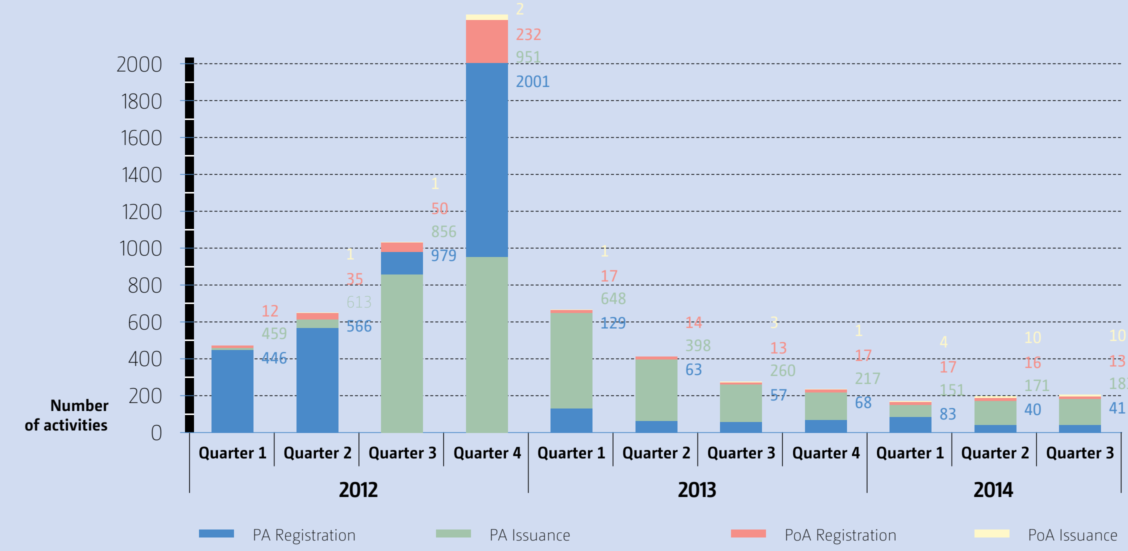
EXECUTIVE BOARD ANNUAL REPORT 2014

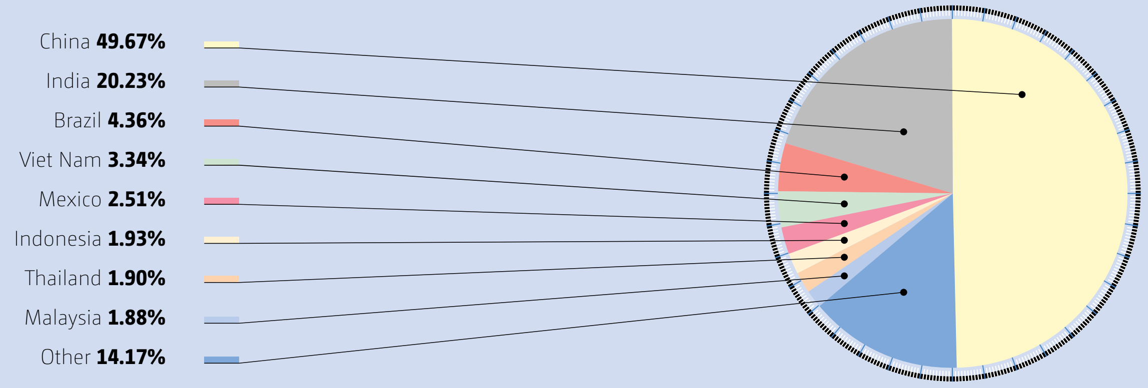
CLEAN DEVELOPMENT MECHANISM

United Nations
Framework Convention on
Climate Change

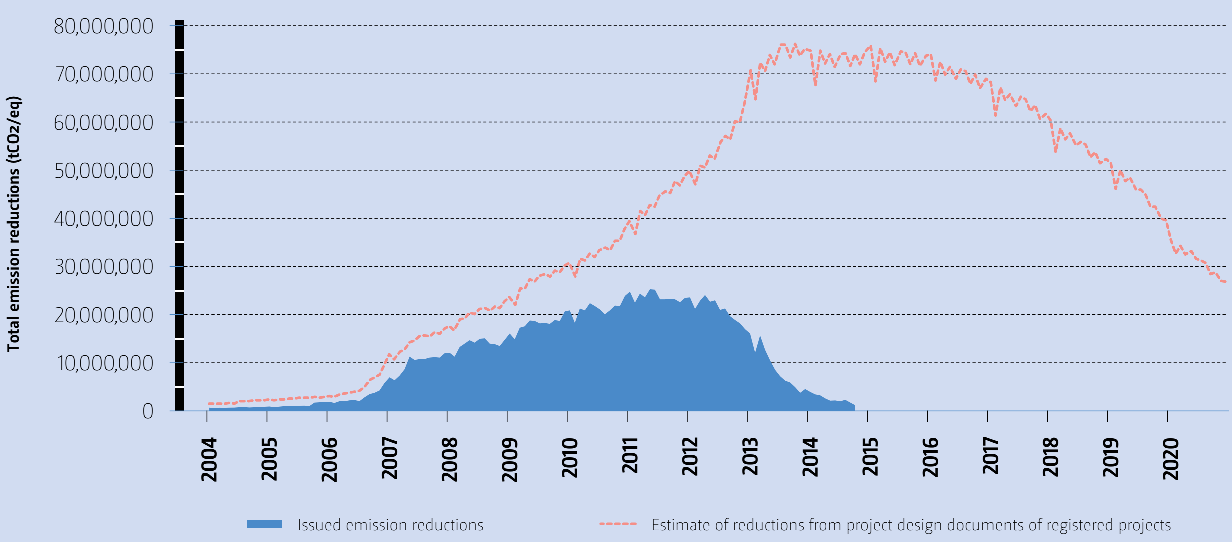
Submissions of requests for registration and issuance for project activities (PA) and programmes of activities (PoA) (first quarter 2012 - third quarter 2014)



Distribution of registered projects by host party - Total: 7,772



Potential and actual issuance of certified emission reductions under the clean development mechanism



For important decisions go to <http://cdm.unfccc.int/Reference/COPMOP/index.html>.
The CDM Executive Board's detailed annual report to the Parties to the Kyoto Protocol is available at <http://unfccc.int/resource/docs/2014/cmp10/eng/05.pdf>.

All figures above are as at 31 October 2014.
The body of the book covers the reporting period 5 October 2013 to 30 September 2014, in accordance with decision 1/CMP.2, paragraph 11 and decision 2/CMP.3, paragraph 7.

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Photo by: Rachel Mountain
CDM Project 0609: Uni-Rich Agro-Industrial Corporation Methane Recovery and Electricity Generation, Philippines

TABLE OF CONTENTS

PASSION INSPIRES SUCCESS

I have often been criticized for being “too passionate.” This year, as Chair of the CDM Executive Board, I make no apologies. People who know the CDM are passionate that the mechanism be allowed to thrive; both now and after a new and ambitious international climate change agreement takes effect in 2020. This shared passion was evident at forums in Africa and Latin America earlier in the year and in the Executive Board’s interactions with organizations at the Secretary-General’s Climate Summit in New York in September. The strong desire, exhibited at these fora, to continue to utilize the CDM to support transformative action was reassuring if not surprising. Over the past nine years, the CDM has been a success both in terms of its ability to reduce emissions (over 1.5 gigatonnes) and as a climate finance instrument having attracted at least USD 138 billion, probably significantly more. The CDM has proven its worth, now it must be put to full use.

Demand from traditional markets (especially the European Union Emissions Trading System) has contracted severely, with the spot price of a secondary CDM certified emission reduction (CER) plummeting from over USD 20 in 2008 to around USD 0.30 in 2014. Investment in new CDM projects is almost non-existent and significant hemorrhaging of private sector capacity is occurring. A rejuvenated CDM has to now find non-traditional markets for its services if it is to remain a potent weapon in the global battle against climate change.

One of the CDM’s unique strengths is its utility for monitoring, reporting and verifying action to reduce greenhouse gas emissions. Thus, the Board sees in the CDM a tremendous opportunity for funding agencies – within and outside the UNFCCC – that wish to finance mitigation projects on the basis of performance, or results-based financing. The CDM allows these agencies to validate and verify the results of every dollar they invest.

The Board is also excited by the soon-to-be launched CDM voluntary cancellation website, available to governments, companies, NGOs, and individuals who wish to make a contribution to climate change mitigation by purchasing and cancelling CERs. Taken together, the currently available CERs and the potential CERs from registered projects, given a meaningful price signal, could close up to 30% of the current cumulative emissions gap.

There are other bright spots on the CDM landscape. The Board is pleased by the performance of its four CDM regional collaboration centres (RCCs). Feedback from Africa, Latin America and the Caribbean has been quite positive. Proving technical assistance, on the ground, is an innovative way to broaden participation in the CDM. It might now be worthwhile to consider expanding the role of the RCCs to assist other mitigation-related activities, for example, Nationally Appropriate Mitigation Actions, national communications and biennial update reports. The RCCs may also have a role in “regionalizing” the technical expert meetings being held under Workstream 2 of the Ad Hoc Working Group on the Durban Platform for Enhanced Action.

The Board is also pleased by the launch of its tool to help identify the sustainable development co-benefits of CDM projects and programmes of activities, and by the strengthening of the rules regarding consultation, to allow input from local stakeholders even after a project or programme has been registered. These measures will hopefully improve the attractiveness of the CDM to the discerning investor and improve transparency and accountability post registration.

However, despite the success of the CDM and the continuing enhancement of its regulations and reach, the Board remains deeply concerned by the further loss in 2014 of CDM capacity, especially in the private sector, due to low demand for CERs, resulting in low prices and diminished incentive to launch projects.

We on the Board are anxious that Parties in Lima this year and in Paris next year renew their commitment to the CDM. They can do this by increasing their demand for CERs pre-2020, by recognizing the value that the CDM can add to emerging domestic and regional emissions trading systems, and by recognizing the mechanism’s obvious potential value to the international response to climate change post-2020.

For its part, the Board is determined that the CDM support structure, the UNFCCC secretariat and the Board’s panels and working groups, will take this challenging period as an opportunity to accelerate development and use of methodologies in under-represented sectors (e.g. transport and agriculture) and facilitate multiple interventions to reduce city-wide emissions. The Board will continue its work on standardized baselines and will further streamline and simplify validation and verification procedures, as requested by stakeholders.

I wish to thank my colleagues on the Board and all those who contributed in 2014 to making the CDM an even more effective tool for international action on climate change and development.

Hugh Sealy
Chair
CDM Executive Board

CDM READY FOR PARIS AGREEMENT

Over the past years, the CDM Executive Board has worked continuously to improve the clean development mechanism, in response to demands from Parties and reflecting stakeholders' contributions, reducing complexity and transaction costs, introducing new and innovative approaches for quantification of mitigation outcomes, and broadening the regional distribution of projects.

The programme of activities (PoA) approach is a good example. Knowing that the CDM could do much more to incentivize smaller projects, especially in underrepresented countries, the Board agreed on rules that allow an unlimited number of activities to be administered under a single programme. The approach was well received by project developers and stakeholders, with some 265 PoAs registered to date in 75 countries. The Board worked in 2014 to further simplify and streamline the requirements for PoAs, allowing batched issuance of certified emission reductions (CERs) and providing more flexibility for implementing PoAs.

Standardized baselines are another important innovation. They make projects more straight forward to develop and validate and enhance the objectivity of project assessment. The Board is further developing the regulatory framework for standardized baselines, using and road-testing a variety of innovative approaches, and assists host countries in preparing submissions of standardized baselines. In 2014, an important milestone was the approval of simplified quality-assurance and quality-control requirements.

In 2014, the Board also focused on simplifying baseline and monitoring methodologies and project cycle requirements, for example by adding streamlined approaches for assessing whether emission reductions from a project are additional and by reducing the costs for monitoring, offering simplified and conservative alternatives.

The current downturn of the mechanism is a real threat. Some projects are at risk of stopping greenhouse gas abatement, and the development of new projects has decreased tremendously. The recently released Fifth Assessment Report by the Intergovernmental Panel on Climate Change points out that the longer we wait, the more it will cost to adapt to and mitigate climate change. We need to close the current gap in mitigation ambition. The CDM offers a valuable tool to achieving deeper emission reductions and assisting developing countries to achieve sustainable development.

The mechanism can be used, and is being used, for multiple purposes, including for voluntary offsetting of emissions, results-based funding where the CDM is used by investors to validate and verify the outcomes of their investments, and in support of domestic policy. The CDM is a ready-made tool for countries establishing emissions cap and trade or tax systems that put a price on carbon. The Board is taking steps to encourage and facilitate the use of the CDM for a broad range of purposes, including through facilitating voluntary cancellation of CERs and engaging with stakeholders.

Until we see an upturn in demand for the mechanism and its CERs, maintaining capacity to run the mechanism will be a challenge. For example, the CDM is seeing diminished capacity of its accredited validators and verifiers, its designated operational entities (DOEs). To help, the Board is working with DOEs to reduce the costs of accreditation.

Increased demand is the key to addressing the CDM's current challenge. The CDM is a mechanism with internationally agreed rules, embedded in the Kyoto Protocol's accounting system, which might offer advantages in ensuring integrity over a fragmented carbon market with multiple mechanisms. The CDM has been built over many years, learning by doing, and has been continually improved. We should not lose this instrument in a future climate agreement.

Lambert Schneider

Lambert Schneider
Vice-Chair
CDM Executive Board

Photo by: Burkhard Seifert
CDM project 2969: CDM Lusaka Sustainable Energy Project 1, Zambia

CDM NUMBERS SHOW FALLING DEMAND BUT RISING POTENTIAL

THIS YEAR SAW CONTINUING DECLINE IN THE CDM. THE NUMBER OF PROJECTS REGISTERED WAS ABOUT A TENTH OF THE NUMBER REGISTERED IN PRECEDING REPORTING PERIODS.

In total, 7,828 projects and programmes of activities (PoAs) were registered under the CDM in 108 countries by the end of the reporting period. Approximately 1,066 further projects (including 114 PoAs) were undergoing validation, a step prior to submission to the Board for registration. With respect to emission reductions, by the end of the reporting period 1.493 billion certified emission reductions (CERs) had been issued from 2,666 projects and PoAs.

There has been a significant decline in the number of new projects being registered. About 180 projects were registered in the reporting period, roughly a tenth of the average annual registrations in the preceding three reporting periods. To a lesser extent, the number of projects issuing CERs has declined to around half the average of the preceding three reporting periods, and the total number of CERs issued has declined to a third of the average of the preceding three reporting periods.

The CDM has seen continued growth in the number of PoAs. By the end of the reporting period there were 266 registered PoAs in 73 countries, with a total of 1,762 component project activities. Under a PoA, an unlimited number of component projects across a sector, country or region can be registered under a single administrative umbrella. This allows for the generation of large-scale emission reductions from the aggregating of smaller project activities that would not otherwise be viable. Thus, PoAs have improved the scalability of the CDM and have helped to extend its reach, especially in underrepresented regions.

The CDM helps countries to achieve their climate change mitigation and sustainable development objectives. The potential of the CDM to deliver emission reductions is significant – around 3.8 billion tonnes of carbon dioxide equivalent by the end of 2020, as estimated in project design documents (PDDs) of registered projects that have been issued CERs at least once. While PDDs tend to be somewhat optimistic, it is apparent that market conditions in recent years have been such that the actual CERs issued so far have been considerably under this potential amount.

The CDM also contributes to the financing of projects designed to help countries adapt to the effects of climate change. Two per cent of all CERs issued, except for projects hosted in the least developed countries, go into the Adaptation Fund, which was established under the Convention. In the reporting period, 2,052,098 CERs were contributed to the Adaptation Fund, bringing the total number of CERs forwarded to the fund from the CDM registry to 29,823,993.

Photo by: Mukesh Dewatwal
CDM Project 0707: India-FaL-G Brick and Blocks Project No.1, India

CDM FACES CHALLENGE OF LOW DEMAND

THE CDM HAS BEEN CHARACTERIZED BY A PERIOD OF IMPRESSIVE GROWTH FROM 2006 TO 2012 FOLLOWED BY A SHARP DECLINE.

The main causes of this decline are generally accepted as not being due to the mechanism itself, but rather to restrictions by some buyers on the quantity, type and origin of certified emission reductions (CERs), economic recession and, ultimately, the level of ambition of Parties to the Convention that are also Parties to the Kyoto Protocol with commitments inscribed in Annex B to the Kyoto Protocol in addressing climate change. All these factors translate into prices for CERs that are only a fraction of the prices seen several years ago.

With the present low prices, projects are either delaying issuance or, in the worst case, ceasing operations. Around half of the project activities that previously issued CERs have not communicated with the Board in the past 24 months. It is further expected that, by the end of 2020, approximately 70 per cent of projects will have reached the end of their crediting periods and around half of these will be eligible to renew their crediting periods.

Projects and programmes of activities entering validation

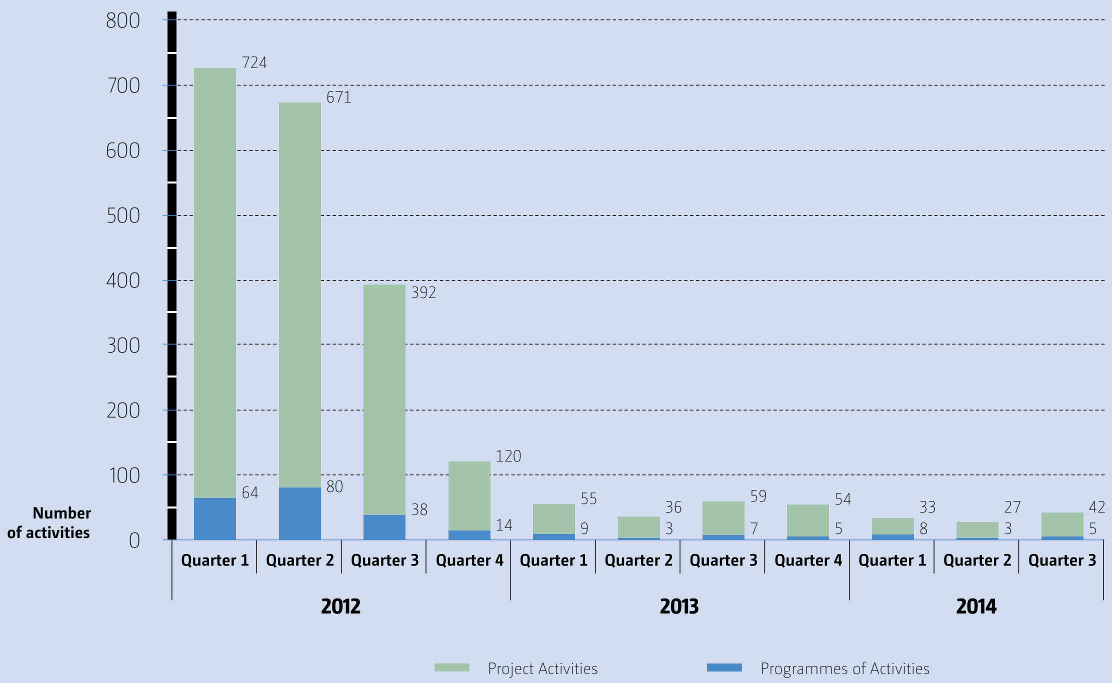

Photo by: Julio Alberto Pavese
CDM Project 0268: Lages Methane Avoidance Project, Brazil

BUILDING ON A REFORMED, IMPROVED AND EVOLVED CDM

THE CDM PROGRESSED QUICKLY FROM AN UNTESTED INSTRUMENT IN 2005 TO A FUNCTIONING MECHANISM DELIVERING EMISSION REDUCTIONS AND BENEFITS ON A PROJECT-BY-PROJECT BASIS. IT HAS SINCE EVOLVED INTO A RELIABLE, SOPHISTICATED AND REMARKABLY FLEXIBLE TOOL IN THE INTERNATIONAL RESPONSE TO CLIMATE CHANGE.

The CDM Executive Board is prudently investing in the mechanism's continual improvement, with a focus on:

- Programmes of activities, which allow an unlimited number of project activities over a wide area, even across borders, to be administered together for cost-effectiveness
- Standardized baselines, which increase the objectivity, enhance the predictability and reduce the cost of evaluating and assessing the impact of greenhouse gas emission reduction projects, for example, by calculating a sector-specific baseline emission factor estimate for rice milling in Cambodia
- Suppressed demand, which allows a project to assume a level of future emissions and then undertake activities to avoid those emissions, thus helping countries to leapfrog carbon-intensive technologies and proceed directly to more efficient, less emission-intensive technologies
- Streamlining of regulations, which reduces the time and cost involved in making use of the mechanism
- Enhanced local stakeholder consultation, which ensures that people affected by a CDM project can give timely, meaningful input to a proposed project
- Reporting on sustainable development, which allows project participants to highlight, on a voluntary basis, the development benefits of their projects
- Adding to the body of CDM standards, which extends the mechanism into new sectors and underrepresented regions, with methodologies that are the international benchmark for emission baseline setting and emission reductions monitoring and reporting
- Enhancing understanding of the CDM, its achievements and its potential benefits to a multiplicity of stakeholders.

The CDM has proved that it can incentivize emission reductions at scale and contribute significantly to development, technology transfer and enhanced well-being. It is the view of the Board that the mechanism is not only fit for the present, but also an invaluable tool fit for the future.

Photo by: Boris Bronger
CDM Project 1754: Visakhapatnam OSRAM CFL Distribution CDM Project, India

CDM THE RIGHT TOOL FOR COUNTRIES, CITIES, COMPANIES, EVENTS AND INDIVIDUALS

THE PRESENT CHALLENGES FACING THE CDM SHOULD BE VIEWED IN THE BROADER CONTEXT OF THE INTERNATIONAL RESPONSE TO CLIMATE CHANGE, INCLUDING ACTION AT THE REGIONAL AND NATIONAL LEVELS, AND ACTION BEING TAKEN BY CITIES, CORPORATIONS AND EVEN INDIVIDUALS.

The CDM is, first and foremost, a tool created by the Kyoto Protocol, but it is clear that the mechanism may have broader applicability. The wide range of market approaches emerging in countries around the world can use the CDM as a ready-made measurement, reporting and verification tool to focus investment where it is needed, and thus avoid 'reinventing the wheel'.

Development agencies are making use of the mechanism's proven strengths in measuring, reporting and verifying emission reductions to ensure quantifiable results from their investment – so-called results-based financing. For example, the World Bank's Carbon Initiative for Development supports low-carbon investments in least developed countries, using carbon-linked performance payments through the CDM.

In addition, companies use CERs to contribute to climate change action and display their corporate social responsibility. Large events, such as the 2014 football World Cup held in Brazil, which compensated for emissions through using CERs, can use the CDM to lessen their impact on the environment. Likewise, individuals dedicated to reducing their emissions are measuring their carbon footprint, reducing where possible and offsetting the rest.

The Board is taking an active role in promoting the use of the CDM and CERs within emerging emissions trading systems and by government entities, corporations, events and individuals wishing to reduce their emissions on a voluntary basis.

Voluntary cancellation by holders of CERs in the CDM registry was initially allowed by the Board, and later welcomed by the Parties to the Kyoto Protocol, in 2012. In 2014, the Board asked the secretariat to create an online platform to further ease the way in which voluntary cancellation is conducted. The Board has also encouraged the secretariat to promote use of the mechanism as a measuring, reporting and verification instrument for results-based financing.

Noting the pre-2020 mitigation gap highlighted by the United Nations Environment Programme, and following the invitation to Convention Parties (decision 1/CP.19, paragraph 5(c)) to "promote the voluntary cancellation of CERs, without double counting, as a means of closing the pre-2020 ambition gap", the Board has highlighted the potential of the CDM to promote and achieve additional cost-effective mitigation in the period up to 2020.

In so doing, the Board is attempting to ensure that best use is made of the CDM by all, that emission reductions continue to happen through it and that the mechanism is sustained in the long term.

Photo by: Maria Joao Afonso
CDM Project 0834: Egyptian Brick Factory GHG Reduction Project, Egypt

IMPROVING THE DISTRIBUTION OF CDM PROJECTS

SINCE THE ESTABLISHMENT OF THE CDM, THE EXECUTIVE BOARD HAS WORKED TO EXTEND THE REACH OF THE MECHANISM. IT DOES THIS THROUGH IMPROVEMENTS IN REGULATIONS AND BY WORKING WITH STAKEHOLDERS, INCLUDING NATIONAL GOVERNMENTS, IN A VARIETY OF WAYS.

In 2014, the Board and UNFCCC secretariat continued to support designated national authorities (DNAs):

- Help desks supporting DNAs and projects in Africa, least developed countries, small island developing States and countries with fewer than 10 registered CDM projects
- Regional training events in Togo, Benin, Uganda, Ecuador, Zimbabwe and South Africa
- Assistance in establishing DNA offices in Dominica, Saint Vincent and the Grenadines, Saint Kitts and Nevis, and the Central African Republic
- DNA Forum meetings and regional workshops to share experience, engage with experts and learn about regulatory developments in the CDM and UNFCCC negotiations
- Assistance offered in monitoring sustainable development benefits from CDM projects and for development of guidelines for local stakeholder consultations.

Since 2013, Regional Collaboration Centres (RCCs) have provided support, on the ground, in partnership with:

- West African Development Bank, Lomé, Togo
- East African Development Bank, Kampala, Uganda
- Windward Islands Research and Education Foundation, St. George's, Grenada
- Development Bank of Latin America, Bogota, Colombia.

The RCCs assist existing projects and programmes in their move through the CDM project cycle, from idea to issuance; assist in the development of standardized baselines; contribute to the pipeline of future projects and partnerships; and increase CDM knowledge, awareness and capacity.

Importantly, the RCCs catalyze action by international and regional agencies. Several partnerships and collaborations have been established, with the effect of strengthening the impact of all agencies on the ground, facilitating interaction with local governments, monitoring results and allowing for follow-up. As well, RCCs have assisted in connecting funding agencies with project activities seeking further investment.

The CDM Loan Scheme, launched in April 2012 and operated by the United Nations Office for Project Services, has approved 56 loans totaling USD 4.8 million to help launch projects, mostly in least developed countries, in Africa (39), Asia and the Pacific (16) and Latin America (1).

The Nairobi Framework Partnership of United Nations agencies and international development banks organized the 6th Africa Carbon Forum, in Windhoek, Namibia, and the 8th Latin American and Caribbean Carbon Forum, in Bogota, Colombia. These were held back-to-back with the Africa regional workshop on the CDM and the regional workshop on the CDM and nationally appropriate mitigation actions, respectively.

References:

The Nairobi Framework was launched in December 2006 by then UN Secretary-General Kofi Annan to spread the benefits of the CDM, especially in sub-Saharan Africa. See <http://cdm.unfccc.int/Nairobi_Framework/index.html>. Partner agencies: the World Bank, the United Nations Environment Programme (UNEP), UNEP DTU Partnership (formerly UNEP Risoe Centre), the United Nations Development Programme, UNFCCC, the African Development Bank and the United Nations Conference on Trade and Development. Cooperating organizations: the International Emissions Trading Association, the Asian Development Bank, the Institute for Global Environmental Strategies, the Inter-American Development Bank, the Latin American Energy Organization and the Development Bank of Latin America.

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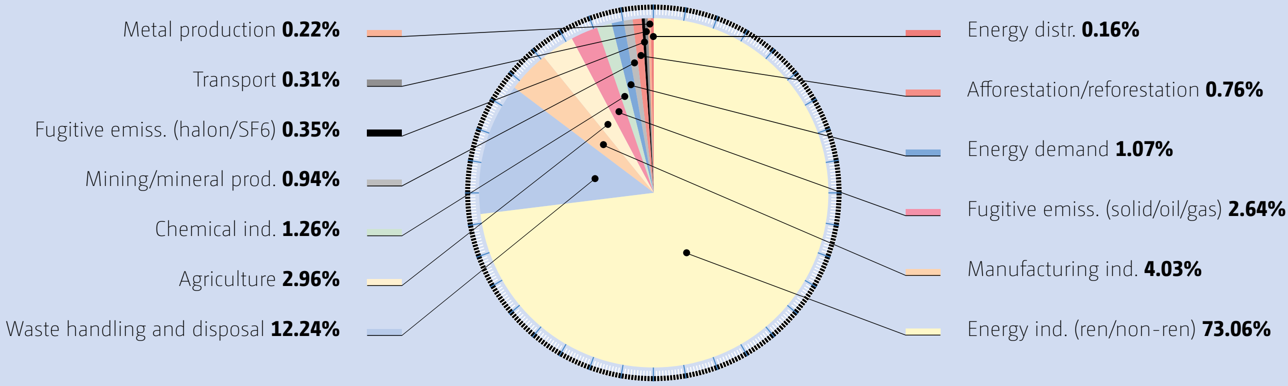
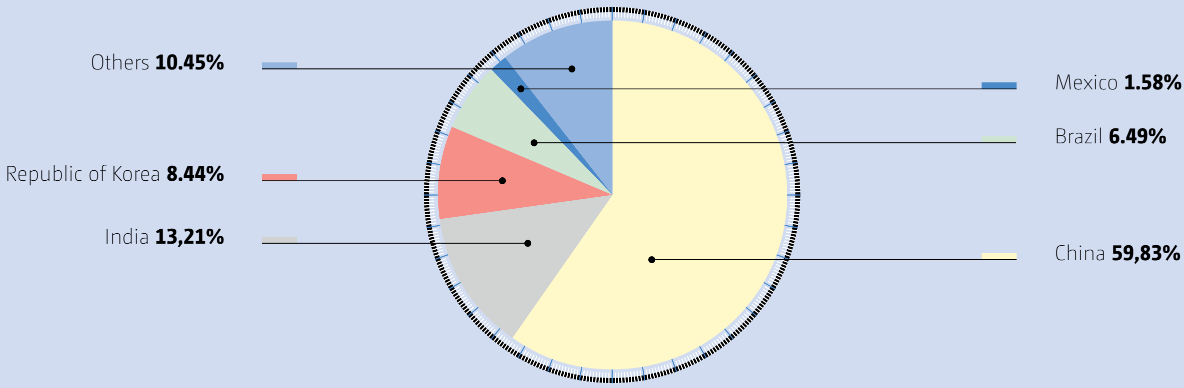
Distribution of registered projects by scope - Total: 7,772



Distribution of registered projects by region - Total: 7,772

Distribution of issued certified emission reductions by host party - Total: 1,505,359,771



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