



CARBON MARKET INITIATIVE



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“One of the fundamental barriers developing countries face in adopting cleaner energy technologies is a shortage of adequate finance and capacity. The Carbon Market Initiative (CMI) will help remove this barrier.”

Haruhiko Kuroda  
President  
Asian Development Bank

# Carbon Market Initiative Overview

The Carbon Market Initiative (CMI) is one of the Asian Development Bank's (ADB) new initiatives under its Clean Energy and Environment Program. It is an innovative financing scheme that supports the development of clean energy, energy efficiency, and greenhouse gas (GHG) abatement projects in developing countries in Asia and the Pacific that are eligible under the Clean Development Mechanism (CDM) of the Kyoto Protocol (KP). It builds upon and adds value to ADB's sustainable development focus in core public and private financing activities.

The main aim of CMI is to help developing member countries (DMCs) benefit from market-based instruments under the KP to promote sustainable development, the principle at the base of Agenda 21. Most of the existing carbon procurement funds provide payment only upon project completion and when the carbon credits are delivered. As a result, many clean energy projects face a critical upfront financing gap that prevents them from being undertaken in the first place. ADB proposes to address these barriers through a dedicated, comprehensive and integrated CMI.

## CMI has three components:

- (i) upfront carbon financing through the Asia Pacific Carbon Fund (APCF)
- (ii) technical CDM support through the Technical Support Facility (TSF)
- (iii) marketing support for carbon credits through the Credit Marketing Facility (CMF)

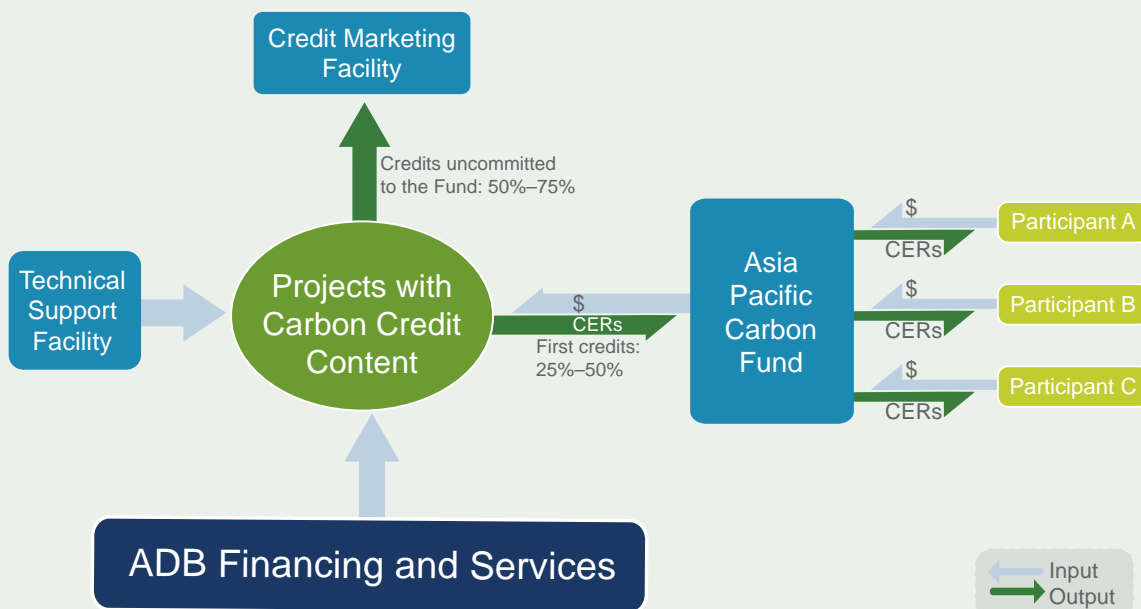
- The **APCF** is a fund established and managed by ADB that cofinances CDM projects in its DMCs by securing a portion of the expected future certified emission reductions (CERs) from CDM-eligible projects in exchange for upfront finance.

- The **TSF** provides comprehensive technical support to project sponsors to develop CDM-eligible projects, thus contributing to a continuous pipeline of "viable" clean energy projects that may be considered for ADB financing and upfront funds from the APCF.

- The **CMF** provides marketing support services to project sponsors in obtaining optimal prices and sale terms for CERs in the open market.

ADB is currently developing a new facility to complement the existing CMI and extend it beyond 2012. The new facility, which is being designed as a co-financing instrument, aims to encourage additional investments into clean energy projects in Asia and the Pacific region.

## Diagram on APCF, TSF, CMF



- The **CMI** is available to projects where ADB provides financing support such as loans, equities, guarantees, and technical assistance.

# Asia Pacific Carbon Fund

**The Asia Pacific Carbon Fund (APCF) is a trust fund established and managed by ADB on behalf of fund participants to provide upfront cofinancing to CDM projects in ADB's DMCs for the future delivery of CERs.**

The APCF aims to increase the number of clean energy and energy efficiency projects in DMCs, assist APCF participants in satisfying their legally binding emission reduction commitments under the Kyoto Protocol, and capitalize increased investments from developed countries to improve energy access in Asia and the Pacific region.

## **Project Selection Criteria**

- Has access to ADB support in the form of debt, equity or guarantee, or technical support from CMI's Technical Support Facility;
- Complies with ADB operational policies and procedures;
- Located in a DMC that is a CDM-eligible country according to the Kyoto Protocol;
- Validated as a CDM project by a designated operational entity; and,
- Generates permanent and not temporary GHG reductions.

## **Priority Project Types**

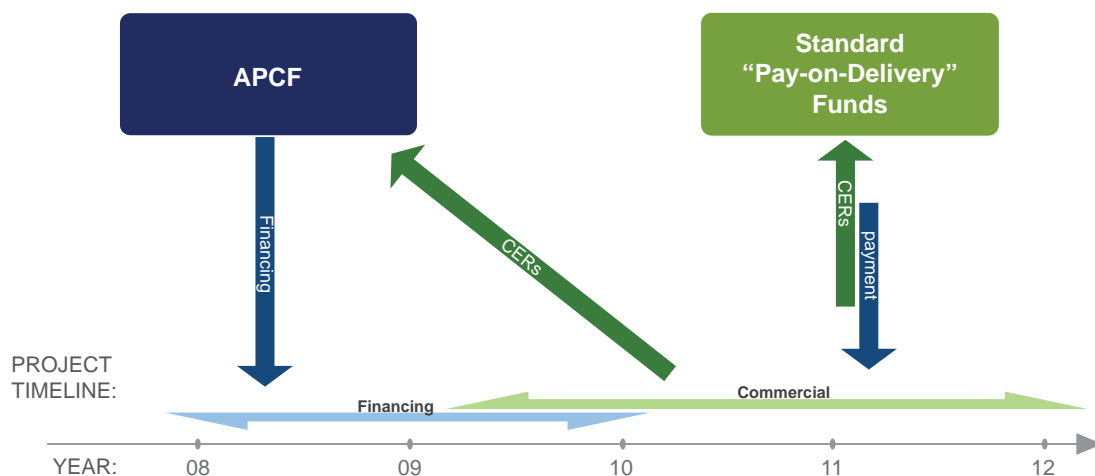
- Renewable energy
- Energy efficiency
- Methane capture and utilization

## **CER Pricing**

CER pricing will be subject to individual negotiations between APCF and project sponsors, and will be determined by reference to a range of criteria including:

- Independent pricing assessments
- Advanced payment structures
- Project-specific risks

## Upfront Payment by the APCF



The APCF is unique because it increases the viability of GHG mitigation projects by providing finance at the most critical stage: project preparation and implementation.

The APCF cofinances projects with ADB, providing additional resources over and above those that ADB can provide on its own. This will help in closing the project financing plan by partially securitizing the carbon credits that would accrue to the clean energy project.

This will result in more fully financed and commissioned CDM projects that will contribute to a "low carbon economy" in Asia and the Pacific.

The APCF provides upfront payment against the purchase of between 25% and 50% of CERs expected to be generated by each project during the first commitment period of the Kyoto Protocol. The remaining 50%–75% of CERs may be sold freely by the project sponsors in the market (including through the Credit Marketing Facility), but only after the CERs sold to the APCF have been fully delivered.



# Technical Support Facility

The **Technical Support Facility (TSF)** aims to raise the capacities of project developers in developing countries and help build a continuous stream of viable clean energy projects that can benefit from the carbon market.

The TSF provides comprehensive support in

- Project identification and screening
- Project development
- Validation and registration
- Capacity development for project developers and sponsors
- Project implementation

**The TSF is envisioned to complement the APCF in increasing the viability of high-quality projects being financed by ADB and to significantly reduce the risk of nondelivery of CERs.**

To ensure the effective and efficient delivery of technical support to project developers and sponsors, the TSF retains the services of technical experts who provide advice on project development and implementation, documentation, and capacity building at any of these ADB project cycle stages:

**Country Partnership Strategy (CPS).** The TSF works with ADB's operations departments in identifying and assessing projects with GHG abatement potential during country consultation missions.

**Project development.** After the CDM-eligible projects have been identified, screened, and included in the CPS, the TSF will assess the project's eligibility under CDM rules through due diligence, and assist the project developer in the preparation of project design documents (PDDs), and new baseline and monitoring methodologies, when appropriate.

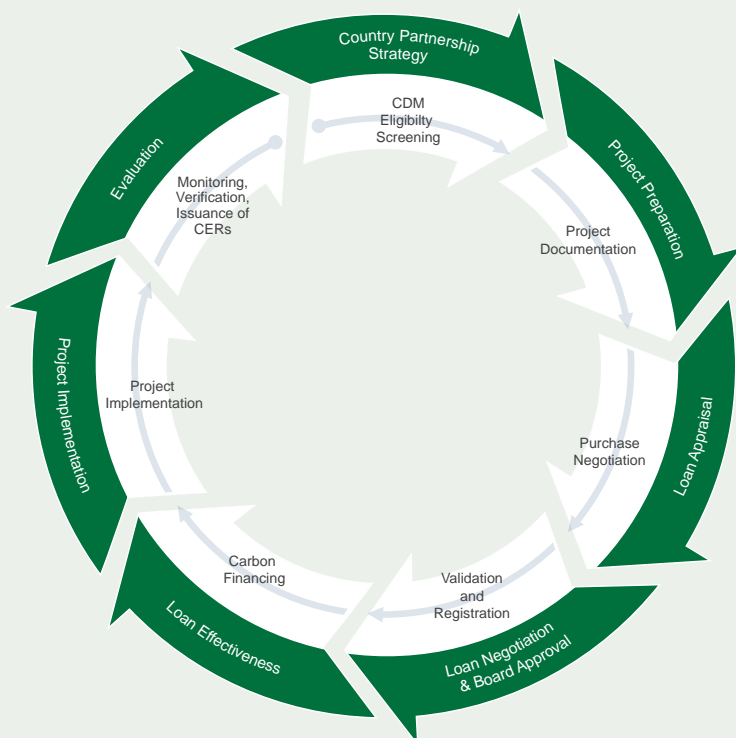
**Obtaining host-country approvals.** The TSF assists project developers and sponsors in obtaining host-country approvals and validation of PDDs from designated operational entities, and in registering these with the CDM Executive Board.

**Implementation and commercialization.** The TSF will continue to provide assistance during the implementation and commercialization phases of the CDM projects to ensure the delivery of both the CERs and the intended development benefits of these projects to DMCs.

**Capacity building.** Aside from providing direct technical inputs and support to projects, the TSF provides capacity building among governments and other agencies within DMCs on the identification and development of CDM-eligible clean energy projects.



# Synchronized ADB and CDM Project Cycles



Many ADB projects can access carbon finance by considering CDM as early as in the formulation of the CPS. This way, the CDM project cycle can be undertaken within the ADB project cycle at little extra cost. However, it is still possible to consider inclusion of CDM elements just prior to loan appraisal.

The CMI will lend support to clean energy, energy efficiency, and GHG mitigation projects in ADB's DMCs where ADB provides other investment support such as loans or guarantees. On a broader scale, the TSF can participate in CPS planning to assist in the identification of opportunities at the country level. In many respects, the earlier the involvement of the CMI team, the better.



## Credit Marketing Facility

**The Credit Marketing Facility (CMF) seeks to maximize the financial benefits to be derived from CDM projects. It offers project developers and sponsors marketing support for their CERs to be sold into the global carbon market. The CMF acts as an intermediary to facilitate attractive price discovery.**

With ADB's involvement in projects offered through the CMF, sellers will benefit from the expertise of the experienced CMI team at ADB and the marketing support from CMF to attract potential buyers. The CMF will be a support service extended exclusively to ADB-assisted projects that wish to utilize the marketing support of CMF, but at the same time, project developers and sponsors may opt to market their CERs directly or to contract with brokers on their own.

### Benefits of CMF

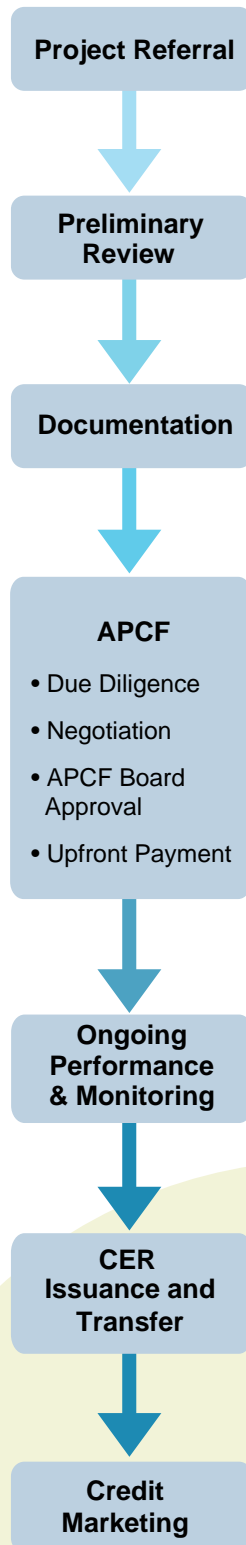
- ADB brand: stable support to projects
- Possible simplification of necessary documentation

### How CMF works

The CMF will engage a qualified third party as a seller's agent, selected from existing professional intermediaries. The seller's agent will be compensated through a success fee charged to the transactions of CERs. ADB will develop standardized documents for the benefits of both sellers and the agent. ADB will monitor the performance of the agent with the sellers.



## CMI Workflow



- **Project Referral.** ADB's operations department may refer projects to the CMI during project concept preparation and appraisal stages of ADB's regular project cycle. See page 8 for application procedure.

- **Preliminary Review.** The TSF will perform an initial screening of projects under the APCF's project selection criteria as well as general eligibility criteria under CDM international rules. This may involve desk review and consultation with relevant ADB staff, and/or site visits and consultation with project sponsors and relevant stakeholders.

- **Documentation.** The TSF will conduct due diligence on the projects and assist project developers and sponsors draft PDDs and new methodologies.

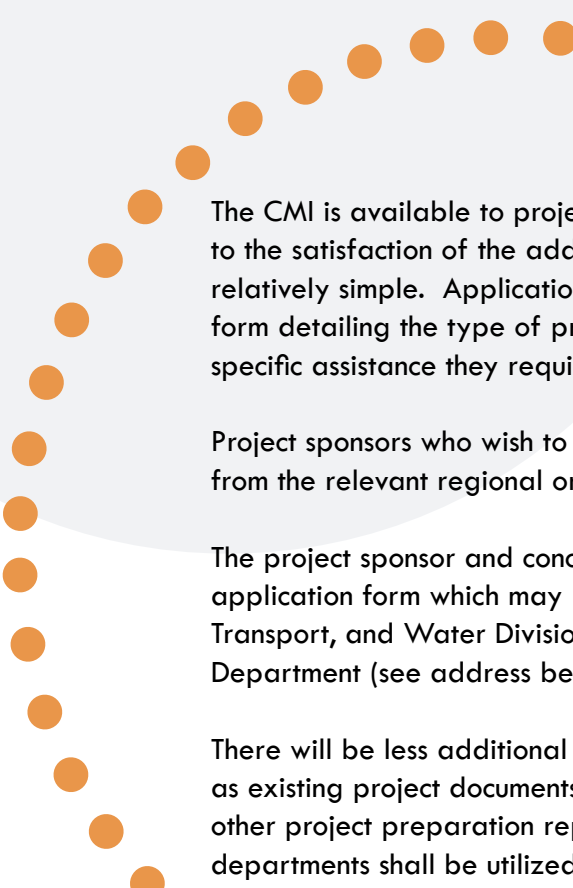
- **APCF Negotiations.** After documentation, the APCF and the project sponsors will enter into negotiations, which may include a confidentiality and exclusivity arrangement, due diligence and consultation, and initiate, negotiate and execute a Memorandum of Understanding. A legally binding Emission Reduction Purchase Agreement (ERPA) may be drafted between the parties, which will then be submitted to the APCF Board of Directors for approval.

The APCF will release cofinancing payments to the project only when the former is satisfied with any condition precedent to ERPA and in accordance with the terms of these agreements.

- **Ongoing Performance and Monitoring.** Project sponsors will be required to provide regular reports to the APCF on the performance of each CDM project. The APCF will perform the role of "focal point" between the projects and the CDM Executive Board.

- **CER Issuance and Transfer to Participants.** CERs issued for each CDM project in which APCF has participated will be put, at first instance, into an APCF account. The APCF will subsequently transfer the CERs into the national registry accounts of the fund participants.

- **Credit Marketing.** The CMF may extend marketing support to project sponsors for their residual CERs. However, they may also opt to market their CERs directly or to contract brokers on their own.



The CMI is available to projects that are already receiving ADB support subject to the satisfaction of the additionality criteria. The CMI application process is relatively simple. Applications to CMI are made by filling out an application form detailing the type of project they wish to seek assistance for and the specific assistance they require.

Project sponsors who wish to qualify for the CMI should liaise with the ADB staff from the relevant regional or private sector operations department.

The project sponsor and concerned ADB staff will jointly fill out the CMI application form which may be requested from the CMI team, Energy, Transport, and Water Division of the Regional and Sustainable Development Department (see address below).

There will be less additional documentation required for project appraisal as existing project documents such as feasibility studies, detailed design and other project preparation reports previously submitted to the ADB operations departments shall be utilized.



For applications/submissions and inquiries, contact  
Director  
Energy, Transport, and Water Division  
Regional and Sustainable Development Department  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 6473  
Fax +63 2 636 2198  
[adbcdm@adb.org](mailto:adbcdm@adb.org)  
[www.adb.org/clean-energy](http://www.adb.org/clean-energy)

The clean development mechanism is an instrument under the Kyoto Protocol that allows industrialized countries with a GHG reduction commitment by 2012 to invest in emission reducing projects in developing countries in return for certified emission reductions to meet their targets. CDM project activities must be additional which means that they should result in reducing or sequestering GHGs that are real and measurable and would not have occurred in the absence of the proposed project activity. Another important aspect of CDM is that proposed CDM project activities must demonstrate their contributions to environmental integrity and the host country's sustainable development goals.

“The international carbon market which has emerged as a result of the Kyoto Protocol allows for cost-effective emission reductions for industrialized countries, thereby lowering the cost of compliance, while greening economic growth and generating funding for adaptation for developing countries. Further concerted global action can drive down the costs.”

Yvor de Boer  
UNFCCC Executive Secretary


## About the Asian Development Bank

ADB aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than \$2 a day. Despite many success stories, the region remains home to two thirds of the world's poor.

ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB's vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. ADB's annual lending volume is typically about \$6 billion, with technical assistance usually totaling about \$180 million a year.

ADB's headquarters is in Manila. It has 26 offices around the world and more than 2,000 employees from over 50 countries.



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