



**UNITED
NATIONS**



**Framework Convention
on Climate Change**

Distr.
GENERAL

FCCC/KP/CMP/2007/3 (Part I)
6 November 2007

Original: ENGLISH

**CONFERENCE OF THE PARTIES SERVING AS THE
MEETING OF THE PARTIES TO THE KYOTO PROTOCOL**
Third session
Bali, 3–14 December 2007

Item 5 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**

Note by the secretariat*

Part I

Summary

This report covers the period from 1 November 2006 to 19 October 2007, in which the number of clean development mechanism (CDM) project activities more than doubled to 819 registered projects, and important decisions were taken by the Executive Board of the CDM to increase the efficiency and effectiveness of the mechanism. The report describes the status of the CDM, with focus on the accreditation of the entities that vet CDM projects and verify emission reductions; the development of methodologies for emissions baseline setting and monitoring; and the registration of projects and issuance of certified emission reductions. The report highlights some of the challenges faced and key decisions taken by the Executive Board, such as the development of procedures and guidelines for programmes of activities, designed to expand the reach of the CDM. The report also covers matters relating to governance, management and resources.

* 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 session.

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I. Introduction

A. Mandate

1. In accordance with the modalities and procedures for a clean development mechanism (CDM), the Executive Board of the CDM (hereinafter referred to as the Executive Board or Board) shall report on its activities to each session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP). In exercising its authority over the CDM, the CMP shall review these annual reports, provide guidance and take decisions, as appropriate.

B. Scope of the report

2. This annual report of the Executive Board provides information on progress made towards the implementation of the CDM during its sixth year of operation (2006–2007)¹ and recommends draft decisions for adoption by the CMP at its third session. It refers to operational achievements leading to the registration of CDM project activities and the issuance of certified emission reductions (CERs), governance matters, measures taken and anticipated to strengthen the management and supervision of the CDM, resource requirements and actual resources available for the work on the CDM during the period.

3. The report highlights successes and challenges over the reporting period and summarizes the work on the CDM and matters agreed by the Board during the reporting period. Full details on operations and functions are available on the UNFCCC CDM website². This report therefore needs to be read in conjunction with the UNFCCC CDM website, which is the central repository for reports of meetings of the Executive Board and documentation on all matters agreed by the Board.

4. The challenges and achievements during the sixth year of operation of the CDM, as well as those lying ahead, will be highlighted by the Chair of the Board, Mr. Hans Jürgen Stehr, in his oral presentation to the CMP.

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

5. In exercising its authority over, and in providing guidance to, the CDM in accordance with paragraphs 2 and 3 of the CDM modalities and procedures³, the CMP, at its third session, taking note of the annual report of the Executive Board, may wish to:

- (a) Note that the Board responded expeditiously to guidance provided by the CMP at its second session, concluded most response actions and made good progress on remaining issues;
- (b) Provide guidance on matters arising from this report;
- (c) Designate operational entities which have been accredited, and provisionally designated, by the Executive Board (see chapter III.A below);
- (d) Approve methodologies for calculating emission reductions for small-scale (SSC) project activities that propose the switch from non-renewable to renewable biomass;
- (e) Approve methodologies for SSC afforestation/reforestation (A/R) project activities.

¹ The report covers the period from 18 November 2006 to 19 October 2007, (hereinafter referred to as the reporting period), as per decision 1/CMP.2, paragraph 11.

² <<http://cdm.unfccc.int>>.

³ <<http://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=7>>.

6. At its third session, the CMP may wish to continue its consideration of issues relating to privileges and immunities of members and alternate members of the Executive Board (see the provisional agenda and annotations of CMP 3, contained in document FCCC/KP/CMP/2007/1).

7. The CMP will also be asked to consider the outcomes of work relating to the CDM carried out by the Subsidiary Body for Scientific and Technological Advice.⁴

8. At its third session, the CMP shall elect the following to the Executive Board for a term of two years upon nominations being received from Parties:

- (a) Two members and two alternate members from Parties not included in Annex I to the Convention (non-Annex I Parties);
- (b) One member and one alternate member from the Eastern Europe regional group;
- (c) One member and one alternate member from the small island developing States;
- (d) One member and one alternate member from Parties included in Annex I to the Convention (Annex I Parties).

II. Successes and current and future challenges

9. The Board's challenge is to supervise the operation, and optimize the functioning, of the CDM, an innovative, global, environmental market mechanism which has doubled its delivery potential in the past 11 months. The CDM project pipeline is expected to generate more than 2.5 billion CERs from more than 2600 project activities (819 already registered, and expected to generate 1 billion CERs) by the end of the first commitment period of the Kyoto Protocol in 2012. These projects represent a wide range of project types (about half are renewable energy or energy efficiency projects) and sizes (more than half are small-scale projects). About 150 project activities are entering the CDM pipeline per month (i.e. requesting validation) and there is no indication of a reduction in this trend. The CDM has been self-financing since September 2007, which means that no public funding is required to fulfil its regulatory functions. In addition, the CDM has been generating additional resources for the Adaptation Fund.

10. Another way to assess the success of the CDM, and the responsibility of the Board, is to compare the mechanism to other sources of investment and financial flows. A report on investment financial flows found that the capital that is, or will be, invested in CDM projects registered during 2006 is estimated at about USD 7 billion, whereas the capital that is, or will be, invested in projects that entered the CDM pipeline during 2006 is estimated at over USD 25 billion. In comparison, the total investment leveraged through the Global Environment Facility in the climate change area since it started represents USD 14 billion. The estimated investment of USD 5.7 billion for CDM renewable energy and energy efficiency projects registered during 2006 is roughly triple the official development assistance support for energy policy and renewable energy projects in the same countries – about USD 2 billion. It is almost as much as the private investment in renewable energy and energy efficiency (2006, USD 6.5 billion) in the same countries.⁵ As such, the CDM is an increasingly important source of financial and investment

⁴ FCCC/SBSTA/2007/5.

⁵ For details see Dialogue working paper 8, paragraph 41.

<http://unfccc.int/files/cooperation_and_support/financial_mechanism/financial_mechanism_gef/application/pdf/dialogue_working_paper_8.pdf> and the Carbon Markets chapter of the background paper on investment and financial flows <http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/potential_of_carbon_markets.pdf>.

flows into activities which are seen by host governments as assisting them in achieving sustainable development, in line with the purpose of the CDM.

11. Allocation of resources is a key challenge. Measures to respond to the demands of caseload growth must be balanced with longer term measures to address more fundamental governance issues and system improvements. This must be done in an environment of rapid growth and in an innovative emerging market where decisions have an important economic impact. The Board is working to optimize its operations through resource and role allocation, and by undertaking work to improve standards and consistency of assessment and reviews.

12. The quality management/control system being put in place by the Board, made possible by the availability in early 2007 of adequate resources to support new roles has resulted in an increase in the number of projects undergoing review, but also contributed to increased consistency in the requests for review. The Board is aware that designated operational entities (DOEs), and indeed all other stakeholders, are in the process of developing the necessary additional expertise to meet the continually improving standards that ensure the environmental integrity of the CDM. While bearing this in mind, the Board has had to reject, owing to non-compliance with CDM requirements, 5.57 per cent of all registered activities and 0.3 per cent of all requests for issuance since inception of the mechanism.

13. Fostering greater understanding of the often complex and difficult decisions taken by the Executive Board is another challenge. The Board is working to increase understanding of the rationale behind its decision-making in order to increase predictability and transparency for stakeholders. In this regard, the Board has completed, or is working towards implementation in early 2008 of, a number of activities, such as the online catalogue of decisions (October 2007), guidance to define the standards for undertaking validation and verification (early 2008), updating guidelines and clarifications (ongoing), new means of interaction with relevant stakeholders (continuous), and provision of a concise rationale for its decisions in its meeting reports (continuous).

14. Facilitating broader public understanding of the CDM and correcting misconceptions as they arise is a further challenge. The Board is working to increase its capacity to inform the media and the public, among other ways, through a robust system for responding to queries and delivering useful, timely communications about the functioning of the CDM.

15. Enhancing the regional and sub-regional distribution of the CDM represents a complex challenge, as factors beyond the control of the Board play an important role. The Board facilitates work aimed at addressing this challenge by allocating resources for holding information forums for designated national entities (DNA forums), for development and operation of the CDM Bazaar (a web portal linking CDM stakeholders, buyers, sellers and service providers), and for staff to support work on the Nairobi Framework⁶ for catalysing the CDM principally in Africa. The Board also makes recommendations to the CMP on actions that could help address regional distribution (see para. 87 below and the annex).

16. These challenges are indicative of a system which is rapidly evolving and maturing and which requires the Board to adopt flexible and innovative responses. The Board remains committed to continual improvement in the implementation of its supervisory functions, in particular through systems to improve:

- (a) Robustness and efficiency in the assessment of emission reductions;
- (b) Efficiency, transparency and robustness in decision-making processes;
- (c) Professional development and training of those engaged in supervisory functions;

⁶ <http://cdm.unfccc.int/Nairobi_Framework/index.html>.

(d) General understanding of the CDM, its processes and standards by stakeholders.

17. Constructive input from stakeholders is encouraged and appreciated.

18. These challenges necessitate that Board members are provided with the necessary framework (e.g. time availability, travel arrangements, financial compensation and local support) to provide their professional services in a sustainable manner.

III. Work undertaken in the reporting period

A. Accreditation of operational entities

19. In addition to accrediting operational entities that can validate projects and verify emission reductions, the Executive Board undertook a number of measures in the reporting period (see para. 25 below) to strengthen further the accreditation process and provide guidance to the operational entities in performing their validation and verification functions.

20. In the reporting period, the Board accredited and provisionally designated four operational entities, two for validation and two for verification, for specific sectoral scopes (see table 1). This would take the number of entities accredited for validation of projects to 17, and the number of entities accredited for verification and certification of emission reductions to eight. Four of these entities are from non-Annex I Parties.

1. Entities recommended for designation

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

Table 1. Entities accredited and provisionally designated by the Executive Board in 2006

Name of entity	Provisionally designated and recommended for designation for sectoral scopes	
	Project validation	Emission reduction verification
Bureau Veritas Certification Holding S.A. (BVC Holding S.A.)	4, 5, 6, 7, 10, 11, 12	
Lloyd's Register Quality Assurance Ltd (LRQA)	1, 2, 3, 4, 5, 6, 7, 10, 11, 12	
Colombian Institute for Technical Standards and Certification (ICONTEC)		1, 2, 3
JACO CDM.,LTD (JACO)		1, 2, 3

Note: The numbers 1 to 15 indicate sectoral scopes. For details see <<http://cdm.unfccc.int/DOE/scopelst.pdf>>.

22. Four new applications for accreditation were received in the reporting period, taking to the total number of applications received for accreditation to 43 (40 cases are under consideration, as three companies withdrew their applications).

23. The geographical distribution of the 40 applicant entities is reflected in table 2, which also indicates the number of applications received from non-Annex I Parties. Of the last four applications, two were from entities representing non-Annex I Parties. Information on all applications, and the stage of consideration reached, is available on the UNFCCC CDM website.

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

Region	Total number of applications	Number of applications from non-Annex I Parties
Western Europe and Other region	17	n/a
Asia and the Pacific region	20	9
Latin America and the Caribbean region	2	2
Africa region	1	1

Abbreviations: n/a = not applicable.

24. A total of 27 entities have passed a desk review and on-site assessment and are seeking witnessing activities to complete their accreditation in the various sectoral scopes covered by the CDM. An analysis has shown that lack of availability of witnessing activities has caused delays in the accreditation process, in particular for smaller entities.

2. Measures undertaken

25. The Executive Board put in place a number of measures over the reporting period which are aimed at providing a high level of service by the DOEs in carrying out their regulatory functions, and at achieving additional transparency:

- (a) Increased interaction, communication and information sharing between the Board, accredited entities (AEs) and DOEs: At each meeting of the Board, the chair of the AE/DOE Coordination Forum is given an opportunity to interact with the Board on issues of common interest to operational entities, or to discuss clarifications, guidance and decisions of the Board. The Board took note that the DOE forum planned to devote one day in conjunction with the CDM joint workshop to exchange experiences among DOE decision makers;
- (b) Design and establishment of a regular surveillance system of DOEs: The surveillance is intended to supplement the accreditation and spot-check assessment process to ensure confidence in validation, verification and certification through continuous oversight of quality and effectiveness. Among other things, it covers entities' management responsibilities of DOEs, resource and organizational management, and technical and analytical review processes;
- (c) Preparation of a UNFCCC CDM validation and verification manual: Work was initiated with a view to publishing the manual in early 2008. In order not to duplicate work, the Board identified as the basis of work a product prepared for use under the CDM and JI processes and used very frequently by DOEs, and launched a revision which will involve panels, DOEs and experts. The manual will provide references to most recent relevant guidance, rules, decisions and criteria relating to quality and the depth of work to be performed by DOEs at all stages. As this has been identified by the Executive Board as a key element in efforts to improve the predictability and quality control of CDM systems, the Board has allocated additional resources for this work;
- (d) In the context of the preparation of the validation and verification manual, the Board requested the secretariat to compile and assess issues resulting in requests for review, and the reviews undertaken, so as to categorize them and disseminate this information to

DOEs. This information is intended to enable the Board to provide DOEs and project participants with systematic feedback to continuously align their performance to the standard;

- (e) The CDM accreditation requirements for the operational entities are being elaborated by the CDM Accreditation Panel (CDM-AP) for consideration by the Board with a view to clarifying further what is expected of operational entities, and to enhance the common understanding about accreditation requirements;
- (f) The newly approved re-accreditation procedure takes into account the performance of DOEs over the previous accreditation period and serves to confirm their competence;
- (g) CDM accreditation assessments are being carried out mainly by permanent UNFCCC staff, who are able to provide improved service in relation to assessment scheduling, consistency and quality because they are under the direct management of the secretariat. Resources have been allocated in the latest revision of the CDM management plan (CDM-MAP) and recruitment is ongoing;
- (h) The Board approved the introduction and revisions of several accreditation related forms and other operational documents to facilitate the implementation of the accreditation process;
- (i) A system of measures/incentives is being developed by the Board, in addition to spot checks, suspension and withdrawal and including a specific policy framework, to address non-compliance issues by DOEs in a systematic manner. This is intended to serve as an early warning system by assessing the non-compliance issues by a DOE on the basis of the risk it may pose to the system, as well as providing assurance of its capability to perform the validation and verification functions.

26. The measures in paragraph 25 above are aimed at further strengthening DOEs in terms of their regulatory functions and clarifying their role with regard to project participants. The Board noted that the contractual relationship between DOEs and project participants may be perceived as potentially compromising the important role of DOEs in the regulatory set-up.

3. Meetings of the Accreditation Panel

27. The CDM-AP met seven times in the reporting period as part of its work in support of the Executive Board. The Board appointed Mr. Hernán Carlino as chair of the panel and Mr. Martin Hession as vice-chair, after the resignation of Ms. Anastasia Moskalenko as vice-chair. The Board, in the light of the increasing complexity of the work of the CDM-AP, agreed to appoint an additional methodological expert to the panel, which increased the size of the panel to seven members.

B. Methodologies for emissions baseline setting and monitoring

28. Work during the reporting period focused on further improving the methodologies for emissions baseline setting and monitoring through an enhanced methodology consideration/approval process, which included new communication channels to the project participants to indicate and resolve inconsistencies and present options at an early stage.

29. In addition, the methodology consideration process was modified to allocate more resources to the initial consideration phase with a view to screening out, at an early stage, proposals which lack key elements of content/quality while providing participants more information on the reasons for rejecting a proposal. This change made it possible to focus work more efficiently on preparing proposals that have a higher quality and likelihood of approval. Such measures are showing promising initial results, as the

Board moves towards a situation where most proposals from the Methodologies Panel can be approved at the first consideration.

30. A year ago, the Board began implementation of the strategy to reinforce the analytical and knowledge management support base provided by the secretariat. This strategy has proven to be sound, as shown below, and will be pursued further. For example, the Board has requested the secretariat:

- (a) To prepare new methodologies indicating options, as necessary, for consideration/adoption by the Methodologies Panel and working groups for recommendation to the Executive Board;
- (b) To carry out analytical background work in areas where the development of tools or special guidance could facilitate the work of project participants in preparing new methodologies (e.g. in the area of demand-side energy efficiency).

1. Large-scale methodologies

Availability and use of methodologies

31. During the reporting period, in further expanding the availability of methodologies for the CDM, the Executive Board approved 19 methodologies for large-scale project activities (not including A/R projects: see para. 45 below), three of which were consolidated methodologies. This increased the number of approved non-A/R methodologies to 57, which includes 12 consolidated methodologies.

32. The consolidated methodology for grid-connected electricity generation from renewable sources (ACM0002) covers technologies or measures such as solar, hydro, tidal, wave, wind and geothermal. This methodology is the most widely applied methodology because it is used in 20 per cent of all project activities registered or requesting registration.

Measures taken to broaden and simplify the development of methodologies

33. The Executive Board consolidated seven approved methodologies and one consolidated methodology into three consolidated methodologies and one revised consolidated methodology to broaden their application, while maintaining their environmental integrity and ensuring that they cover the full range of approaches and applicability conditions as in the underlying approved methodologies.

34. The Board also approved four user-friendly tools⁷ to assist project participants in the design and development of methodologies for small-scale and large-scale project activities. These tools have been referenced in 50 approved large-scale and eight small-scale methodologies.

35. The Board, with the assistance of the secretariat, assessed all approved methodologies with a view to improving their consistency, expanding their applicability and integrating the approved methodological tools. Based on the results of the review, the Board improved, simplified and expanded the applicability of seven methodologies. A further nine approved methodologies were expanded by including proposals from project participants.

36. All 57 approved methodologies are available for use under the programme of activities.

⁷ Tool for calculating the emission factor for electrical systems; tool to calculate project or leakage related carbon dioxide emissions from fossil fuel combustion; tool to calculate project emissions from electricity consumption; and tool to determine methane emissions avoided from dumping waste at a solid-waste disposal site <<http://cdm.unfccc.int/goto/MPappmeth>>.

Guidance to project developers

37. In the reporting period, the Board provided guidance or clarification on:

- (a) The eligibility of activities under the CDM, which included reiteration of the Board's previous decision that project activities resulting from the creation of infrastructure or capacity to enforce a policy or standard shall be based only on measurable emission reductions that are directly attributable to such activities;
- (b) The eligibility of hydroelectric power plants with reservoirs;
- (c) Estimating emission reductions relating to fuel saving in project activities that primarily improve the combustion efficiency of fuels;
- (d) Requests for revision or clarification of, or deviation from, an approved methodology;
- (e) Eligibility of project activities that result in emission reductions due to the use or consumption of a product produced in those activities.

38. The Board finalized its guidance relating to the definition of project activities under a programme of activities (PoA) and the related procedures for registration. The Board indicated that these will be revisited as the body of knowledge on the application of the PoA expands. It agreed that no special accreditation process would be required for DOEs to validate, register and verify PoAs, and clarified that methodologies are approved for application to both CDM project activities and CDM programme activities (CPA) under a PoA. The project design documents (PDDs) used to submit PoAs are available to project participants, and the interface to make them publicly available for validation is operational. No PoA was submitted for validation during the reporting period.

39. The Board increased the grace period for the use of older versions of revised methodologies and withdrawn methodologies from eight weeks to eight months from the date of publication for validation to facilitate the submission of project activities for registration.

40. The Board reviewed and revised the procedures for its consideration of proposed new methodologies to facilitate more effective use of its Methodologies Panel and working groups by, among other things, introducing performance-based incentives for members. It also streamlined several steps in the process, introduced procedures for further interaction with project participants regarding methodologies and strengthened the role of the secretariat. These changes have in part led to a reduction in the time taken to approve methodologies. For example, over the last five months of the reporting period, seven methodologies were approved by the Board after a single meeting of the Methodologies Panel, whereas previously methodologies were typically considered by the panel up to four times. The Board's approach, having proven sound, will continue to be implemented, including by investing in substantive support by the secretariat.

41. The Board introduced a process to 'fast-track' the submission and consideration of clarifications requested from project participants.

42. As regards its periodic calls for public input, the Board decided to provide, whenever possible, a minimum of 30 days for submission from the date of announcement.

43. The Board finalized its work on improving the tool for the demonstration and assessment of additionality, in accordance with decision 7/CMP.1, paragraph 25 (b).

44. The Board is undertaking work to increase the number of methodologies and to assist in the development of methodologies for use in the energy efficiency sector, in particular through demand-side measures.

2. Afforestation and reforestation methodologies

Availability and use of methodologies

45. During the reporting period, the Board approved six new methodologies for A/R project activities, increasing the number of approved methodologies from 4 to 10.

46. The methodology for facilitating reforestation for Guangxi Watershed Management in the Pearl River Basin (AR-AM0001) is currently the only methodology used in project activities currently registered.

Measures taken to broaden and simplify the development of methodologies

47. The Board approved six user-friendly A/R tools,⁸ including a combined tool to identify the baseline scenario and demonstrate additionality in A/R CDM project activities, to assist project participants in the design or application of methodologies for large-scale A/R project activities, and to help ensure consistency and simplicity in the development and use of the methodologies. The tools were referenced in three approved large-scale A/R methodologies.

48. The issue of the length and complexity of approved A/R methodologies is currently being addressed through a process of identification of common elements that result in methodological tools, which will permit the consolidation and broadening of applicability of these methodologies.

Guidance to project developers

49. In response to a request by the CMP at its second session, the Executive Board put on hold its published procedures for defining or demonstrating the eligibility of lands for A/R project activities⁹, and, after two calls for public input, published new procedures to demonstrate the eligibility of lands for A/R CDM project activities at its thirty-fifth meeting.

50. The Board also revised the tool for the demonstration and assessment of additionality in A/R CDM project activities by adding a common practice test and by including an explicit consideration of lands forested since 31 December 1989.

51. The Board provided other guidance or clarification on:

- (a) Technical guidelines for the development of new A/R baseline and monitoring methodologies;
- (b) Application of the A/R CDM definition of “forest” as it relates to stands with several storeys of trees differing in height;

⁸ Calculation of the number of sample plots for measurements within A/R CDM project activities; tool for testing significance of greenhouse gas emissions in A/R CDM project activities; estimation of greenhouse gas emissions related to fossil fuel combustion in A/R CDM project activities; procedure to determine when accounting of the soil organic carbon pool may be conservatively neglected in A/R CDM project activities; estimation of direct nitrous oxide emission from nitrogen fertilization; and the combined tool to identify the baseline scenario and demonstrate additionality in A/R CDM project activities <<http://cdm.unfccc.int/goto/ARappmeth>>.

⁹ Report of the Executive Board on its twenty-second meeting (EB 22 report), annex 16 <http://cdm.unfccc.int/EB/022/eb22_repan16.pdf>; EB 26 report, annex 18 <http://cdm.unfccc.int/EB/026/eb26_repan18.pdf>.

- (c) When project participants should request a revision or clarification of, or deviation from, an approved methodology;
- (d) Pre-project emissions in methodologies applying a baseline scenario corresponding to the approach defined in decision 5/CMP.1, annex, paragraph 22 (b);
- (e) Market-induced increases in greenhouse gas (GHG) emissions occurring outside the project boundary;
- (f) The development of new A/R baseline and monitoring methodologies.

3. Small-scale afforestation and reforestation methodologies

Availability and use of methodologies

52. At its thirty-third and thirty-fifth meetings, the Board agreed to recommend for adoption by the CMP, in accordance with decision 6/CMP.1, annex, appendix B, two simplified small-scale methodologies for A/R project activities – the first for activities relating to settlements, and the second relating to activities on wetlands – as contained in document FCCC/KP/CMP/2007/3 (Part II), annexes I and II. The second methodology requires conformance to national legislation, policies and international conventions.

53. The methodology for facilitating reforestation for small-scale A/R activities on croplands and grasslands (AR-AMS0001) is currently the only approved methodology.

Measure taken to broaden and simplify methodologies

54. The Board further simplified methodology AR-AMS0001 with regard to the estimation of biomass stocks in setting the baseline, leakage related to the shift of pre-project activities and GHG emissions resulting from the use of fertilizer as a result of the implementation of the A/R activity.

55. All approved methodologies are available for use under a programme of activities, which may assist in reducing transaction costs as this allows for an unlimited number of SSC A/R projects to be registered as a single CDM project activity.

4. Small-scale methodologies

Availability and use of methodologies

56. During the reporting period, the Board approved seven methodologies for non-A/R small-scale project activities.

57. The methodology for grid-connected electricity generation from renewable sources (AMS I.D) covers technologies or measures, such as solar, hydro, tidal, wave, wind, geothermal and renewable biomass. This methodology is the most widely applied approved methodology because it is used in 30 per cent of CDM project activities registered or requesting registration.

58. In response to decision 1/CMP.2, at its thirty-fourth meeting, the Executive Board agreed to recommend to the CMP two simplified methodologies for calculating emission reductions from small-scale project activities that propose the switch from non-renewable to renewable biomass, as contained in FCCC/KP/CMP/2007/3 (Part II), annexes III to IV. The methodologies take into account inputs received in response to a call for public input, and inputs received at a side event organized by the secretariat during the twenty-sixth sessions of the subsidiary bodies.

Measures taken to broaden and simplify methodologies

59. The Board revised all 28 SSC methodologies to allow for their use under a PoA, by providing further guidance on leakage. It also made further revisions to 16 of these methodologies in order to expand their applicability and provide more guidance on monitoring and leakage.

Guidance to project developers

60. In response to decision 1/CMP.2, the Executive Board provided non-binding best practice examples of how to demonstrate additionality to assist in the development of SSC project activities. These examples incorporate public inputs and an analysis of additionality in registered SSC projects.

61. The Board provided guidance and clarification on:

- (a) Determining the occurrence of debundling, including institutions where CPA and PoA represent mobile sources;
- (b) How to describe and establish the total size of each component of a SSC project activity;
- (c) General guidance on eligibility criteria to expand the applicability of all approved type III methodologies to include new facilities.

62. The Board revised the process of consideration of SSC methodologies to include expert review of and public comment on new methodology submissions.

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

63. The Methodologies Panel and the CDM Afforestation and Reforestation Working Group (CDM-A/R WG) met six times and the Small-scale Working Group (SSC WG) met five times during the reporting period as part of their work in support of the Executive Board. The Board appointed Mr. Akihiro Kuroki as chair and Mr. Xuedu Lu as vice-chair of the Methodologies Panel; Mr. Lex de Jonge and Mr. José Domingos Miguez were appointed to support the chair and vice-chair. In the light of the increasing complexity of the work undertaken, the Board agreed to appoint an additional methodological expert to the panel, which increased to 16 members. Similarly, the Board increased the number of experts on the A/R WG by one member, to a total of nine members. The Board appointed Ms. Ulrike Raab as the chair of the SSC WG, and Mr. Richard Muyungi as vice-chair. The Board also appointed Mr. Phillip Gwage as chair of the CDM-A/R WG and Mr. Mr. Evgeny Sokolov as vice-chair.¹⁰

C. Registration of clean development mechanism project activities and issuance of certified emission reductions

64. This area of work was characterized in the reporting period by a constantly increasing caseload and continuous workflow throughout the year, placing considerable pressure on the Executive Board and the secretariat. The Executive Board was able to deal with this caseload while providing guidance and clarifications to project participants and DOEs in order to further enhance the efficiency of the CDM process and provide feedback to stakeholders.

65. In order to deal successfully with the increasing caseload, the Executive Board, while ensuring consistency and streamlining the registration and issuance processes, requested more support from the secretariat. This support involved, inter alia, additional analytical and substantive inputs through the preparation, for each case, of options for consideration by the Executive Board. It also provides a basis

¹⁰ Details of the membership of panels and working groups can be found on the CDM website at <<http://cdm.unfccc.int/Panels/index.html>>.

for the development and maintenance of a quality control system which is intended to guide the work of DOEs, enhance methodologies, revise or provide new guidance and revise the validation and verification manual.

1. Projects registered in the reporting period

66. In the reporting period, 507 projects were submitted to the Executive Board for registration, and 337 were registered, taking the total number of projects submitted for registration to 1,011, and the number registered to 825.

67. The eight-week period (four weeks for small-scale projects) within which a Party involved or three Board members may request a review has ended for 465 of the 507 requests submitted in this reporting period. The Board has finalized its consideration of 422 of these project activities.¹¹ Adding the 80 requests for registration that had not yet been finalized by the Board by the end of the previous reporting period takes the total number of requests considered and finalized in this reporting period to 502. Of these:

- (a) 328 (65.3 per cent) were registered automatically;
- (b) 36 (7.2 per cent) were registered after the Board had conducted a review to ensure that the guidance from the Board and the CDM modalities and procedures had been followed (in 21 of these cases the corrections are pending);
- (c) 66 (13.1 per cent) were registered following corrections made as a result of a request for review (in 27 of these cases the corrections are pending);
- (d) 35 (7.0 per cent) were registered after the Board had considered a request for review and additional submissions from the project participant and/or DOE;
- (e) 33 (6.6 per cent) could not be registered by the Board, following consideration of a review;
- (f) Four (0.8 per cent) could not be fully considered by the Board because they were withdrawn by the project participant and DOE.

68. The Board took all registration related decisions within the deadlines set by the CMP. Owing to the heavy and increasing workload, and new roles for the secretariat, there was some delay in the publication of requests for registration in August; these requests were, however, addressed in a short period.

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

70. During the reporting period, 1,516 PDDs were published on the CDM website, as part of the global stakeholder consultations process which is central to the project validation process. This amounts to an average of 137 PDDs per month.

¹¹ The Board will consider 43 of these 465 project activities at its thirty-sixth meeting.

2. Registration of project activities

Work on procedures and clarifications

71. The Executive Board revised the terms of reference of the Registration and Issuance Team (RIT), and requested the secretariat to provide more substantive input to the assessment of new requests for registration and issuance. The revised terms of reference came into effect on 1 April 2007 and provide for a case summary note by the secretariat which takes into consideration an independent assessment by RIT members. Both the summary note and the RIT assessment are provided to the Board in support of their decisions. The secretariat has also revised the electronic workflows and information management tools to allow the Board to assume an ever greater executive role. It remains the responsibility of Board members, and involved Parties, to decide whether a request for review is warranted.

72. The Executive Board, at its twenty-eighth and twenty-ninth meetings, revised its clarifications of the procedures for review as referred to in the CDM modalities and procedures (decision 3/CMP.1, annex, para. 41). These clarifications, among others, streamline the registration process by providing, for example, the possibility to classify reasons for requests for review into “major” and “minor” issues, allowing for cases involving minor issues to be dealt with expeditiously.

73. The Board, at its twenty-eighth meeting, adopted procedures for renewal of a crediting period for a registered CDM project activity, and, at its thirty-third meeting, revised those procedures. The procedures provide details for project participants and DOEs on the requirements for requesting renewal of the crediting period, and provide clarity on how such requests are assessed.

Work on providing guidance and feedback

74. The Executive Board provided guidance and clarification on the following topics:¹²
- (a) The exceptional nature of deviations (report on the twenty-eighth meeting of the Executive Board (EB 28 report, para. 82) and the appropriate situations for requesting a deviation (EB 31 report, annex 12);
 - (b) The application of deviations regarding the calculation of build margins for national grids where local data are not publicly available (EB 29 report, para. 74);
 - (c) The removal of project participants, included in a PDD at the validation stage at the time the PDD is submitted for registration, can occur only with the written consent of the project participant (EB 30 report, para. 41);
 - (d) The crediting period start date for CDM projects claiming retroactive credits in case a review of the project activity is requested (EB 31 report, para. 80);
 - (e) Registration fee for withdrawn CDM projects will not be refunded (EB 31 report, para. 81);
 - (f) The application of monitoring conditions of the methodology AMS-II.D (EB 32 report, para. 73);
 - (g) Project activities should be implemented in accordance with the registered PDD (EB 33 report, para. 75);
 - (h) The start date of a CDM project activity (EB 33 report, para. 76).

¹² Reports of the Executive Board meetings are available at <<http://cdm.unfccc.int/EB/index.html>>.

3. Issuance of certified emission reductions in the reporting period

75. In the reporting period, 308 requests for issuance were submitted to the Executive Board and 66,235,969 CERs were issued on the basis of 283 requests, taking the total number of CERs issued to 85,049,697.

76. The 15-day period within which a Party involved or three Board members may request a review has ended for 296 of the 308 requests for issuance submitted in this reporting period. The Board has finalized its consideration of 287 of these requests.¹³ Adding the 16 requests for issuance that had not yet been finalized by the Board by the end of the last reporting period takes the total number of requests for issuance considered and finalized in this reporting period to 303. Of these:

- (a) 236 (77.9 per cent) resulted in automatic issuance (aggregate 51,458,439 CERs);
- (b) 10 (3.3 per cent) resulted in issuance after the Board had conducted a review to ensure that the modalities and procedures and guidance from the Board had been followed (in four cases the corrections are still pending);
- (c) 39 (12.9 per cent) resulted in issuance following corrections made as a result of a request for review (in 13 cases the corrections are still pending);
- (d) Issuance was granted in 15 (4.9 per cent) cases after the Board had considered a request for review and additional submissions from the project participant and/or DOE (aggregate 7,230,284 CERs);
- (e) One (0.3 per cent) request was rejected by the Board following consideration of a review (aggregate 36,070 CERs);
- (f) Two (0.7 per cent) could not be considered fully by the Board because they were withdrawn by the project participant and DOE.

77. The Board took all issuance related decisions within the procedurally set deadlines.

78. Fifty-four requests for deviation were submitted during the reporting period and are related to deviations from provisions in the registered project activity discovered during the verification. The Board responded to 51 of these requests and is still considering the others.

79. During the reporting period 55 requests for revision of monitoring plans were submitted. The Board approved 47 of these requests.

80. During the reporting period 428 monitoring reports were published as part of the verification process, representing an average of 39 reports per month.

4. Matters relating to issuance of certified emission reductions

81. The Executive Board, at its twenty-eighth and twenty-ninth meetings, revised clarifications to the procedures for review as referred to in the CDM modalities and procedures (decision 3/CMP.1, annex, para. 65). These procedures streamline issuance and provide uniform modalities for the consideration of requests for issuance and requests for review of issuance.

¹³ The Board will consider nine of these 296 requests for issuance at its thirty-sixth meeting.

Work on procedures and clarification

82. As a result of the implementation of the revised terms of reference of the RIT, as outlined in paragraph 71 above, the secretariat has provided to the Board 177 notes summarizing requests for issuance of CERs. This support also provided a basis for the development and maintenance of a quality control system launched the Board. This system will channel the information/lessons drawn from the issuance considerations to DOEs, methodology standards, revisions or new guidance, revisions of the validation and verification manual, and processes and procedures.

Work on providing guidance and feedback

83. The Board provided guidance and clarification on the following issues:

- (a) The exceptional nature of deviations (EB 28 report, para. 94) and the appropriate situations for requesting a deviation (EB 31 report, annex 12);
- (b) Resubmission of rejected issuance requests is permitted within 60 days after the date of rejection (EB 31 report, para. 86);
- (c) The DOE is requested to confirm that the monitoring plan is in accordance with the methodology applied to that project activity (EB 33 report, para. 84).

5. The clean development mechanism registry

84. The operation of the CDM registry continued in the reporting period and 83,972,529 CERs were issued as at 19 October 2007. Of this amount, 60,010,745 CERs were forwarded to temporary holding accounts of Annex I countries; 586,494 CERs to permanent accounts of non-Annex I countries; and 1,679,446 CERs to the holding account of the Adaptation Fund. The amount of CERs issued but not yet forwarded at the end of the reporting period was 21,695,844.

85. The CDM registry currently has 106 fully operational holding accounts, of which 86 are temporary holding accounts associated with Annex I Parties, and 20 are permanent accounts associated with non-Annex I Parties.

86. The major achievements during the reporting period were the release of the new version of the CDM registry software (version 2) and the completion of the initialization process of the international transaction log (ITL). It is expected that the CDM registry will be fully connected and go live with the ITL within the announced deadlines.

D. Regional distribution of clean development mechanism project activities

87. The Executive Board, taking into account its mandate, agreed on its recommendations on regional distribution for consideration by the CMP at its third session (see annex).

88. The CDM Bazaar was officially launched on 5 September 2007¹⁴. More than 500 users registered within one month. The CDM Bazaar is a web-based information exchange platform which facilitates access to, and sharing of, information among all stakeholders involved in the CDM process. It allows stakeholders in the CDM to post information, such as potential emission reduction projects in need of financing, CERs for sale, buyers wishing to purchase CERs, services available, carbon market related events, and employment opportunities. This cooperative effort between the UNFCCC secretariat and the UNEP Risoe Center on Energy, Climate and Sustainable Development on the CDM Bazaar

¹⁴ <<http://www.cdmbazaar.net>>.

envisages bi-monthly stocktaking of suggestions by users, with a view to adding features that would enhance the usefulness of this tool.

89. In the reporting period, the Executive Board was briefed on the progress made in the implementation of the Nairobi Framework. The Nairobi Framework was launched by the Secretary-General of the United Nations at CMP 2 and is designed to catalyse the CDM principally in Africa. References to this ongoing effort are included in the recommendations referred to in paragraph 87 above. The Board agreed that it will, with assistance from the secretariat, undertake special efforts to reach out to actors in the microfinance world in order to explore synergies between the CDM and microfinance.

IV. Governance matters

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

90. The CMP, at its second session, requested the Executive Board to report on the ability of the Board to deal with the exponentially growing workload under the current governance structure. The Board's challenge is to prioritize its human resources between short-term response measures to caseload growth and long-term actions relating to governance and systems improvement.

91. The Board's ability to deal with the steady growth depends on putting in place measures that allow it to assume a supervisory role. It has hence taken a number of initiatives in this direction including:

- (a) **Strengthening the secretariat support:** The secretariat support had been structured in line with the regulatory functions of the Executive Board (methodology, registration and issuance, and accreditation of DOEs) and other functions (communication and information technology). The CDM-MAP is a public document and different versions are available on the UNFCCC CDM website. Over the reporting period, the changes in the CDM-MAP focused mainly on reinforcing the regulatory areas by adding technical and analytical staff to deal with the increase in caseload and analytical work. A total of 24 posts were created, advertised internationally and recruited and are becoming operationally available, while for 12 others recruitment is progressing. The next revision to be considered at the Board's thirty-sixth meeting in Bali will cover both further technical reinforcement (response to the anticipated impacts from the PoA; increased work on methodologies, in particular small scale; quality management; and communication) and management;
- (b) **Assignment of roles:** The Board assigned increasingly technical roles to the secretariat, allowing panels, WGs and the Board to start work at a higher level, taking advantage of a continuous technical presence and institutional memory. At its thirty-fifth meeting, the Board identified the need to enhance the capacity of its support in the area of financial analyses in the assessment of CDM projects;
- (c) **Public availability of the rationale of decisions:** Since March 2007, further information on the grounds for making decisions is being made available, and further improvement in this regard is envisaged;
- (d) **Quality system:** A quality management/control system is being put in place. With experience, this system will allow for the definition of quality levels and criteria which, in combination with corrective action, will help actors (DOEs, project participants, the secretariat, panels/WGs and the Board) to operate at the defined quality levels and facilitate their decisions. The Board attention can then focus on those issues that are

linked to guidance or interpretation related to standard setting (methodologies and accreditation) and operational issues related to registration or issuance;

- (e) **Member–alternate member relationship:** The Board agreed that members can delegate part of their responsibilities to alternate members, in particular relating to actions that are to take place in between meetings, to ensure smooth operation. The Board noted that alternates participate fully in the work of the Board.

92. The Board reiterated that Board members have to collectively provide the professional and regulatory competence needed to supervise the CDM which is a mechanism of substantial size, global spread and sectoral diversity. In addition, it is important to reiterate that members and alternate members need to invest a considerable amount of time to provide their professional service. Currently, Executive Board responsibilities demand an average of four months per year, of which two months are just for attending Board meetings and related travel. Members who assume special roles and functions will need to invest much more time. The Board noted that presently there is no remuneration/compensation for this dedication of time by members.

93. The Board also noted that, against the backdrop of the dynamic development of the CDM, it is important that the terms, mandates, nominations, selection process and tenure of members ensure membership of the Board to carry out the functions referred to in paragraph 92.

94. The decision by the CMP to delegate decisions relating to the CDM-MAP to the Board has been an important factor in the Board's ability to adjust its support structure in the light of changes in caseload and allocation of new tasks.

95. By July 2007, the catalogue of decisions was designed (structured search and classification system for Board reports), programmed and information entered for testing by users online. This work was conducted so as to give users the opportunity to contribute and provide comments on the structure, interface and features. In the period July–October 2007, the system was enhanced with the possibility to combine structured search with free text search; and once again users were given the opportunity to comment at any time. In the same period, a new, innovative authoring software was developed and programmed. This software integrates the catalogue with the process of preparing and drafting the Executive Board meeting reports. This is expected to increase the efficiency of meeting support and allow the updating of the catalogue together with its publication (initially within one to two working days after a Board meeting). The catalogue was integrated into the CDM UNFCCC website in October 2007 for a public testing period until the end of 2007.

B. Membership issues

96. At CMP 1, members and alternate members were elected to fill the vacancies arising from the expiration of terms of tenure after a period of two years. During the reporting period, the Board comprised the members and alternate members listed in table 3 (in alphabetical order by member). A number of members and alternate members resigned during the period and were replaced if the constituency provided new nominations to the Board.

Table 3. Members and alternate members of the Executive Board

Members	Alternate members	Nominated by
Mr. Samuel Adeoye Adejuwon ^a	Mr. Kamel Djemouai ^a	African regional group
Mr. Hernán Carlino ^b	Mr. Philip M. Gwage ^b	Non-Annex I Parties
Ms. Christiana Figueres ^a	Mr. José Domingos Miguez ^a	Latin America and the Caribbean regional group
Mr. Akihiro Kuroki ^a	Ms. Jeanne-Marie Huddleston ^a	Annex I Parties
Mr. Xuedu Lu ^{b,c}	Mr. Richard Muyungi ^b	Non-Annex I Parties
Mr. Rawlestone Moore ^b resigned in September 2007 ^d	Ms. Desna M. Solofa ^b resigned in May 2007 ^d	Association of small island developing States
Ms. Anastasia Moskalenko resigned end June 2007 and was replaced by Mr. Evgeny Sokolov ^b for the remainder of the term	Ms. Natalia Berghi ^b	Eastern European regional group
Ms. Ulrika Raab ^a	Ms. María José Sanz Sanchez resigned end May 2007 and was replaced by Mr. Martin Hession ^a for the remainder of the term	Western Europe and Other regional group
Mr. Rajesh Kumar Sethi ^a (Vice-Chair)	Ms. Liana Bratasida ^a	Asian regional group
Mr. Hans Jürgen Stehr ^b (Chair)	Mr. Lex de Jonge ^b	Annex I Parties

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

^b Term: two years ending at the first meeting in 2008.

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

^d Nomination for replacement was received. The seat was not replaced for the remainder of the term.

97. The Board reiterated its concern regarding the issue of privileges and immunities for persons engaging in official business relating to the CDM. It had urged the CMP, at its first and second sessions, to address the issue with urgency to ensure that the Board and its members were fully protected when making decisions under CMP mandates and were able to make such decisions while safeguarding the integrity of the process. The Board noted the progress of deliberations by Parties at CMP 2 and the twenty-sixth session of the Subsidiary Body for Implementation and that Parties will continue their deliberations on this matter at CMP 3 and SBI 27 based on new information from the Secretary-General of the United Nations and the secretariat. The Board reiterated its concerns regarding this issue and encouraged Parties to resolve this issue at CMP 3.

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

98. The Board, at its twenty-ninth meeting, elected by consensus Mr. Hans Jürgen Stehr, member nominated by Annex I Parties, and Mr. Rajesh Kumar Sethi, member nominated by non-Annex I Parties, as Chair and Vice-Chair, respectively. Their tenures as Chair and Vice-Chair will end at the first meeting of the Board in 2008.¹⁵

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

¹⁵ Rule 12 of the rules of procedure of the Board <<https://cdm.unfccc.int/Reference/COPMOP/08a01.pdf#page=31>>.

D. Calendar of meetings of the Executive Board in 2007

100. The Executive Board, at its twenty-ninth meeting, adopted its calendar of meetings for 2007 (table 4).

Table 4. Executive Board meetings in 2007

Number of meeting	Date	Location
Twenty-ninth	14–16 February	UNFCCC secretariat in Bonn, Germany
Thirtieth	21–23 March	UNFCCC secretariat
Thirty-first	2–4 May	UNFCCC secretariat (in conjunction with the twenty-sixth sessions of the subsidiary bodies)
Thirty-second	20–22 June	UNFCCC secretariat
Thirty-third	25–27 July	UNFCCC secretariat
Thirty-fourth	12–14 September	UNFCCC secretariat
Thirty-fifth	15–19 October	UNFCCC secretariat
Thirty-sixth	26–30 November	Bali, Indonesia (in conjunction with the third session of the CMP)

101. The annotated agendas for the Executive Board meetings, supporting documentation and reports containing all agreements reached by the Board are available on the UNFCCC CDM website.¹⁶

To ensure the efficient organization and management of work, some of the meetings of the Board are preceded by informal consultations of 1–2 days. During the reporting period, the workload before the Board typically required that the Board be in session or in consultations for well over the eight hours planned for a typical meeting day. The Board has agreed a schedule of meetings for 2008.¹⁷

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

A. Management plans for 2005–2006 and 2006–2007

102. In the reporting period, the Board, supported by the secretariat, revised the CDM-MAP in June 2007 in order to reflect additional needs emerging as a result of an increased caseload in the first half of 2007. In September 2007 the Board initiated a review of its operating assumptions, including the introduction of the PoA, and will consider a new version of the MAP at its thirty-sixth meeting. In accordance with provisions of decision 1/CMP.2, paragraphs 6–9, the most recent version of the CDM-MAP is available to Parties, and the public, on the UNFCCC CDM website¹⁸ and is self-explanatory regarding changes.

103. Although the Board will review its assumptions for the CDM-MAP, it can be noted that after nine months into 2007, the number of requests for registration and issuance, expected to be 800 for the entire year as per the CDM-MAP, had already reached 742. In other words, within the nine months 92.75 per cent of the requests expected for the year 2007 had been received. Surveys of DOEs and DNAs, carried out by the secretariat each quarter in order to project the expected workload, indicate that

¹⁶ <<http://cdm.unfccc.int/EB/>>.

¹⁷ EB 34 report, annex 53 <http://cdm.unfccc.int/EB/034/eb34_repan53.pdf>.

¹⁸ <<http://cdm.unfccc.int/EB/map.html>>.

by the end of the year another 319 cases will be submitted for registration alone, pushing the caseload about 32.62 per cent higher than expected.

104. The financial situation of the operations in support of the CDM is sound, even though significant pledges of support from Parties have not yet been converted into contributions. Presently the income slightly exceeds expenditure, allowing a margin of operation for the Board in case additional resources are required. In early September, the accumulation of the operating margin was achieved in time to allow for a switching to full self-financing. The Board agreed to stop accumulating an operating margin from the share of proceeds for the time being and will reconsider this issue once the amount accumulated, presently USD 30 million, becomes less than the equivalent of budgeted expenditure for 14 months of operation.

B. Budget and expenditures for the work on the CDM

105. During the reporting period, the Executive Board monitored and reviewed the requirements and status of resources¹⁹ for the work on the CDM, based on reports by the secretariat at each meeting of the Board. In the first nine months of 2007, the expenditure level in the supplementary budget was already much higher than the total level of expenditure for all of 2006. This is mainly the result of the recruitment of 24 new staff members, which in return has increased the capacity of the programme to carry out a larger number of activities as defined in the CDM-MAP. The Board noted the increase and encouraged the secretariat to conclude the recruitment process for the remaining positions by the end of 2007, and initiate the recruitment of new positions as planned. The Board also expressed its appreciation to the secretariat for the much improved gender and geographical balance in the CDM sub-programme at the level of professional staff (see table 5).

Table 5. Trend in geographical and gender balance among staff (Professional level) recruited by the secretariat to support the clean development mechanism (as a percentage of Professional staff in the CDM sub-programme)

	January 2006	July 2006	December 2006	September 2007	Variation from January 2006 – September 2007
Non-Annex I staff					
All P staff and above	27%	30%	33%	51%	24%
Female staff					
All P staff and above	11%	15%	21%	31%	20%
Regional groups					
Africa	9%	5%	4%	6%	-3%
Asia and the Pacific	18%	20%	25%	29%	11%
Latin America and the Caribbean	0%	5%	4%	14%	14%
Eastern Europe	9%	10%	8%	14%	5%
Western Europe and others	64%	60%	59%	37%	-27%

106. In terms of broad expenditure items, the costs in 2007 highlight that an increase in staff costs is accompanied by a decrease in costs for temporary staff replaced by regular staff. The costs for meetings

¹⁹ See paragraph 109.

(travel and operating expenses) increased as a result of the organization of the third joint workshop and the second DNA Forum in March 2007. Travel of staff has also increased as the newly recruited staff members are now available to undertake missions to technical and capacity-building/awareness-raising events (see table 6).

Table 6. Clean development mechanism supplementary resources: expenditure trends

	2004/2005	2006	As at 30 September 2007
Expenditure	3 071 617	3 084 263	7 069 443
Budget	10 242 134	9 053 763	13 065 281
Percentage	30	34	54
Expenditure from core budget	3 877 894 ^a	1 684 521	2 402 998

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

107. In the first nine months of 2007, the CDM employed 34 consultants (42 contracts) at a cost of USD 343,587. In terms of regional distribution, 82 per cent of the consultants were from Annex I Parties and 18 per cent from non-Annex I Parties.

108. The total costs of the support towards work on methodologies amounted to USD 160,000. The work was carried out by 58 desk reviewers, of whom 31 were experts from non-Annex I Parties and 27 were experts from Annex I Parties. Similarly, in the first nine months of 2007, the total costs of the support by RIT members amounted to USD 374,800, of which 26.25 per cent was paid to members from Annex I Parties and 73.74 per cent was paid to members from non-Annex I Parties.

C. Supplementary resources available, as at 30 September 2007, and current balance

109. The resources to support the Executive Board in 2006–2007 came from: the UNFCCC programme budget (core): assessed contributions by Parties (15 per cent); and supplementary resources (85 per cent) (see table 7):

Table 7. Supplementary resources

Source of supplementary funding	2006/2007	As at 30 September 2007*
Party contributions	✓	none
Accreditation fees	✓	✓
Assessment fees	to be determined	✓
Share of proceeds (methodology fee and registration fee are prepayments on the share of proceeds)	Collected, but only for use as of 1 January 2008 ^a	✓

^a Owing to the lack of contributions, the self-financing of the clean development mechanism was initiated in late September 2007 rather than as of 1 January 2008; see paragraph 113 of this document.

110. The resources for supplementary funding during the first nine months of 2007 were as follows:

- (a) Carry-over from 2006: USD 5.7 million;
- (b) Contributions by Parties: USD 1.2 million (USD 0.5 million was intended for the organization of the DNA Forum in Africa and therefore not to be spent on CDM activities in the management plan);
- (c) Accreditation fees: USD 112,395.

111. Since the inception of the CDM, in response to invitations by the COP, repeated calls by the Executive Board and communications from the Executive Secretary to Parties, a total of 22 Parties have generously contributed or pledged to contribute to the CDM (the nine Parties marked by an asterisk have done so during the reporting period): Austria, Belgium*, Canada, Denmark, the European Community*, Finland, France, Germany, Iceland*, Ireland, Italy, Japan, Luxembourg*, Malta, Netherlands*, Norway*, Portugal, Slovenia, Spain*, Sweden*, Switzerland and the United Kingdom of Great Britain and Northern Ireland*. These contributions are acknowledged with great appreciation. A summary of the status of pledges and contributions to support CDM activities in 2007 is attached as an annex to the report on each Board meeting.²⁰

112. In response to decision 7/CMP.1, fees and share of proceeds on CERs have been collected, with a view to using them as of 1 January 2008 such that activities of the Executive Board, as envisaged in the CDM-MAP, can be financed from this source. In order to avoid potential risks due to fluctuations in income from the share of proceeds, the Board introduced an operating cushion representing 1.5 years of the 2008 budget for supplementary resources. In the CDM-MAP for 2008, in order to avoid continuous variation in the operating cushion (or reserve) as a result of further revisions of the CDM-MAP, the Board suggested to set this amount at USD 30 million. As at 30 September 2007, a total of USD 34 million had been collected, permitting the launch of self-financing. The breakdown of this amount is presented in table 8.

113. In mid-September 2007, CDM activities could not be financially supported solely from contributions from Parties. This was because some Parties that had pledged resources to support the CDM did not convert those pledges into contributions. The Executive Board therefore had to advise the secretariat to start allotting resources generated from the share of proceeds and fees which were in excess of the operating cushion (USD 30 million). As a result, as of 30 September 2007, USD 4.1 million was available to support the CDM.

Table 8. Income from fees and share of proceeds in 2007 and amount available for expenditure
(in United States dollars)

Carry-over figure from 2006	13 513 451
Request for registration ^a	11 455 976
Methodology fees ^b	60 552
Share of proceeds ^c	9 039 706
Total 2007	20 556 234
Total amount received	34 069 685
Total amount less USD 30 million (reserve)	4 069 685

^a This fee is based on the annual average emission reductions over the first crediting period and is calculated as per share of proceeds to cover administrative expenses as defined in decision 7/CMP.1, paragraph 37.

Projects with annual average emission reductions of less than 15 000 tonnes of CO₂ equivalent are exempt from the registration fee, and the maximum fee applicable is USD 350 000. This fee is considered to be a prepayment of the share of proceeds to cover administrative expenses.

^b A methodology fee of USD 1 000 is payable at the time a new methodology is proposed. If the proposal leads to an approved methodology, the project participants receive a credit of USD 1 000 accounted for payment of the registration fee.

^c The share of proceeds, payable at the time of issuance of certified emission reductions (CERs), is USD 0.10 per CER issued for the first 15 000 tonnes of CO₂ equivalent for which issuance is requested in a given calendar year, and USD 0.20 per CER issued for any amount in excess of these per year.

²⁰ For the latest information on pledges, see EB 35 report, annex 48 <<http://cdm.unfccc.int/EB/index.html>>.

Annex

Regional distribution of clean development mechanism project activities

A. Mandate

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

B. Barriers

3. The Board reiterated the existence of barriers at different levels and stages and is cognizant of the fact that only a few of them can be addressed at the Board level, others at the Party level and yet others by the public and private sector in countries.
4. The Board considered it important to highlight that the existing barriers can be grouped in the following areas:
 - (a) Financial issues – Insufficient access to funds for technical assistance and capacity-building, and insufficient access to project finance and risk management tools;
 - (b) Structural and institutional issues – Weak institutional and administrative capacity relating to the development of CDM project activities;
 - (c) CDM-specific capacity issues – Lack of CDM-related awareness and experience in relevant sectors, investment conditions and small-scale projects;
 - (d) CDM process issues – Facilities and procedures not being in place, complexity of processes and methodologies, insufficient guidance on bundling and size limit of bundles, and lack of clarity as regards the treatment of official development assistance used to support various steps in the project cycle;
 - (e) Uncertainty about the modalities of the continuation of the CDM post 2012.

C. Progress to date

5. The Board noted that some progress has been made in enhancing a more equitable regional distribution of CDM project activities and in implementing activities referred to in decision 1/CMP.2; however, the Board also reiterated that more can be done in this area.
6. The Board also noted that there is limited scope in its mandate to undertake activities at the country level and therefore urged Parties, intergovernmental organization (IGOs) and non-governmental organizations (NGOs) to take further coordinated steps in order to implement activities at the country level to enhance the capacity of countries, with limited access to the CDM to benefit from the opportunities offered by the CDM.

7. The Board also noted that several activities have progressed in this area. In particular:
- (a) The CDM Bazaar has been implemented and was officially launched on 5 September 2007 <www.cdmbazaar.net>. The CDM Bazaar provides a web-based information exchange platform which facilitates access to and sharing of information among all stakeholders involved in the CDM process, in particular those from developing countries;
 - (b) Two meetings of the designated national authorities (DNA) forum have taken place since the second session of the CMP, including one organized recently in Addis Ababa, Ethiopia, which focused on the Africa region. The DNA forum is developing into an effective platform for information and experience sharing, and the Board reiterated the importance of convening meetings of the DNA forum at the regional level when possible;
 - (c) The launch of the Nairobi Framework¹ by the United Nations Secretary-General during CMP 2 in Nairobi brought together the United Nations Development Programme, the United Nations Environment Programme (UNEP), the World Bank Group, the African Development Bank, and the UNFCCC secretariat with the specific target of helping developing countries, especially those in sub-Saharan Africa, to improve their level of participation in the CDM. Since the launch of the Nairobi Framework, the partner agencies have intensified ongoing activities and/or initiated new ones, and strengthened their coordination and communication to avoid duplication of efforts. The Board expressed its appreciation for the work undertaken so far by the partner agencies, and its gratitude to those Parties that have already provided financial contributions to support the implementation of the Nairobi Framework;
 - (d) Several Parties have undertaken activities to broaden the participation of different stakeholders in the CDM process and to address the existing barriers. This work has taken different formats and means, in particular capacity-building programmes. These efforts are being complemented by South–South cooperation;
 - (e) Board members and secretariat staff have continued to participate in subregional and global capacity-building events or awareness-raising activities;
 - (f) The Board, at its thirty-fourth meeting, took note of a document prepared by the secretariat², which contains an analysis of how the barriers identified by the Board in its recommendations to the CMP at its second session could be addressed, and an analysis of the type of projects and methodologies that could be more suitable for regions with limited participation in the CDM, particularly in Africa, small island developing States (SIDS) and least developed countries (LDCs). The Board also noted that this document contains a wealth of information which is of general interest and that the information referring to types of projects and methodologies can be used in determining further steps to be taken in this area;
 - (g) In addition, the Board, at its thirty-second meeting, adopted the following documents: “Guidance on the registration of project activities under a programme of activities as a single CDM project activity”³; and “Procedures for registration of a programme of

¹ <http://cdm.unfccc.int/Nairobi_Framework/index.html>.

² Annotated agenda to the thirty-second meeting of the Executive Board
<<http://cdm.unfccc.int/EB/032/eb32annagan6.pdf>>.

³ EB 32 report, annex 38 <http://cdm.unfccc.int/EB/032/eb32_repan38.pdf>.

activities as a single CDM project activity and issuance of certified emission reductions for a programme of activities”⁴. This first step constitutes an innovative approach that can facilitate access to the CDM while reducing transaction costs. The Board will continue to monitor progress in this area on the basis of actual cases to determine what additional steps can be taken to achieve a more equitable regional distribution.

D. Actions by the Executive Board

8. The Executive Board will further enhance a more equitable regional distribution of CDM project activities by:
- (a) Identifying and implementing actions that increase access to the CDM by LDCs, SIDS and African and South-East Asian countries with few CDM project activities;
 - (b) Facilitating further the process of identification and implementation of project activities, in particular in the area of methodologies, by identifying particular issues and constraints for the application of such methodologies;
 - (c) Identifying the potential and scope for synergy and cooperation between CDM and micro-finance mechanisms in order to further promote sustainable development, mitigation of climate change and poverty alleviation; and to contribute to the Nairobi Framework;
 - (d) Including in its management plan, financial provisions to support information access, for example through the CDM Bazaar, and to facilitate the participation of project proponents and/or national experts in carbon forums and fairs.

E. Recommendations

9. The Board, taking into account the mandate received from the CMP recommends that the CMP, at its third session:
- (a) Decide to abolish the payment of the registration fee and the payment of the share of proceeds at issuance for CDM project activities originating in LDCs and sub-Saharan countries;
 - (b) Urge Parties included in Annex I to the Convention (Annex I Parties) to:
 - (i) Provide financial support to Parties not included in Annex I to the Convention (non-Annex I Parties), especially LDCs and with particular attention to African countries, SIDS and countries in South-East Asia with few CDM project activities, to cover the start-up costs relating to the development of CDM project activities;
 - (ii) Provide technical support for the development of methodologies applicable to LDCs and other non-Annex I Parties with few CDM project activities;
 - (iii) Organize hands-on trainings for project developers, local experts, DNAs and other stakeholders as necessary;
 - (iv) Develop financial tools to secure funding for the development of CDM project activities that can help developing countries with lack of access to financing;

⁴ EB 32 report, annex 39 <http://cdm.unfccc.int/EB/032/eb32_repan39.pdf>.

- (v) Provide financial support to the activities under the Nairobi Framework;
 - (vi) Pay particular attention to a more equitable distribution of CDM project activities.
- (c) Encourage all Parties to cooperate bilaterally in order to develop and implement CDM project activities, and in particular to facilitate South–South cooperation;
- (d) Encourage all Parties to consider how they may stimulate investment in CDM projects in the context of their broader development and finance policies;
- (e) Encourage Parties and United Nations organizations, in particular the partners in the Nairobi Framework, to focus on capacity-building in areas that are specific to the development of CDM project activities, in close consultation with the recipient countries, and to implement bilateral and multilateral capacity building activities in a coordinated fashion, in particular:
- (i) Development of project design documents (PDDs), assessment of proposals, awareness-raising, financial engineering, information sharing and the development of methodologies that are more suitable for LDCs, SIDS and African and South-East Asian countries;
 - (ii) Support of non-Annex I Parties in the creation of an organized infrastructure, such as DNAs or CDM promotion offices;
 - (iii) Prioritization of those countries that are currently not benefiting from such initiatives;
- (f) Encourage Parties, IGOs and NGOs to support the organization of, or participation in, region-wide carbon market forums for LDCs, SIDS African and South-East Asian countries with special sessions on sectors relevant to these regions. Such forums should also serve to mobilize the local financial sector and the private sector;
- (g) Encourage the private sector to engage further in the CDM process, and all Parties to facilitate participation by the private sector by creating the appropriate enabling environment;
- (h) Encourage financial institutions, in particular the regional development banks, to provide seed funding to develop CDM project activities and to be actively involved in the development and promotion of these activities;
- (i) Encourage closer cooperation between the DNAs of Annex I Parties and non-Annex I Parties, in particular through the DNA forum;
- (j) Encourage designated operational entities to establish offices and partnerships in developing countries in order to reduce the transaction costs for those countries and thereby contribute to a more equitable distribution of CDM project activities;
- (k) Encourage the UNEP Risoe Center on Energy, Climate and Sustainable Development to expand further its current work on handbooks and manuals on CDM project activities, in particular covering topics such as:
- (i) The use of methodologies and best practices for their successful application;
 - (ii) Case studies;

- (iii) PDD templates which would require minimal customization efforts by users in order to reduce the transaction costs related to validation.
