

# **Role of Private Sector, Consultants and Project Owners in CDM approval and Promotion**

Srikanth Subbarao  
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# Importance of Private Sector

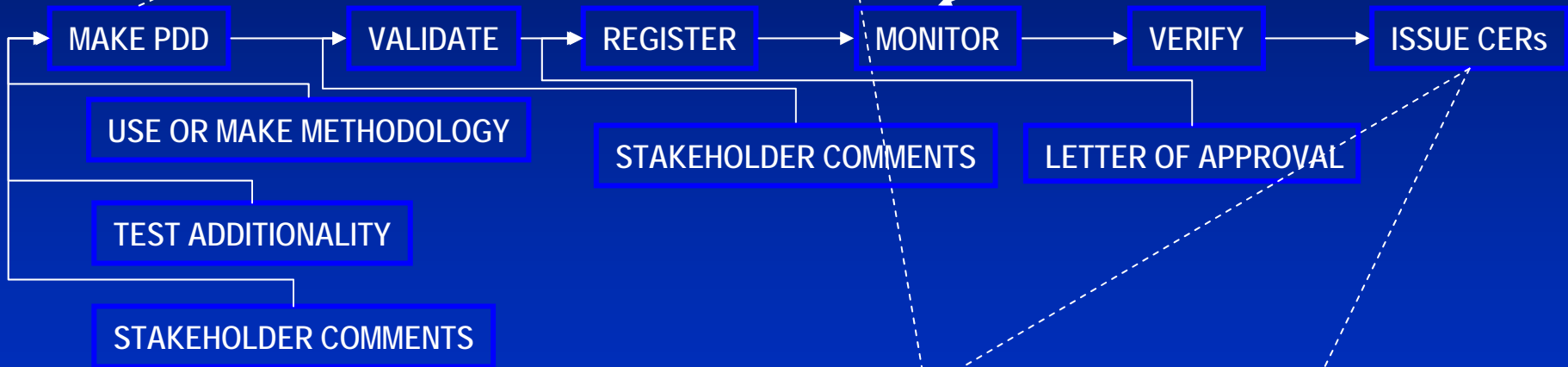
- The UNFCCC estimates that the private sector will account for **86 per cent** of the financial flows required to address climate change mitigation and adaptation.
- Increasingly being recognised as the engine driving **capital inflows** into climate change **mitigation & adaptation** sectors
- Private Sector is an important means to enhance **investment** and **financial flows** to address climate change in the future.

# CDM Project Development

## PHYSICAL PROJECT DEVELOPMENT



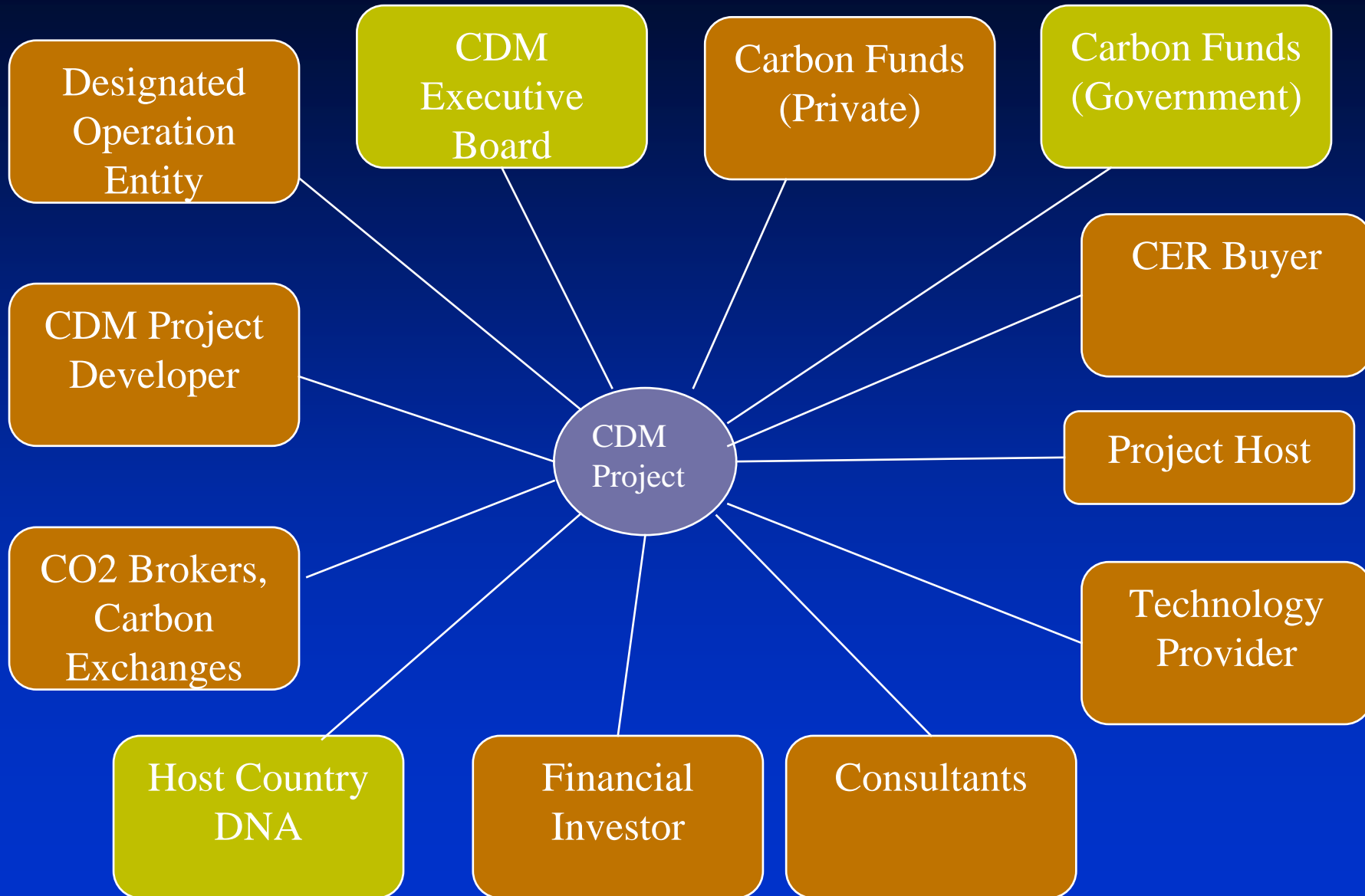
## CDM DEVELOPMENT



## COMMERCIAL DEVELOPMENT



# CDM Stakeholders



# CDM Executive Board

- The CDM Executive Board **supervises** the CDM and reports directly to the Conference of Parties to the UNFCCC /the Meeting of Parties to the Kyoto Protocol (COP/MOP).
- The Executive Board was elected at COP-7 and has **ten members** representing both **industrialized** and **developing** countries.
- The Executive Board is **responsible** for:
  - Making **recommendations** to the COP/MOP on **amendments** as well as on **further modalities and procedures** for the CDM
  - Approving **new methodologies** related to baselines, monitoring plans and project boundaries
  - Reviewing **simplified** procedures.

# CDM Executive Board (Contd...)

- The Executive Board is also **responsible** for:
  - **Accrediting** and **suspending** of operational entities;
  - Reviewing **accreditation procedures**;
  - Making **publicly available** proposed CDM activities and all procedures for developing a CDM project;
  - Developing and maintaining a **CDM project registry**;
  - Reviewing project **validation** and **verification** reports; and
  - **Issuing** verified CERs

# Designated National Authority

- A Designated National Authority (DNA) is the body granted responsibility by a Host Party to **authorize** and **approve** participation in CDM projects.
- **Establishment of a DNA** is one of the pre-requisites for participation by a Host Party in the CDM.
- The **main task** of the DNA is to
  - Assess potential CDM projects to determine whether they will assist the host country in achieving its **sustainable development goals** and
  - To provide a **letter of approval** to project participants in CDM projects.

# Role of Private Sector - Project Host/Developer

- **Project Host** - The project host is the entity providing the **land, facilities** or **resources** that are required to undertake the CDM project in the developing country location of the project.
- Project hosts may be **individuals, companies**, or **government institutions**.
- **Project Developer** - entity responsible for **implementing** the project and **driving** the project through the CDM project cycle.
- The project host may take on this role, or it may be provided by a specialized CDM project developing company



# Role of Private Sector - Project Host/Developer

- Role of Project Host/Developer
  - Conducting initial project **assessment**
  - Arranging the project **technology transfer**
  - Managing all required government **approvals/licenses**
  - Project **Management and Execution**
  - Arranging **funding** for the GHG reduction project
  - Compiling full project **documentation**
  - Steering the project through the formal **CDM approval process**
  - **Monitoring** the emission reduction
  - Project **Operation**
  - Managing the **CER transaction**

# Role of Private Sector – Carbon Funds/CER Buyers

- **CER Buyer** - In theory – any entity may buy CERs
- To use CERs for compliance under Kyoto Protocol or any mandatory scheme linked to Protocol –buyer must be either an **Annex 1 Party** or **authorized** by **Annex 1 country DNA**
- The buyer can be a **corporation**, a **government body** or **non-governmental organization**.
- **Carbon funds** - are **investment vehicles** which raise public and/or private capital to buy carbon credits from primary market
- obtained as **CERs** through CDM or **ERUs** through JI
- Various **types** of carbon funds – from funds **investing directly** in GHG reduction projects to financial players buying credits on **secondary market**

# Role of Private Sector - Carbon Funds/CER Buyers

- Role of Carbon Funds/ CER Buyers
  - **Upfront payment** to Project Developers for part of the estimated potential emission reductions
  - Some buyers also cover **CDM process** related costs
  - Guarantees some payment for **post 2012 CER's** even in the absence of a post 2012 global framework
  - **Technical assistance** to project developer in managing the CDM process
  - World Bank, ADB & other multi-lateral institutions have established carbon funds to **promote CDM project development**

# Role of Private Sector - Commercial Banks/Financial Institutions

- Conventionally Banks/FI's are involved in the **debt financing** of a project
- Lately some of the Banks have started their own **carbon origination desk**
- Also help the project developer in :
  - CDM **risk management** services
  - **Securitization** against the ERPA
  - Act as a **CER buyer**

# Role of Private Sector - Consultants

- The process until registration and issuance of potential CDM projects is **complex**.
- The **number** and **specifications** of methodologies and UNFCCC regulations have steadily **grown** over the last years
- the whole registration procedure has become more **challenging**.
- CDM consultants:
  - advise the Project Owner on key **technical**, **engineering**, **environmental**, **legal** and **risk** aspects
  - provide **advisory services** for CDM **process** and **legal** issues associated with CER transaction.

# Role of Private Sector - Consultants

## ➤ Role of CDM consultant

- Identification and assessment of potential carbon credit opportunities
- Development of Project Design Document (PDD)
  - ✓ Assessment of baseline parameters.
  - ✓ Argue additionality
- Methodology development
- Facilitation of the validation of project by authorized validator
- Facilitation of host country approval
- Liaison with DOE and UNFCCC CDM EB for smooth registration of the project
- Facilitating verification process and enabling issuance of carbon credits

# Role of Private Sector - Carbon Brokers/Exchanges

- **Not always necessary** to have Annex 1 party involved from early stage in a CDM project
- In the scenario, wherein, the Project developer:
  - ✓ Is **not in need** of initial funding for CDM
  - ✓ Has **acquired** CDM expertise
  - ✓ Can **bear** the CDM registration process & issuance risk
- Monetization of CER can take place during **CER issuance or later**
- Helps Project developer fetch a **better price** than entering a forward CER sale

# Role of Private Sector - Carbon Brokers/Exchanges

- Role of Carbon Brokers/Exchanges
  - Identifying a CER buyer .
  - Monetization of carbon offsets through multiple sale options – Over the counter, spots, auctions and forward sale mechanisms
  - They act as a match between buyers and sellers of CER's
  - Arrange forward sales which provide revenues that can be used to finance projects
  - Structuring Carbon Finance in a way which best meets the requirement of the seller and buyer
  - Facilitate Carbon transaction by assisting the CDM Project Developer in entering (legal) agreement



# Role of Private Sector - Technology/Equipment Provider

- Role of Technology/Equipment Provider
  - Providing project **technology**
  - Sharing **know how** and the **required skills** to use the technology
  - Help local project partners (project developers) in setting up **monitoring** and **recording** system which is in compliance with the UNFCCC CDM requirement and the **monitoring plan** described in the PDD.
  - Depending on the need of the Project Developer may also provide (**against the potential CER revenue**):
    - ✓ Equipment finance or
    - ✓ Assets (equipment) on lease or credit
  - Capacity building on daily **operation** and **maintenance** of the CDM project

# Role of Private Sector - Designated Operational Entity (DoE)

- Domestic or international legal entities that have been **accredited** by the CDM Executive Board.
- Responsible during **various stages** of the CDM project development process which include:
  - **Validation** of CDM project
  - Making **publicly available** CDM project design documents
  - Receiving **public comments** on the CDM documents
  - Incorporating **stakeholder** comments
  - **Verification** and **certification** of CERs during the operation of the project

# Role of Private Sector - Industry Association/Bodies

- Identify potential CDM opportunities in the industrial sector
- CDM capacity building in the respective industrial sector to promote CDM as a mechanism to create new business opportunities.
- Conduct regional workshops to bring together the key industrial sector stakeholders, to exchange information and to map the path forward in development of CDM activities.
- Help identify the common CDM related challenges for specific industrial sectors and provide assistance in addressing them.
- Providing policy advice to the government which can promote Low Carbon technology projects in the country/region.

# Role of Private Sector - Summary

Key Activities	Project Developer / Owner	Banks/Fl's	Carbon Fund/ Buyer	Consultants	Technology Supplier	Carbon Brokers/ Exchange
Identifying CDM Project	√			√		
Developing Feasibility Report	√			√		
Project Finance	√	√	√			
Clean Technology					√	
CDM Process Management	√		√	√		
Project Development	√				√	
Legal/Contractual Issues		√		√		
Project Implementation/ Operation	√				√	
Monetization of CER			√			√

# CDM-Specific Risk/Issues

- Apart from the conventional project risks/issue the Project Developer/owner/investor also needs to deal with certain **CDM specific issues**:
  - **Methodology Risk** - Non availability of existing approved methodology or Non-compliance with the applicability conditions of the applied baseline methodology
  - **Host Country Approval Risk**
  - **Non compliance** with the emission reduction calculation method as specified in the methodology.
  - **Insufficient documentation** to establish the baseline scenario or the additionality Monitoring report/plan not in line with monitoring methodology
  - **Calibration** issues
  - Data **recording** and **archiving** issues

# Issues Impacting CDM Revenue

- **Non Approval** of Project by Host Country or CDM Executive Board
- CDM **process** delays
- **Reviews** during the registration process leading to 2-4 months delay.
- Market **Uncertainty** beyond 2012
- **Performance** of technology
- Actual **Project implementation (Design)** not in alignment with the information provided in the PDD
- Monitoring report/plan **not in line** with monitoring methodology

## Key Actors

Project Developers  
CDM Consultant  
Carbon Funds/ Buyer  
National Agencies  
Technology  
Consultant



## Steps

Project  
Identification  
Project Formulation

Baseline Definition

DNA Approval/  
CDM Validation

Project Validated

Project  
Registration  
Project Financing  
and  
Financial Closure

Project Financed

## Relevant Issues

- ◆ Country Participation?
- ◆ Project Acceptance
- ◆ Cost Effectiveness
- ◆ Risks / ER Benefits
  
- ◆ Baseline Identification
- ◆ Emissions  
additionality
- ◆ Financial additionality
  
- ◆ National Objectives
- ◆ Sustainable Development
- ◆ Additionality Criteria
- ◆ ER Purchase Agreement
- ◆ Legal Recourse
- ◆ Project Risks
- ◆ Flow of Funds

Host Country DNA  
DOE  
Project Developer  
CDM Consultant



Project Developers  
and Carbon Buyers  
Technology Supplier  
(finance)  
Banks /Financial  
Institutions



## Key Actors

## Steps

## Relevant Issues

Project Developer /  
Technology Supplier  
(Project Operator)



Project  
Implementation  
and Operation



- ◆ Implementation of Monitoring Plan
- ◆ Data Recoding/ Archiving
- ◆ Calibration of monitoring equipments

Project Developer  
CDM consultant



ER  
Monitoring/Reporting



- ◆ Deviation from Monitoring Plan

Project Developer  
Verifying DOE  
Carbon Fund/Buyer



ER Verification



- ◆ Review by CDM EB

Verifying DOE  
CDM Executive Board  
CER Registry



ER Certification



- ◆ Identifying buyer for CER
- ◆ Entering ERPA

Carbon  
Broker/Exchange



CER





# Opportunity for Various Stakeholders

Participant	Reason for Participation/Opportunity
Developing Country	Promote sustainable development through investment and contribute towards GHG reductions
Developed Country	Technology/Finance to Developing Countries. Meet Kyoto Protocol commitments at low costs
Non-governmental organizations	Promote concept of environment and development
Corporations	Offset emissions; investment opportunity
Technology company/Niche company	Commercial opportunity; diffuse Technology

# Opportunity for Various Stakeholders

Participant	Reason for Participation/Opportunity
Industry associations	New business opportunities for members and promotion of low carbon technologies
Brokers	Commercial opportunity
Development banks	Promote sustainable development; create new markets
Institutional investors	Portfolio diversification; socially responsible investing
Consultancy	Advisory Services

Thank You