

CDM-EB94-AA-A02

Concept 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 and a follow-up concept note at its ninetieth meeting, 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 at its ninety-first meeting, describing in particular the role of the secretariat in the proposed activities.
3. The Board, at its ninety-first meeting, considered a concept note² on the use of the CDM by IFIs, which detailed priorities, actions, means of delivery and costs for supporting activities identified in the concept note. At the same meeting the Board requested the secretariat to initiate support to IFIs, pursuing the activities described in the concept note, taking into account comments provided, which included ensuring that only the activities are supported and not specific commercial products, projects are selected by the IFIs, and interested designated national authorities (DNAs) are provided with relevant information on activities pursued by the IFIs. The Board requested the secretariat to provide an update on the progress of support provided and would consider supporting any additional activities in 2017.
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. This note relates to the *further developing the CDM as a key tool for monitoring, reporting and verifying the outcomes of mitigation finance*, as outlined in its two-year business plan 2016–2017 and its management plan (MAP) 2016. In the same plan, 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 2016, in particular to (“Nurture policies to broaden demand for, and participation in, the CDM”) and more specifically to objectives 2b (“Enhance the use of the CDM for voluntary purposes”) and 2c (“Further develop the CDM as a key tool for monitoring, reporting and verifying the outcomes of mitigation finance”), with resources assigned as reflected under “Use of CDM in climate finance” in Table 5 of the MAP.

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>>.

2. Purpose

6. In the light of the CMP mandate and the Board's ongoing work in exploring other uses for the CDM, the purpose of this information note is to provide the Board with an update of the support provided by the secretariat, since the fourth quarter 2016, for the activities described in the concept note, as presented at EB 91.
7. This note also introduces an additional activity, which the Board may wish to consider supporting in 2017.

3. Key issues and proposed solutions

8. Progress on the support of activities described in the concept to the Board at its ninety-first meeting, as provided in table 1 below, comprise the activity, actions initially proposed to be undertaken by the secretariat, as supported by the UNFCCC Regional Collaboration Centres (RCCs) and the results thereof up to end of the first quarter 2017.

Table 1. Activities that use CDM in climate finance

Activity	Actions by the secretariat	Delivered & results to date
1. Support for the development of a green bond-based CDM refinancing facility (CDM refinancing facility)	<ol style="list-style-type: none"> (a) Sharing knowledge between project stakeholders, sponsors, credit enhancement and financial intermediaries and DNAs; (b) Supporting the process to ensure that certified emission reductions (CERs) issued and cancelled are the basis for disbursement of the bond proceeds; (c) Providing guidance and advice to align the facility design with the GCF provisions and investment criteria so that the CDM is included; (d) For CDM projects selected by the facility, supporting the gathering of project details from project developers and portfolio managers interested in re-financing via the facility; (e) Establishing links with other organizations, finance networks. Including media outreach and web based promotion of the concept. 	<p>Prepared detailed information on the CDM projects and programmes as selected by the facility, as derived from the database for projects and programmes of activities⁴;</p> <p>Participated in 4 teleconferences and 2 in-person meetings, provided 10 written communiqués, and attended focused meetings to explain the concept and its benefits, including at an event;</p> <p>Results to date: The IFI decided not to pursue CDM investment and instead issued an inaugural green bond, which finances green (renewable energy) assets in developed countries, using approaches borrowed from CDM methodologies. Further work is planned with the IFI to include the financing of CDM projects, possibly with GCF assistance.</p>

⁴ <<http://cdm.unfccc.int/Statistics/Public/files/Database%20for%20PAs%20and%20PoAs.xlsx>>.

Activity	Actions by the secretariat	Delivered & results to date
2. Support for the development of a green bond-based CDM investment trust fund (Paris Climate Bond)	<ul style="list-style-type: none"> (a) Sharing information on the Paris Climate Bond (PCB) concept with market players, CDM project developers and DNAs; (b) Providing technical support on design specifics to ensure alignment of eligibility conditions for project inclusion with GCF investment requirements; (c) Disseminating information on the concept to prospective IFIs, credit-rating agencies and development banks, and DNAs; (d) Establishing links with other organizations, finance networks. Including media outreach and web based promotion of the concept 	<p>Participated in focused meetings with IFIs on lending support to the development of the concept and demonstrated use of the CDM, and helped establish links with other finance organizations.</p> <p>Results to date: Developed business plan to support the first demonstration of the PCB concept, including analysis of compliance and finance regulations to support implementation in host countries of the projects selected by the IFIs.</p> <p>Developed documentation for both investors and project sponsors, including green (climate) covenants and provisions for green (climate) default based on the quantities of CERs issued.</p> <p>Prepared Best Practices on the use of the PCB concept and arranged to make market-standard contractual documentation available on a web portal to encourage broader uptake of the concept.</p>
3. Finance via crowd investing and funding (Crowd-investing)	<ul style="list-style-type: none"> (a) For CDM projects selected by the facilities, supporting the gathering of project details from project developers and portfolio managers interested in using the facilities; (b) Maintaining a direct relationship with UNDP and crowd-funders to ensure that the facility finances projects suitable for crowd-investing; (c) Establishing links with other organizations and networks, and media outreach and web-based promotion of the concept. 	<p>Established direct relationships with several crowd-investing platforms and provided full project listings for their consideration. Prepared suitable information material for crowd-based investment and funding of projects to promote this source of finance, including for DNAs at the regional and global fora.</p> <p>Results to date: Supported the revival of two dormant landfill gas projects in Colombia, which have restarted operations. The subordinated loans provided by the crowd investors have allowed monitoring to start in order to issue CERs. The first CDM projects to receive crowd funding were fully funded within 18 hours of going on line.</p>

Activity	Actions by the secretariat	Delivered & results to date
4. Support for the development of a green bond programme for the West African Development Bank (BOAD) and the East African Development Bank (EADB)	<p>(a) Providing support to the BOAD and EADB in setting up an operational and institutional framework for using the CDM in climate finance, also drawing examples and learnings from the activities 1 to 3 above;</p> <p>(b) Assisting the banks in completing information on CDM projects, as identified by the banks as suitable opportunities for their climate finance programmes;</p> <p>(c) Assisting in the establishment of a climate finance desk at the EADB, including capacity- and expertise-building on the use of the CDM in climate finance.</p>	<p>Assisted in the alignment of bank operational procedures for using the CDM at the EADB; advised on how the issuance of local and international bonds can benefit from using the CDM, and supported the development of BOAD's green bond programme in conjunction with existing green bond standards organizations.</p> <p>Results to date:</p> <p>Improved lending terms such that financing is provided to projects on significantly better terms than what the projects would have otherwise accessed through commercial lenders and local capital markets. A proposal for the climate desk is currently under consideration at the EADB, which is identifying and prioritizing projects for funding, building in-house capacity with staff on climate finance. The EADB will establish a line of communication with BOAD to share knowledge, experience and lessons learned; BOAD will hold a roundtable to launch its green bond programme.</p>

9. A proposed additional activity is presented in table 2.

Table 2. Additional activity for 2017

Activity	Actions by the secretariat	Means of delivery
1. Support to Infrastructure Development Bank of Zimbabwe (IDBZ) as requested ⁵	<p>(a) Providing support to IDBZ in setting up an operational and institutional framework for using the CDM in climate finance, including mainstreaming the CDM project cycle into the IDBZ's project development process;</p> <p>(b) Assisting in the establishment of a climate finance desk at the IDBZ, including capacity- and expertise-building on the use of the CDM in climate finance;</p> <p>(c) Providing technical support on design to ensure alignment with GCF investment requirements;</p>	<p>Assist in aligning IDBZ's operational procedures for using the CDM in environmental due diligence, creating standards for determining mitigation outcomes, and identifying how the issuance of local and international bonds can use the CDM;</p> <p>Support the development of a green bond programme to include the use of the CDM in conjunction with other IFIs and existing green bond standards organizations (e.g. CBI and green bond principles), using external expertise as required;</p>

⁵ Letter to the secretariat dated 22 September 2016.

Activity	Actions by the secretariat	Means of delivery
	(d) Assisting the IDBZ in completing information on CDM projects as identified by the banks as suitable opportunities for their climate finance programmes, developing a green bond framework access to international climate finance and impact-investors, and mainstreaming climate change into the environmental module of the IDBZ's loan and project investment approval process.	Support the preparation of detailed information on CDM projects and programmes selected by the banks, including finance criteria, barriers and opportunities with RCC support. Develop the use of the CDM and sale of CERs to assist sovereign debt restructuring in emerging markets.

4. Impacts

10. The 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) thereby contribute to the exploration of other uses of the CDM and potentially lend itself towards the implementation of intended nationally determined contributions.
11. The proposed work does not foresee any cost implications for third-parties/stakeholders

5. Subsequent work and timelines

12. The outcome of the work in 2017 may serve as a basis for informing the CMP on progress against the mandate given by the CMP to the Board at CMP 13.
13. The proposed additional activity provided in table 2 above could be initiated in 2017. Any actions initiated in 2017 are likely to continue into 2018.

6. Budget and costs

14. Should the Board approve the proposed additional activity, it could be initiated this year, and staff and non-staff costs could be accommodated within the approved MAP 2017 budget.

7. Recommendations to the Board

15. The secretariat recommends that the Board:
 - (a) Take note of the progress of the support by the secretariat to the activities, the specific actions delivered and the results to date (up to end Q1 2017);
 - (b) Consider supporting the additional activity and actions to be carried out and provide guidance as necessary.

Document information

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