

CDM-EB82-AA-A04

Concept note

Increased support for stranded projects

Version 01.0



United Nations
Framework Convention on
Climate Change

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1. Procedural background

1. As the conditions of the international carbon market have pushed the certified emission reduction (CER) price to record low levels, many clean development mechanism (CDM) projects (including both individual project activities and programmes of activities) either (i) cannot be implemented, or (ii) are implemented but cannot continue operation in the envisaged manner that reduces greenhouse gas (GHG) emissions. Such projects become “stranded” and miss opportunities for mitigation, because their CER revenues can no longer recover the additional costs for mitigation and CDM transactions. Beginning or continuing GHG mitigation becomes financially unattractive.
2. At the same time, climate financing institutions deploying the results-based financing approach recognize that such stranded CDM projects are opportunities for prompt implementation of mitigation actions and for improving the effectiveness of the climate finance they disburse. Many institutions, such as the World Bank, Nordic Environment Finance Corporation (NEFCO), the KfW Development Bank and the Green Climate Fund, have requested the secretariat to provide support to identify these stranded projects.
3. A project aimed at providing enhanced and systematic support for stranded CDM projects has been included in the 2015 CDM management plan (MAP) approved at the eighty-first meeting of the CDM Executive Board (the Board), as an activity to contribute to Goal 2, “Nurture policies to broaden demand for, and participation in, the CDM”, as defined in the 2014–2015 CDM business plan.

2. Project aims

4. The MAP project aims to develop and implement a system and a process to:
 - (a) Evaluate and update the operating status of individual CDM projects, thereby identifying stranded projects;
 - (b) Provide relevant information on stranded projects to financing institutions which may enable the implementation/continuation of such projects with appropriate financing sources, taking into account the interests and criteria for results-based climate financing established by these financing institutions.
5. The project also aims to identify partnership models for engaging financing institutions to utilize results-based financing instruments to mobilize finance and other support for stranded CDM projects.

3. Key issues and proposed solutions

3.1. Working definition of stranded projects

6. A CDM project is considered as likely to be “stranded” if, due to the prevailing low CER prices, it is either (i) unlikely to be implemented, or (ii) implemented but unlikely to continue operation in the envisaged manner that reduces GHG emissions. For example, a CDM project to reduce methane emissions associated with the treatment of wastewater from a palm oil plant is stranded if the anaerobic digester and flare are not

implemented or if the flaring system is not operated, while the palm oil plant is in operation. However, the CDM project is not stranded if the palm oil plant is not in operation and no wastewater is generated, or if the biogas is flared but not monitored as required to achieve issuance.

7. Only registered CDM projects are assessed for their operating status, including “stranded”. As many registered CDM projects already face the reality or risk of getting stranded and more information is available for such projects, the scope of this MAP project is limited to registered CDM projects.
8. The “stranded” status of each CDM project will be reflected by two aspects:
 - (a) Definite information about the status of a specific project and when it was obtained, if such information is available through direct interaction with its project participant;
 - (b) A probability or vulnerability for becoming stranded, based on a statistical evaluation assessing and consolidating indirect information from different sources.
9. These two aspects are interdependent. The statistical model to derive the values of such probabilities will be calibrated using projects with current and definite information about their operating status. The probability derived is also used as preliminary screening to narrow down the pool of projects for which direct contact to obtain definite information on the status may be needed, so that the resources available to initiate such direct contact may be utilized most efficiently.
10. The status of “stranded” is dynamic and may change at any time. When costs or CER prices are the main driver for CDM projects to discontinue (or not to begin) reducing GHG emissions relative to their baseline scenario, the operating status of the projects will depend on the prevailing CER price. Hence the status of these projects could change when market conditions improve or deteriorate. Any reporting of status shall ensure the conditions at the time are made clear.
11. A CDM project that is confirmed to be operating through a recent direct interaction but has a high probability for becoming stranded, may be categorized as “vulnerable”, a term which has been used by some financing institutions to refer to registered and commissioned CDM projects that are not yet stranded but are likely to become stranded soon. Their continued emission reduction activities require a carbon price that is higher than what is achievable under current market conditions. The projects are required by the institutions to demonstrate that they are facing a risk of discontinuing the generation of emission reductions due to the prevailing low CER prices.

3.2. Information required for statistical evaluation

12. Obtaining and maintaining reliable information at the project level, without requiring a significant amount of resources in addition to those needed to operate the current communication channels between the Board and stakeholders, is the main challenge to implement a system capable of assessing as needed which CDM projects are likely to be stranded. An elaborate study to survey the operating status of selected CDM project types in selected regions has been undertaken by a consortium for the German government (BMBU). This study has shown that gaining information on the physical status and intentions of projects may be very resource-intensive and costly.

13. Hence, this statistical evaluation will rely mainly on various information derived from (i) formal communication between a CDM project and the Board following existing procedures, (ii) information from other stakeholder engagement or affiliated processes (e.g. designated operational entities (DOEs), designated national authorities (DNAs), forums, loan scheme and capacity-building efforts), or (iii) other direct interaction through the regional collaboration centres (RCCs). In addition, results from studies such as the BMBU survey will be utilized should they be made available to the secretariat.
- (a) Except for those provided through the registration or issuance processes and the first-hand evidence collected by RCCs during their site visits, the information will not undergo any independent verification or validation and will be taken at face value as provided by the source (project participants, the DOEs, the DNAs, or other stakeholders). However, internal cross-checking of the information will be developed as part the evaluation approach;
 - (b) For the cases where information on the non-financial barriers of a project is not available, the evaluation approach will be based on the financial viability to continue implementing, operating or requesting issuance, at a given CER price for each project. The evaluation of the project-specific situation is conducted using financial information (such as operating expenditures, capital cost) (i) as provided in the project design documents, or (ii) from similar projects where financial information is not available or applicable, taking into account the time value of money.
14. If this MAP project identifies significant information gaps to allow reliable evaluation, revisions to the existing requirements and procedures may be proposed, to strengthen reporting to the Board by external stakeholders, including project participants, DOEs and DNAs. Taking into account possible additional burdens on the stakeholders, such proposals may be included when a description of the evaluation approach is presented to the Board in an information note.

3.3. Keeping the system up-to-date

15. The status of “stranded” is dynamic and is prone to change with evolving market conditions and with additional funding provided by climate finance institutions, etc. Therefore, it is expected that the climate financing institutions will request from the secretariat information on “stranded” projects from time to time as required by their funding activities.
16. In addition, the approach (including assumptions and statistical modelling) to estimate the probability for stranded projects needs to be continuously improved with additional or updated project-level information.
17. Two approaches are considered for updating the system: (i) as requested on an ad hoc basis; (ii) planned for regular update. Past experiences have shown that such requests are generally presented at short notice and have resulted in strain on available resources for other planned activities and routine operations. In addition, the availability of such a system to provide up-to-date information on stranded projects is a good entry point for engaging climate institutions that implement mitigation actions but are not yet involved in developing CDM projects.

18. Therefore, this MAP project will propose a process for regular updates as part of follow-up routine activities. The proposal on the frequency of update may depend on, inter alia, (i) the magnitude of the projects identified as likely stranded, (ii) the rate of change of the key parameters impacting on the operating status of the projects, and (iii) possible prioritization of certain regions and project types.

3.4. Scope of support provided to financing institutions

19. Impartiality shall be safeguarded when support is provided in response to requests from various institutions or through proactive engagement to anticipate the needs of similar financing institutions. No suggestions will be included as to which projects should be funded, and it is the sole responsibility of the financing institutions to decide on where and how the additional financing should be provided for CDM projects.
20. The support is envisaged to include providing information for the lists of projects meeting their selection criteria (e.g. project types and geographical regions): (if available) the operating status of the projects, the probability of getting stranded (with relevant assumptions and limitations), and (if deemed necessary) the contact information for these projects as publicly available. The system may generate outputs to facilitate the estimation of the fund that is required for the selected stranded projects to get implemented or resume operation (e.g. minimum CER price required for each project).
21. Different options of communication to external stakeholders will be evaluated under the MAP project (e.g. direct communication and published on the CDM website) and recommendations will be made to the Board.

4. Desired outcomes and impacts

22. This MAP project will develop a system and a process to identify stranded CDM projects as candidates for funding by financing institutions deploying results-based financing approaches, so that stranded CDM projects may receive the financing needed and would be able to implement or resume their mitigation activities.
23. By providing financing to stranded CDM projects, climate finance is delivered promptly and more effectively and the CDM is used increasingly as a tool to disburse results-based climate financing. The cooperation with climate financing institutions will be improved by supporting the implementation of the results-based financing instruments.

5. Products and timelines

24. Under the MAP project, it is proposed that a system be developed, including: (i) project-level information related to the operation of individual CDM projects; (ii) the approach (assumptions and statistical modelling) to assess the information; and (iii) the evaluation of the operating status of a CDM project as output. In addition, a process will be developed to keep the system up-to-date and to define the modality for delivering relevant information for the Board and financing institutions to enhance support for “stranded” CDM projects.
25. The information note to be delivered under this MAP project will describe the system established, including: (i) the types of project-level information evaluated by the system; and (ii) assumptions, limitations and calibration of the approach used to evaluate the operational status of a CDM project. The information note will also explain the process to

keep the system up-to-date and to deliver information to internal and external stakeholders.

Product	EB82	EB83	EB84	EB85	EB86	EB87
Initial concept note	Concept					
System and process established				Info		

6. Recommendations to the Board

26. The secretariat recommends that the Board approve the work proposed under this project and provide guidance as required.

7. References

27. Example calls for proposals that are relevant for stranded CDM projects:
- (a) <<http://www.carbonmarket-foundation.org/news--announcements>>;
 - (b) <http://www.nefco.org/financing/nordic_climate_facility>.

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Document information

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