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Foreword

China Clean Development Mechanism Fund (hereinafter referred to as “the CDM Fund”) has witnessed a new development of various businesses in 2015. The CDM Fund has been strongly supporting the green low-carbon development of China with its innovative spirits, effective works, strengthened market impact, enhanced institutional capacity and active promotion of multiple business platforms.

Over the past year, under the leadership of Ministry of Finance, with the guidance of the Board of the CDM Fund, and the support of partners, the CDM Fund has continued to play a guiding role on green and low-carbon financing in accordance to the central governments requirements of accelerating the construction of ecological civilization. The CDM Fund seeks to make progress in various fields in a more market-oriented way with unceasing efforts and practices. On one hand, the CDM Fund has provided grants for national and local policy researches, capacity building and public awareness. In 2015, the CDM Fund allocated about 1.125 billion RMB of grants covering 542 projects. On the other hand, the CDM Fund has continued to support technological, industrial and market activities in emission reduction by carrying out investment activities. It supported 42 concessional loan projects, which cover 17 provinces with 2.433 billion RMB in loans, and leveraged market capital as much as 15 billion RMB. These projects achieved an annual carbon reduction and emission reduction potential of 2.4 million tons of carbon dioxide equivalent (tCO₂e), which effectively manifested the role of the Fund as “Seed Money”, and realized the win-win situation of economic returns and emission reductions. The CDM Fund is also expanding to other business domains, innovating working mechanism, enhancing institutional capacity, and promoting international cooperation in order to form new growth impetus.

China’s 13th Five-Year Plan points out that “Aiming for environmental improvement as the priority and focusing on addressing critical environment problems, we should make further efforts to protect ecological environment, improve the efficiency of resource use, while at the same time build China with a well-off people, a prosperous nation and a beautiful country”. The CDM Fund will continue to fulfill its duties as a policy-oriented fund combating climate change at national level, develop multiple platforms, and leverage more market resources for the ecological development of China so as to contribute its due efforts in accomplishing green, recycling and low-carbon development towards promoting a beautiful China.
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Over the past year, under the leadership of Ministry of Finance, with the guidance of the Board of the CDM Fund, and the support of partners, the CDM Fund has continued to play a guiding role on green and low-carbon financing in accordance to the central governments requirements of accelerating the construction of ecological civilization. The CDM Fund seeks to make progress in various fields in a more market-oriented way with unceasing efforts and practices. On one hand, the CDM Fund has provided grants for national and local policy researches, capacity building and public awareness. In 2015, the CDM Fund allocated about 1.125 billion RMB of grants covering 522 projects. On the other hand, the CDM Fund has continued to support technological, industrial and market activities in emission reduction by carrying out investment activities. It supported 42 concessional loan projects, which cover 17 provinces with 2.433 billion RMB in loans, and leveraged market capital as much as 15 billion RMB. These projects achieved an annual carbon reduction and emission reduction potential of 2.4 million tons of carbon dioxide equivalent (tCO₂e), which effectively manifested the role of the Fund as “Seed Money”, and realized the win-win situation of economic returns and emission reductions. The CDM Fund is also expanding to other business domains, innovating working mechanisms, enhancing institutional capacity, and promoting international cooperation in order to form new growth impetus.

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Part I

Introduction to the CDM Fund

I. Mission Statement

The CDM Fund is a policy-oriented fund approved by Chinese government that integrates market and government functions. The main purpose of the CDM Fund is to support China’s efforts to address climate change for sustainable development. As an important innovation of China to promote green and low-carbon economy, the CDM Fund has explored various Public and Private Partnership (PPP) models, leveraged a large amount of market capital and accumulated experiences that could be replicated or magnified.

The general business of the CDM Fund is to support emission reduction of emerging industries, technical and market emission reduction as well as policy research and capacity building, bring its role into full play as a platform of capital, cooperation and information, and promote industrial development, market mechanism and raise public awareness of climate change undertaking.
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II. Governance Structure

The CDM Fund consists of the CDM Fund Board (the Board) and the Management Center.

The Board is an inter-ministerial body. Its members include representatives from National Development and Reform Commission (NDRC), Ministry of Finance (MOF), Ministry of Foreign Affairs, Ministry of Science and Technology, Ministry of Environmental Protection, Ministry of Agriculture and China Meteorological Administration. The Board is in charge of reviewing the CDM Fund’s primary management rules, project applications for grants and investment, and the annual budget and accounting.

The Management Center is the daily operational body of the CDM Fund, responsible for the collection, management and utilization of the fund under the stewardship of MOF.

III. Sources of Funding

Sources of China CDM Fund:
(1) National revenue from the GHG emission reduction trading through CDM projects;
(2) Business revenue of the Fund;
(3) Contribution by domestic and foreign institutions, organizations and individuals;
(4) Other sources.

IV. Fund Utilization

Grants and investments are two main ways to utilize funds of the CDM Fund. The Fund provides grants to policy research and capacity building as well as other activities that aim at enhancing public awareness of climate change. The Fund invests in industrial activities that help generate effects for combating climate change. The Fund also chooses other proper investment means to maintain or appreciate the fund’s value.
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Part II

Major Businesses

I. Grants

According to Management Measures of China CDM Fund Grant Projects, the CDM Fund has verified 43 contracts with grant projects and signed relevant agreements in the year of 2013, covering a total volume of 87.3 million RMB. In 2015, the CDM Fund has provided grants to 112 projects with a total volume of 101 million RMB.

As of December 31, 2015, the CDM Fund has arranged a total grant of 1.125 billion RMB to 522 projects that have significantly advanced efforts in national policy research on climate change, local low-carbon development, feasibility studies and pilot carbon market, capacity building and strengthening public awareness.

Grant Project

Based on the white paper China’s Policies and Actions for Addressing Climate Change, Climate Change: China in Action presents the latest action of China for addressing climate change from various perspectives, and interprets China’s attitude and actions towards addressing climate change as a responsible nation and its corresponding contribution. It is updated each year.
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II. Investments

1. Concessional Loans

In 2015, the CDM Fund has approved 42 concessional loan projects, covering 17 provinces. A total amount of 2.433 billion RMB in loan has altogether leveraged 14.938 billion RMB of market capital, covering a wide range of sectors such as urban infrastructure, regional development of energy, green public transport and manufacturing of high-tech products and others closely related to addressing climate change. These efforts have reduced carbon emission by 2,1254 million tCO\textsubscript{2}e, the estimated annual potential of emission reduction is 239,500 tCO\textsubscript{2}e.

<table>
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<tr>
<th>Province and regions</th>
<th>Renewable and Clean energy</th>
<th>Energy conservation and energy efficiency</th>
<th>New energy equipment and material manufacturing</th>
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Note: This form is for the statistics of the projects in the year 2015 only.

Since the launch of clean development concessional loans in 2011, the CDM Fund has approved 210 concessional loan projects, covering 25 provinces, allocating 13.036 billion RMB and leveraged market capital of 64.043 billion RMB.
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Since the launch of clean development concessional loans in 2011, the CDM Fund has approved 210 concessional loan projects, covering 25 provinces, allocating 13.036 billion RMB and leveraging market capital of 64.043 billion RMB.

The Distribution of the Implemented Clean Development Concessional Loan Projects from April 2011 to December 2015

![Map of China showing the distribution of projects](image)
In 2015, the CDM Fund cooperated with provincial financial bureaus of provinces and conducted performance appraisal to 40 concessional loan projects completed from 2014 to 2015. The assessment on their implementation and actual outcome have contributed to the development of concessional loans towards higher standards.

**Special**

**Improve the effectiveness of the loan**

In order to bring into full play the policy guidance function to combat climate change and support energy saving and emission reduction, the CDM Fund launched a series of efforts that have significantly improved the effectiveness of its funding resources.

Firstly, combine addressing climate change with energy security. This year witnessed the development of 5 projects in natural gas and 2 projects in biomass. The implementation of these projects could effectively cut down the consumption of fossil energy by as much as 395,600 tons of standard coal. These efforts have echoed China’s policy direction to transform consumption of coal to natural gas, and to develop biomass projects, and have served to improve energy efficiency as well as local endeavor to reform their energy structures.

Under the support of the CDM Fund, Jiangsu Huadian Tongzhou Thermal Power Co., LTD launched a 2x200MW gas turbines. By using clean energies and replacing current small-sized coal turbines, the project effectively reduces the consumption of fossil fuel and lowers the emission of carbon dioxide and other pollutants. As a result, the project will dramatically improve air quality and promote sustainable development of the city and surrounding areas. Once completed, the project can generate 2.469 billion KWHs of electricity and 2.848 million GJ of heat supply per year. The estimated annual reduction of carbon emission is 143,900 tCO₂e. The CDM Fund provides concessional loans of 60 million RMB to construct equipments and pipe network.

Secondly, collaborate tackling climate change with environmental protection. In the project development, the CDM Fund pays attention to the development of evaluation criteria for energy saving and emission reduction. Under such criteria, only those projects that have passed certain tests would be allowed to proceed to later stages of on-site verification. The criteria also pay close attention to the synergy of emission reduction of greenhouse gases, PM2.5 and other air pollutants, to strengthen the environmental benefits, and therefore stimulating green, low-carbon and cyclical growth in local regions.

The heat supply renovation project in Muling, Heilongjiang Province. On the original basis of heat supply plant in Muling, 2 sets of 58MW coal fired boiler rooms and facilities were built. After the buildup of the project, the heat supply area of 2.0192 million square meters was newly increased. The CMD Fund had provided the loan of 51.4 million RMB, used for the purchase of equipments and pipe net extension. It is estimated that GHG emission of 9,417 tCO₂e is reduced each year for this project.

Thirdly, integrate addressing climate change with improving public welfare. This year, 16 projects including green bus, facade energy-saving transformation for urban buildings and central heating have been accomplished, which achieves significantly in addressing air pollution, improving public welfare, stimulating employment, therefore fostering a synergy of the Fund’s environmental, economic and social benefits.

In Weihai Public Transportation Co., Ltd’s application of green buses fueled by new energy, the replacement of old buses with cleaner new models would significantly reduce energy consumption, emission, urban air pollution and accordingly, contribute to the improvement of air quality. In addition, the application would help foster an efficient and convenient network of urban transport, so that buses would take up a more active role in urban transport, congestion pressure would be alleviated, and a positive signal would be sent to the development of local new energy automobiles and related industries as well as addressing air pollution in tourist cities. The CDM Fund has provided 68 million RMB in loans for the project, which is expected to reduce carbon emission by 4,189 tCO₂e.
In 2015, the CDM Fund cooperated with provincial financial bureaus of provinces and conducted performance appraisal to 40 concessional loan projects completed from 2014 to 2015. The assessment on their implementation and actual outcome have contributed to the development of concessional loans towards higher standards.

**Improve the effectiveness of the loan**

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In Weihai Public Transportation Co., Ltd’s application of green buses fueled by new energy, the replacement of old buses with cleaner new models would significantly reduce energy consumption, emission, urban air pollution and accordingly, contribute to the improvement of air quality. In addition, the application would help foster an efficient and convenient network of urban transport, so that buses would take up a more active role in urban transport, congestion pressure would be alleviated, and a positive signal would be sent to the development of local new energy automobiles and related industries as well as addressing air pollution in tourist cities. The CDM Fund has provided 68 million RMB in loans for the project, which is expected to reduce carbon emission by 4,189 tCO₂e.
Fourthly, combine combating climate change with economical development transformation. When selecting investment projects, besides growth potential, emission reductions, profitability and repayment capacity of the project, considerations are also given to those projects that align with the strategic high-tech sectors, and in particular those projects in such key industries supported by the state that are highly replicable, representative and technically feasible. In addition, the development and application of low-carbon technology are prioritized. These measures will all serve to improve the market share and industry capacity of low-carbon sectors, thereby promoting local structural reforms, industrial upgrades and emerging industries.

Hainan Airlines Company Limited launched a project that stabilizes the turbulence at the end of the wings by adding winglets of Aviation Partners Boeing to Boeing 737NG airplanes to reduce fuel consumption. According to the research conducted by Boeing and empirical data analysis Southwest Airlines, when the project is completed, the fuel efficiency is expected to increase by 3%, thus decreasing the greenhouse gas emission by 60,700 tCO₂e. The CDM Fund has provided concessional loans of 65 million RMB to this project.

Fifthly, combine addressing climate change with innovating business mechanisms. We expanded concessional loan business while exploring equity investments. Meanwhile, we explored to establish cooperative relationships with large state-owned enterprises, commercial banks and other financial institutions, so as to expand the whole business of the Fund and innovate new growth. In this way, we can facilitate the investment of funds and fulfill the function of “Seed Money” to achieve the win-win effect of economic returns and emission reduction.

The EMC project for Shanghai Pudong Development Bank’s main building

The CDM Fund and Shanghai Shenneng Group Finance Co., Ltd. (hereinafter referred to as “Shenneng Finance”) conduct cooperation on the Energy Management Contract (EMC) with innovative loan financing program. The CDM Fund provides concessional loans to Shenneng Finance, which in turn provides on-lending to qualified EMC projects. In 2015, Shenneng has developed 11 EMC projects, including eight contracted projects and three intended projects. The total amount of the 8 signed contracts reached 232.08 million RMB. After the completion of the projects, it is estimated to achieve an annual greenhouse gas emission of 15,800 tCO₂e and an economic benefit of 98.06 million RMB from energy saving.

2. Loss-sharing Facility

In 2015, the China Utility and Energy Efficiency Finance Program (CHUEE), the CHUEE Jiangsu project has been going on smoothly. By the end of December 2015, Jiangsu Bank had totally offered 30 loans, with 470 million RMB under CHUEE risk sharing facility and an expected emission reduction of 1.465 million tCO₂e.

The CDM Fund worked together with the International Financial and Economic Cooperation Department of the Ministry of Finance, Shandong Provincial Financial Bureau and International Finance Corporation (IFC) to support the loss-sharing facility of Rizhao Bank, Shandong province, setting an example for local commercial banks to issue energy efficiency loans. CHUEE Shandong project has supported the very first energy efficiency loan program and offered support for Rizhao Bank to develop businesses in other areas.

3. Innovative Financing

In 2015, the CDM Fund continued its efforts in widening its market-oriented channels and exploring innovative models in financing and investment. For example, the CDM Fund cooperated with Shanghai Shenneng Group to develop Energy Management Contract program, and issued concessional loans under a market-oriented guarantee mechanism with Shanghai Financial Holding Group.

4. Institutional Development

Based on the need of the risk management, a series of management measures have been designed and developed in 2015. These measures will further regulate and optimize the management and procedures of the allocation of concessional loans, so that the working efficiency of the Fund is improved.
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Capacity Building and Experience Sharing

Compilation of Cases in the Review of Risks in Declared Projects for CDM Fund
Compilation of Q&A’s for Committee of Risk Management
Operational Regulations of Internal Control
III. Cash Management

The CDM Fund has raised the overall revenue of the fund, achieved the value of the fund and guided bank’s financial products into the field of energy saving, emission reduction and new energy, further playing the guiding role of the Fund as a “Seed Money”.

1. Capital Maintenance and Appreciation

The CDM Fund had a reasonable allocation of funds, reduced the proportion of idle capital, and managed the saving capital well, while ensuring the Fund grants and the needs of investments and daily administrative expenses. It carried out management on the Fund, increasing capital gains greatly.

2. Low-carbon Finance Management

The CDM Fund has actively developed new products and innovated low-carbon financial management. The CDM Fund actively cooperated with China Merchants Bank and China CITIC Bank in developing financial management products in order to support the development of low-carbon projects in China and explore the rational pattern of integrating the fund with market capital.

In order to guarantee the environmental benefits through cash management business, the CDM Fund signed a five-year strategic cooperation agreement with China Merchants Bank. Both parties promise to jointly finance the development of domestic low-carbon projects with equal responsibilities of “1:1”, so that the fund is able to attract and leverage more capital in the bank.

With the investment of 60 million RMB from CDM Fund, both parties have jointly supported the construction of Jinning gas thermal power plant project, affiliated with Jinning Group, in the northeastern part of Beijing and the construction of gas thermal cogeneration project in the north of Haidian District of Beijing. This adds new impetus to the alleviation of smog in Beijing.

IV. Risk Control and the Construction of a Clean Administration

1. Risk Control

In order to optimize the fund risk management system and improve its efficiency, the CDM Fund has formulated regulations on the risk management of investments. In the meantime, the CDM Fund earnestly conducted risk management targeting the investments of the fund.

2. The Construction of a Clean Administration

The CDM Fund abided by the government policy on a clean administration strictly. In 2015, the internal control of the CDM Fund has been improved, which helped to raise the awareness of disciplines and enhance the transparency of the business and institution management.
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V. Policy Research

Centering on the major issues of climate change and the needs of the business development, the CDM Fund has strengthened the research on relevant industries and the national and international progress of low-carbon development, including the translation and compilation of Green Investment Handbook and Zero-Emission Vehicle Program in California.

Green Investment Handbook

In November 2015, the CDM Fund, together with the British Embassy in China and the Green Investment Bank, translated Green Investment Handbook into Chinese.

The handbook includes a series of guidance documents, sheets and template forms that cover a wide variety of topics from due diligence guidance and risk assessment to frameworks of reports and calculation method of the influence of low-carbon development. The handbook boosts pragmatic values for developing green financing business and applies to routine investment practice. This book is listed as one of the policy achievements of the 7th China-British economic and financial dialogue.

Zero-Emission Vehicle Program

As the pillar industry of China’s economic development, the development of automobile industry has a great impact on energy efficiency, emission reduction and pollution control. California, the largest regional market of automobile consumption in the U.S., bears the most severe consequences of exhaust pollution in the U.S. Since the 1990s, California launched the Zero-Emission Vehicle Program, a policy directly aimed at steering the industry and consumption, and has ever since fostered a sound development among environment, the industry and the market. The rise of the world-renowned enterprise in clean energy automobiles, Tesla Motors, is one example that proves influence of the program. Such institutional innovations would provide valuable references to China’s ongoing endeavor to construct the ecological civilization.

The CDM Fund has been closely studying relevant regulations regarding the Zero-Emission Vehicle Program in California and the outputs were published in 2015.

“Capstone Program” Research Cooperation

The Capstone Program offered the opportunity of social practice for its students with diversified professional and educational background who pursue Master Degree through its Capstone Program.

Till 2015, the CDM Fund and “the Capstone Program” had cooperated for 3 years. The topic of the research in 2015 was Green and Low-carbon PPP Financing Challenge.
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VI. Publicity

1. Publicity on Climate Financing

On 18 May, 2015, CDM Fund and IFC, a member of the World Bank Group, co-hosted “International Forum for China’s Green Low-carbon Financing” in Shanghai. This forum aimed to drive the ecological construction in China, with a theme of “supporting China’s transition to green low-carbon development by utilizing capitalized market mechanisms and methods”. Vice Minister of Finance, Shi Yaohui, attended the conference and delivered a speech.

Mr. Shi pointed out that the economic development of China has now entered “the New Normal”. In addition to maintaining moderate growth, efforts must be made to accelerate the model of economic development. By adjusting structures and aiming for higher quality growth, China is aiming at achieving a scenario of harmonious development between man and nature during its course of modernization. Under such context, green, cyclical and low-carbon developments are primary pathways to follow and the construction of an ecological civilization would hinge on transitioning mindsets, reforms and innovations, rule of law, and emphasizing the dominant role of the market in allocating resources.

Mr. Shi also emphasized that five aspects of work need to be done. First, the population’s awareness of ecological civilization must be strengthened towards a scenario of “every one for emission reduction”. Secondly, reforms and innovations will always be taken as the essential impetus of growth, and a long-term mechanism of emission reduction must be in place with the market playing a determinant role. Thirdly, the PPP model should be popularized to encourage market participation in the investment, construction and operation of green urban infrastructure. Fourthly, a multi-layered financial market with a conformal regulatory system must be established early on the agenda. Fifthly, international cooperation must be strengthened to share opportunities of growth with other countries.

The forum closely echoes frontier topics in China’s green and low-carbon financing with panels covering climate policy and the development of green finance, carbon market, green bonds, PPP and green and low-carbon infrastructure, energy efficiency financing, and green urban development. The forum is a vivid example of the government’s role in policy guidance and the market’s role in resources mobilization.

The forum received support from the International Financial and Economic Cooperation Department of Ministry of Finance, Department of Climate Change of the National Development and Reform Commission, Policy Research Bureau of China Banking Regulatory Commission, Research Bureau of People’s Bank of China, National Center for Climate Change Strategy and International Cooperation, China Center for Urban Development, Shanghai Municipal Development and Reform Commission, Shanghai Municipal Financial Service Office, 18 provinces have delegated representatives from their finance departments (bureaus) to attend the forum. Domestic and foreign financial institutions and industry associations take active participation in this forum.

2. Local Practice and Publicity

In 2015, the CDM Fund scheduled a number of publicity events under the annual plan for publicity of concessional loan projects. In its front page, China Financial and Economic News presented a series of reports on the stories of Jiangsu, Hunan, Henan, Hebei and Shantung province. Active feedbacks about the stories were received.
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3. Regular Publicity Window

In 2015, the CDM Fund website totally published 83 pieces of news for major business and another 518 related to climate change both at home and abroad. Through Wechat and Weibo, 13 messages were published. Climate Change Newsletter, the internal periodical of the CDM Fund published 12 monthly issues and 3 special issues. The special column of “Low-carbon Development Forum”, jointly published with China Financial and Economic News, issued 19 feature articles. All of these have not only enhanced exchanges in climate change information and research outputs, but also demonstrated the business progress of the CDM Fund comprehensively.

4. Other Publicity Events

The CDM Fund actively participates in mass publicities related to climate change. The CDM Fund made a video named “The Road to Low-carbon Development”, highlighting the progress China has made in green development and established a national image as a responsible economy on Paris Climate Change Conference. It also made a poster for “National Low-carbon Day” among the departments and agencies under the Ministry of Finance.

VII. International Cooperation

In 2015, the CDM Fund has continued to develop cooperation with international institutions, seeking opportunities to cooperate in aspects of climate financing, knowledge cooperation and capacity building, etc. It has carried out practical cooperation with various international organizations such as IFC, the Asian Development Bank, Green Climate Fund and the Green Investment Bank.

Director-General Jiao Xiaoping was attending the publishing ceremony of the Chinese version of Green Investment Handbook.

Financial experts were discussing about green bond issue in the China Green Low-carbon Financing Forum.

Deputy Director-General Mo Xiaolong was having a dialogue with officials from the Headquarter of Green Investment Bank (GIB) during his visit to Great Britain.

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Part III

Major Events of China CDM Fund in 2015

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“Capacity Building Project of China CDM Fund” was awarded the “Best Innovation Award” of China-ADB technical assistance cooperation.

February
The CDM Fund organized provincial-level inspection on management of concessional loan projects.

March
The CDM Fund finished the performance evaluation for 16 completed projects of 2014 and accomplished the whole-cycle management of projects.

April
*Analysis Report on European Investment Bank Climate Change Frame Loan Supporting Beijing-Tianjin-Hebei Managerial Pattern and Blueprint on European Investment Bank Loan Supporting Beijing-Tianjin-Hebei Controlling of Air Pollution* were drafted.

May
The CDM Fund co-sponsored “China Green Low-carbon Financing Forum” with IFC. Vice Minister of Finance, Shi Youbin, attended the conference and delivered a speech.

June
Relevant documents of five big-size investment projects in Henan, Fujian, Hunan, Hubei and Jiangxi were submitted to the CDM Fund Board.

July
The CDM Fund had a talk with Asian Development Bank about the technical assistance project on Innovative Climate Financing in China.

August
The CDM Fund signed the strategic cooperative agreements with the government of Inner Mongolia Autonomous Region.

September
The CDM Fund started the cooperation with the Capstone Program of Columbia University for 2015-2016.

October
The CDM Fund signed the first contract of concessional loan for energy management and innovative financing with Shanghai Shenneng Group Finance Co., Ltd.

November
The CDM Fund cooperated with British Embassy in China and Green Investment Bank and published the Chinese version of *Green Investment Handbook*.

December
The book *Zero-Emission Vehicles Program in California* was translated and published.
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