summaries of its meetings into the UN languages. As well, the CDM website was completely revamped to improve access to information, and the online catalogue of decisions was enhanced and revised. On the website, stakeholders can now better track the progress of submissions against agreed timelines and find the latest requirements, including up-to-date lists of items covered in completeness checks of submissions.

Also during the reporting period, the Board began publishing information on the performance of designated operational entities, in the interest of quality, transparency and accountability.

The Board recognizes that further effort is needed to achieve yet more transparency in the mechanism and its governance and will be describing further work in this regard in its next two-year business plan.



'Fish farming in the Philippines', photo by **Rodolfo Azanza**
CDM Project 4542: Ambuklao Hydro Electric Power Plant (AHEPP) Rehabilitation Project, Philippines

CDM FIT FOR THE PRESENT, FIT FOR THE FUTURE

When Parties to the Kyoto Protocol met in Cancun, Mexico, in December 2010, they gave guidance aimed at improving the efficiency of the CDM, increasing the clarity of requirements, increasing stakeholder engagement and extending the reach of the mechanism to those countries that have yet to significantly reap its benefits. The Board worked hard during the reporting period to respond effectively to this guidance and build further upon the improvements inspired by Parties and stakeholders in the mechanism over the past 10 years.

After much investment – intellectual and monetary – by Parties, the Board, and public and private sector stakeholders, the Board considers the CDM to be an effective tool for incentivizing low-carbon development.

A central tenet of the Board's work as it enters the last year of the Protocol's first commitment period is to ensure that the CDM is "fit for the future". The Board has, since its inception, endeavoured to ensure the environmental integrity of the emission reductions and removals for which it issues certified emission reductions. The Board is committed to delivering quality but is increasingly of the view that this quality imperative must go hand-in-hand with a strengthening of the CDM's efficiency and effectiveness.

The Board believes that the considerable number of measures introduced, in particular in 2011, help position the CDM as a benchmark offset system within an increasingly diverse carbon market. The view of the Board is that the CDM is today a mature, well-functioning market-based mechanism that is indeed fit for the future. It is also a mechanism that continues to improve.

While the negotiations on the international climate regime continue, the Board wishes to stress that improvements made to the CDM have enhanced its flexibility, making it ready for any future use that Parties might define.

The Board believes that the CDM should continue to be used to strengthen the collaborative effort of Parties against climate change. It further considers that, under the guidance of Parties and in conjunction with strong engagement by stakeholders, the mechanism can be further adapted to ensure it meets the needs of Parties and stakeholders going forward. The CDM's potential to engage the interest and strengths of both the public and private sector has been shown. The Board encourages Parties to now explore the full breadth of the mechanism's considerable potential.

The Board is of the view that Parties need to provide a strong signal regarding the future of the CDM. The CDM is vulnerable to an exodus of the CDM participants, as well as consultants, brokers and other service providers, that have thus far been fully committed to the mechanism. This puts at risk the engagement of the public and private sectors in the mitigation of climate change, and with it the considerable benefits evident to date in terms of technology transfer and sustainable development. Further, it can be expected to have wider and longer-term repercussions for the collective mitigation effort at the global level. The lack of clarity regarding the future use of the mechanism also creates considerable difficulties for the Board in planning and continuing its work.

The Board is embarking on a significant policy dialogue to review past CDM experience and help ensure the readiness and positioning of the CDM to meet the challenges of the future. This will engage representatives of the wider policy making, research, private sector and NGO communities, as well as the traditional stakeholders in the CDM. The Board expects the dialogue to form a basis for a report to Parties in 2012.

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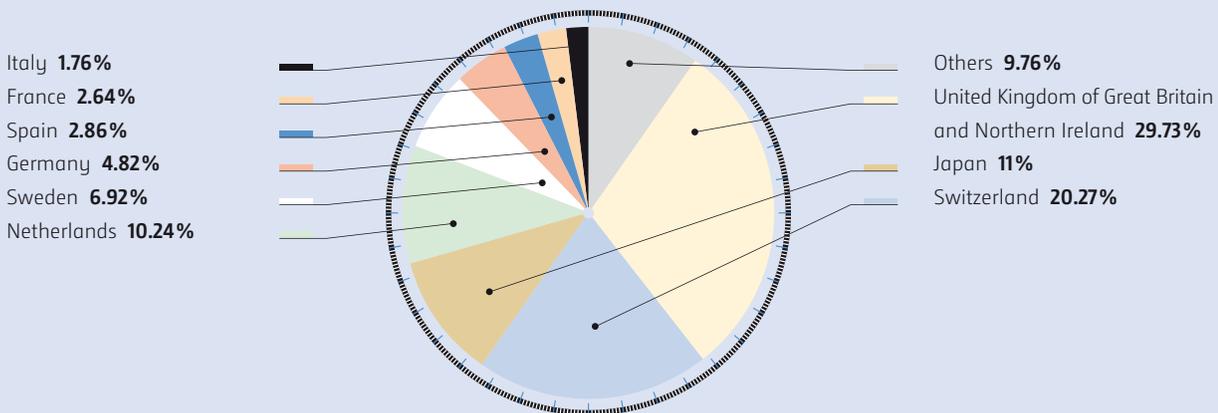
Figure 4. Registered project activities by region. Total: 3,542



Figure 5. Certified emission reductions issued by host party. Total: 754,750,101



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.

All figures above are as at 21 October 2011.

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