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Issues relating to the clean development mechanism
Guidance relating to the clean development mechanism

Annual report of the Executive Board of the clean development mechanism to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

Part I*

Summary

This report covers the work of the Executive Board of the clean development mechanism (CDM) during the period from 14 September 2012 to 4 October 2013. It highlights achievements and challenges faced by the Executive Board in its supervision of the mechanism, the status of the mechanism and work undertaken by the Board and its support structure in the areas of accreditation, methodologies, registration and issuance, and other areas. Furthermore, it includes a number of recommendations for action by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session. The main challenge facing the CDM remains the low level of demand for the certified emission reductions produced by CDM registered project activities and programmes of activities, due ultimately to Parties' level of ambition to reduce greenhouse gas emissions. The report describes the Executive Board's prudent efforts, in a constrained environment, to implement and improve the CDM to ensure that the mechanism remains a useful tool to incentivize climate change mitigation and contribute to sustainable development.

* This document was submitted after the due date in order to include information on the reporting period stipulated by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its second and third sessions.

Contents

I. Introduction

A. Mandate

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

B. Scope of the report

2. This annual report provides information on progress made in implementing the CDM during its twelfth year of operation (2012–2013),[1] hereinafter referred to as the reporting period, and makes recommendations for consideration at CMP 9. It contains an assessment of where the CDM stands at the beginning of the second commitment period of the Kyoto Protocol, highlights the achievements and challenges relating to the operation of the CDM and provides information on the governance, management and financial status of the mechanism. Further information is available on the UNFCCC CDM website, which is the central repository for all reports and other documentation relating to the Board.

3. The achievements and challenges during the twelfth year of operation of the CDM, as well as the challenges that lie ahead, will be highlighted further by the Chair of the Board, Mr. Peer Stiansen, in his oral presentation to CMP 9.

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

4. CMP 9, taking note of the annual report of the Board, may wish:

(a) To note the work of the Board in response to requests by CMP 8;

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

(c) To provide guidance on matters arising from this report, in particular the recommendations included in paragraphs 117–121 below.

5. The CMP is to elect the following to the 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 Alliance of Small Island States;

(c) One member and one alternate member from the Eastern European States;

[1] The report covers the period from 14 September 2012 to 4 October 2013, in accordance with decision 1/CMP.2, paragraph 11, and decision 2/CMP.3, paragraph 7.

(d) One member and one alternate member from Parties included in Annex I to the Convention (Annex I Parties).

II. The clean development mechanism at the start of the second commitment period

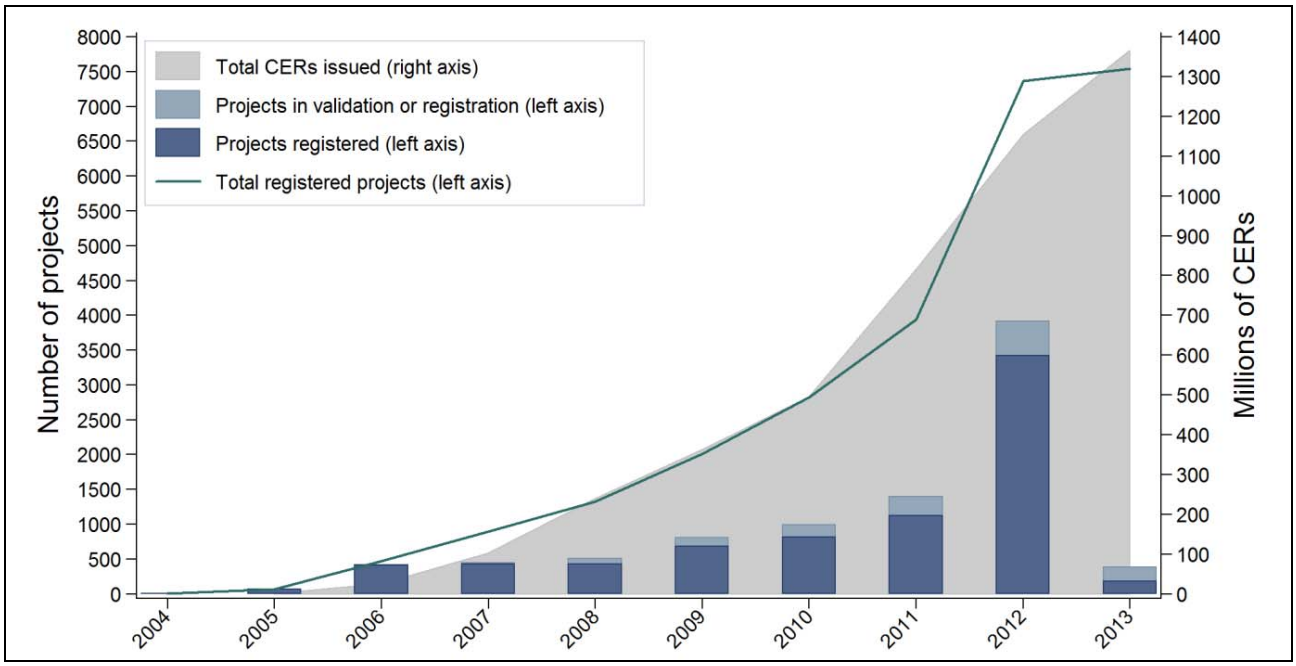
A. The clean development mechanism in numbers

6. In total, 7,293 projects were registered under the CDM in 89 countries by the end of the reporting period. The mechanism passed its milestone 7,000th registered project in July 2013, about six months into the first year of the Kyoto Protocol's second commitment period. Approximately 1,170 further projects are undergoing validation, a step prior to submission to the Board for registration. With respect to emission reductions, by the end of the reporting period 1.38 billion certified emission reductions (CERs) had been issued (see figure 1).

7. More indicative of the present challenges faced by the mechanism due to a decline in demand for CERs is the number of projects that entered the CDM pipeline. Some 346 projects were submitted to a designated operational entity (DOE) for validation in the reporting period, compared with 2,276 projects in the previous reporting period, more than a sixfold decline.[2] Also, it is expected that a number of registered projects will not continue their verification activities. The number of affected projects is unknown, although in many cases it can be expected that emission reductions will continue.

[2] Comparison of reporting periods: present reporting period, 14 September 2012 to 27 October 2013, and previous reporting period, 27 October 2011 to 13 September 2012.

Figure 1
Certified emission reductions issued cumulative, projects registered cumulative and projects registered, registering and in validation by year, 2004–2013[a]



Abbreviation: CER = certified emission reduction.

[a] Data as of October 2013. Registration numbers reflect the effective date of registration; that is, the date when a complete request for a registration submission was received (*Clean Development Mechanism Project Cycle Procedure*, paras. 76–78. <https://cdm.unfccc.int/Reference/Procedures/index.html#proj_cycle>).

8. The number of project activities submitted for registration during the reporting period reached 2,281, compared with 1,679 in the previous reporting period. As expected, the number submitted in 2013 declined compared with the latter half of 2012, which saw a surge in new projects ahead of rules that came into effect in the European Union Emissions Trading System (EU ETS) from the beginning of 2013 (see figure 2).[3]

9. The CDM has seen continued growth in the number of programmes of activities (PoAs). There are now 224 registered PoAs in 42 countries, with a total of 1,801 component project activities (CPAs). Under a PoA, an unlimited number of CPAs 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 extend its reach, especially in underrepresented regions.

10. The CDM helps countries to achieve their climate change mitigation and sustainable development objectives. The CDM acts as a source of finance for adaptation. In the reporting period, 2,426,000 CERs were contributed to the Adaptation Fund, bringing the total number of CERs forwarded to the fund by the CDM to 7,160,000.[4]

[3] These rules exclude CERs from certain project types and from projects registered after 31 December 2013 for compliance under the European Union Emissions Trading System unless they are from projects hosted in the least developed countries.

[4] See <http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php>.

11. To summarize, 2012 saw a dramatic increase in registrations, while 2013 saw a dramatic decline in the number of projects registered and a dramatic decline in the number of projects entering the CDM pipeline. This is a result of diminished demand for CERs, tied ultimately to Parties' level of ambition to reduce greenhouse gas (GHG) emissions.

B. An evolving and improving clean development mechanism

12. The Board is dedicated to ensuring that Parties continue to have at their disposal an efficient and effective tool with which to reduce GHG emissions and contribute to sustainable development. The Board's work builds on a mechanism with excellent expertise as a GHG offsetting mechanism:

(a) In assessments, the CDM maintains and administers rigorous uniform procedures for registering activities that reduce or remove emissions, issuing credits for such reductions or removals, and accrediting third party validators and verifiers. The CDM validates and verifies at the project level, where the actual emission reductions occur;

(b) In standards, the CDM maintains the world's largest source of credible and internationally accepted standards for measuring, reporting, and verifying emission reductions and removals, and these are already widely used by mechanisms and stakeholders outside the CDM;

(c) In regulatory management, the CDM has an established, transparent and trusted governance structure, which is Party-driven and subject to the oversight of the CMP. The CDM has a fully functional emissions registry and a transparent repository for detailing the description and status of all projects and programmes and for the tracking of and accounting of every issued CER.

13. The Board has in recent years focused especially on increasing the simplicity and objectivity of the CDM's methodologies, processes and rules. Such improvements increase accessibility to the mechanism while maintaining the environmental integrity of the emission reductions produced by projects. An example is the Board's work in recent years on the PoA approach.

14. A notable accomplishment in 2013 with respect to simplicity and objectivity was the approval by the Board of the mechanism's first two standardized baselines, a grid emission factor that covers the entire Southern African Power Pool and a baseline (an emission factor and a positive list of technologies) for charcoal production in Uganda. Two other standardized baselines are under consideration by the Board, and two others are at an earlier stage of assessment (see paras. 62–65 below).

15. With a view to increasing accessibility, through support for registration, issuance, PoA development and development of standardized baselines, by the end of the reporting period four regional collaboration centres (RCCs) had been launched with cooperating organizations: two in Africa, one in the Caribbean and one in Latin America. Another is planned for Asia (see paras. 78–85 below).

16. The Board, through the secretariat, supervises a CDM Loan Scheme, providing financial support for project development in underrepresented countries. Some USD 4.5 million has been committed to 36 projects (see annex III) since the operationalization of the CDM Loan Scheme in the second quarter of 2012.

17. During the reporting period, the CDM continued to evolve, improve and become more accessible as a tool to incentivize action on climate change and development.

C. Challenges

18. Despite considerable progress in improving the mechanism, making it an increasingly efficient and effective tool for use by Parties, the CDM faces serious challenges.

19. Demand for CERs has declined significantly, given, inter alia, the reduced number of Parties participating in the Kyoto Protocol's second commitment period, the emission targets to which those countries have committed, restrictions by some buyers on the type and origin of the CERS and protracted economic recession in several developed countries.

20. At the same time, Parties are working to develop new means to collaborate on emission reduction efforts, for example through a new market mechanism and bilateral efforts. The challenge for the Board and Parties is to ensure that whatever is developed complements and builds on the strengths of the CDM.

21. As in past years, the Board devoted attention to safeguarding the reputation of the CDM. It does this primarily through stringent adherence to protocols, a commitment to continual improvement and a commitment to transparency. Virtually every document about each registered CDM project is available on the CDM website, each issued CER can be traced to the project that produced it, Board meetings are webcast and fully documented, and continual improvement is sought in the quality of communication between the Board, its support structure and stakeholders, including the media (see paras. 89–110 below).

22. All of this considered, it is the current low level of demand for CERs and resulting low level of activity that is of gravest concern to the Board. This mature and now well-functioning mechanism, which has proven its ability to achieve emission reductions at a scale that can contribute significantly to the global mitigation effort and which has proven that it can attract substantial capital (public and private) and technology to developing countries, is at risk. Capacity built by project developers, DOEs, designated national authorities (DNAs) and within the secretariat could be lost, projects may be discontinued and low-cost mitigation opportunities missed.

D. Opportunities

23. The CDM has shown its ability to help Parties to achieve their climate change mitigation and sustainable development objectives. In 12 years, the CDM has:

(a) Leveraged an estimated USD 315 billion in capital investment to underpin climate mitigation efforts and support the achievement of a range of sustainable development outcomes for host Parties;[5]

(b) Issued over 1.38 billion CERs and stands ready to further contribute through the crediting of a further 1.4 to 6.2 billion emission reductions by 2020;[6]

(c) Saved countries with a commitment under the Kyoto Protocol more than USD 3.6 billion in compliance costs;[7]

[5] Total capital investment as reflected in the project design documents of 85 per cent of project activities considered not dormant (source data: UNFCCC/United Nations Environment Programme (UNEP) Risoe Centre as of 1 October 2013).

[6] Projects which are currently issuing CERs are projected to continue issuing a further 1.4 billion CERs, while all currently registered projects could result in the issuance of up to 6.2 billion additional CERs to 2020.

[7] <https://cdm.unfcc.int/about/dev_ben/ABC_2012.pdf>. Includes countries and private entities with an obligation originating from the Kyoto Protocol.

(d) Generated and supported green growth programmes globally, resulting in co-benefits such as technology transfer, employment, household income generation opportunities, education, rural electrification and improved air quality with resulting health benefits;

(e) Contributed to the development of 110 gigawatts of new renewable energy capacity.[8]

24. Despite the serious recent decline in demand for CERs, it is the Board's view that a need for the CDM remains, as part of the global community's action to combat climate change.

25. This view is supported by the evidence that projects continue to enter the CDM pipeline; almost 200 projects entered validation in the last six months of the reporting period.

26. With respect to meeting potential demand for the CDM, the mechanism has proven its scalability and can capitalize on further efficiency features.

27. In 2013, the CDM saw its potential being explored by multilateral development banks and development agencies wishing to employ the mechanism in so-called results-based efforts, using the CDM's strengths in validation and verification of emission reductions and contributions to sustainable development, and not just to produce offset units per se.

28. CDM stakeholders are also exploring how the CDM can contribute to climate change mitigation and sustainable development outside of the compliance system of the Kyoto Protocol. Rules adopted by the Board and Parties in 2012 facilitate easier voluntary cancellation of CERs in the CDM registry and have opened the way to potential demand from companies, agencies and events wishing to reduce their impact on the climate (see table 2 and para. 119). During the reporting period, and to date, some 286,694 CERs from 58 transactions were voluntarily cancelled in the CDM registry.

29. The CDM has proven, especially in 2012, that it can take on an expanded role in the global effort to address climate change. Parties' current review of the CDM modalities and procedures is an opportunity to prepare the CDM for a higher level of utility.

30. In 2013, the Board agreed on 22 recommendations to Parties aimed at making the CDM a more efficient and effective tool in the international response to climate change. The recommendations range from calls for elaboration on the role of countries that host CDM projects to a recommendation that could better ensure that stakeholders' views are taken into account during the vetting of projects.[9]

III. Work undertaken in the reporting period

31. This chapter describes the ongoing work of the Board and its response to the requests made and encouragements given by the CMP. The work of the Board can be categorized into three broad areas: rulings; regulatory matters; and governance and management matters. Annex I contains a summary of the deliverables of the Board in response to the requests and encouragements of CMP 8.

[8] <https://cdm.unfcc.int/about/dev_ben/ABC_2012.pdf>.
[9] FCCC/SBI/2013/INF.1.

A. Rulings

1. Rulings related to accreditation

32. In the reporting period, the Board accredited and provisionally designated five new operational entities for validation and verification and extended the scope of accreditation of one DOE. Two DOEs withdrew their accreditation. If the designations are confirmed, it will take the total number of operational entities designated for validation and verification and certification of emission reductions of projects to 44. The Board recommends the entities listed in annex II for designation at CMP 9 for the sectoral scopes indicated.

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

33. A large number of submissions were received for registration of project activities and issuance of CERs in 2012 (table 1), due to 2012 being the last year of the first commitment period of the Kyoto Protocol and to rules that came into effect in the EU ETS from the beginning of 2013.[10]

34. In January 2012, 260 submissions were received, which increased to 500 in June; in December, 1,505 submissions were received. The total number of submissions (comprising registration and issuance requests for both project activities and PoAs) received throughout the year was 7,204, 92 per cent higher than was anticipated for 2012. Of that number, more than 5,000 submissions were received just in the second half of 2012 (see figure 2).

35. While it was anticipated that the number of submissions would be high towards the end of 2012, the number was unprecedented and the average time to the commencement of processing increased. Nevertheless, the ability of the CDM's infrastructure to accommodate this level of new projects and PoAs, without compromising environmental integrity, demonstrates that the CDM has the capacity and flexibility to scale up when needed and to meet the demands of the market.

Table 1
Clean development mechanism registration and issuance-related requests for the period from 14 September 2012 to 4 October 2013

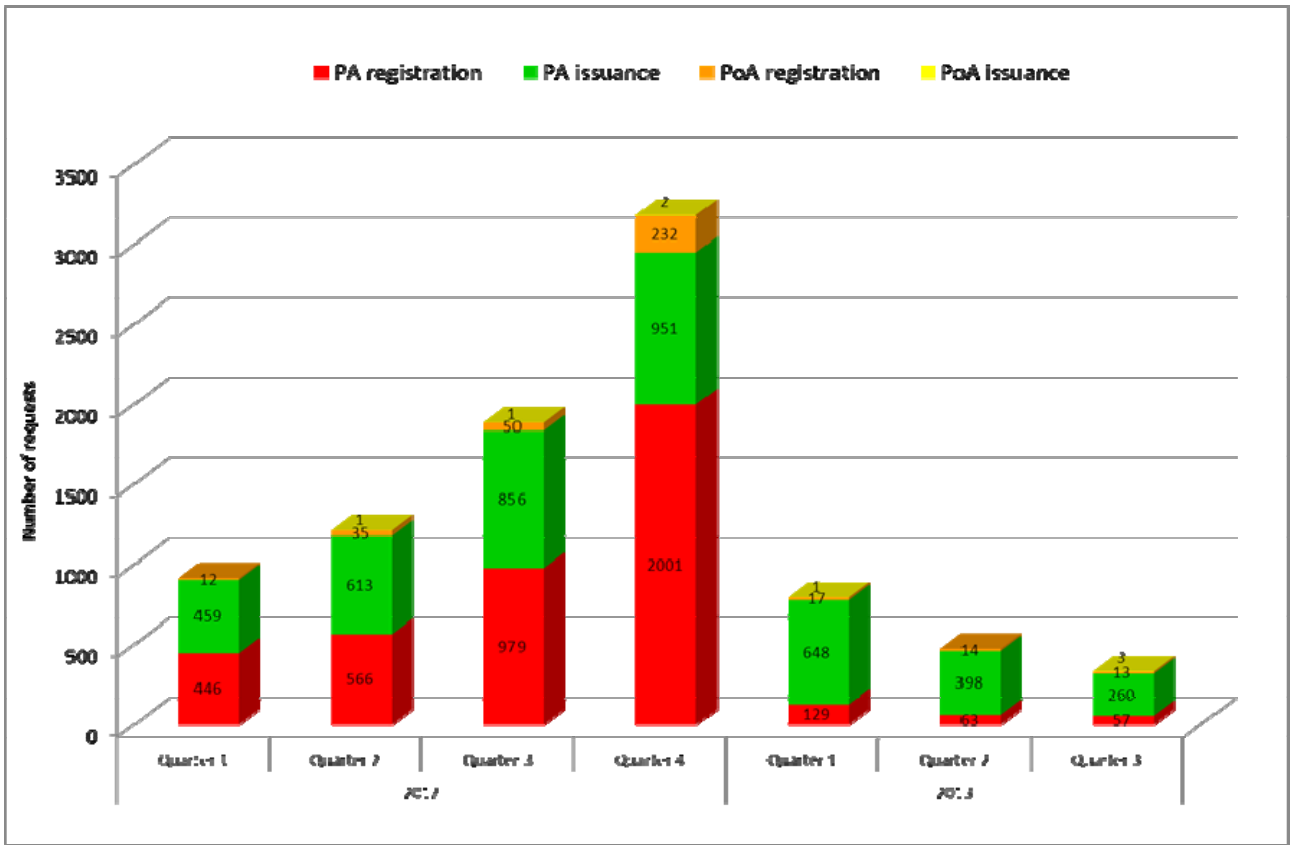
		Pending requests submitted during the reporting period		
Request	*Total number of requests submitted*	*Awaiting commencement of completeness check*	*Already commenced completeness check*	*Number of finalized requests*[a]
Registration	2 426	14	93	2 800
Issuance	2 416	45	140	2 678
Programme of activities: registration	285	2	29	192
Programme of activities: issuance	5	1		4
Renewal of crediting period	45	4	24	22
Post-registration changes[b]	241	12	30	349

[a] Total comprises submissions and resubmissions after incompleteness.

[10] These rules excluded CERs from certain project types and from projects registered after 31 December 2013 for compliance under the EU ETS unless they are from projects hosted in the least developed countries.

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

Figure 2
Submissions of requests for registration and issuance for project activities and programmes of activities, first quarter 2012 to third quarter 2013

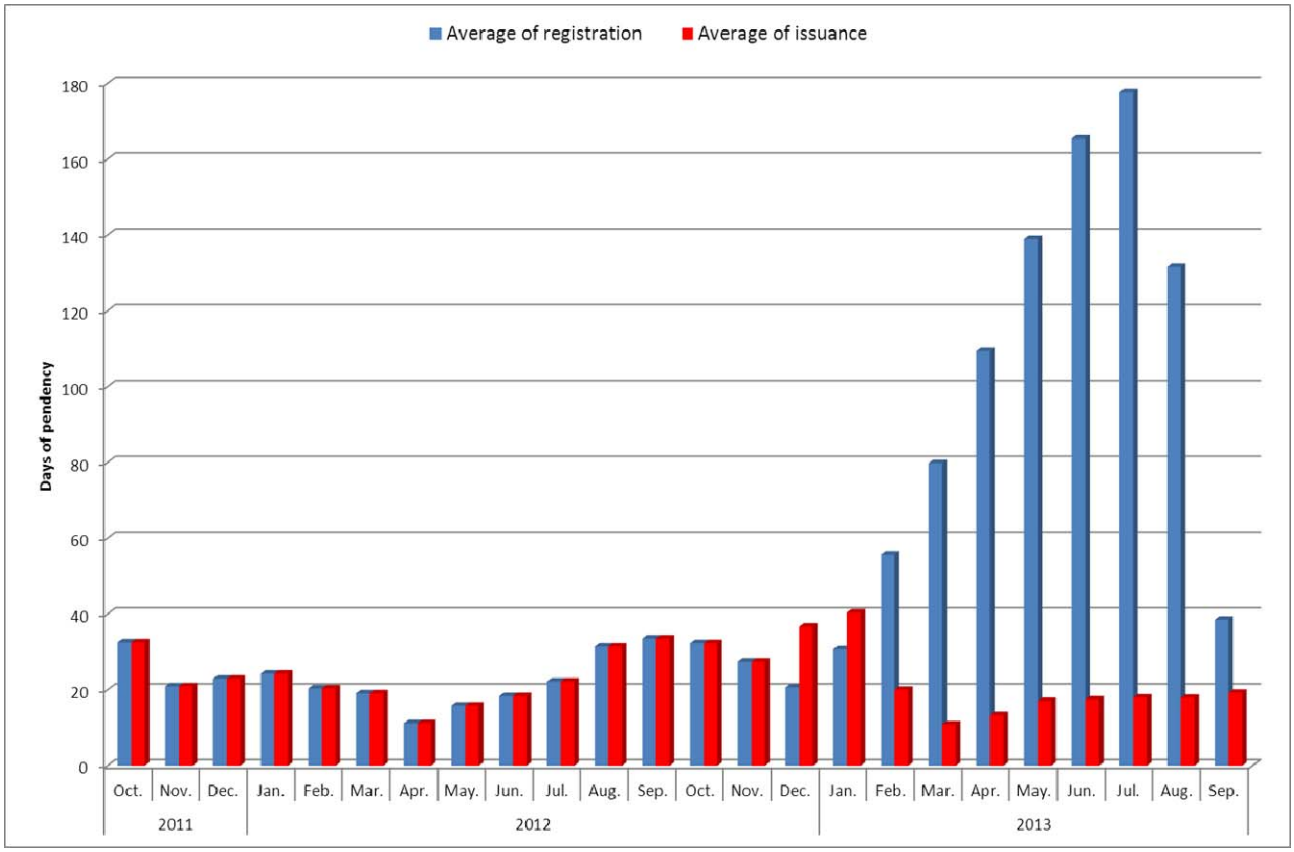


Abbreviations: PA = project activity, PoA = programme of activities.

36. The high volume of submissions naturally came with longer processing times, given the limited resources available in the secretariat. However, under the Board's guidance, the secretariat endeavoured, with assistance from contracted external experts, to stay as much as possible within the prescribed processing times (figure 3). When the last batch of 210 cases began to be processed on 31 December 2012, all registration cases received up to 21 December 2012 were covered and the average waiting time was 12.4 days, well within the CMP mandate of 15 days.

37. As expected, requests for registration dropped after 2012, while submissions of requests for issuance of CERs continued to be high, at around 200 submissions per month for several months into 2013. This was mainly due to an April EU ETS deadline for the issuance of CERs from industrial gas projects. Waiting times for registration rose significantly in 2013 as the Board sought to keep the waiting time for issuance within three weeks. By the time cases were processed on 24 September 2013, the waiting time across all new submissions had been reduced to an average of 18 days.

Figure 3
Average waiting time in days to start processing of registration and issuance requests, by month, October 2011 to September 2013



38. As of 30 September 2013, 222 PoAs were registered, of which 28 per cent were located in Africa (figures 4 and 5, respectively). The top four hosts of PoAs are China, with about 15 per cent of PoAs, South Africa, with 10 per cent, India, with 9 per cent, and Kenya, with 6 per cent.

Figure 4
Registered programmes of activities, by month, 2009–2013

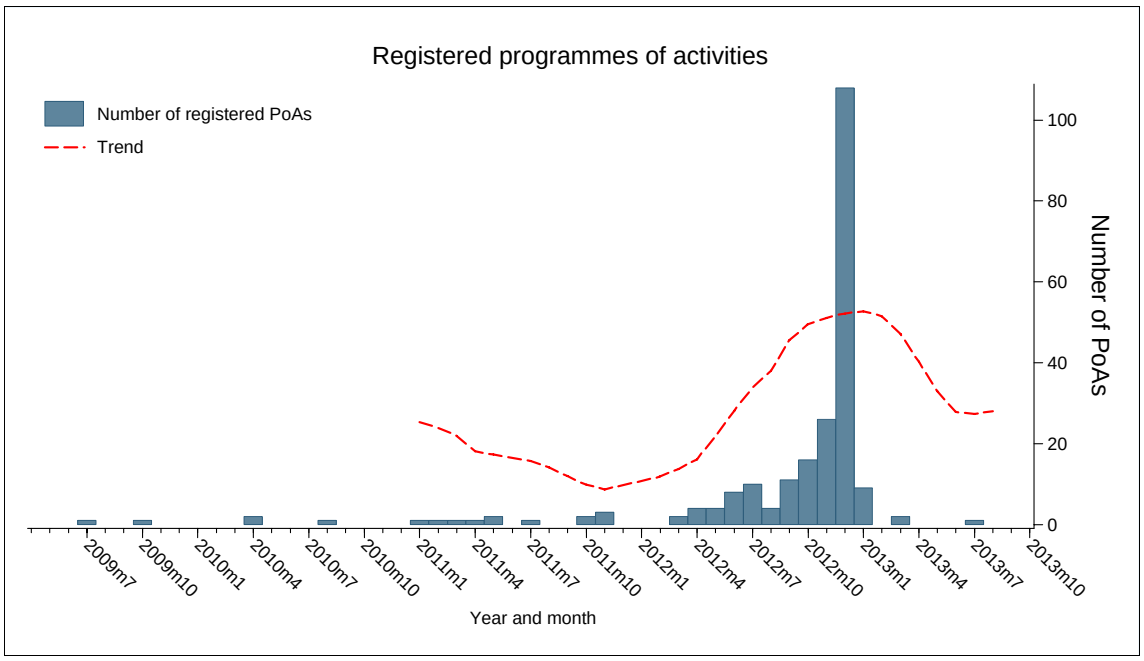
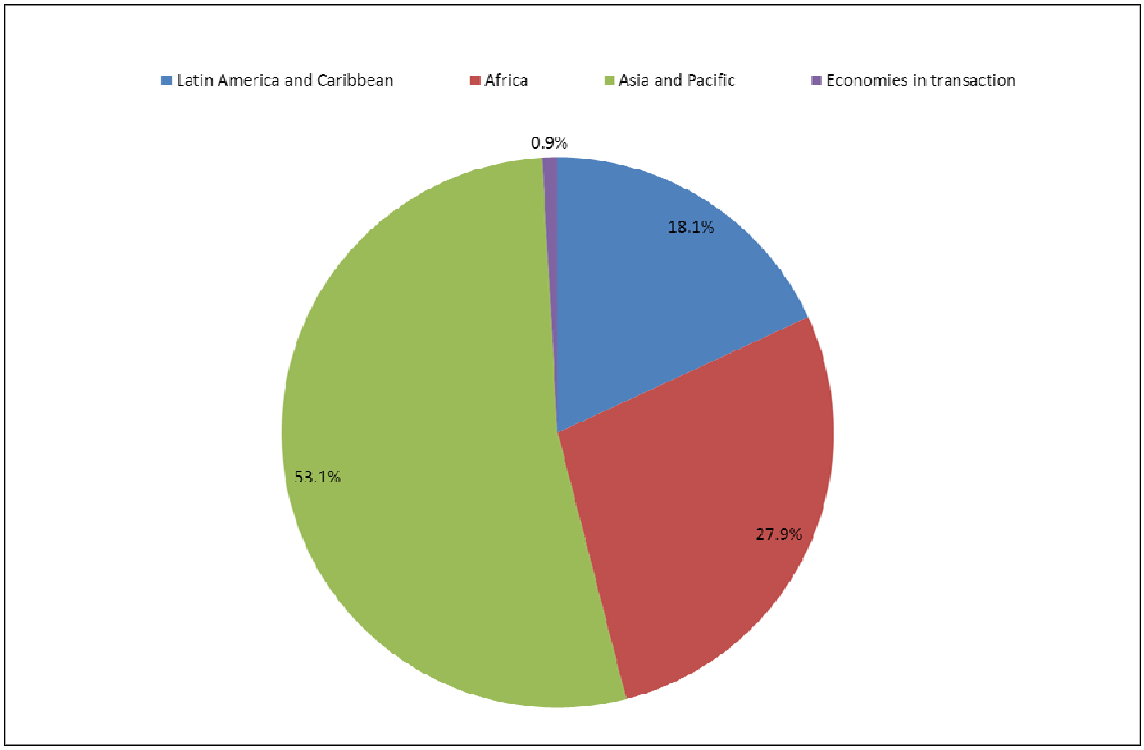


Figure 5
Distribution of registered programmes of activities by UNFCCC region



Note: Africa = African States, Asia and Pacific = Asia-Pacific States, Latin American and Caribbean = Latin America and Caribbean States.

39. This reporting period marked exciting developments for PoAs, including the first issuance of CERs to a PoA, followed shortly by CERs being issued for two other PoAs. By the end of the reporting period, 58,401 CERs had been issued to four PoAs covering 61 CPAs.

40. In the reporting period, 381,157,475 CERs and 6,255,638 temporary certified emission reductions (tCERs) were issued from the CDM registry, bringing the total number of CERs and tCERs issued to 1,379,085,663 and 10,327,993, respectively. Further details on forwarding and voluntary cancellation transactions are provided in table 2. To date, 2457 projects and four PoAs have received CERs.

Table 2
Overview of completed transactions in the clean development mechanism registry

Transaction type	*Total as at 4 October 2013*		*14 September 2012 to 4 October 2013*	
	Transactions	*Units*	*Transactions*	*Units*
Total issuance transactions	7 399	1 389 413 656	2 662	387 413 113
Total forwarding transactions to the Adaptation Fund account	7 378	27 771 895	2 644	7 711 031
Total forwarding transactions to the clean development mechanism registry or Annex I Party registries holding accounts	12 487	1,366,817,904	4 763	431 873 971
Total voluntary cancellation transactions	58	286 694	58	286 694
Total issuance transactions	7 399	1 389 413 656	2 662	387 413 113

41. Of the total CERs, 1,368,177,555 were issued for the first commitment period of the Kyoto Protocol and 10,908,108 for the second commitment period. All tCERs issued were for the first commitment period.

42. Detailed figures can be found on the CDM website.[11]

B. Regulatory matters

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

1. Policy-related regulations

44. During the reporting period, the Board adopted two regulatory documents aimed at improving the process of accreditation of, and the performance of, operational entities: the revised CDM accreditation procedure and the revised DOE performance monitoring procedure. The revised CDM accreditation procedure, which will be effective from 1 January 2014, is expected to improve the effectiveness, efficiency and transparency of the CDM accreditation process. The revised DOE performance monitoring procedure is expected to help DOEs improve their performance through careful monitoring and addressing non-compliance in a systematic manner.

45. With the aim of facilitating the development of microscale renewable energy CDM project activities in underdeveloped regions in non-Annex I countries, the Board adopted a revised procedure for the submission and consideration of microscale renewable energy

[11] See <http://cdm.unfccc.int/Statistics/Public/index.html>.

technologies for automatic additionality, which will include the process for the proposal and approval of special underdeveloped zones in host countries.

46. Finally, during the reporting period, the Board started the revision of the project standard, validation and verification standard and project cycle procedure to incorporate changes relating to carbon dioxide capture and storage (CCS) projects, and operationalized the CCS Working Group to advise the Board on matters relating to the implementation of such changes. This will help with the development, validation and registration of CCS projects. No baseline and monitoring methodologies have been submitted so far on CCS projects.

47. The Board received its first withdrawal of approval/authorization from the DNA of an Annex I Party in respect of a project participant that had previously voluntarily withdrawn from participation in the relevant project activity. The Board, in its report to CMP 7, had noted that it would need Parties to inform it of the effective date and implications of any withdrawal of approval/authorization that it received from a DNA. It had also noted that it would need a procedure to process such letters when they were received by the Board. The Board is working on this procedure, which includes the steps that the Board would take in the absence of specific details from the DNA on the effective date, and the implications.

48. The Board in 2012 adopted a tool, which is available on the UNFCCC CDM website, to allow project participants to voluntarily describe the sustainable development benefits of their projects. The implementation of an information technology solution, based on the tool, is currently under way.

49. In response to a request by Parties at CMP 8, the Board considered improvements to its "Guideline on the application of materiality in verifications". The Board decided to incorporate relevant provisions of the guideline into the CDM validation and verification standard, revise the guideline to become a collection of good practices and calibrate DOEs on the concept and application of materiality in verifications.

2. Methodology-related regulations

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

51. The Board processed 44 methodological submissions by project proponents, including submissions of new methodologies (15) and requests for revision (29). These resulted in the approval of nine new methodologies and the revision of 15 existing methodologies. This brings to 204 the number of approved methodologies, including 109 large-scale and 91 small-scale, and two large-scale afforestation and reforestation and two small-scale afforestation and reforestation. During the reporting period the Board also undertook top-down improvements on various methodologies and tools, simplifying them and broadening their applicability.

Large-scale methodologies and tools

52. The Board approved a new methodology for interconnection of electricity systems across national boundaries, in a pioneering effort to include options to connect grids in different countries.

53. A new tool entitled "Upstream leakage emissions associated with fossil fuel use" has been developed to harmonize and provide consistency across the methodologies.

54. A widely used tool to calculate emission factors for an electricity system was revised to introduce standardized approaches for off-grid energy generation. This is aimed at facilitating the development of energy supply project activities in the least developed countries (LDCs) that are heavily reliant on off-grid electricity generation.

55. A commonly used methodology for abatement of the nitrous oxide in nitric acid production facilities was significantly improved.

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

Small-scale methodologies and tools

57. In an effort to extend the benefits of the CDM to underrepresented countries and project types, the Board expanded its positive list of small-scale project types that qualify for automatic additionality due to their obvious ability to reduce emissions and the obvious barriers they face to implementation. These measures aim to facilitate development of a range of project activity types, such as methane recovery in animal management systems.

58. The Board was able to approve standardized approaches for small-scale projects and PoAs by providing the necessary default parameters. This covered energy applications (e.g. sustainable charcoal production and consumption, energy-efficiency measures in thermal applications of non-renewable biomass, substituting fossil fuel based lighting with light-emitting diode or compact fluorescent lamp lighting systems), solid waste management (e.g. recovery and recycling of materials from solid wastes) and agriculture (e.g. avoidance of methane and nitrous oxide emissions in agricultural activities). The Board also approved methodologies for energy-efficient space heating for residential buildings, expanding the portfolio of methodologies available for emission reduction activities in the building sector.

Afforestation and reforestation methodologies

59. The Board approved consolidation of the 11 methodologies for large-scale afforestation and reforestation project activities into two methodologies, simplifying the standards and enhancing their accessibility for users. The two methodologies have a modular structure, which provides project developers with full flexibility in project design. The modular structure also facilitates the task of methodology improvement.

60. In response to a request from Parties at CMP 8, the Board considered changes to the CDM modalities and procedures to provide for flexibility in the monitoring periods of afforestation and reforestation projects, in order to better meet the planning and operational needs of project participants. Work will continue on this matter.

Carbon capture and storage

61. The Board started the revision of the project standard, validation and verification standard and project cycle procedure to incorporate changes relating to CCS projects, and operationalized the CCS Working Group to advise the Board on matters relating to the implementation of such changes.

Standardized baselines

62. The Board adopted the guidelines on “Establishment of standardized baselines for afforestation and reforestation project activities under the CDM”. The guidelines aim to enhance the accessibility of afforestation and reforestation project activities under the CDM, particularly activities that promote the twin objectives of forest resource conservation and climate change mitigation. The Board also approved a work programme to support implementation of the guidelines.

63. The Board adopted a revision of its procedure for submission and consideration of standardized baselines for the expansion of its scope to develop (top-down), revise, clarify and update standardized baselines. The Board also considered the revision of various regulatory documents, including the CDM project standard, the CDM validation and verification standard and the CDM project cycle procedure to incorporate the provisions for standardized baselines.

64. The Board considered the existing "Guidelines on the establishment of sector-specific standardized baselines" and "Guidelines for quality assurance and quality control of data used in the establishment of standardized baselines" in order to expand their scope, incorporating lessons learned from their implementation and based on practitioners' input. The Board considered the "Standard on vintage of data and frequency of update of standardized baselines" and "Guidelines for standardized baselines for transport sector projects".

65. The Board approved two standardized baselines in the reporting period, a grid emission factor for the Southern African Power Pool and a standardized baseline containing an emission factor and positive list of technologies for charcoal production in Uganda. Two other standardized baselines have been submitted for consideration by the Board, a grid emission factor for the Uzbekistan national grid and a baseline for the rice mill sector in Cambodia. Two others are at an earlier stage of assessment, one for the cement sector in Ethiopia and the other a grid emission factor for Belize.

Programmes of activities

66. During the reporting period, the Board revised PoA-related regulatory documents, including the:

(a) Project standard;

(b) Validation and verification standard;

(c) Project cycle procedure;

(d) Sampling standard and standard for the demonstration of additionality;

(e) Development of eligibility criteria and the application of multiple methodologies for PoAs.

67. These changes were intended to provide flexibility for PoA developers while safeguarding the environmental integrity of emission reductions from PoAs. Changes introduced related to the following:

(a) Pragmatic approaches for sample-based monitoring by project participants and DOEs, including a necessary grace period to make improvements in the system;

(b) Guidance on the application of multiple CDM methodologies in the same PoA;

(c) Additionality demonstration at the PoA and CPA level;

(d) Requirements for the eligibility criteria;

(e) Coordinating/managing entity management (CME) system;

(f) Documentation requirements for PoAs and CPAs, including timelines;

(g) Post-registration changes to PoAs and/or CPAs;

(h) Fee schedule;

(i) Batched issuance requests for the same monitoring period of the PoA.

Suppressed demand

68. The Board further implemented the guidelines on the consideration of suppressed demand in CDM methodologies, which in the setting of emission baselines allows for scenarios in which future anthropogenic emissions by sources are projected to rise above the current levels owing to the specific circumstances of the host Party. During the reporting period the Board revised two existing methodologies and developed one new methodology to include provision for 'suppressed demand' in the area of off-grid energy generation and residential space heating.

Additionality

69. The Board initiated a comprehensive review of the approaches currently implemented for the demonstration of additionality in a few selected large-scale methodologies covering landfills, alternative waste treatment, lighting and drinking water purification methodologies.

Simplification and streamlining of methodologies

70. The Board initiated work on simplification and streamlining of methodologies taking into account the "Guidelines for determining baselines for measure(s)" adopted in the previous reporting period.

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

71. The secretariat, on behalf of the Board, has continued a high level of interaction with DNAs to ensure broader participation in the CDM's design and implementation. The Designated National Authorities Forum (DNA Forum) co-chairs were invited to participate in stakeholder consultation events, and had the opportunity to interact with the Board at its 70th and 73rd meetings. Board members have also interacted with the DNA Forum during forum meetings held in conjunction with the annual sessions of the CMP and during regional DNA training events.

72. The secretariat conducted three regional training events for DNA representatives on standardized baselines, suppressed demand, microscale additionality and PoAs for Latin America and Caribbean States (Belize City, Belize, October 2012), for African States (Abidjan, Côte d'Ivoire, July 2013, back to back with the fifth Africa Carbon Forum) and for Asia-Pacific and Eastern European States (Manila, Philippines, September 2013). The training events for African States and Asia-Pacific States were jointly organized with the United Nations Development Programme, which allowed for the participation and funding of CMEs and project developers and resulted in enhanced interaction, learning and experience sharing.

73. The secretariat has launched an online training course (e-Learning) on the guidelines for demonstrating additionality of microscale project activities. The course provides DNA representatives and other selected stakeholders who have not attended the in-person regional training events to gain an understanding of the subject. Further courses are planned for development based on the experience gained and the feedback received.

74. The CDM and DNA help desks supporting DNAs and projects in Africa, the LDCs, small island developing States and countries with fewer than 10 registered CDM projects (as at 31 December 2010) continue to serve stakeholders.

75. The CDM Loan Scheme, launched in April 2012 and operated by the United Nations Office for Project Services under the supervision of the secretariat, has completed four periods of applications for loans. A total of 104 applications have been received, with 36

loans approved, for a total commitment of USD 4.5 million. Projects are located in Africa (23), Asia (12), and Latin America (1), and they mostly cover PoAs (56 per cent). The LDCs account for 47 per cent of the approved loans, and African States account for 58 per cent.

76. In the context of the Nairobi Framework[12] partnership, the secretariat has continued coordination of the activities of the partners and cooperating organizations to avoid duplication of effort and to take advantage of the partners' key capacities.[13] A Nairobi Framework workplan was written in the beginning of 2013. Joint efforts in 2013 included, among other initiatives, the organization of the fifth Africa Carbon Forum, the fourth workshop on enhancing the regional distribution of CDM projects in Asia-Pacific States, and two regional DNA training events (in Côte d'Ivoire and Philippines) for exchanging experience in the development of standardized baselines. As usual, each partner and collaborating organization has also carried out individual initiatives according to their own mandates and workplans.

77. The Board would like to express its gratitude to the DNAs of Belize, Côte d'Ivoire and Philippines for hosting regional DNA training events and to the Nairobi Framework partners and cooperating organizations for their continued support of the Nairobi Framework.

78. The secretariat strengthened its efforts to improve the regional and subregional distribution of CDM projects by developing CDM RCCs in partnership with local and regional agencies and multilateral development banks in Lomé, Togo (operational since January 2013), Kampala, Uganda (May 2013), St. George's, Grenada (July 2013), and Bogota, Colombia (August 2013).[14]

79. The RCCs provide direct support (a) to existing projects and PoAs in moving through the CDM project cycle from idea to issuance (without intervention in the existing regulatory process), (b) in the development of standardized baselines and (c) in the development of a pipeline of future projects and partnerships.

80. The work in the RCCs differs substantially from region to region and from project to project. The challenge and priority in the West African region, coordinated through RCC Lomé, due to the limited CDM pipeline there, has been to move projects into the pipeline and have validation started. Work in East Africa places greater emphasis on moving existing registered projects and PoAs to the issuance phase.

81. RCC Lomé works closely with DNAs and with 55 projects in the region. Notable for that RCC has been the large number of new projects entering the CDM pipeline (26) and project activities that have been helped to move along the project cycle (eight). Work with DNAs in the region is expected to contribute significantly to the submission of grid emission factor standardized baselines in Cape Verde, Guinea Bissau and Sao Tome and Principe, and a cook stove standardized baseline in Senegal.

82. RCC Kampala has contacted more than a tenth of the 619 projects and close to half of the 116 PoAs being developed across the 24 countries in the East Africa region. Direct

[12] <http://cdm.unfccc.int/Nairobi_Framework/index.html>.

[13] Partner agencies: the World Bank, UNEP, 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 and the Inter-American Development Bank.

[14] Banque Ouest Africaine de Devéloppment, Lomé, Togo; East African Development Bank, Kampala; Windward Islands Research and Education Foundation, St. George's; Banco de desarrollo de Amèrica Latina, Bogota.

support has been given to some 12 PoAs, and in the case of a composting PoA the centre managed to leverage more than USD 50,000 worth of financial and technical assistance through partnerships with various leading development agencies and has helped to stimulate replication of the PoA in six other countries.

83. The Kampala RCC has helped to bring 15 projects into the CDM pipeline and has identified eight standardized baselines to support.

84. In its less than three months of operation, RCC St. George's has supported the calculation of the grid emission factor for the Dominican Republic and brought to the pipeline eight new project activities. The RCC has also played a critical role in the establishment of two new DNAs in the region. The centre is already recognized by several stakeholders as a key player in CDM development in the region.

85. RCC Bogota has attracted in its first month of operation interest from stakeholders, and two regional DOEs have expressed their intention to collaborate closely with the centre. An important part of its work will be the promotion of voluntary cancellation of CERs for social responsibility programmes.

IV. Governance and management matters

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

87. During the reporting period, the Board further improved its planning and focused more on developing its strategic direction, in order to take on a more executive role and to provide its support structure with the required guidance. For that purpose the Board focused its first meeting of the year on strategic and planning matters only and on how best to respond to the challenges facing the CDM. The discussions assisted the Board in agreeing its two-year Business Plan and its 2013 CDM Management Plan. The Board regularly reviewed its workplan and those of its supporting panels and working groups.

88. To help with this continual review and to provide timely, detailed feedback to the secretariat on matters relating to planning and finance, the Board created from among its members a Finance Committee, to meet and report as needed electronically and at Board meetings.

89. Taking into account the expected workload, the Board agreed to reduce the number of members and meetings for its panels and working groups in 2013 and to vary the number of meeting days as needed, as follows: Methodologies Panel, 10 members (16 in 2012), three meetings (five in 2012); Small-scale Working Group, five members, three meetings (five in 2012); Afforestation/Reforestation Working Group, five members, one meeting (three in 2012); Carbon Capture and Storage Working Group, five members (six in 2012), no meeting held (none in 2012); and CDM Accreditation Panel, five members, four meetings. The Board plans to further consider the structure of its panels and working groups in the coming year.

90. The Board revised its regulations to apply its code of conduct and related measures to its panels, working groups and appointed experts.

91. The Board expressed appreciation to the members of its panels, working groups and Registration and Issuance Team for their hard work and commitment.

A. Membership issues

92. At CMP 8, new members and alternate members of the Board were elected to fill vacancies arising from the expiration of terms of tenure. During the reporting period, the Board comprised the members and alternate members listed in table 3.

Table 3
Members and alternate members of the Executive Board of the clean development mechanism

Members	*Alternate members*	*Nominated by*
Mr. Martin Cames[a]	Mr. Christopher Faris[a]	Annex I Parties
Ms. Laksmi Dhewanthi[b]	Mr. Hussein Badarin[b]	Asia-Pacific States
Mr. José Domingos Miguez[a]	Mr. Washington Zhakata[a]	Non-Annex I Parties
Mr. Maosheng Duan[a]	Mr. Qazi K. Ahmad[a]	Non-Annex I Parties
Ms. Diana Harutyunyan[a]	Ms. Natalie Kushko[a]	Eastern European States
Mr. Antonio Huerta-Goldman[b, c]	Mr. Eduardo Calvo[b]	Latin America and Caribbean States
Mr. Victor Kabengele[b]	Mr. Kadio Ahossane[b]	African States
Mr. Lambert Schneider[b]	Mr. Kazunari Kainou[b]	Annex I Parties
Mr. Hugh Sealy[a]	Mr. Amjad Abdulla[a]	Small island developing States
Mr. Peer Stiansen[b]	Mr. Olivier Kassi[b]	Western European and other States

[a] Term: two years ending at the first meeting in 2014.
[b] Term: two years ending at the first meeting in 2015.
[c] The Coordinator of the Latin America and Caribbean States informed the secretariat in writing, dated 4 December 2012, that Mr. Antonio Huerta-Goldman (Mexico) will serve for one year, after which Mr. Daniel Ortega-Pacheco (Ecuador) will take office to serve for the remaining one year of that term on the CDM Executive Board.

93. The Board reiterates its concern that neither the Conference of the Parties nor the CMP has established an international legal framework for privileges and immunities for Board members performing their functions relating to the CDM. Members are entitled to privileges and immunities only in Germany, in accordance with the Headquarters Agreement of the secretariat, and in countries where Board meetings are convened pursuant to an agreement with the host country that contains provisions on privileges and immunities. The Board notes the progress of deliberations on this matter and requests the CMP to find an interim solution at CMP 9, pending the conclusion of a long-term solution.

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

94. The Board, at its 71st meeting, elected Mr. Stiansen, a member from an Annex I Party, and Mr. Hugh Sealy, from a non-Annex I Party, as Chair and Vice-Chair, respectively. Their tenures as Chair and Vice-Chair will end at the first meeting of the Board in 2014.[15]

95. The Board expressed its appreciation to the Chair, Mr. Stiansen, and Vice-Chair, Mr. Sealy, for their excellent leadership of the Board during its twelfth year of operation.

[15] Rule 12 of the rules of procedure of the Board (decision 4/CMP.1, annex I).

B. Meetings in 2013

96. The Board adopted a tentative meeting schedule for 2013 at its 70th meeting. The Board held five meetings, and a sixth is scheduled for early November (table 4).

97. The annotated agendas for the Board meetings, documentation supporting agenda items and reports containing all agreements adopted by the Board are available on the UNFCCC CDM website.

Table 4
Meetings of the Executive Board of the clean development mechanism in 2013

Meeting	*Date*	*Location*
Seventy-first	30 January to 1 February	Bonn, Germany
Seventy-second	4–8 March	Bonn
Seventy-third	27–31 May	Bonn (in conjunction with the sessions of the subsidiary bodies)
Seventy-fourth	22–26 July	Bonn
Seventy-fifth	30 September to 4 October	Bonn
Seventy-sixth	4–8 November	Warsaw, Poland (in conjunction with the session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol)

C. Interaction with its forums and stakeholders

98. The Board and its support structure continued their work with CDM stakeholders during the reporting period, including with DNAs through the DNA Forum and interactions with the Forum's co-chairs at Board meetings, DOEs through the DOE Forum's interaction with the Board at each meeting of the Board and interaction with the Accreditation Panel during at least two meetings (in each reporting period). Interactions with other stakeholders also took place at each Board meeting through the Board's interactions with observers. During the reporting period, the secretariat organized some 16 workshops, round-table discussions, forums and training sessions in seven countries.

99. In 2011, the Board adopted modalities and procedures designed to enhance direct communication with stakeholders. During the current reporting period, the secretariat continued the implementation of the procedure for project participants to communicate on project-specific matters. Stakeholders were also given the opportunity to express their views on the development and implementation of CDM rules and to seek clarification to enhance their understanding of those rules. Approximately 125 letters to the Board were submitted during the reporting period. Channels for the submission of letters and their responses via the DOE, DNA and Board extranets and the CDM public website[16] have been established in an effort to increase transparency of the decision-making process and to enable knowledge-sharing among stakeholders on policy-related matters.

100. Much progress has been made to further open the CDM to stakeholder participation, by giving stakeholders opportunities to comment on the draft annotated agenda of each

[16] The letters and the responses are available at <http://cdm.unfccc.int/stakeholder/submissions/index.html>.

Board meeting, through calls for input launched on policy issues that have an impact on stakeholders, and through the organization of round-table discussions on specific documents and issues before decision-making by the Board.

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

102. Three DOE regional calibration workshops were organized, one in October 2012 in Bonn, Germany, and two in June 2013, in Shanghai, China, and New Delhi, India. These workshops were organized to enhance and calibrate the understanding of CDM requirements among the auditing and technical staff of applicant entities, DOEs and the secretariat. The workshops focused on additionality, post-registration changes, PoAs and standardized baselines.

103. The secretariat also implemented nine regular DOE web/teleconferences with members of the CDM DOE/joint implementation accredited independent entity coordination forum after each Board meeting, to discuss the outcomes of the meetings and to provide clarification on decisions taken by the Board.

104. During the reporting period, the Board continued to translate key documents and summaries of its meetings into the official languages of the United Nations.[17] A total of 35 translated documents were produced. The objective of this activity is to make the Board's decisions more accessible to stakeholders and to maximize usefulness.

D. Communication, promotion and outreach

105. The Board gave increased attention to communication, promotion and outreach during the reporting period, following an enhanced media engagement strategy and related activities.

106. Activities of note include the following: the DNA Communicators of the Year Showcase, intended to incentivize and raise the capacity of DNAs to promote the CDM; a radio club and related contest and training for radio journalists in Africa; the CDM Changing Lives photo and video contests; outreach at targeted carbon market events; production of videos, audio files, CDM-specific publications and other materials; and promotion of voluntary cancellation of CERs. A cooperation agreement was struck between the secretariat, the International Emissions Trading Association and Entico Corporation to promote the CDM through the aforementioned contests.

107. During the reporting period, more than 30 news releases and advisories were disseminated and more than 80 media queries were responded to regarding the CDM. Work continues on updating and improving the CDM website.

108. The RCCs represent another important opportunity to raise awareness about the CDM in regions with limited numbers of CDM projects. An RCC communication plan was researched, developed and implemented. Together with news releases issued at the launch of the RCCs, the RCCs were promoted at the United Nations Climate Change Conference held in Doha, Qatar, the Africa Carbon Forum and the Latin American and Caribbean Carbon Forum. RCC staff members have also taken part in several events promoted by CDM stakeholders in their regions and materials such as fact sheets and brochures explaining the services provided by the RCC have been widely circulated.

[17] Available at <http://cdm.unfccc.int/Reference/EB_Summary/index.html>.

109. The reporting period saw the continued growth of the Facebook and Twitter accounts dedicated to the Kyoto Protocol mechanisms, as well as the design and piloting of a new customer relationship management system and a new content management system for the CDM website.

110. Further progress was made in 2013 on a programme to enhance the information technology supporting the implementation of the CDM. This work is necessary owing to impending constraints in the capacity and efficiency of the existing systems and is an essential component of ensuring that the CDM can operate successfully in the long term, over the Kyoto Protocol's second commitment period and beyond. Three information technology solutions were completed and put into use in the secretariat: a customer relationship management (CRM) system used to better manage inquiries from stakeholders, a CRM system to manage information relating to the modalities of communication for CDM project participants and a system to manage the project cycle of PoAs. Work will continue in 2014, including on a new records management system and new content management system for the CDM website.

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

111. This chapter presents information on income and expenditure to the end of July 2013. As a result of healthy contributions from fees and share of proceeds, together with prudent management of its funds, the Board is presently in a strong financial position. Available funds are currently sufficient for the Board to continue its work to strengthen the CDM and to carry out new mandates given to it by Parties.

112. The healthy level of available funds contrasts with a sharp decline in income in 2013 (USD 19 million in the first quarter, USD 6.6 million in the second quarter) and the low levels of income anticipated in the coming years owing to the decline in demand for CERs and the resulting decline in activity in the mechanism. The Board, committed to rational financial stewardship, is balancing its need to conserve funds with the need to implement and improve the CDM.

113. Using the linear rate of projected expenditure, the 2013 expenditure is estimated to be approximately USD 35.6 million. This represents an estimated 14.6 per cent reduction of expenditure compared with 2012, resulting from scaling down of the support structure through attrition and a decrease in expenses related to consultancies and expert travel.[18]

114. Table 5 shows the total operating income of USD 28.8 million for the first eight months of 2013. In comparison, fees and share of proceeds were estimated in the 2013 management plan at USD 35 million.

[18] There are currently 171 approved posts to support the CDM, of which 151 are filled, 13 are under recruitment and seven are on hold. The secretariat has been redeploying its staff internally in order to ensure that resources and expertise are aligned with the strategic priorities of the Board. The 13 posts under recruitment will as much as possible be filled internally, leaving the possibility of further posts being placed on hold.

Table 5
Clean development mechanism status of income 2012–2013
(United States dollars)

Clean development mechanism Trust Fund fees and carry-over	*2012*[a]	*2013*[b]
Carry-over from previous year (A)	74 203 136	147 729 143
Fee income during the year (B)	113 292 033	28 854 397
Methodology fees[c]	8 914	8 933
Registration fees[d]	66 139 716	1 701 276
Share of proceeds[e]	46 736 600	26 938 811
Accreditation fees	168 468	105 000
Accreditation process-related fees	238 335	100 377
United Nations Development Programme contribution for Africa Carbon Forum (C)	35 000	–
Total of previous year carry over (A) and current year's income (B) + contribution (C)	**187 530 169**	**176 583 540**

[a] 1 January through 31 December 2012. Does not include refunds to project participants of USD 130,825.
[b] 1 January through 31 August 2013. Not included is a reserve fund of USD 45 million.
[c] This fee is based on the average annual issuance of certified emission reductions (CERs) over the first crediting period and is calculated as a share of proceeds to cover administrative expenses, as defined in decision 7/CMP.1, paragraph 37. Projects with annual average emission reductions of less than 15,000 tonnes of carbon dioxide equivalent are exempt from the registration fee, and the maximum fee applicable is USD 350,000. This fee is considered to be a prepayment of the share of proceeds to cover administrative expenses.
[d] A non-refundable submission fee of USD 1,000 is payable at the time a new methodology is proposed. If the proposal leads to an approved methodology, the project participants receive a credit of USD 1,000 against payment of the registration fee or a prepayment of share of proceeds.
[e] The share of proceeds, payable at the time of issuance of CERs, is USD 0.10 per CER issued for the first 15,000 CERs for which issuance is requested in a given calendar year, and USD 0.20 per CER issued for amounts in excess of 15,000 CERs.

115. At its 71st meeting, the Board approved a management plan and related budget amounting to USD 38.3 million for the calendar year 2013, including funds relating to the new information technology system (USD 1.75 million). This represents a USD 6.9 million, or 15 per cent, decrease compared with the 2012 budget, which included one-off expenditures relating to the CDM policy dialogue initiative amounting to USD 2.25 million. Expenditures of USD 23.7 million were incurred for the eight-month period to 31 August 2013. The income for the corresponding period amounted to USD 28.8 million, resulting in a surplus of USD 5.1 million. On the basis of projected expenditures, the budget utilization rate is expected to approach 93 per cent (see table 6).

Table 6
Comparative status of expenditure against budget
(United States dollars)

Budget and expenditure	*2012*[a]	*2013*[b]
Budget	45 351 746	38 383 707
Expenditure	41 775 376	23 730 986
Expenditure as percentage of budget	92.3%	61.8%

[a] 1 January through 31 December 2012. This includes USD 2.25 million one-off expense for the CDM policy dialogue.
[b] 1 January through 31 August 2013.

116. Income from registration fees and share of proceeds increased significantly in the past six years, resulting in a substantial reserve amounting to USD 152.8 million as at 31 August 2013. The Board is committed to managing its resources prudently, particularly bearing in mind the uncertainties currently facing the mechanism and future income streams, with a view to ensuring that the administrative expenses of the CDM may be covered until at least the end of the true-up period for the Kyoto Protocol's second commitment (expected to be around mid-2023).

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

117. This chapter contains the specific recommendations from the Board to the CMP.

118. The Board recommends that the CMP encourage Parties to make use of the CDM.

119. Recalling the decision taken by the Board at its 70th meeting and at CMP 9 to allow for voluntary cancellation of CERs in the CDM registry, as a means to mitigate climate change and assist countries to achieve their sustainable development goals, the Board recommends that the CMP encourage voluntary CER cancellation by countries, companies, agencies and other entities.

120. As means to mitigate climate change and assist countries in achieving their sustainable development goals, the Board recommends that the CMP invite the Green Climate Fund, the Global Environment Facility and other entities to consider the use of the CDM as a tool to quantify mitigation outcomes and/or achieve validated and verified results from disbursements made by those funding entities.

121. The Board recommends that the CMP take further action, as a matter of urgency, on the issue of privileges and immunities to ensure that Board members are fully protected when taking decisions for which they have been mandated.