

# **CLEAN DEVELOPMENT MECHANISM FACILITY**

**Asian Development Bank**

**[www.adb.org/cdmf](http://www.adb.org/cdmf)**



***Bridging the Gap Towards Climate Change  
Mitigation in Asia and the Pacific***

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# ADB Global CDM Market Potential

- Opportunity for developing countries (technology, financial resources, sustainable development goals)
- Cost-effective, “inevitable” compliance option.
- 2/3<sup>rds</sup> Annex-I countries have net positive emissions, mitigation needs ~700 MtCO<sub>2</sub>e/yr
- CER (CDM) potential ranges ~ 55-360 MtCO<sub>2</sub>e/yr
- Annex I “planned” CER procurement thru’ 2012, ~ 100 MtCO<sub>2</sub>e/yr, likely to increase (eg., Japan- high domestic abatement costs, EU – 13 behind target, high EU-ETS abatement costs and penalties)

# Gaps in the CDM Market

- Few “active” CDM players in global carbon markets – Netherlands, Finland, WB (PCF, etc).
- **Primarily Annex I buyer- driven and -dominated**
- Largely Government/public sector-driven, while private sector is ultimately “responsible”, and key market driver
- **Large gap exists in global CDM market, implementation significantly below planned procurement targets (completed transactions in 10’s not 100’s)**
- Slow Progress - From Kyoto to Marrakesh, Uncertainties continue....complicated rules

- Relatively large potential (fastest growing energy sectors, high deforestation rates, etc.)
- Currently little share in global CDM Market, less than 20% (far behind Latin America, CEE-JI)
- Lags on all fronts – Methodologies Submitted, Applicant (Operational) Entities, Candidate/Approved Projects, Establishment of Designated National Authorities
- “Perceived” project/country risks, wide differences between price offers and price expectations
- Current focus on RE/EE projects- but low CER prices make little difference to RE project IRRs, while EE baselines difficult to establish

- Barriers (*and Possible Risk Mitigation*)
  - Kyoto risk - 55% Annex I ratification – *Russia?, USA?*
  - Methodology (Additionality, Baseline) risk for validation, registration-*transparent rules/modalities (esp. for increased private sector participation), guidance/standardization*
  - Host country risk for endorsement/approval – *host country's ratification of KP, establishment of effective Designated National Authorities (DNA), CDM policy and "mainstreaming" into other national policies*
  - High transaction costs (\$300K?)- *standardization of procedures, development of country baselines, pilot Project Design Documents*
  - Lack of CDM professionals in host countries – *capacity building, including domestic financial sectors, Operational Entities.*
  - Project Finance risks – *ensure upfront underlying project finance*

- CDM Facility established by ADB in August 2003, to be an integral part of operations/project cycle, natural extension
- Pilot phase of 3 years, initial funding available. Guidelines being developed. Will operate on a cost-recovery basis
- To assist ADB's Developing Member Countries in accessing opportunities for mobilizing additional resources and technology flows to support GHG-reducing, clean energy projects and to assist meeting national pro-poor and sustainable development goals.
- To assist ADB's Developed Member Countries meet their commitments under the Kyoto Protocol
- Broad range of technologies and processes in energy, industry, agro-forestry, urban services and transport that generate ERs and contribute to poverty reduction and sustainable development goals.

# Potential CDM Projects (ADB Pipeline, Next 3 yrs)

- Approximately 40 projects have CDM potential for saving of estimated annually 15-25 million tons of CO<sub>2</sub>
  - Energy efficiency enhancement
  - Renewable energy development
  - Coal bed methane recovery
  - Clean energy
  - Methane capture from sanitary landfill
- Different Stages (Feasibility, Project Preparatory Technical Assistance, Loan Design, Approved Loan...)

# CDM Facility-Main Functions

## *Bridging the Gap in CDM Market*

- Identify CDM potential in ADB's lending portfolio and assist operational departments working with potential ER sellers (public and private entities in ADB's Developing Member Countries).
- Lower transaction costs by integrating CDM elements (PDD development) into project appraisal and processing (ADB Project Cycle)
- Allow sellers to explore multiple offers from buyers (public and private sector players from ADB's Developed Member Countries who join the Core Buyers Group being set up at present) and select the most appropriate one(s) at competitive prices.
- Provide market intelligence on demand, supply and prices of ERs during facilitation of the transaction

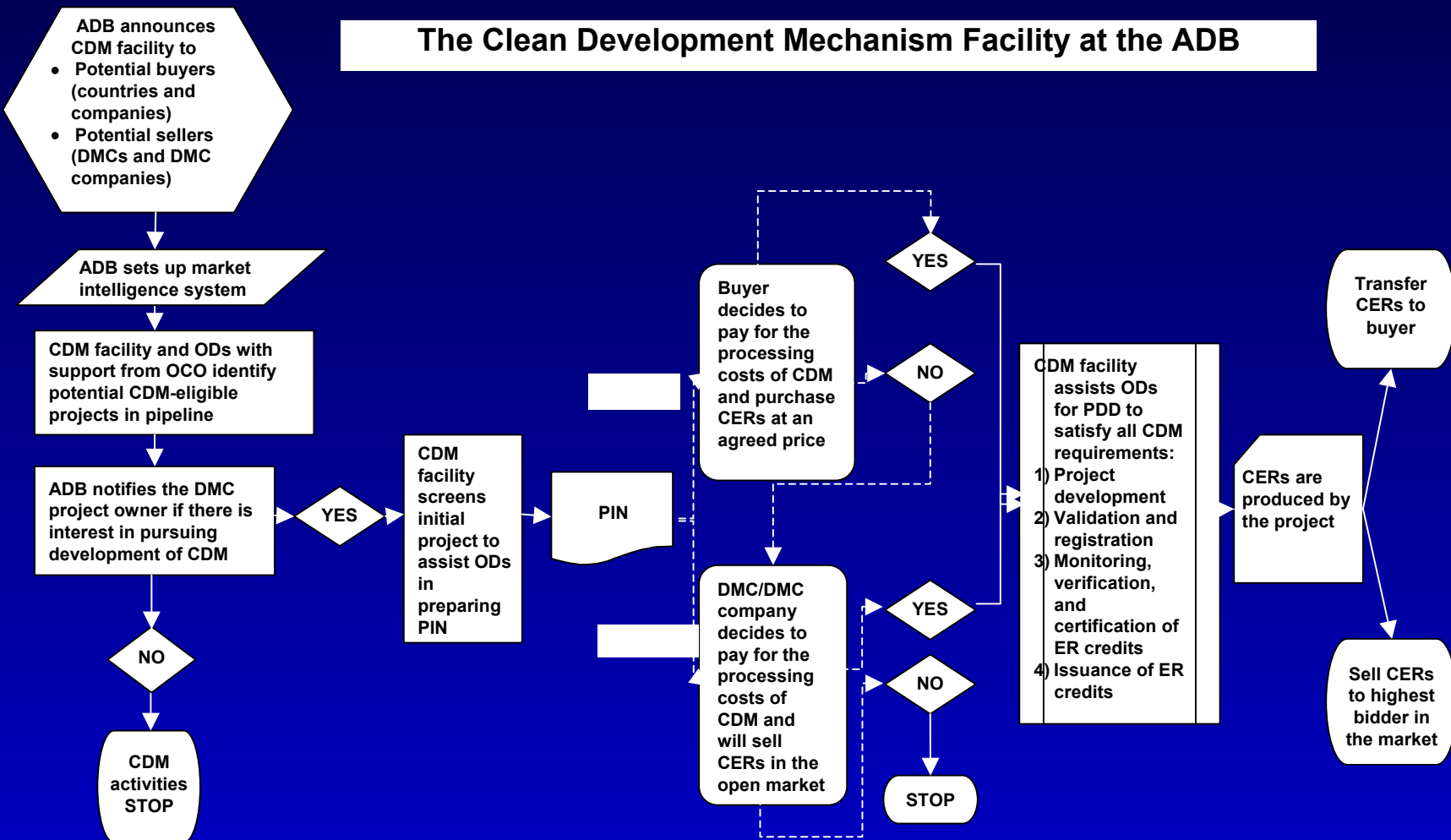
# CDM Facility-Main Functions

## *Bridging the Gap in CDM Market*

- Assist in host country endorsement (e.g., engagement from Country Strategy & Programming Stage, Loan covenants)
- Assist in developing, processing, validating and registering, monitoring and verifying CDM projects
- Provide quality ERs through risk assessment and risk mitigation (underlying project finance, political risk guarantee, etc.)
- Provide flexibility to buyers to exercise their preferences (in terms of country, technology, project size, etc.)
- Two Main Options: Based on seller's consent, provide buyers an option to get in at early stage (project entails higher risk and lower prices for "verifiable" ERs) or late, mature stage (project entails lower risk and higher prices for certified ERs, which may be developed as unilateral CDM)

# Modalities of CDM Facility

## The Clean Development Mechanism Facility at the ADB



# CDM Facility's Integration with ADB Project Cycle

PROJECT CYCLE	CDM FACILITY	SELLER	BUYER
<b>Project Identification</b>	Provide information in identifying the potential CDM projects	Encourage CDM project inclusion in Country Strategy and Programming	Pay subscription to facility
<b>Project Design</b>	Assess the CDM potential, assist project team in improving ER quality		
	Advise seller on potential ER	Agree or disagree to include CDM	
If seller agrees, incorporate CDM aspects in financial, economic, environmental and technical aspects in Feasibility Study and Board Document	If seller agrees, inform buyers on potential ER, prepare PIN and distribute this to buyer(s)		Evaluates the PIN, get in touch with seller and make proposal to buy

# CDM Facility's Integration with ADB Project Cycle

PROJECT CYCLE	CDM FACILITY	SELLER	BUYER
Share CDM Facility data obtained in the Feasibility Study and Project Planning Technical Assistance	Assist seller to evaluate proposal if requested	Seller may request facility to assist in evaluation of buyer proposal	
	Assist seller and buyer reach an agreement	Shortlist and select buyers	Buyer negotiates with seller
<b>Project Financing</b> Share data and Project schedule with Facility	Hires operational entity, and assist in preparation of PDD, registration with CDM Board		Buyer pays facility to process CDM requirements
<b>Project Operation</b> Assist in Monitoring project implementation	Assist operational entity in verification and issuance of CERs	Assist in the verification and documentation of CERs	
	Assist in the transfer of CERs	Collects CERs and turn over to buyer	Pay for CER

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