



UNFCCC Regional Collaboration Centres
Promoting Action Against Climate Change

Financing and use of the CDM

“Green finance (for climate & the SDGs) offers enormous untapped investment opportunities in developing countries. All financial actors have to work together to create the mechanisms for making these investments possible. With focus, resolve and ambition, we can lower the global thermostat and raise the level of economic opportunity for all.”

- Ban Ki-moon, UN Secretary-General (2007-2016)



Historical background

- **CMP.3** (decision 3/CMP.1, Annex, para B 4(d)): **COP/MOP shall assist in arranging funding of CDM project activities**, as necessary.
- **CMP.3** (decision 3/CMP.1, Annex, para C 5(i)): CDM-EB shall make publicly available information **on projects needing funding and investors seeking opportunities**.
- **CMP.11** (6/CMP.11, para 8): encouraged the Board to **explore opportunities for financing the CDM through international financing institutions, such as the GCF, taking into account the transparent and prudent management of the resources of the CDM**, and report back to CMP at its 12th session*.
- **CDM-EB 88, CDM-EB 90**, considered notes, and at **CDM-EB 91 & 94** requested the secretariat to **initiate support of 5 activities**, ensuring support of the concept **not commercial product**, CDM projects are **selected by the IFIs**, and interested **DNAs are provided** with relevant information.
- **CMP.12** encouraged the Board to **continue its activities** in response to decision 6/CMP.11, paragraphs 7 and 8.



*The Board **hosted a half-day in-session workshop** during SB44 (as per 6/CMP.11, para 9), a report is available online.

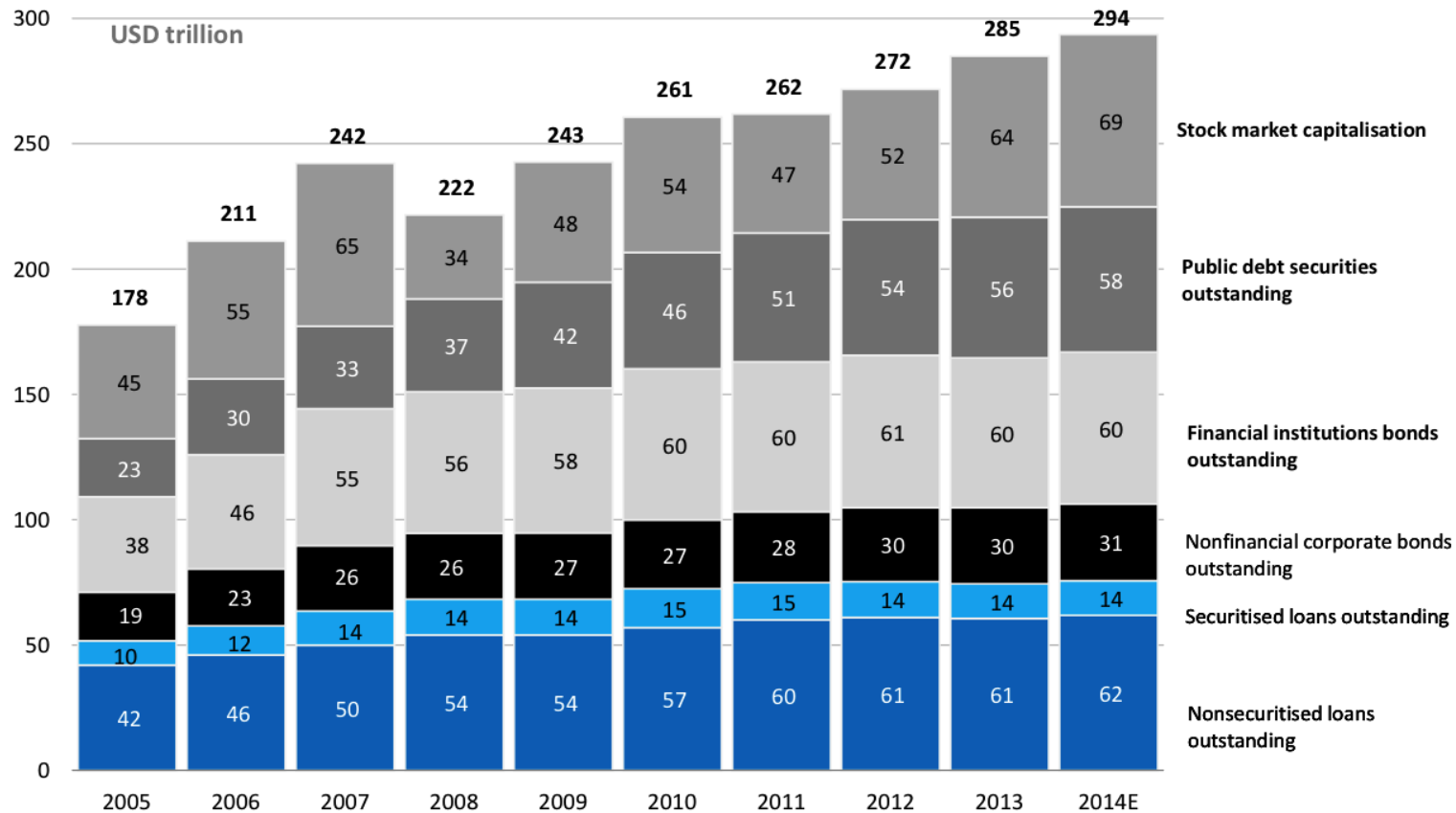
Support from the CDM-EB for since 2016

1. Support for the development of a green bond-based **CDM refinancing facility** (*CDM refinancing facility*)
2. Support for the development of a green bond-based **CDM investment trust fund** (*Paris Climate Bond*)
3. Catalysing finance via **crowd investing** and funding (*Crowd-investing*)
4. Support programmes within regional and national development banks (**BOAD, EADB, IDBZ**) that provide for finance for CDM and climate projects
5.



Accessing suitable solutions across the entire financial system

Figure 1: Stock of Global Financial Assets

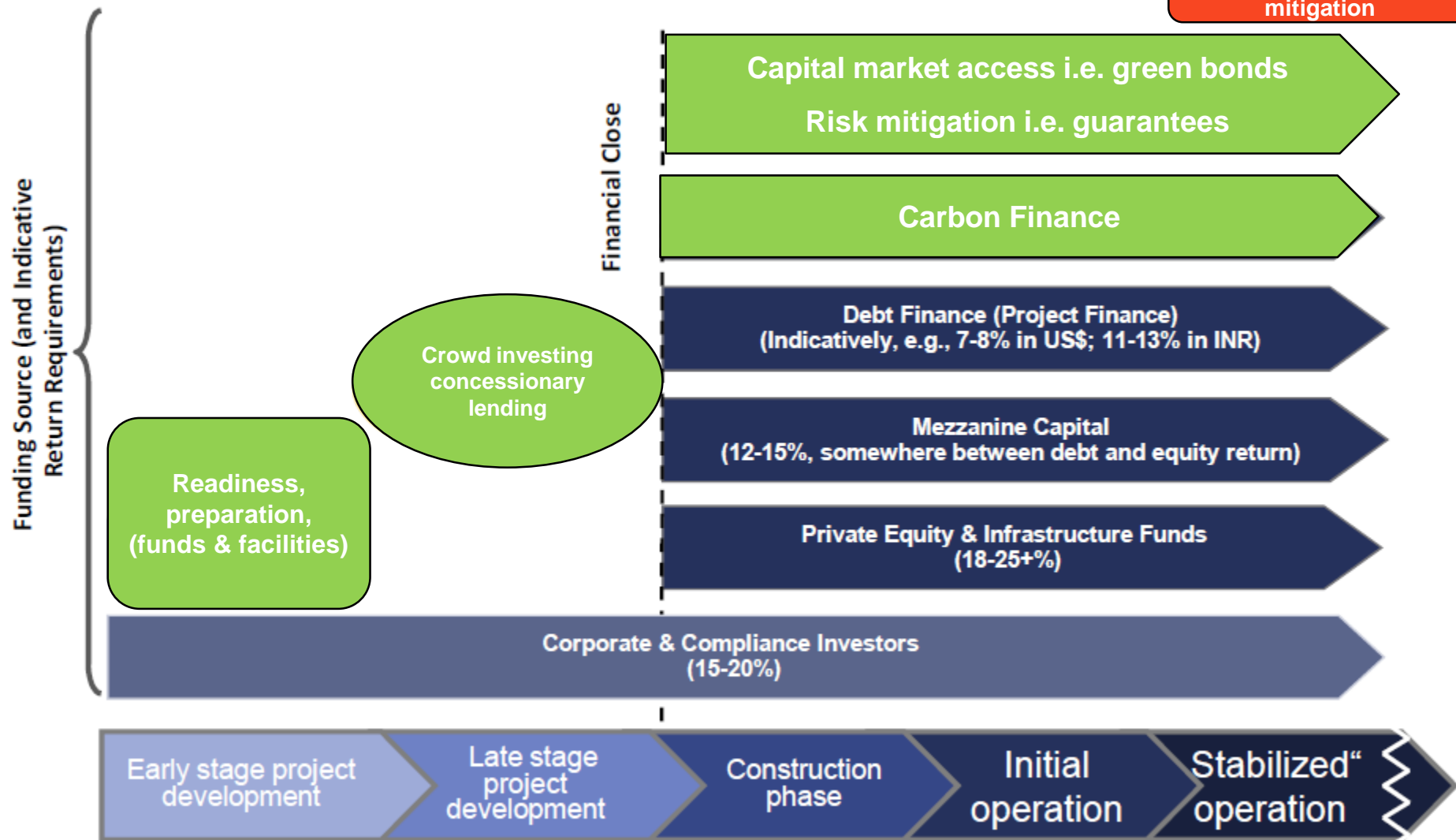


Source: McKinsey Global Institute, Haver, BIS, Deutsche Bank estimates



Key instruments in project finance

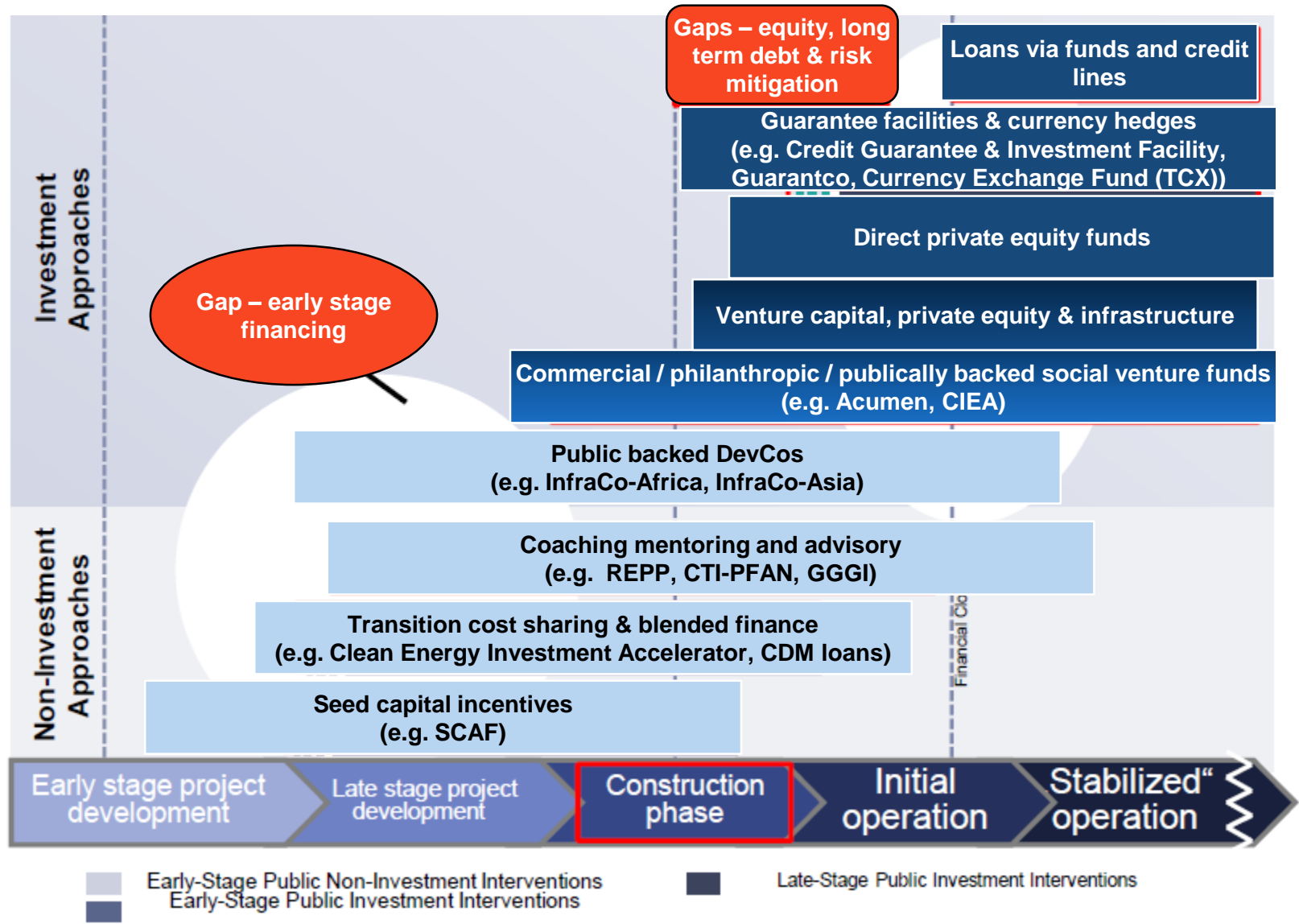
Later stage gaps – equity,
long term debt & risk
mitigation



Source: UNEP, Aequero



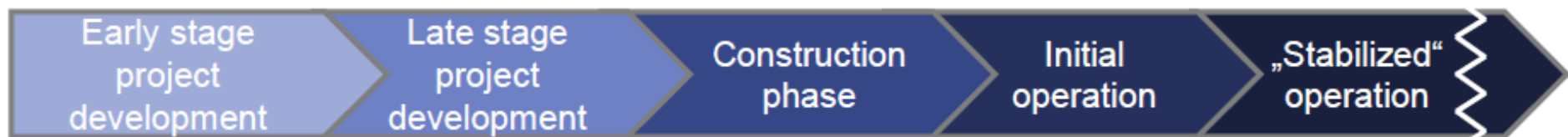
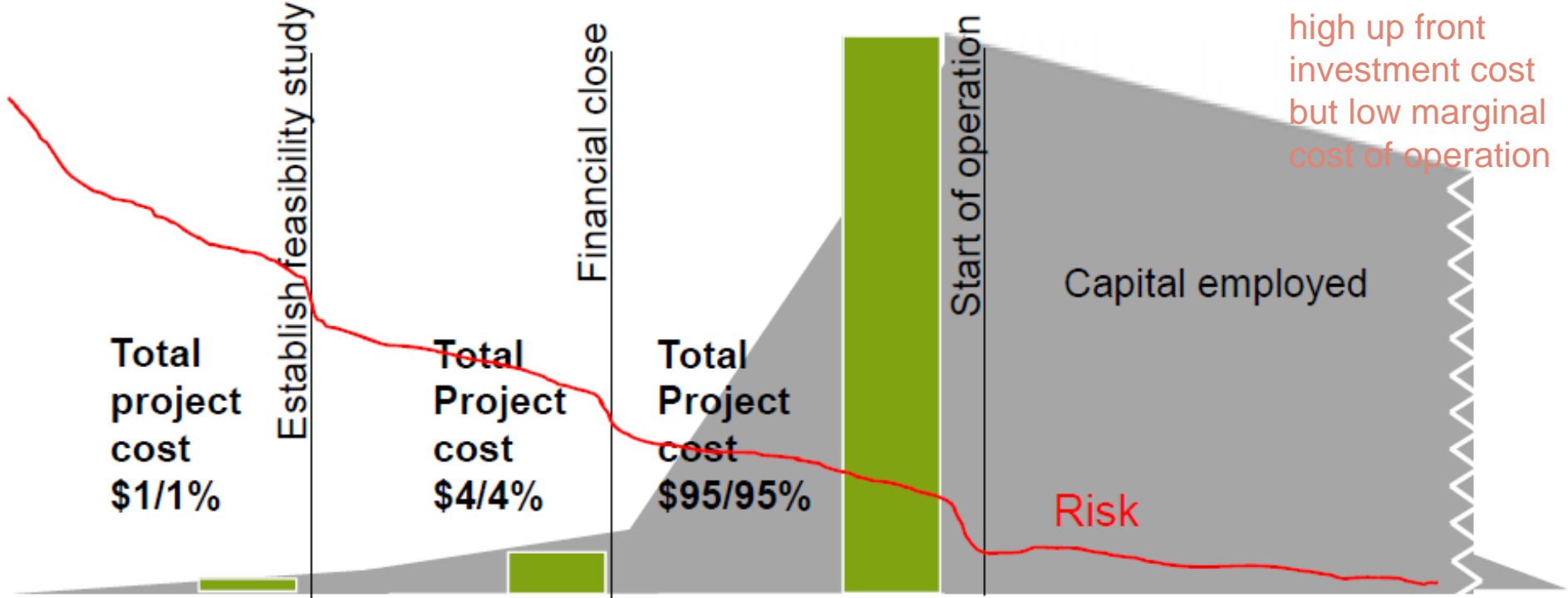
Some sources of project finance



Source: UNEP, Aequero



Source: Frankfurt School of Business



Bank finance - high cost capital + owner equity

No exit, non-perform, asset liability

Green bonds – low cost capital

Free-up capital for use in new investments

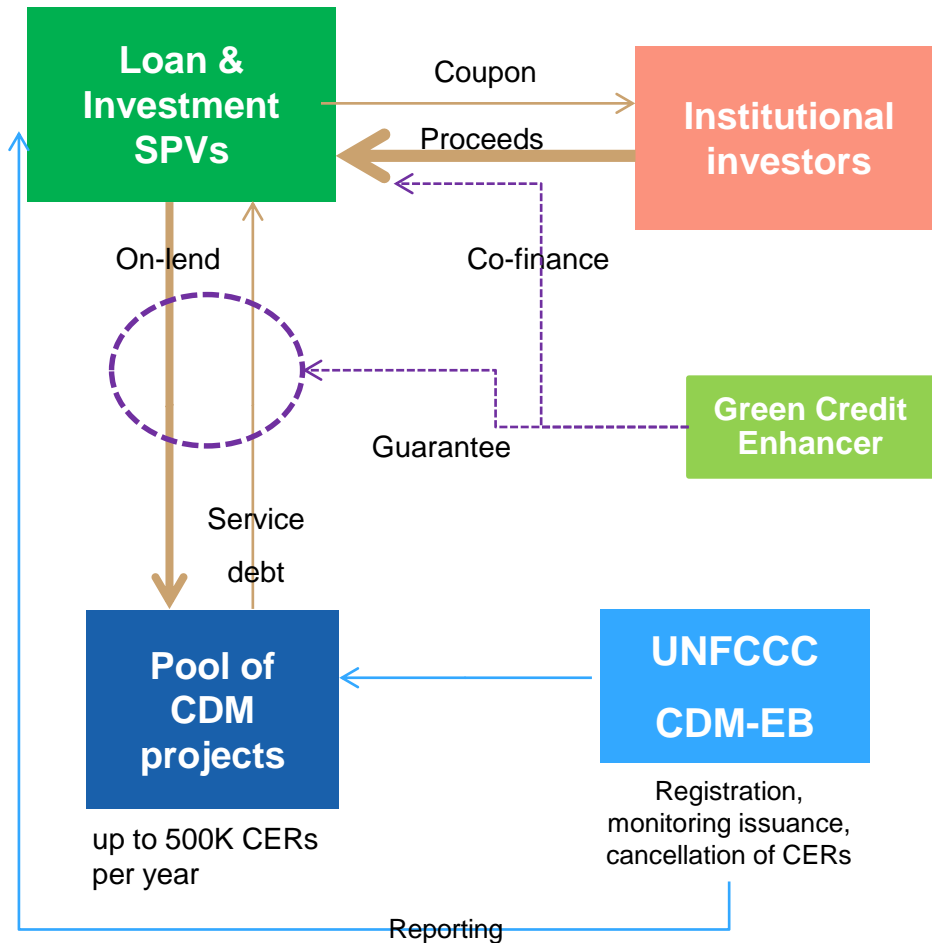
Green bonds allow early risk taking investors to exit – creating a financing conveyor belt

Green Bond market actors



Paris Climate Bond - green bonds with CDM, how does it work

CONCEPT



- **Re-finance** registered CDM projects/programmes and also **for new** projects that commit CDM registration.
- Projects must **issue and cancel CERs** to be eligible and in the event of shortfalls below the minimum specified CER level for each project the Investment Vehicle shall exercise its rights to remedies under each loan agreement.
- Expect CERs generated from the first PCB portfolio to be just over **1.5 million p.a.**
- Sponsors must **discharge** their existing debt and agree to use the released finance for new projects.
- Funds for the new loans are **raised** by issuance of a green bond primarily from institutional investors, receive a contractually enforceable recourse mechanism in case mitigation does not occur.
- Improves project return on equity or sponsors can **pass** debt cost savings onto consumers as lower priced affordable access to clean energy.
- Project **selection** is a commercial risk/return decision – based on how the ultimate risk to investors **relates** to the credit of the underlying projects as determined in consultation with investors, by the bond issuer.
- Represents a breakthrough in the introduction of **Result-Based Climate Finance** within the sector of climate-themed bonds



Achievements in ECOWAS on finance

1. **Concessional lending** – on lending **€60 Million RE-EE credit line** (2% for loans over 10 tenor) for direct& on-lending to commercial bank projects – linked to mitigation outcome performance;
2. **Technical support guarantee finance** – partnership (Jan 2016) **Renewable Energy Performance Platform (REPP)** to finance up to 25 MW RE project preparation – BOAD to finance fin. closure (biomass project in Benin already underway);
3. **Portfolio development** – alignment of bank systems and process for identification of **green projects financing** qualitative pipeline strategy (10-20 projects) incl. calls to **private sector**;
4. **Intra-bank** – working group on development of **procedures / modalities for Green Bond issuance** (technical support, framework, outreach roadshows, stock-market support secured);
5. **GCF access** – to **GCF funding**, project identification due diligence (10 projects at **concept note phase**);
6. **Analysis & capacity building** - analysis on challenges for access to climate finance in sub-region, organization of **capacity events on GCF procedures, identified project proposals** and RBF in collaboration with World Bank;
7. **Carbon finance** – *Carbon Initiative*: BOAD and *Aera Group* (formerly *Ecosur Afrique*) to **pre-finance CDM project costs**
8. **NAMA finance** – technical support and due diligence to NAMA Facility: successfully accepted by the NAMA Facility as a **financial implementing entity**, with the first NAMA to be implemented in the *Biomass Energy Burkino Faso* (USD 8.8 million)

ECOWAS finance for climate platform



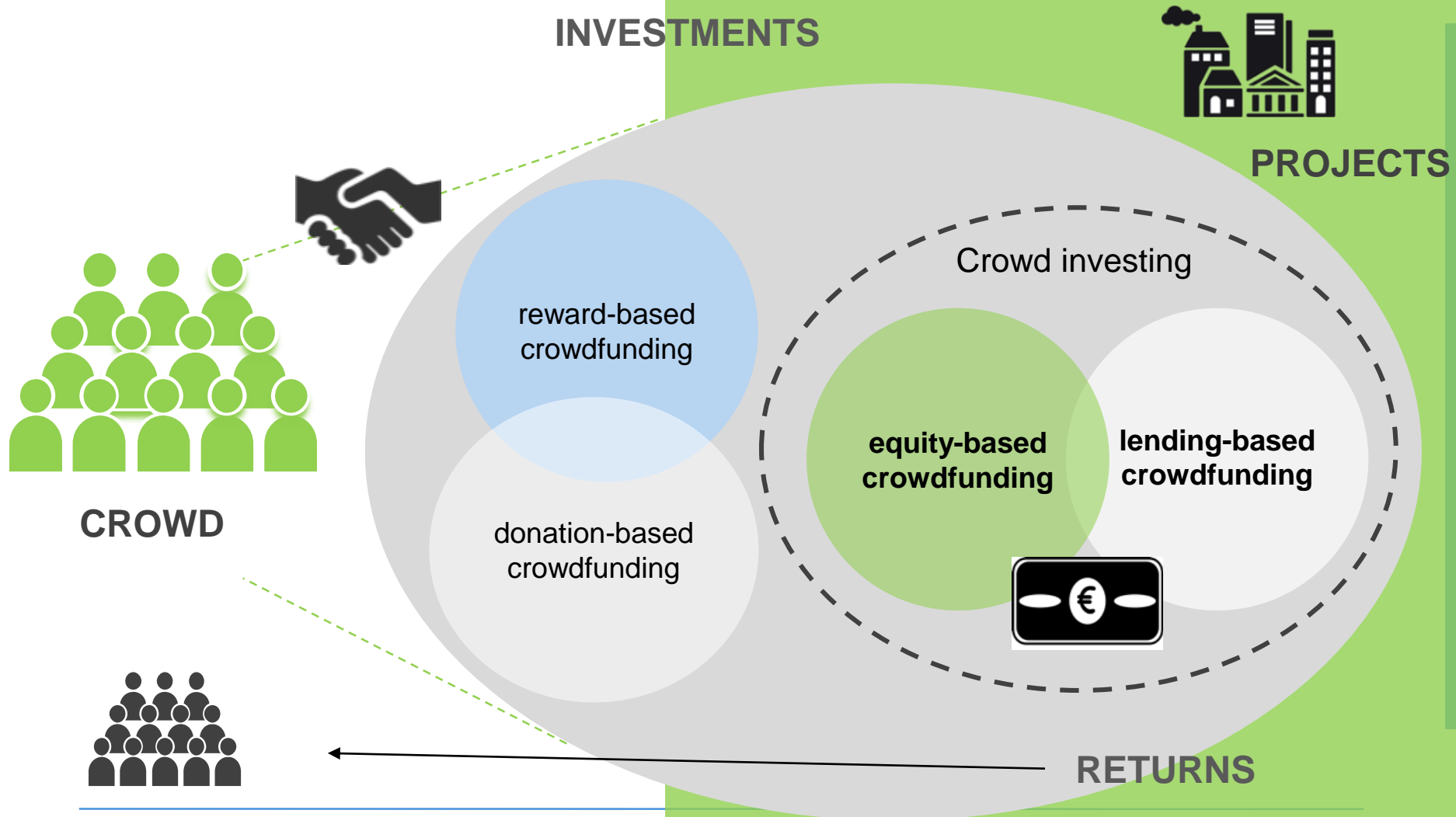
East African Development Bank (EADB) biodiversity financing facility

EADB's planned Biodiversity Financing Facility is a EUR 7 million facility, that provides medium to long-term loans in local currency to selected biodiversity-friendly investments in the private sector in Uganda. EADB will finance the projects directly and will focus upon SMEs that promote environmental conservation and sustainable use of natural resources and habitats. In particular, the facility will support investments in agriculture, forestry, fishing and tourism.



All suitable projects are encouraged to submit proposals to EADB to access the facility. For more information, please contact Bryony Willmot: bwillmott@eadb.org



Private - Crowdfunding and investing, how does it work?



CDM projects already crowd invested

Climate-friendly Landfill Gas Project in Columbia

funded in 18 hours and 1 minute



8% Return on investment

146,214 t CO2 saved

3 year term

100% more efficient

110,300 € invested

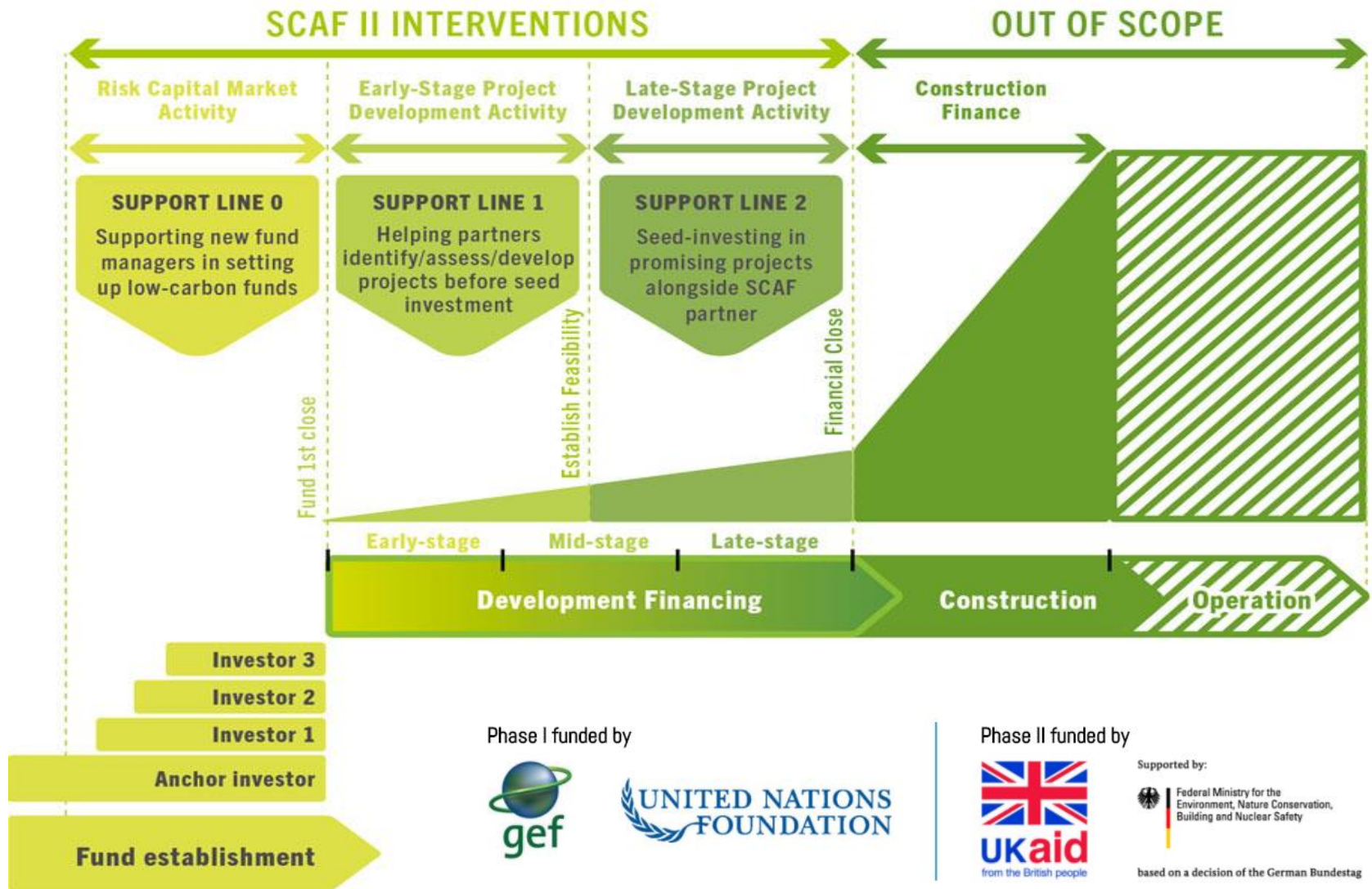
110,300€ from 195 investors

Funding Threshold: 72,210€

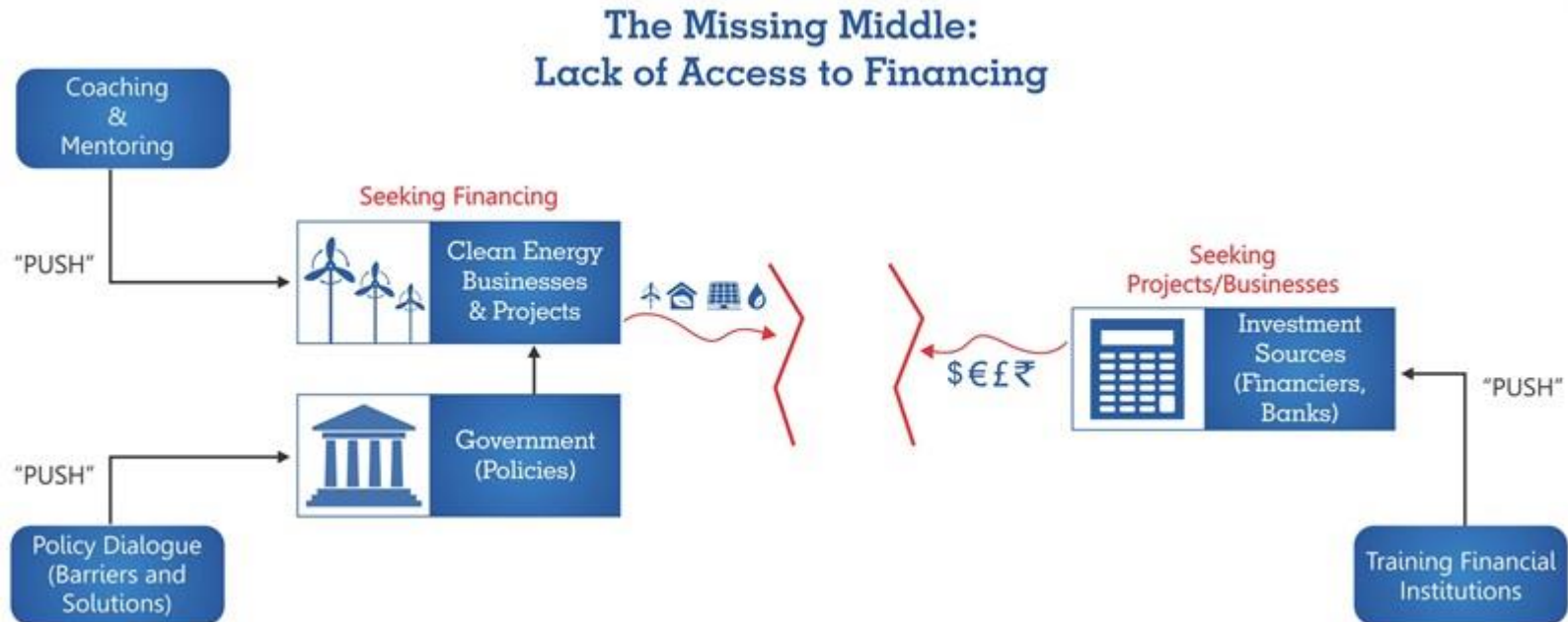
Jetzt kostenlos registrieren

The remaining capital required to restart operations and complete operation was sourced with 18 hours via a crowdfund platform – a company that forms part of a bilaterally funded initiative to stimulate innovative crowdfunding solutions

Seed capital with assistance



Public private - CTI-PFAN addressing access



CTI-PFAN addresses the primary obstacles to the large-scale deployment of the low-carbon, climate-resilient technologies required to curb climate change: access to **finance** and a limited **pipeline** of **bankable** projects

Capital market access - Green Bond Emerging Market Platform

Aim:

1. Development of **financial markets and green bonds in emerging countries**, in accordance with IFC's mandate, through the financing of bonds issued by financial institutions
2. mobilization of **institutional investors to finance the energy transition in emerging countries** i.e. to support implementation of the Paris Agreement

Size \$2bn:

- **7 year period** of active investment period
- first investments expected after the summer of 2017, subject to regulatory approvals
- IFC **invest \$325mn** in the most **junior and senior** tranches
- *Amundi* raise the **remaining \$1.675bn from institutional investors worldwide**
- *Amundi* & IFC spread green bond best practices in emerging markets via technical assistance to suitable FIs:

- Cover incremental costs of education, training and reporting for GB issuance
- Provide research tools and methodologies as required
- Embed market best practices in the FIs
- Provide quality data for enhanced reporting standards



Capital market access – debt capital market services

IFC Debt Capital Market (“DCM”) Product Offering - Overview

IFC offers a range of instruments aimed at helping clients successfully issue debt instruments (e.g. straight bonds, themed bonds, structured debt) in both international and domestic capital markets.

1. Anchor Investment

Product:	Investment in: <ul style="list-style-type: none">▪ Plain Vanilla Bonds▪ Green Bonds▪ Asset Backed / Structured Debt, etc
What:	Direct financing via purchase of a substantial portion of an issuance.
How:	IFC commits to subscribe to an issuance ahead of the public offering, which can be communicated to prospective investors to send a positive signal.

2. Credit Enhancement

Product:	Guarantee on: <ul style="list-style-type: none">▪ Bonds▪ Asset Backed / Structured Debt
What:	Partial guarantee of an issuance to improve the risk profile of the instrument.
How:	IFC provides a partial credit guarantee to improve the credit rating of an issuance for wider investor access and longer term financing.

Anchor investments

Partial Credit Guarantee (PCG)

Securitization

Diversified Payment Rights (DPR)

Covered Bonds

Interest rate swaps/caps & collars

Cross-currency swaps/FX forwards

Commodity hedges

Advisory services in capital market development

Growing Corporate Green Bond Issuance in Emerging Markets

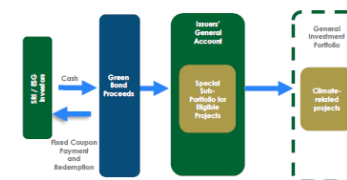
Benefits to Issuers

- Investor diversification
- Franchise Value
- Industry leadership, enhances reputation in the market by generating environmental benefits from investments and by integrating debt management into firm-wide commitments to reduce GHG emissions
- Cultivate a positive internal culture of long-term sustainability and environmental governance

IFC's Value Proposition

- Ability to share expertise in Climate business, capital markets and Green Bond market in one package
- Transfer knowledge and guide the issuance process to comply with the Green Bond Principles
- Ability to share impact reporting tools and training available to IFC's clients, an essential element of the green bond
- Ability to commit and invest in local currency green bonds and ability to catalyze off-shore investors along side IFC
- In-depth knowledge of Impact Investors who participate in Green Bonds

GREEN BOND STRUCTURE DIAGRAM



"Green bonds are fixed income instrument which proceeds are earmarked for projects and activities that promote climate or other environmental sustainability purpose"

Key Elements of Green Bonds

- Criteria for use of Proceeds
- Second opinion
- Management of Proceeds
- Reporting (environmental benefits)



Assistance on finance

Guiding vision on finance: to support efforts to substantially scale up finance and investment in contributing to the objectives of the Paris Agreement - integrate as rapidly as possible, the goals described by Articles 2, 4.1, and 7.1 into the conduct of all relevant economic and social development activity

1. Assist **governments** to actively promote **low carbon and climate resilient investments** in their countries and **disseminate information on their enabling investment environments** to investors and other market players.
2. Make it easier for **financiers** to find markets, identify **co-financiers to form consortia**, access project **development funding** to support investment-mature projects, and **provide access to risk mitigation instruments** and help **structure projects and financing along the PA**.
3. Help provide **project owners** with increased **visibility for their projects** among financiers and other market players, making it easier to **identify relevant financiers, advisors, service providers** for specific needs and **enable targeted and relevant engagements/roundtables**.
4. Work with **financial institutions** in particular **bilateral funds, regional, multilateral development banks** on **mobilizing private capital**, assisting on **guarantee platforms**, and supporting infrastructure investment.

Support has been shown to:

- share experience how reduce barriers to access and lower entry costs to finance
- attract new investors
- finance stranded projects and help launch new facilities, connect others



Representation globally

UNFCCC Bonn

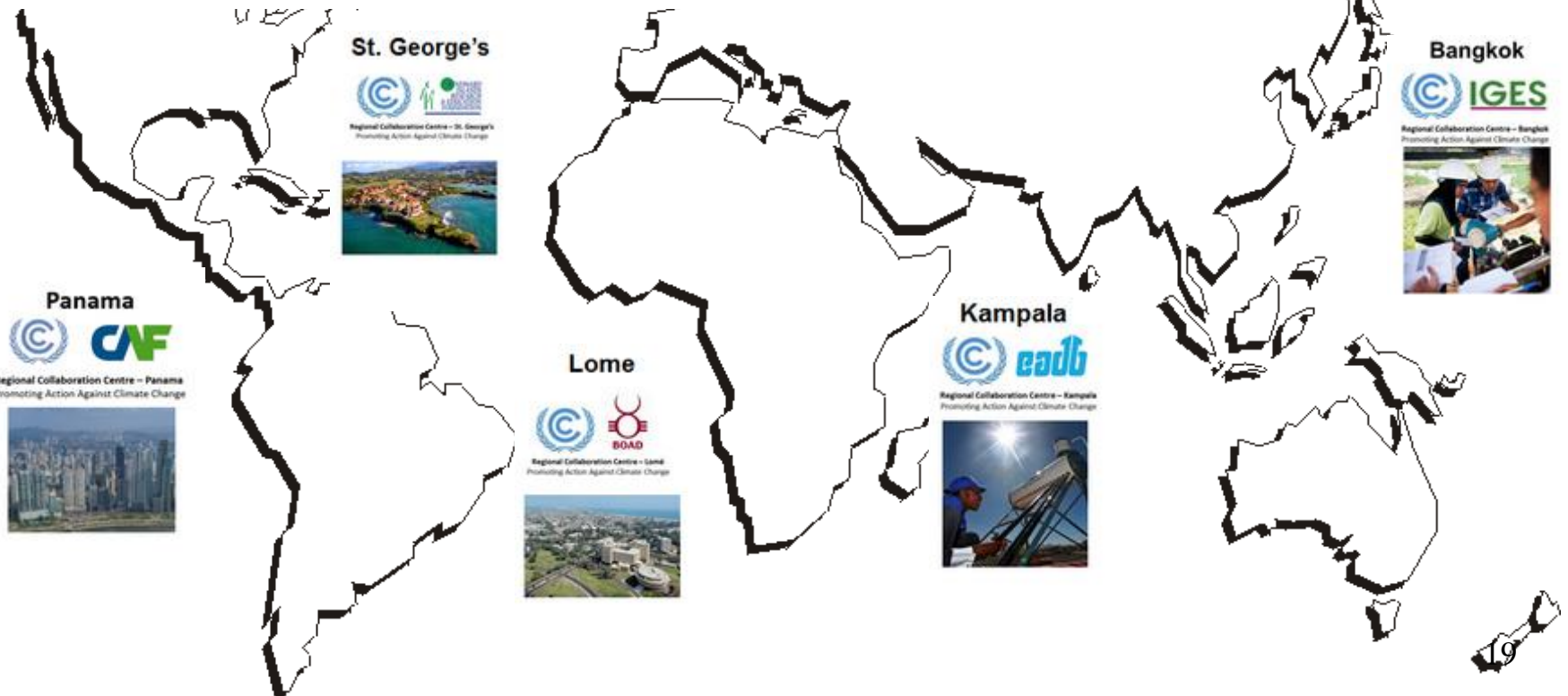
Banque Ouest Africaine de Développement (BOAD)

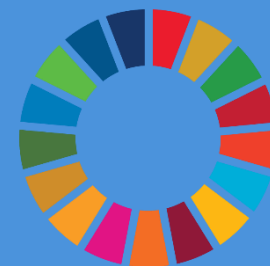
Corporacion Andina de Fomento (CAF)

East African Development Bank (EADB)

Institute for Global Environmental Strategies (IGES)

Windward Islands Research & Education Foundation (WINDREF)





Thank you

http://unfccc.int/secretariat/regional_collaboration_centres/items/9474.php



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