

CDM-EB103-AA-A01

Information note

Financing and use of the CDM by international finance institutions

Version 01.0



United Nations
Framework Convention on
Climate Change

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1. Procedural background

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its eleventh session, encouraged the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) to explore opportunities for financing the CDM through international finance institutions (IFIs), such as the Green Climate Fund (GCF), taking into account the transparent and prudent management of the resources of the CDM, and report back to the CMP at its twelfth session (decision 6/CMP.11, paragraph 8).
2. The Board considered an initial information note at its eighty-eighth meeting (EB 88) and a follow-up concept note at its ninetieth meeting (EB 90), on financing and use of the CDM by IFIs, which included a list of potential opportunities highlighted during the in-session workshop held at the forty-fourth session of the Subsidiary Bodies in May 2016.¹ The Board took note of the information note and requested the secretariat to prepare a revised concept note for the Board to consider at its ninety-first meeting (EB 91), describing in particular the role of the secretariat in the proposed activities.
3. The Board, at its ninety-first meeting (EB 91),² considered a revised concept note on financing and use of the CDM by IFIs, which detailed a list of activities, means of delivery and costs for supporting activities identified in the concept note. The Board requested the secretariat to initiate support for the activities listed therein.
4. The CMP, at its twelfth session, encouraged the Board to continue its activities in response to decision 6/CMP.11, paragraphs 7 and 8.³
5. The Board, at its ninety-fourth meeting (EB 94),⁴ considered a concept note on the progress of the support to financing and use of the CDM by IFIs. The Board also agreed to support an additional activity involving a national development bank in a frontier financial market, recognizing benefits for national financial institutions in other countries.
6. The CMP, at its thirteenth session, encouraged the Board to continue its cooperation with financial institutions in response to decision 6/CMP.11, paragraphs 7 and 8.⁵
7. The Board considered a concept note on the progress of the work on financing and use of the CDM by IFIs at its ninety-seventh meeting (EB 97),⁶ where it agreed to support two additional activities: one involving an additional national development bank in a frontier

¹ <<http://cdm.unfccc.int/stakeholder/index.html>>.

² <<http://cdm.unfccc.int/UserManagement/FileStorage/7BL6UQ4DMSYZRN9JVEOTFG3A052HIC>>.

³ <<http://unfccc.int/resource/docs/2015/cmp11/eng/08a02.pdf#page=2>>.

⁴ <<https://cdm.unfccc.int/UserManagement/FileStorage/GWME0Z79CK1J5SPXLHYRUI6B8O3T4D>>.

⁵ <<https://unfccc.int/sites/default/files/resource/docs/2017/cmp13/eng/l02e.pdf>>.

⁶ <<https://cdm.unfccc.int/UserManagement/FileStorage/CAENSVLD92BP7IRM48W1UQ5XOGHKT6>>.

financial market; and the other a regional programme of work involving both national and commercial financial institutions in several Asian countries.

8. The Board considered an information note on the progress of work (Financing and use of the CDM by IFIs) during 2018 at its ninety-ninth meeting (EB 99)⁷ and at its one hundred and first meeting (EB 101).⁸
9. The Board requested the secretariat to continue to provide updates on the progress of work.
10. This note relates to work outlined in the CDM two-year business plan and management plan (MAP) 2018–2019, in which the Board intends to establish the CDM as an accepted delivery vehicle for development and climate financing (including via the GCF). This work contributes to goal 2 of the MAP 2018–2019 (“Nurture policies to broaden demand for, and participation in, the CDM”) and under objectives 2b (“Enhance the use of the CDM for voluntary purposes”) and 2c (“Further develop the CDM as a tool for monitoring, reporting and verifying the outcomes of mitigation finance”). Resources are assigned as reflected under “Use of CDM in climate finance” in table 5 of the MAP.

2. Purpose

11. Considering the CMP mandates referred to in paragraphs 1, 4 and 6 above and the Board’s ongoing work in exploring other uses for the CDM, the purpose of this note is to provide the Board with an update of the support provided by the secretariat, for the fourth quarter of 2018 and first quarter of 2019 (second half of October 2018 to March 2019). Progress in 2018 (April 2018 to first half of October 2018) was reported at the one hundred and first meeting of the Board (EB 101).

3. Key issues and proposed solutions

12. Progress on the activities described in the concept note to the Board at its ninety-seventh meeting (EB 97) comprise four broad groups of actions:
 - (a) Project finance via or using green bonds (Green Bond);
 - (b) Project finance via the crowd (Crowd-finance);
 - (c) Support to international, regional and local finance institutions and/or domestic banks (EADB, BOAD, IDBZ, UDB)⁹ to enable project finance; and
 - (d) Enabling finance for projects in south east Asia (ASEAN)¹⁰, including other regions where requested.

⁷ <<https://cdm.unfccc.int/UserManagement/FileStorage/MCOA3SPN5JHT4IKL60Q9WVR7XGZUFY>>.

⁸ <<https://cdm.unfccc.int/UserManagement/FileStorage/DONHLYR29FEPV73CJ4610ZMI5WTA8U>>.

⁹ EADB – East African Development Bank, BOAD – West African Development Bank, IDBZ – Industrial Development Bank of Zimbabwe, UDB – Ugandan Development Bank

¹⁰ Association of Southeast Asian Nations.

3.1. Completed activities

13. The activities in groups (a)-(c) have come to an end and no longer require further support from the Board. In all cases, suitable partners have been found to continue and in some cases scale-up the work.
14. The impact in terms of number of projects financed as a result of the support provided by the Board since inception of the work in September 2016 (EB 91) is likely to be on the conservative side, as typical project financing cycles take up to five years or more.
15. The support provided to finance institutions in group (c) was designed to ensure that bankable CDM project pipelines are enabled. Local institutions are the best place for this support, as they understand local pricing, risks and project potential and are more effective in addressing local regulations and barriers. They also have access to an extensive network and operating window in their countries and given the right support can effectively develop projects that often require the CDM in order to be viable, financially or otherwise.
16. Table 1 below provides the results of the activities undertaken, the number of projects mobilized, and the partner(s) that will continue with the activities after support by the Board ceases.

Table 1. Results of completed activities since EB 91

Activities	Projects or proposals	Host country	Continuing partner(s)
1. Green Bond	1 x PoA ^(a) (rice cultivation) 1 x PoA (cookstoves)	Philippines Ghana	UNDP ^(b) regional office NDC partnership ^(c)
2. Crowd-finance	1 x CDM (landfill gas usage) 1 x CDM (landfill gas usage)	Colombia Colombia	Private sector company Private sector company
3. FIs (a) BOAD	10 x proposals (solar) 6 x proposals (hydropower) 4 x proposals (biomass energy) 2 x proposals (biomass energy) 2 x proposals (lighting) 2 x proposals (waste) 2 x proposals (wind)	Benin Burkina Faso Côte d'Ivoire Mali Niger Togo Senegal	BOAD BOAD BOAD BOAD BOAD BOAD BOAD
(b) IDBZ	Project preparation for CDM projects and expertise placement to establish a green banking arm for project financing, as part of NDC partnership plan	Zimbabwe	NDC partnership
(c) UDB & EADB	Identification of projects as CDM projects and GCF readiness to	Uganda	GCF ^(d) and NDC partnership

Activities	Projects or proposals	Host country	Continuing partner(s)
	establish a green banking arm for project financing		

- (a) Programme of Activities.
- (b) United Nations Development Programme.
- (c) <<http://ndcpartnership.org/>>.
- (d) GCF readiness along with other partners under a green bank design initiative in formation (Agence Française de Développement, ClimateWorks Foundation, Swedish International Development Agency, KfW, Deutsche Gesellschaft für Internationale Zusammenarbeit, UK Department for Business, Energy & Industrial Strategy, European Climate Foundation, African Development Bank, Nordic Development Fund, OECD Clean Energy Finance and Mobilization Programme, Stanley Foundation) and the NDC-partnership.

3.2. Ongoing activities

17. With reference to the ongoing activity in paragraph 12(d) and to ensure prudent management of the resources of the CDM, the secretariat aims to conduct further work in unison with complementary mandates and processes under the UNFCCC. One such synergy is the COP¹¹ mandated secretariat project on needs-based finance (NBF), which aims to facilitate the mobilization of climate finance to support the needs identified by developing countries regarding the implementation of priority mitigation and adaptation actions (also with mitigation as a co-benefit), in accordance with the goals outlined in their nationally determined contributions (NDCs), national adaptation plans and other relevant policies or strategies.
18. The NBF project is a country-driven process involving three phases:
 - (a) Phase I – Initial engagement
 - (i) Stakeholder mapping for each partner country to identify complementarities in the work of other actors, create synergies, and establish partnerships with relevant national and international finance actors;
 - (ii) Development of engagement strategy for each partner country which outlines the approach for the initial communication and collaboration with the project partner(s) and other relevant stakeholders;
 - (iii) Coordination and collaboration with relevant processes under the Convention and with external partners, particularly UN agencies, the operating entities of the financial mechanism (GCF and Global Environment Facility), the World Bank, and multilateral development banks and finance and investment sector stakeholders.
 - (b) Phase II – Technical engagement

¹¹ Conference of the Parties serving as the meeting of the Parties to the Convention

- (i) Support to the enhancement and/or development of priority project finance needs and the preparation of national or regional climate strategies to mobilize and access climate finance;
 - (ii) Inter-agency and multi-stakeholder engagement at the country or regional level to build or enhance partnerships and collaborate on project finance activities;
 - (iii) Inception and organization of in-country/regional catalytic and technical workshops, roundtables, briefings and meetings with partners, to determine barriers to project finance in different national contexts and to support the preparation of national climate finance strategies, including the development of a matrix with financing solutions and project pipelines.
 - (c) Phase III – Finance mobilization engagement
 - (i) Support to the mobilization of project finance in collaboration with national/regional counterparts and partner organizations by facilitating arrangements between support providers and countries/regions, e.g. outreach activities such as:
 - a. Informal bilateral outreach to expert institutions and countries/regions;
 - b. Webinars on support for and access to finance;
 - c. Facilitation of contacts between national/regional agencies, and international and national finance institutions;
 - (ii) Production of project pipelines and placement of outreach and knowledge materials including country/region-specific project opportunities for investors and financiers.
19. The work of the Board complements phases II and III of the NBF project and allows for early engagement in the climate finance strategy design stage. This will result in a wider reach and an inherently country-driven and aligned process to ensure that projects obtain the finance needed to make use of the CDM, where additional.
 20. It is expected that the secretariat's expertise and its convening power, and a greater number of partners, agencies and non-party stakeholder actors, can be used more efficiently to assist developing countries to participate in the development and financing of CDM projects.
 21. The support provided to date under the ASEAN activity and further regions is therefore planned to be conducted in collaboration with the NBF project, as detailed in table 2 below.

Table 2. Ongoing activities

Activities	Actions	Progress & results ^(a)
1. Finance and investment for CDM projects in south east Asia (ASEAN), including Pacific island states	<p>(a) Supporting climate finance strategies, projects, identify co-financiers, access project development funding and access to risk mitigation instruments;</p> <p>(b) Supporting project developers to ensure alignment of eligibility conditions for CDM activities' inclusion with investment requirements and to provide increased visibility of projects, making it easier to identify relevant financiers, advisors, and service providers and enable targeted engagements;</p> <p>(c) Establishing links with other finance organizations and finance networks and including outreach in the identification of suitable financial institutions, bilateral funds, and regional and multilateral development banks on mobilizing private capital, guarantees and investment vehicles.</p> <p>(d) Supporting governments to promote climate investment in their countries and disseminate information on their climate finance needs and strategies and investment environments to attract investors and other market players.</p>	<p>Through the NBF project, the secretariat has worked with the Melanesian Spearhead Group to prepare a <i>Melanesian Spearhead Group Climate Finance Strategy</i> for the four countries (Papua New Guinea, Republic of Fiji, Republic of Vanuatu, Solomon Islands), which includes finance for CDM projects. The strategy was endorsed by the Melanesian Heads of State in May and will be presented to financiers and banks at the UN Climate Action Summit 2019^(b) in September.</p> <p>The strategy includes a pipeline of 73 priority projects in 4 countries, 45 of which have the potential to include carbon financing.</p> <p>Further work is underway with the ASEAN Working Group on Climate Change, to initiate the same in south east Asia, potentially under the leadership of the Philippines and Brunei Darussalam.</p> <p>The above builds on work undertaken under this activity and reported to the Board, in which one of the finance structures launched is now being implemented by an asset management firm in Singapore^(c) in order to finance projects in the region.</p>
2. Finance and investment for CDM projects in Latin America and the Caribbean (LAC)	See above	In the context of the NBF project, further work is underway with Antigua and Barbuda, Belize, El Salvador, Honduras and Uruguay to support projects identified by these countries.

Activities	Actions	Progress & results ^(a)
3. Finance and investment for CDM projects in the Middle East and North Africa (MENA)	See above	In the context of the NBF project further work is underway potentially with the League of Arab States and other regional organisations to initiate the same as 1. in the MENA region to develop access to finance for projects capitalizing on work underway by partners in Lebanon, Jordan, United Arab Emirates, Egypt, Rwanda, Zimbabwe.

^(a) Reporting period from mid-October 2018 to 31 March 2019.

^(b) <<https://www.un.org/en/climatechange/un-climate-summit-2019.shtml>>.

^(c) *Sustainability Bond Facility for Microfinance Institutions* – a bond facility for providing on-lending to projects funded through microfinance institutions in the region.

4. Impacts

22. Financing and use of the CDM by IFIs can: (i) contribute to pre-2020 climate action; (ii) implement mitigation action that is verified, additional and internationally tracked; and (iii) contribute to the exploration of other uses of the CDM.
23. The work does not foresee any cost implications for third parties/stakeholders.

5. Subsequent work and timelines

24. All the activities listed in table 2 above have been initiated and will continue throughout and potentially beyond 2019.

6. Recommendations to the Board

25. The secretariat recommends that the Board take note of the progress of the support provided by the secretariat for the reporting period, in collaboration with the other sub-programmes in the secretariat and the Regional Collaboration Centres.

Document information

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