
Clean Development Mechanism Financing for Developing Countries

Mark Kenber - Policy Director, The Climate Group



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AGENDA

- What is the CDM?
- Current status and future projections
- Opportunities for cities

What is the CDM?

- > Under the Kyoto Protocol, industrialized countries must cut GHG reductions by 2008-2012 'at home' or in other countries, via:
 - emissions trading e.g. EU ETS
 - Clean Development Mechanism
- > The CDM allows industrialised countries to invest in projects that reduce GHG emissions in developing countries.
- > Projects generated Certified Emission Reductions (CERs) that can be used to meet KP targets.

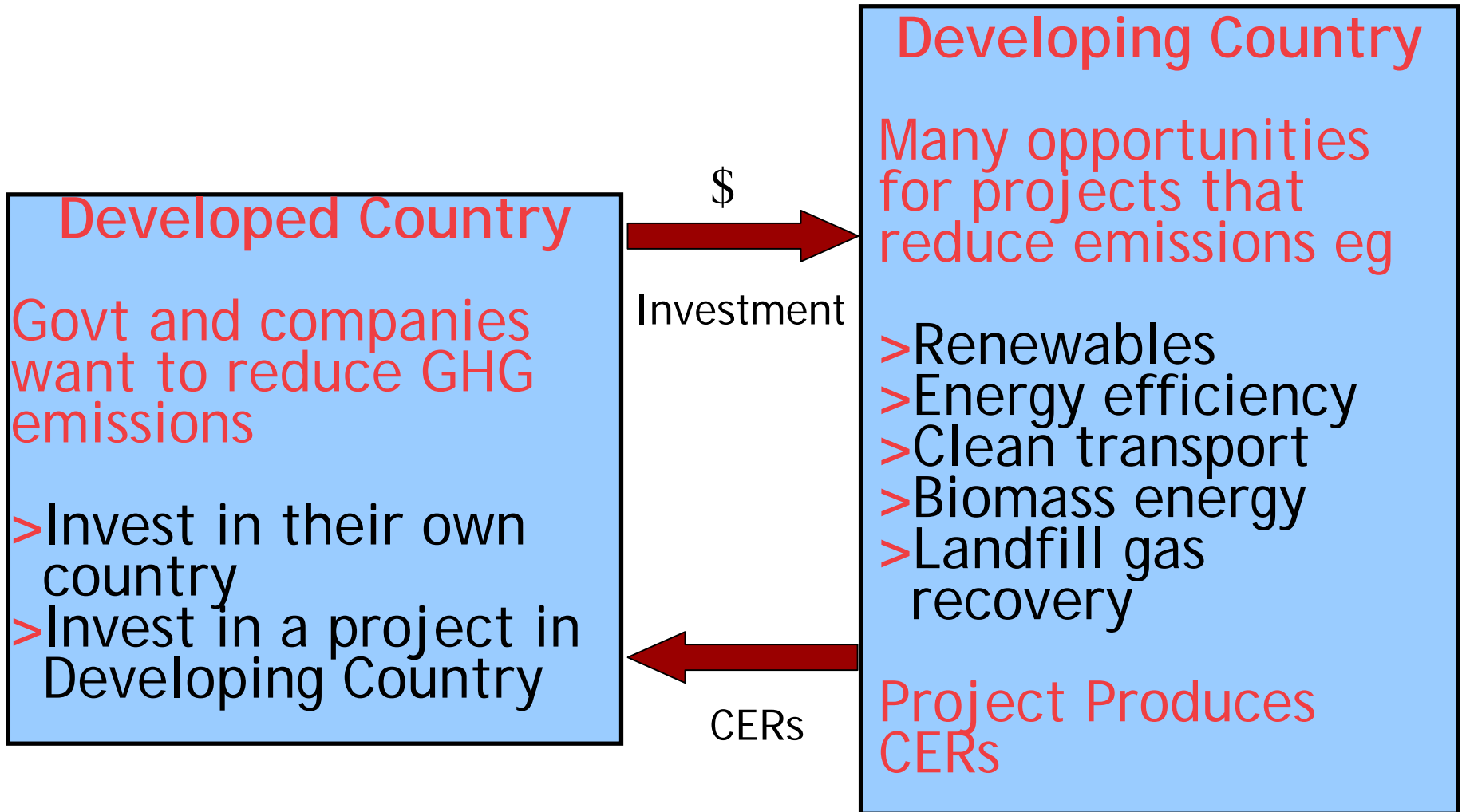
What is the CDM?

The purpose of the CDM (KP) is:

- a) to assist developing countries in achieving sustainable development

- a) to assist developed countries in achieving compliance with part of their quantified emission reduction commitments

What is the CDM?



What is the CDM?

- > Emission reductions from CDM project must be additional in developing country
- > CDM projects must:-
 - be approved by the host country
 - lead to sustainable development in host country
 - result in real, measurable and long-term benefits in terms of climate change
- > Money for CDM projects not divert Official Development Assistance (ODA)
- > Nuclear power projects are not eligible

CDM Status and Prospects

- > CDM became operational after 2001 Marrakech Accords
- > Institutional architecture mostly in place
 - Validation, registration procedures
 - Executive Board
 - Operational entities
 - National Authorities
- > Wide range of service providers and financiers
 - Brokers, project developers, funds, etc.

CDM Status and Prospects

- > 1st project registered in 2004
- > Currently 25 projects registered, 11 in queue
- > Projects include:
 - Hydroelectric, biomass, wind electricity
 - Energy efficiency
 - Landfill gas recovery
 - HFC destruction
- > Total reductions > 7,000,000 p.a.

CDM Status and Prospects

- > 1996 proposed projects in Point Carbon database
- > 545 projects reached PDD stage, potential emissions reductions of 707 MtCO₂e to 2012
- > Over 40 million tonnes CO₂e contracted forward in last six weeks
- > Current price of CERs: €5-12 / tCO₂e
- > Current market value: ~€300m/year
- > Projected value of >€1bn/year by 2012

CDM status and progress

BUT...

- > CDM approval process is very slow
- > Validation & verification can be >€100,000/project
- > Fixed costs high for small projects
- > No certainty that CERs will have value after 2012
- > Project format not always appropriate e.g. sectors

CDM Opportunities

Not a panacea, but

> \$16 trillion energy investment needed over next 25 years to meet energy demand, most in cities

> Increasing demand for public and private transport

> Construction sector booming in many countries

and

> Carbon financing can help tilt playing field in favour of lower carbon options

> Carbon financing can help secure local finance and technical support

CDM Opportunities

End-use energy efficiency	High efficient lighting; efficient cook stoves; building efficiency
Transport	Vehicle efficiency, low carbon fuels, transport plans
Supply-side energy efficiency	High efficiency turbine replacement; combined cycle
Renewable energy	Biomass; Solar; Wind; Hydro
Fuel switching	Gas conversion Biofuels replace fossil fuels
Waste	Landfill gas recovery

CDM Opportunities

Financing mechanisms

- > Full or partial equity in project, incl. CERs
- > Financial contribution
- > Loan (concessional in exchange for CERs)
- > CER Purchase Agreement (additional income stream)

CDM Opportunities

- > Partnership between industrialised and developing country cities using CDM to fund tech transfer
- > Packages of projects to address sectors e.g. transport, possibly as a fund
- > Support moves for “sectoral CDM”
- > Explore voluntary carbon market - lower prices but greater flexibility

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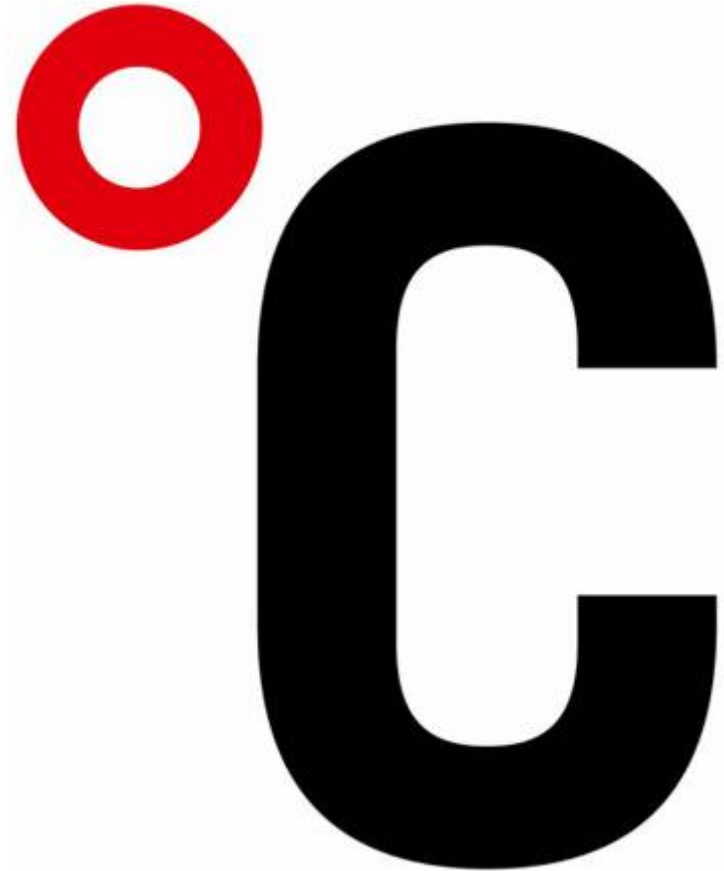
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