

Annex 2

**DRAFT SECOND REPORT OF THE EXECUTIVE BOARD OF THE CLEAN
DEVELOPMENT MECHANISM TO CONFERENCE OF THE PARTIES (2002–2003)**

I. INTRODUCTION

A. Mandate

1. The Conference of the Parties (COP), at its seventh session, decided to facilitate a prompt start for a clean development mechanism (CDM) by adopting decision 17/CP.7, and the annex thereto containing modalities and procedures for a CDM (hereinafter referred to as “the CDM modalities and procedures”) (FCCC/CP/2001/13/Add.2).
2. Bearing in mind paragraphs 2, 4 and 19 of decision 17/CP.7, and in accordance with the provisions of paragraphs 2 to 5 of the CDM modalities and procedures, the Executive Board of the CDM (hereinafter referred to as “Executive Board” or “Board”) shall, until entry into force of the Kyoto Protocol, report on its activities to each session of the COP and the COP shall review these annual reports. Once the Protocol has entered into force, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), through adopting draft decision -/CMP.1 (Article 12) recommended by the COP at its seventh session, shall have authority over and provide guidance to the CDM (FCCC/CP/2001/13/Add.2).

B. Scope of the report

3. This report by the Executive Board provides information to the COP for consideration, at its ninth session (COP 9), on progress made regarding implementation of the CDM during its second year of operation, and recommends decisions to be taken by COP 9, as appropriate.
4. The second annual report therefore covers tasks carried out and procedures followed - in accordance with decision 17/CP.7, and its annex containing the CDM modalities and procedures, and decision 21/CP.8, and its annexes on the rules of procedure and the simplified modalities and procedures for small-scale CDM project activities - during the period between 2 November 2002 and 29 July 2003. The report is to be read against the backdrop of the UNFCCC CDM web site which is the repository of all procedures and reflects all functions undertaken by the Board, its panels, experts, the public as well as the secretariat.
5. It provides detailed information on measures taken to ensure the transparent functioning of the CDM and on modalities regarding attendance by observers of Board meetings, i.e. on the implementation of rules 26 and 27 of the rules of procedure of the Executive Board. The issue of the coverage of the administrative expenses for operating the CDM in the biennium 2002-2003 and in the forthcoming biennium 2004-2005 is equally elaborated in detail.
6. Regarding the work of the Board and matters relevant to its work occurring between 29 July 2003 and the end of November 2003, COP 9 will receive an oral report by the Chair of the Board, Mr. Hans Jürgen Stehr, and/or addenda to this document, as appropriate.

C. Action to be taken by the COP

7. The COP, at its ninth session, may wish to take the following action:

- (a) In accordance with the provisions of paragraphs 3 and 4 of the CDM modalities and procedures:
 - (i) Review and take note of the second annual report of the Executive Board (2002–2003); and
 - (ii) Provide guidance to the Executive Board;
 - (b) In accordance with paragraph 5 (o) of the CDM modalities and procedures, consider annex I to this report with a view to taking a decision on “Procedures for review as referred in paragraph 41 of the CDM modalities and procedures”; *[Note to the Board: annex I to this report corresponds to Annex 6 of the report of the ninth meeting of the Executive Board. It will be incorporated in the final version of this report once EB 10 has agreed to the report.]*
 - (c) Reiterate the invitation to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities to support activities relating to the prompt start of the CDM, including for the development of the CDM registry;
 - (d) Take a decision regarding designation, as appropriate, in case the Executive Board accredits and preliminarily designates an operational entity prior to COP 9.
8. In addition, the COP shall, at its ninth session, in accordance with paragraph 8 (b) of the CDM modalities and procedures and rule 1 (b) of the rules of procedure of the Executive Board, elect for a term of two years:
- (a) One new member and one new alternate member from small island developing States,
 - (b) One new member and one new alternate member from the Eastern European region,
 - (c) One new member and one new alternate member from Parties included in Annex I; and
 - (d) Two members and two alternate members from Parties not included in Annex I.

II. ORGANIZATIONAL MATTERS BEFORE THE EXECUTIVE BOARD**A. Calendar of meetings of the Executive Board in 2003**

9. The Executive Board adopted, at its seventh meeting, a calendar of meetings in 2003 envisaging the need to hold a total of six meetings of which four were held during the reporting period. The venue of the meetings is at UNFCCC headquarters in Bonn (Germany), except for the one held in conjunction with COP 9 in Milan (Italy) (see also calendar below).

Dates	Location
20 – 21 January	Bonn, Germany
19 – 20 March	Bonn, Germany
7 – 8 June	Bonn, Germany (in conjunction with the eighteenth session of the subsidiary bodies).
28 – 29 July	Bonn, Germany
6 – 7 October	Bonn, Germany

27 – 28 November

Milan, Italy (in conjunction with the ninth session of the COP).

10. The agenda, the annotated agenda, including documentation supporting agenda items, and the report of each Executive Board meeting are available on the UNFCCC CDM web site (<http://cdm.unfccc.int/EB/Meetings>).

B. Membership

11. During the reporting period, the following members or alternate members have resigned from the Board:

- (a) Mr. Mohammad Reza Salamat, member from the Asian region;
- (b) Mr. Abdulmuhsen Al-Sunaid, alternate member from non-Annex I Parties;
- (c) Mr. Tuiloma Neroni Slade, alternate member from the small island developing States;
- (d) Mr. Gylvan Meira Filho, member from the Latin American and the Caribbean region.

12. In accordance with rules 4 and 8 of the rules of procedures of the Executive Board, the following persons were elected by COP 8 or subsequently appointed by the Board as replacements:

- (a) Mr. Hassan Tajik, nominated by the Asian regional group, was elected by COP 8 as member of the Executive Board to replace Mr. Mohammad Reza Salamat for the remainder of his mandate (until the end of 2004);
- (b) Mr. Fareed Al-Asaly, nominated by non-Annex I Parties, was appointed by the Board, at its eighth meeting, as an alternate member of the Executive Board for the remainder of the mandate of Mr. Abdulmuhsen Al-Sunaid (until the end of 2003);
- (c) Ms. Desna Solofa, nominated by small island developing States, was appointed by the Board, at its ninth meeting, as an alternate member of the Executive Board for the remainder of the mandate of Mr. Tuiloma Neroni Slade (until the end of 2003).

13. *[Note: Add conclusions of the tenth meeting of the Executive Board regarding a nomination by the Latin American and Caribbean region and the appointment by the Board of a member for the remainder of the mandate of Mr. Gylvan Meira Filho, as appropriate].*

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

14. In accordance with paragraph 12 of the CDM modalities and procedures and rule 12 of the rules of procedure of the Executive Board, the Board elected by consensus, at its seventh meeting on 20 January 2003, Mr. Hans Jürgen Stehr (from Parties included in Annex I) and Mr. Franz Tattenbach Capra (from Parties not included in Annex I) as Chair and Vice-Chair, respectively, of the Executive Board. Their tenure ends at the first meeting of the Board in 2004.

15. On behalf of the Board, the new Chair expressed deep appreciation to the outgoing Chair, Mr. John W. Ashe, and Vice-Chair, Mr. Sozaburo Okamatsu, for their excellent leadership to the Board during its first year of operations.

D. Rules of procedure of the Executive Board

16. At its seventh meeting, the Executive Board took note of the adoption by the COP, by its decision 21/CP.8, of the rules of procedure of the Executive Board. The Board has been implementing its activities in accordance with these rules.

[Note to the Board: Add conclusions/recommendations of the tenth meeting of the Executive Board with regards to the rules of procedure of the Executive Board, as appropriate.]

E. Internal communication

17. In order to allow for the efficient, cost-effective and transparent exchange of information amongst the Board, its panels, experts and the secretariat, the secretariat has set up and maintains several electronic internet-based facilities: extranets (3), list serves (~35) and discussion tools (see table below). These facilities are integrated into the UNFCCC CDM web site (<http://unfccc.int/cdm>), which also provides functions regarding designated national authorities (18 to date), operational entities and public input (see also section IV below). Significant savings have also been achieved by arranging telephone conferences for Panels and CDM assessment teams (CDM-ATs).

Internet and e-mail facilities for internal communication

User group	Extranet	List serve (e-mail)	Discussion tool (web)
Executive Board	1	1	1
Designated National Authorities (DNA)	–	1	Under consideration
Methodologies Panel	1	1	1
CDM Accreditation Panel	1	1	1
CDM assessment teams	Under consideration	~30 (2 per team)	Under consideration
Operational entities	Under development	1	Under development

18. In order to enhance common understanding of procedures and to share information, the secretariat organized, upon the request of the Executive Board, a joint workshop for the Board, members of the CDM Accreditation and Methodologies Panels and for CDM-ATs. The two-day workshop took place in March 2003 in Bonn, Germany. The workshop, including the presentations made by Board and panel members, was video-taped. Subject to the availability of resources, training material could be elaborated on its basis for new experts.

III. WORK PLAN UNDERTAKEN SINCE THE EIGHTH SESSION OF THE CONFERENCE OF THE PARTIES**A. Accreditation process for operational entities****1. Mandate and background**

19. In accordance with sub-paragraph 1 (d) of decision 21/CP.8, paragraphs 2, 4 and 6 (b) of decision 17/CP.7 and sub-paragraph 5 (f) of the CDM modalities and procedures, the Executive Board is responsible for the accreditation of operational entities and for the provisional designation of such entities pending their designation by the COP. The COP, in accordance with sub-paragraph 3 (c) of the CDM modalities and procedures, takes decisions on the final designation of operational entities accredited and preliminarily designated by the Board.

20. Further, in accordance with sub-paragraph 5 (f) (ii) of the CDM modalities and procedures, the Board is responsible for the operationalization of accreditation procedures and standards. Also, in accordance with sub-paragraph 5 (g) of the CDM modalities and procedures, it shall review the accreditation standards in appendix A to the CDM modalities and procedures and make recommendations to the COP for its consideration, as appropriate.

21. In its work on accreditation, the Board has been aware that, in accordance with sub-paragraph 4 (b) of the CDM modalities and procedures, the COP/MOP would review the regional and subregional distribution of designated operational entities and take appropriate decisions to promote accreditation of such entities from developing country Parties.

2. Work undertaken and action taken, including decisions, as appropriate

22. Since the launch of the accreditation process on 9 August 2002, sixteen (16) applications have been received (see also the section on designated operational entities on the UNFCCC CDM web site).

23. The consideration of the 16 applicant entities (AEs) is at various stages of assessment: seven AEs have advanced to the point where an on-site assessment of their premises is imminent; in seven other cases, the CDM-AT is drafting the desk review report and checking whether required information is complete and adequate; and two are at the stage where a CDM-AT is being identified.

24. The geographical distribution of applications is as follows: seven are from the Asia and Pacific region and nine from the Western Europe and Other region. One application is from a non-Annex I Party in the Asia and Pacific region. The COP may wish to note that, in order to facilitate applications of operational entities from developing countries, the Board stipulated that such entities may choose to pay the non-reimbursable application fee in two instalments: 50 per cent at the point of application and the remainder when successfully accredited and provisionally designated by the Board.

25. In order to clarify matters related to the role of a DOE in the CDM process and facilitate the process of accreditation, the Board agreed on the following provisions:

(a) A clarification was given on the roles of a designated operational entity (DOE) if a proposed CDM project activity intends to use (i) a new baseline and monitoring methodology, or (ii) an approved one. The Board reiterated that a DOE is part of the institutional infrastructure of the CDM, directly interacting with project participants. A DOE is to ensure that proposals by proponents are in line with guidance/clarifications by the Board with regard to approved methodologies. If a DOE concludes, at the end of a validation process, that this is the case, it requests the registration of the proposed activity which will occur automatically within 8 weeks, unless the review process of paragraph 41 of the CDM modalities and procedures is triggered by either a Party involved in the proposed activity or by three Board members. Also, in accordance with paragraph 38 of the CDM modalities and procedures, the Board stressed that a DOE shall have no role in evaluating or designing proposed new methodologies for baselines or monitoring in order to avoid conflict of interest situations. Its role is to check whether documentation regarding a proposed new methodology is complete and, if so, submit it to the Board for consideration;

(b) The possibility of phasing accreditation with regard to function (validation, verification and certification) and sectoral scope(s) was allowed in order to avoid any delay in registering a proposed CDM project activity which has been used for the purpose of witnessing the performance of an AE. The phasing also enhances the accessibility for operational entities from developing countries as it allows a gradual build-up of capacities;

(c) The “Procedure for accrediting operational entities by the Executive Board of the clean development mechanism (CDM)” has been revised and is available in its Version 03 on the UNFCCC CDM web site.

26. In carrying out its functions, the Board was supported by the CDM-AP. The panel met seven times since the launch of the accreditation process, four times since COP 8. The current term of the CDM-AP expires at the end of 2003. In accordance with its terms of reference, it will continue its work, i.e. to forward its recommendations to the Board for its consideration and approval, and, with the support of the secretariat, its efforts to increase the number of applications of experts to be included in the roster of experts for CDM-ATs, especially those from developing countries.

27. The Board wishes to express its high appreciation for the excellent advice and support received from the CDM Accreditation Panel (CDM-AP) and its Chair (Mr. John Kilani) and Vice-Chair (Mr. Oleg Pluzhnikov). Assisted by the secretariat, their professional commitment allowed the implementation of the accreditation procedure within a short period of time and the handling of a large volume of complex work. The Board is also grateful to members of the CDM-ATs who are undertaking operational tasks in the field on its behalf as well as to the public for providing comments on the process.

28. Finally, the Board wishes to convey its appreciation to the applicant entities which play such a critical role in ensuring the environmental credibility and operational flexibility of the CDM. In submitting their applications and engaging in “learning-by-doing” in a new area of work, they have demonstrated their willingness to become engaged in this important endeavour and in the unique CDM infrastructure through which they are associated with the intergovernmental process aiming at mobilizing resources for sustainable development projects.

B. Simplified modalities and procedures for small-scale CDM project activities

1. Mandate and background

29. By its decision 21/CP.8, the COP adopted the simplified modalities and procedures for small-scale clean development mechanism project activities as contained in annex II to that decision. In accordance with this annex, the Executive Board was to develop and agree on the appendices to the simplified modalities and procedures.

2. Work undertaken and action taken, including decisions, as appropriate

30. The Board, at its seventh meeting, noted with appreciation the adoption by the COP 8, by its decision 21/CP.8, of simplified modalities and procedures for small-scale CDM project activities. Based on the mandate received by COP 8, the Board elaborated and agreed on the following:

(a) Simplified project design document for small-scale CDM project activities (SSC-PDD version 01) (appendix A to the simplified modalities and procedures for small-scale CDM project activities);

(b) Indicative simplified methodologies for CDM small-scale project activities (appendix B to the simplified modalities and procedures for small-scale CDM project activities);

(c) Provisions for avoiding debundling (appendix C to the simplified modalities and procedures for small-scale CDM project activities).

31. With the launching of these appendices in January 2003, the Board gave green light for the submission of potential small-scale CDM project activities using simplified modalities and procedures.

32. The Board further emphasized that, in accordance with these simplified modalities and procedures, project participants may also propose to the Board new small-scale CDM project activity categories and amendments or revisions to simplified methodologies. The Board shall review and amend, as necessary, at least once a year, the indicative simplified methodologies for small-scale CDM project activities (appendix B). Its Methodologies Panel shall continue considering appendix B, drawing on relevant outside expertise on small-scale project activities, including, as appropriate, former members of the panel which had recommended draft simplified modalities and procedures for small-scale CDM project activities to the Board in 2002.

C. Methodologies for baselines and monitoring plans

1. Mandate and background

33. The Executive Board has key responsibilities for implementing the provisions contained in the CDM modalities and procedures relating to methodologies for baselines and monitoring plans. These responsibilities entail the following functions:

- (a) Developing and making recommendations to the COP on guidance relating to methodological issues (see Appendix C of the CDM modalities and procedures);
- (b) Approving new methodologies related to, inter alia, baselines, monitoring plans and project boundaries (see sub-paragraph 5 (d) and paragraph 38 as well as Appendix C of the CDM modalities and procedures).

2. Work undertaken and action taken, including decisions, as appropriate

34. In order to facilitate the submission of new methodologies by project participants, the Board elaborated and agreed on the following:

- (a) Procedures for the submission and consideration of a proposed new methodology (for version 03, see report of the tenth meeting of the Executive Board);
- (b) Clarifications on methodological issues to project participants, designated operational entities and its Methodologies Panel (contained in annexes to the reports of eighth, ninth and tenth meetings of the Executive Board);
- (c) Revising, with the assistance of the Methodologies Panel, the current version of the project design document (CDM-PDD) in order to include relevant guidance provided by the Board since the adoption of version 01 in August 2002.

35. In establishing the procedures for the technical review of methodologies and public input, the Board aimed at obtaining high quality products, at containing costs, and at opening the process as much as feasible to public scrutiny and broad expert input. When considering new methodologies, the Board therefore draws on recommendations of its Methodologies Panel which, apart from its own work, takes into account the results of desk reviews by experts (two for each methodology) and public input. It should be noted that, for the purpose of fostering transparency and the broadest possible engagement of experts and the public, each submission of a new methodology is made available on the UNFCCC CDM web site and announced through the UNFCCC CDM News facility. The Board will, as experience accrues, adjust the procedures as necessary.

36. The Board wishes to express its deep appreciation for the excellent advice and support it has received from members of the Methodologies Panel and its Chair (Mr. Gylvan Meira Filho and Mr. Jean Jacques Becker) and Vice-Chair (Mr. Jean Jacques Becker and Mr. Franz Tattenbach Capra) as well as for the valuable inputs received from experts (desk reviewers) and the public to date. Only through their special effort and commitment, assisted by the secretariat, was it possible to accomplish the large and challenging workload.

37. Having completed all preparatory work at its eighth meeting, the Board launched in March 2003 its invitation to project proponents to submit new methodologies on baselines and monitoring for the Board's consideration. This marked an important point in the development of the CDM as, through the methodologies, a predetermination is made of likely certified emission reductions generated through the CDM. Given the scope of authority extended by the COP to the Board on this matter, in accordance with paragraph 38 of the CDM modalities and procedures, approvals of methodologies by the Board are of critical and wide-ranging importance for the functioning of the CDM and issues beyond. The Board wishes to express its gratitude to the project participants that have proposed new methodologies for baselines and monitoring plans.

38. In the course of the first round of submissions, the deadline for which was 15 April 2003, 14 cases of new baseline and monitoring methodologies were submitted by project proponents. The second round attracted two additional cases so that a total of 16 cases were available for consideration to date.

39. With regard to these 16 cases, the Board, taking into account recommendations by the Methodologies Panel and inputs by experts and the public, agreed on: *[Note to the Board: the subparagraphs below will need to be redrafted to reflect conclusions from the tenth meeting of the Executive Board]*

(a) Approving the proposed methodologies for baselines and monitoring plans in the following cases: *[xxxx]*;

(b) Reconsidering proposed new methodologies for baselines and monitoring plans in *[6]* cases, provided that the originally submitted proposals were revised to incorporate required changes and that the Meth Panel reconsiders the revised proposal and prepares a recommendation to the Board;

(c) Not approving proposed new methodologies for baselines and monitoring plans in *[8]* cases and inviting the project participants in each case to consider the views and suggestions made by the Board, the Meth Panel, desk reviewers and public inputs and encouraging them to make a further submission.

40. By the deadline for submissions for the third round (16 July 2003) five new submissions and three revised proposals were received. Updated information on further rounds for submissions and results of the consideration process will be reported to the COP 9 by the Chair of the Board orally and/or through addenda to this document, as appropriate.

41. The Board agreed to extend the terms of the Methodologies Panel until April 2004. The Methodologies Panel, having met four times since COP 8, is expected to continue its work in accordance with its terms of reference, i.e. making recommendations for consideration and approval by the Board. Supported by the secretariat, it is also to carry out further efforts to increase the number of applications of experts to be included in the roster of experts for undertaking desk reviews of proposed new methodologies, especially those from developing countries.

D. Matters related to the registration of CDM project activities**1. Mandate and background**

42. The Executive Board exercises key functions related to the registration of proposed CDM project activities, in accordance with paragraphs 40 and 41 of the CDM modalities and procedures.

43. Further, in accordance with sub-paragraph 5 (o) of the CDM modalities and procedures, the Board has to recommend to the COP (or COP/MOP upon entry into force of the Kyoto Protocol) procedures for conducting a review referred to in paragraph 41 of the CDM modalities and procedures. These are to include, inter alia, procedures for facilitating the consideration of information from Parties, stakeholders and UNFCCC accredited observers. Until their adoption by the COP, the procedures shall be applied provisionally.

2. Work undertaken and action taken, including decisions, as appropriate

44. In order to facilitate and clarify tasks related to the registration of proposed CDM project activities, the Board elaborated procedures on the following issues:

- (a) Validation-related procedures and clarifications:
 - (i) Clarifications on validation requirements to be checked by a designated operational entity (Annex 3 of the report of the eighth meeting of the Executive Board);
 - (ii) Procedures on public availability of the CDM project design document (PDD) and for receiving comments as referred to in sub-paragraphs 40 (b) and (c) of the CDM modalities and procedures (Annex 7 of the report of the ninth meeting of the Executive Board);
- (b) Registration-related procedures:
 - (i) Procedures for registration of a proposed CDM project activity (Annex 5 of the report of the ninth meeting of the Executive Board).

45. In response to the mandate of sub-paragraph 5 (o) of the CDM modalities and procedures, the Board agreed to recommend to the COP and, in the interim apply provisionally, “Draft procedures for review as referred in paragraph 41 of the CDM modalities and procedures”, contained in annex I to this report. *[Note to the Board: annex I to this report corresponds to Annex 6 of the report of the ninth meeting of the Executive Board. It will be incorporated in the final version of this report once EB 10 has agreed to the report.]*

E. CDM Registry**1. Mandate and background**

46. In accordance with sub-paragraph 5 (l) of the CDM modalities and procedures, the Executive Board is to establish and maintain a CDM registry to ensure the accurate accounting of the issuance, holding, transfer and acquisition of CERs by Parties not included in Annex I.

2. Work undertaken and action taken, including decisions, as appropriate

47. The Board considered issues related to the elaboration of the CDM registry at its seventh to ninth meetings, in particular regarding the relationship of the work needed on the CDM registry with that on

registries systems which is carried out under the Subsidiary Body for Scientific and Technological Advice (SBSTA). At its seventh meeting, it requested Ms. Sushma Gera and Mr. Xuedu Lu to follow the work undertaken by SBSTA in this respect and to report to the Board.

48. Having considered options prepared by the secretariat on how to take this work forward, the Board agreed not to establish an interim CDM registry in 2003. It agreed instead to:

(a) Issue a public call to Parties and organizations for inputs to the development of the CDM registry. In particular, contributions may be in the form of functional or technical specifications, other documentation or programming code for systems or system components. The secretariat is to coordinate the receipt of these inputs;

(b) Request the secretariat to begin development work on the CDM registry, along with its general work on registries, subject to the availability of resources, in particular through preparing a draft functional specification for the CDM registry, and report back to the Board on progress and a timeline for continuing work at its meeting held in conjunction with COP 9.

F. Modalities for collaboration with the Subsidiary Body for Scientific and Technological Advice

1. Mandate and background

49. In paragraph 6 (e) of decision 17/CP.7, the COP requested the Executive Board to identify modalities for seeking collaboration with the SBSTA on methodological and scientific issues.

2. Work undertaken and action taken, including decisions, as appropriate

50. In accordance with rule 14 of its the rules of procedure, the Board agreed to designate members, as necessary, to follow work undertaken by the SBSTA on methodological and scientific issues relating to the work of the Executive Board. The Board designated:

(a) Ms. Sushma Gera and Mr. Xuedu Lu to continue following deliberations by the SBSTA on technical standards for registries and to update the Board on developments (see section III E above);

(b) Mr. Martin Enderlin and Mr. Eduardo Sanhueza to continue following deliberations by the SBSTA on the definitions and modalities for including afforestation and reforestation project activities under the CDM in the first commitment period, to regularly update the Board on developments, and to share the views of the Board with the SBSTA Chair as necessary, bearing in mind that the terms of reference of the SBSTA work to develop definitions and modalities for including afforestation and reforestation activities under the CDM requires the SBSTA to take into account relevant work by the Executive Board;

(c) Mr. Chow Kok Kee to follow deliberations by the SBSTA on elements of a future work programme of SBSTA on methodological issues and to update the Board on developments.

51. The Board took note of progress made in consultations on (i) the development of technical standards for registries; (ii) the definitions and modalities for including afforestation and reforestation projects under the CDM in the first commitment period, and (iii) the work programme of SBSTA on methodological issues.

IV. TRANSPARENCY AND ATTENDANCE

1. Mandate and background

52. In the preamble of its decision 21/CP.8, providing guidance to the Board, COP 8 encouraged the Board to continue reporting on the implementation of rules 26 and 27 of the rules of procedure.

53. Further to the provisions of the CDM modalities and procedures for the Executive Board to make information publicly available (in particular, sub-paragraphs 5 (i), (j), (k) and (m)), rule 26 of the rules of procedure of the Executive Board stipulates that, subject to the need to protect confidential information, the principle of transparency should apply to all the work of the Executive Board. This encompasses the timely public availability of documentation and channels through which external comments by all Parties and all UNFCCC accredited observers and stakeholders can be submitted for consideration by the Board. In accordance with this rule, the posting of the Board's meetings on the Internet is one way to ensure transparency.

54. Rule 27 of the rules of procedure and paragraph 16 of the CDM modalities and procedures stipulate that meetings of the Executive Board shall be open to attendance, as observers, by all Parties and by all UNFCCC accredited observers and stakeholders, except where otherwise decided by the Executive Board. It further foresees that observers may, upon invitation by the Board, make presentations relating to matters under consideration by the Board.

2. Work undertaken and action taken, including decisions, as appropriate

55. In order to ensure transparency regarding aspects of its work in accordance with rule 26 and facilitating attendance by observers, while safeguarding the efficient, cost-effective and transparent functioning of the CDM, the following measures were taken: enhancement of the UNFCCC CDM web site; provision of CD-Roms on the CDM in all UN languages; organization of meetings with Parties and accredited observers; and the review of modalities for attendance by observers to meetings of the Executive Board.

56. **The UNFCCC CDM web site (<http://unfccc.int/cdm>):** Significant improvements were made to the UNFCCC CDM web site during the reporting period in order to ensure that it continues to function as the authoritative source of information on the CDM. The efficiency, especially regarding feedback periods, cost-effectiveness and transparency of communications and interactions between the Board, its panels and experts, operational entities, the secretariat and the public have greatly improved by linking the UNFCCC CDM web site with automated electronic work processes.

57. As a result of these changes, the facilitation of public input; applications to the rosters of experts; the provision of up-to-date information to stakeholders and the public through the UNFCCC CDM newsletter (1,200 subscribers) as well as dedicated extranets and discussion tools have been enhanced. The features also allow the online selection of experts, online access to rosters of experts, the submission and management of proposed new methodologies, the application for accreditation, as well as the access to agendas, supporting documentation and reports of each Executive Board and each panel meeting. Importantly, all procedures and forms are available online.

58. The use by the public of the opportunity for electronic communication on the CDM can be illustrated through two examples:

(a) The Board, at its eighth meeting, agreed in its "procedures for submission and consideration of a proposed new methodology" to make publicly available on the UNFCCC CDM web site (and to make an announcement through the UNFCCC CDM news facility) proposed new methodologies

submitted to the Board and to invite public inputs on these for a period of 15 working days. To date, a total of 34 public comments were received using the dedicated input facility of the UNFCCC CDM web site.

(b) In accordance with paragraph 17 of the procedure for accrediting operational entities by the Executive Board, the redesigned web site contains a dedicated input facility. This facility provides the opportunity to Parties, UNFCCC accredited non-governmental organizations (NGOs) and stakeholders, to provide, within 15 days after announcement through the UNFCCC CDM News facility, any comments or information on an applicant entity (AE). The names and list of sectoral scopes for fourteen (14) AEs have been published and two public inputs with regard to two AEs have been received and made publicly available.

59. The design and software changes (move to open source management software) have thus made the web site more reliable, flexible, accessible and more up-to-date. Feedback received from users indicates that the UNFCCC CDM web site is considered to be a user-friendly tool for visitors from all continents to retrieve first-hand information and is thus crucially contributing to creating a level playing field among project developers.

60. **Printed material and CD-Roms on the CDM:** In addition to its electronic information system, the Board, with the assistance of the secretariat, is planning to develop printed information materials, subject to the availability of resources. The secretariat has been providing presentations on the CDM in English, French and Spanish in electronic and printed form. As already done at COP 8, it will continue to make information from the UNFCCC CDM web site available on diskette and CD-ROM for interested users without access to the internet.

61. **Meetings and dialogues with Parties, accredited observers et al:** In order to provide specific information and engage in dialogue, the Board has established the practice to meet with Parties and accredited observers for informal briefings on the occasion of its meetings. It also encouraged the Chair to avail himself of opportunities to meet with representatives of intergovernmental organizations (IGO) and non-governmental organizations (NGOs) as well as representatives of local government and indigenous peoples. The Board also met with applicant entities to take up issues of mutual concern.

62. In addition to the informal briefings with registered observers, the Board organized question and answer sessions at COP 8 and at the eighteenth sessions of the Subsidiary Bodies. These information events were well attended and provided an opportunity for dialogue on critical issues before the Board.

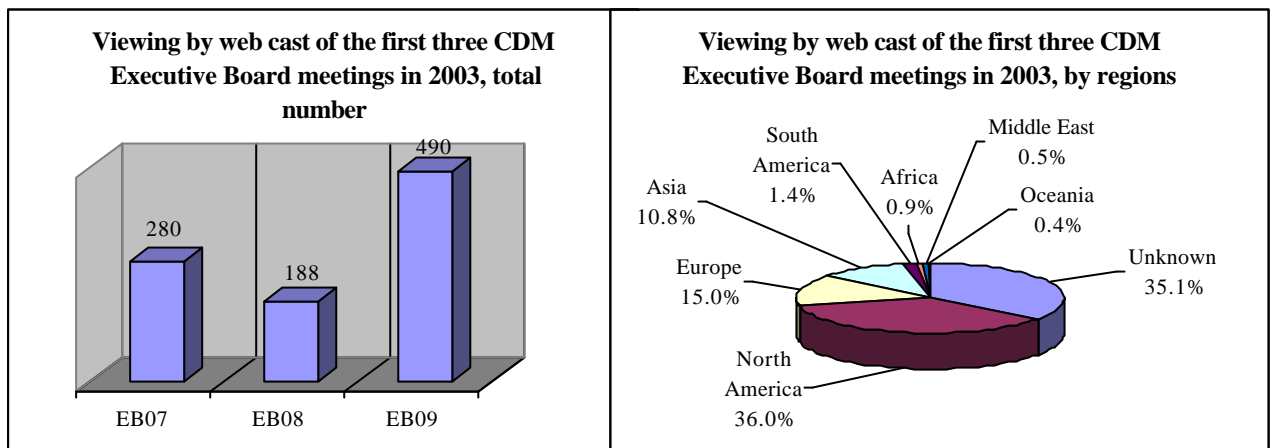
63. The Board noted with appreciation communications received from a number of Parties, NGOs and IGOs. The issues raised were addressed under the agenda item “other matters”, as appropriate.

64. **Modalities for attendance by observers to meetings of the Executive Board:** The Executive Board, having reviewed the modalities for attendance, continued its practice to request the secretariat to secure for its meetings a viewing room for about 50 observers, with the possibility of revising this policy at each meeting for the subsequent meeting if necessary. The Board agreed that observers shall register with the secretariat at least three weeks before a meeting. The Board further requested the secretariat to bear in mind, when arranging future meetings, the issue of modalities for physical access of stakeholders to meetings, in particular when meetings are held in conjunction with sessions of the COP, the COP/MOP or their Subsidiary Bodies.

65. Board meetings were attended by an average of 18 observers per meeting. Observers physically present represented Parties to the Convention, UNFCCC accredited NGOs and IGOs from North America (15 per cent), South America (6 per cent), Europe (64 per cent) and Asia (15 per cent). Nine

observers were from Parties not included in Annex I and 44 were from Annex I Parties. Altogether, two thirds of the observers represented Parties and most others came from NGOs, both environmental and business.

66. The opportunity to view meetings of the Executive Board is used in a significant manner. In 2003, on average, more than 300 different individual visitors accessed the UNFCCC CDM web cast to view a meeting. To the extent that is traceable, visits to the web casting page were mainly made from North America, followed by Europe, Asia, South America, Africa, Middle East and Oceania.



V. COVERING ADMINISTRATIVE EXPENSES OF THE CDM

1. Mandate and background

67. According to paragraph 8 of Article 12 of the Kyoto Protocol, the COP/MOP shall ensure that a share of the proceeds from certified project activities is used, inter alia, to cover administrative expenses.

68. The COP, through its decision 17/CP.7,

(a) Invites Parties to finance the administrative expenses for operating the CDM by making contributions to the UNFCCC Trust Fund for Supplementary Activities, with the possibility of reimbursement upon request;

(b) Stipulates that the COP shall determine the level of the share of proceeds to cover administrative expenses, upon the recommendation of the Executive Board;

(c) Requests the Executive Board to charge a fee to recover any project-related expenses until the COP has determined a percentage for the share of proceeds for the administrative expenses.

69. The COP, in its decisions 38/CP.7, provided an estimate of the resource requirements to facilitate the prompt start of the CDM during the biennium 2002-2003 amounting to US\$ 6.8 million. These resources were seen to be required to meet the costs of operational functions and as additional to those contained in the UNFCCC programme budget 2002-2003 for work related to the further design and development of project-based mechanisms in general and of the CDM in particular. The invitation to Parties to contribute to the UNFCCC Trust Fund for Supplementary Activities for the prompt start of the CDM was reiterated by the COP in its decision 21/CP.8.

2. Work undertaken and action taken, including decisions, as appropriate

70. During the reporting period, the Executive Board, based on reports by the secretariat at each of its meetings, monitored the operational costs of the CDM and identified possibilities for cost recovery, the resource requirements in 2002-2003 (as contained in the project document “Resource requirements for the prompt start of the CDM” of May 2002 and its revision in May 2003) and incoming resources. The Board also considered, at its ninth meeting, the estimated resources requirements for operating the CDM in 2004-2005.

71. **Operational costs and cost recovery:** The Board, conscious of the need to keep transaction costs for the CDM to a minimum, routinely reviewed the costs related to the operations of the CDM. It therefore kept its schedule and the number of meetings under scrutiny and, assisted by the secretariat, implemented cost-cutting measures, such as linking Board and panel meetings, holding the above-referred workshop in conjunction with such meetings, and meeting during weekends to obtain lower air fares. The latter measure was also requested by several Board and panel members who are faced with competing demands for their time from their respective employers. The Board wishes to stress that, in order to achieve the smooth functioning of the CDM, Board members, Panel members and the secretariat are making significant contributions of their own time.

72. In order to establish a process of cost recovery through fees related to case-specific operational tasks, such as accreditation and registration, the Board undertook to estimate the costs of the relevant work processes. Based on preliminary assumptions, it established the following fee structure:

(a) For accreditation: An application fee of US\$ 15,000 is payable by an applicant entity at the time it applies. As stated in the section on accreditation above, applicant entities from developing countries may pay the fee in two equal instalments, the first one being due at the time of application and the second one upon the successfully completed accreditation.

(b) For registration: At its sixth meeting, the Board agreed to a system of raising a registration fee as a down-payment until a share of proceeds may be determined. The fee varies depending on the size of a proposed CDM project activity. It ranges from a minimum of US\$ 5,000 (for a project up to 15,000 average tonnes of CO₂ equivalent reductions per year over the crediting period (estimated/approved)) to a maximum of US\$ 30,000 (for a project exceeding 200,000 average tonnes of CO₂ equivalent reductions per year over the crediting period (estimated/approved)).

73. As experience accrues and actual cost data become more precise, the Board will review and, if necessary, revise the above fee levels.

74. **Resource requirements in 2002-2003:** The resource requirements for the prompt start operations of the CDM in 2002-2003, as contained in the above-mentioned project document, are separated into three major categories: I. Meetings of the Executive Board, II. Activities of Panels/Specialized Expertise, and III. Activities by the secretariat. The estimates for each of these categories in the biennium 2002-2003 were US\$ 550,000, US\$ 2,689,000 and US\$1,473,000, respectively. The budget total of US\$ 6,120,645 was arrived at by including the relevant overhead charges and the working capital reserve.

75. As resources in 2002 were not available at a level commensurate with the tasks originally envisaged, the secretariat prepared in May 2003 a revised budget for 2002-2003 which reflected the actual expenditures in 2002 (US\$ 595,846, excluding working capital reserve) and the shift of work from 2002 to 2003. The revised budget for 2003 therefore stands at US\$ 4.3 million (including overhead and working capital reserve). The three major categories require resources as follows: I. Meetings of the Executive Board (US\$ 0.35 million), II. Activities of Panels/Specialized Expertise (US\$ 2.0 million) and III. Activities by the secretariat (US\$ 0.9 million).

76. **Incoming resources in 2002 and 2003 (to date), including commitments/contributions by Parties, fees and other:** In response to the invitation by the COP, urgent calls by the Executive Board and communications from the Executive Secretary to Parties, 11 Parties generously contributed or pledged to contribute. The actual contributions received, including fees and an internal transfer, bring the resources available to date to US\$1.7 million. The details are as follows:

77. **Commitments/contributions by Parties:** An amount of US\$ 2.7 million has been pledged by Parties of which US\$ 1,171,416 has been received to date. The contributions made by Parties have been essential for operating the CDM and are acknowledged with great appreciation.

78. **Fees:** A total of US\$ 240,000 has been received from 16 applicant entities during the reporting period.

79. **Other resources:** Due to an internal shift of extra-budgetary resources from a closed project to the CDM prompt start operations, the transferred amount of US\$ 210,418 could be used to meet urgent start-up needs in 2002.

80. Of the US\$ 4.3 million required in 2003 (see paragraph 75 above), only an amount of US\$ 1.1 million has become available as of 15 July 2003.

81. **Resource requirements in 2004-2005:** Based on the assumption that the core resource requirements to carry out further design and development work as well as to support the intergovernmental process on project-based mechanisms in general and the CDM in particular, as mandated by the COP, will be contained in the UNFCCC programme budget 2004-2005, the additional resource requirements for operating the prompt start of the CDM during the coming biennium are estimated to be US\$ 6.1 million (including overhead and working capital reserve). The main categories of expenditure are I. Meetings of the Executive Board (US\$ 0.6 million), II. Activities of Panels/Specialized Expertise (US\$ 2.1 million), and III. Activities by the secretariat, including those related to the CDM registry (US\$ 2.0 million).

82. In order to allow the CDM to be operated in a planned and sustainable manner, the Board recommends to the COP to launch a strong appeal to Parties to make contributions to the UNFCCC Trust Fund for Supplementary Activities for the remainder of the year 2003 and for the biennium 2004-2005. Contributions by Parties will remain essential in 2004-2005 even though the Board is operating a system of fees to recover case-specific costs associated with accreditation and registration as a significant portion of the costs for operating the CDM continue to be related to its governance and the maintaining of information systems and channels, essential for broadening the scope of involvement in the CDM. It needs to be borne in mind that, due to the bottom-up development of the CDM, it is not feasible at this stage to recover all costs for administering the CDM through fees as it would disadvantage the pioneers and create a free-rider dilemma.

83. Considering the current uncertainties regarding variables for determining the level of the share of proceeds to be directed towards meeting the administrative costs of the CDM, the Executive Board concluded that such a determination should only be undertaken once more reliable information is available on, inter alia, the value/price of a certified emission reduction (CER) and the likely volume of annual issuance of CERs. The Executive Board will, therefore, not yet recommend a level of the share of proceeds to the COP, with the expectation to be in a position to do so in 2004.

VI. SUMMARY OF DECISIONS

84. In accordance with rule 38 of the rules of procedure of the Executive Board, the report of each Board meeting has been made publicly available via the UNFCCC CDM web site, as appropriate.

85. The Board agreed to implement the provision contained in paragraph 17 of the CDM modalities and procedures, whereby decisions of the Board shall be made publicly available in all six languages of the United Nations, either by their inclusion in reports by the Board to the COP, or on the UNFCCC CDM web site.

- - - - -