

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: EAEN

TA No., Country and Name		Amount Approved: \$600,000	
TA 4812-PRC: Establishment of the Clean Development Mechanism Fund		Revised Amount: \$600,000	
Executing Agency: Ministry of Finance (MOF)	Source of Funding: TASF	Amount Undisbursed: \$78,164.33	Amount Utilized: \$521,835.67
TA Approval Date: 30 Jun 2006	TA Signing Date: 13 July 2006	Fielding of First Consultant: 23 October 2006	TA Completion Date Original: 30 July 2007 Actual: 31 May 2009 Account Closing Date Original: 30 July 2007 Actual: 14 July 2009
<p>Description:</p> <p>The People's Republic of China (PRC) signed the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, and ratified the Kyoto Protocol of the UNFCCC in 2002. As a participating developing country of the UNFCCC, the PRC is eligible to benefit from the Clean Development Mechanism (CDM) established under the Kyoto Protocol; the validity of the CDM currently extends until 2012. According to a World Bank-sponsored study, the PRC has the potential to generate about 50% of the total worldwide annual certified emission reduction (CERs). These potential benefits need to be achieved through the CDM, by means of CER transactions between the project owners in the PRC and their counterparts from the developed countries. The Chinese Government regards the CDM as an important mechanism to (i) gain financial support and new technology from developed countries to complement its own efforts to promote sustainable development, and (ii) address climate change concerns on both national and global basis. The Government has established an inter-ministerial national policy coordination group, headed by the National Development and Reform Commission (NDRC), to provide oversight for policy development and decision making on climate change-related activities.</p> <p>While recognizing the potential benefits the CDM can generate for the country, the Government has noted two general concerns related to CER transactions under the CDM: (i) certain CDM projects (e.g., hydrofluorocarbon (HFC) projects that are designed to capture and destroy HFC emissions by the manufacturing sector) have a high value in terms of CER revenues, but contribute less to sustainable development; and (ii) high CER market values could serve as a perverse incentive, stimulating operation of and further investment in polluting industries. To address these concerns, on 12 October 2005 the Government issued a decree, "Measures on Operation and Management of Clean Development Mechanism Projects" (Decree 37). Decree 37 has introduced a levy on the CER revenues generated by various CDM projects in the PRC; the fees collected by the Government will be used to support domestic climate change-related activities. The Decree also states that the Ministry of Finance (MOF) will develop, in consultation with the NDRC, detailed regulations and operational guidelines for collecting and using the resources mobilized through this levy.</p> <p>In accordance with Decree 37, the Government has to establish a specialized facility—the China CDM Fund (CCDMF)—to manage the fees collected from CDM projects. Furthermore, the CCDMF may also receive technical assistance and other grant support from external funding agencies, including ADB and the World Bank. These resources will be supplemented by donations and operational income. CCDMF resources will be used to promote domestic CDM projects and other climate change-related mitigation and adaptation projects and activities, through provision of technical assistance, grant support, and loans. The CCDMF will be operated under the guidance of a governing Board comprising NDRC, MOF, the Ministry of Science and Technology (MST), and the Ministry of Foreign Affairs (MFA), plus the Ministry of Environmental Protection (MEP) and the China Meteorological Administration (CMA).</p> <p>Expected Impact, Outcome and Outputs:</p> <p>The impact of the TA was sustainable development in the PRC and support for international efforts to address climate change. The outcome was an increase in the number of CDM projects and other climate change-related mitigation and adaptation projects and activities in the PRC. The TA assisted the Government establish the CCDMF, including an appropriately designed governance structure and initial operation capacity development.</p>			

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

Delivery of Inputs and Conduct of Activities:

The TA design was clear and adequate to ensure achievement of the TA's impact and outcome. The TA consisted of the following: Component A – Study and Introduction of the CDM Fee Collection Mechanism; Component B – CCDMF Governance Structure and Capacity Building; Component C – CCDMF Operations Manual; and Component D – Information Dissemination and Awareness Enhancement Program. Individual consultants were engaged for the Project in accordance with ADB's *Guidelines on the Use of Consultants*. Interdisciplinary cooperation and coordination among the consultants were managed by the EA through CCDMF Preparation Office. The total input of consultants was 30 person-months, consisting of 6 person-months of international consultants and 24 person-months of national consultants. The TA officially commenced on 22 November 2006 with an inception workshop in Beijing. A mid-term review session sponsored by ADB was conducted in March 2007 to collect comments from stakeholders on consultants' draft reports. Subsequently, a series of meetings were conducted on various aspects of the TA with consultants during the TA implementation. Based on feedback from the MOF, ADB and CCDMF Preparation Office, consultants submitted final reports with good quality on time. While consulting activities had been completed, the TA implementation period was extended to June 2008 to accommodate some planned and also additional training activities to strengthen the capacity of CCDMF staff. Subsequently, the TA completion date was deferred twice because of the emergency relief operations of the EA related to the Sichuan earthquake in May 2008. The EA performed satisfactorily in terms of provision of required counterpart support during the TA implementation. Performance of individual consultants was rated as satisfactory. ADB's overall performance was also rated as satisfactory as the planned outputs were successfully achieved and the EA was satisfied with inputs provided by ADB. All TA activities were completed efficiently utilizing only 87% of the TA amount.

Evaluation of Outputs and Achievement of Outcome:

The TA achieved its outputs. The major deliverables of the TA included: (i) the draft decree on the CDM fee collection mechanism. The draft covered areas such as general principles, identification of levy amount, collection, information management and penalty for non-compliance; (ii) a draft policy paper guiding the CCDMF's internal control and governance structure and a draft operations manual for the CCDMF. The draft included topics such as governance principles and structure, as well as operational aspects including organizational structure, process of receiving funds and financial management, CDM Fund project selection and monitoring process, budget management, risk management and compliance; (iii) training materials for capacity building; and (iv) materials for the information dissemination and public awareness enhancement program. Deliverables (iii) and (iv) mainly included a CCDMF brochure for dissemination, a CCDMF video for display and a set of CCDMF posters for exhibition during the Carbon Expo Asia in October 2006. Also, the consultant team developed the CCDMF website: www.cdmfund.org framework, and created related contents for the website from February 2007. From March to June 2007, the team revised the CCDMF brochure and CCDMF video mentioned above. The consultants carried out their tasks to the satisfaction of the EA and ADB and were consistent with the terms of reference. Draft decree, governance structure, and operational manuals developed were approved by the CCDMF Governing Council. An international study tour was held to provide the newly created CCDMF first-hand experience and knowledge on the implementation of the similar CDM-related institutions in selected European countries where these institutions are in operation. The EA believes that the TA has played an important role in helping establish a solid governance structure, procedures on levy collection, project selection and management, risk management and compliance, and daily operation infrastructure for the CCDMF.

Overall Assessment and Rating

The TA is assessed as successful as its objectives were fully achieved as originally envisaged. The TA implementation took longer mainly because training activities and workshops under the TA were deferred because of the emergency relief operations of the EA related to the Sichuan earthquake. The deferred schedule was accommodated on the requests of the EA.

Major Lessons

Two lessons can be learned from the TA implementation. First, a high level of ownership by the EA contributes greatly on the successful implementation of the TA. Given the strong capacity of the EA, a CCDMF preparation office-led team of individually engaged consultants became a very efficient and effective arrangement for implementing the TA. Second, longer and adequate time should be allocated for information dissemination and training activities of the TA.

Recommendations and Follow-Up Actions

Both ADB and the CCDMF believe that continued and further cooperation between the two will greatly benefit the operations of the CCDMF going forward. Specifically, future cooperation can potentially be knowledge transfer in supporting climate change-related projects and/or co-financing opportunities.