

**CDM-EB91-AA-A02**

## Concept note

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# 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. At its eleventh session, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) 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 CMP at its twelfth session (decision 6/CMP.11, paragraph 8).
2. The Board considered an initial 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. This note 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.<sup>1</sup>
3. The Board appreciated the ideas contained therein, noting that several IFIs and agencies are already implementing some of the activities. The Board requested the secretariat to prepare a revised concept note, describing in particular the role of the secretariat in the proposed activities (i.e. those activities that could be prioritized, and the associated cost implications of undertaking them), to be presented at the ninety-first meeting of the Board
4. This work relates to 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, 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 (“Nurture policies to broaden demand for, and participation in, the CDM”) and more specifically 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”), as contained in Table 5 of the MAP.

## 2. Purpose

5. In the light of the CMP mandate and the Board’s ongoing work in exploring other uses for the CDM, the purpose of this concept note is to describe the role of the secretariat in supporting opportunities highlighted at the in-session workshop, and presented at the ninetieth meeting for the Board’s consideration.

## 3. Key issues and proposed solutions

6. The in-session workshop held in May 2016<sup>2</sup> identified a number of opportunities that could be further explored. Taking into account the transparent and prudent management of the resources of the CDM, several of these opportunities were presented at EB90 as activities that could benefit from support from the Board. The activities, if approved by the Board, would deliver on goal 2 under the 2016 MAP. All of the activities would be

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

<sup>2</sup> The report of the in-session workshop is available at [http://cdm.unfccc.int/sunsetcms/storage/contents/stored-file-20160620144445900/20062016\\_workshop%20report\\_final.pdf](http://cdm.unfccc.int/sunsetcms/storage/contents/stored-file-20160620144445900/20062016_workshop%20report_final.pdf)

carried out in collaboration with the Regional Collaboration Centres (RCC). The support envisaged for these activities include:

- (a) Informing and raising awareness among IFIs (e.g. bond issuers, underwriters, investors) on the methods and benefits of the CDM in assessing the mitigation impact of green bonds, including national approval, transparent additionality and clear accounting and reporting;
- (b) Assisting entities accredited to the GCF and national designated authorities (NDAs) in the practical incorporation of CDM projects into GCF funding proposals, including making the CDM pipeline available for GCF climate finance;
- (c) Raising awareness among project sponsors and aggregators on opportunities for using the CDM, including solutions that aim to finance and re-finance CDM projects;
- (d) Catalysing access to new sources of finance for CDM projects such as via institutional and capital markets, including on how the CDM can address any perceived risks for potential investors by improving credit ratings;
- (e) Facilitating constructive dialogues between IFI finance and carbon market experts on practical approaches and experiences in financing the CDM and using the CDM to certify the outcomes of deployed climate finance.

7. Taking into account the prudent management of the CDM resources, table 1 lists in order of priority the activities proposed to the Board at EB90. It further details the role of the secretariat, the means to deliver this role, and the initial costs.

**Table 1. Activities that use CDM in climate finance**

| Activity  | Actions by the secretariat   | Means of delivery   | Benefits and Risks   |
|---|--|---|--|
| 1. Support for the development of a green bond-based CDM refinancing facility ( <b>CDM refinancing facility</b> ) | <ol style="list-style-type: none"> <li>a. Knowledge-sharing between project stakeholders, sponsors, credit enhancement and financial intermediaries and DNAs;</li> <li>b. Supporting the process to ensure that Certified Emission Reductions (CERs) issued and cancelled are the basis for disbursement of the bond proceeds;</li> <li>c. Guidance and advice to align the facility design with the GCF provisions and investment criteria so that the CDM is included;</li> <li>d. Assistance in gathering CDM project details from project developers and portfolio managers interested in re-financing;</li> </ol> | <p>Teleconferences, in-person meetings (Bonn and RCCs), written communiqués, information notes and webinars;</p> <p>Development of an initial set of concept materials, including best-practice examples for replication and roll-out of the concept to other IFIs;</p> <p>Development of lists of potential and interested CDM projects, finance criteria, barriers and opportunities with RCC partners;</p> <p>Participation in finance events and focused meetings with IFIs to explain the facility concept and its benefits, including at RCC-organized events</p> | <p>Potential benefits:</p> <ul style="list-style-type: none"> <li>• Continued operation by existing CDM projects.</li> <li>• Release of capital for investment in new projects.</li> <li>• Recognition and use of CDM as a tool for increased credibility of green bonds.</li> <li>• Mobilization of GCF funding to CDM projects.</li> </ul> <p>Risks and challenges</p> <ul style="list-style-type: none"> <li>• Concentration of projects located in emerging</li> </ul> |

| Activity   | Actions by the secretariat  | Means of delivery   | Benefits and Risks   |
|--|---|---|--|
|  | e. Establishing links with other organizations and networks, and media outreach and web based promotion.  | and carbon market fora;<br><br>Placement of articles in the financial media, general promotion via the UNFCCC newsroom and social media.  | economies.   |
| 2. Support for the development of a green bond-based CDM investment trust fund ( <b>Paris Climate Bond</b> ) | <p>a. Sharing information on the bond with market players, CDM project developers and DNAs;</p> <p>b. Technical support on design specifics to ensure alignment of eligibility conditions for project inclusion with GCF investment requirements;</p> <p>c. Proactive dissemination of information on the bond concept to prospective IFIs, credit rating agencies and development banks;</p> <p>d. Establishing links with other organizations and networks, and media outreach and web based promotion.</p> | <p>Telecons, in-person meetings (Bonn and RCCs), written communiqués, information notes and webinars;</p> <p>Advice notes to actors on the CDM, including guidance notes, best-practice examples and operation of the CDM so that CERs issued and cancelled are the basis for disbursement of the bond proceeds;</p> <p>Participation in focused meetings with IFIs in lending support for the use of the CDM, and help in establishing links with other organizations and networks;</p> <p>Placement of articles in the financial media, general promotion via the UNFCCC newsroom and social media.</p> | <p>Potential benefits:</p> <ul style="list-style-type: none"> <li>• CDM recognized as a tool for ensuring credibility and quantifying mitigation impact of finance flows.</li> <li>• Mobilization of new sources of finance in the capital markets towards CDM projects.</li> </ul> <p>Risks and challenges</p> <ul style="list-style-type: none"> <li>• Competing standards</li> <li>• Preference among investors towards most advanced economies.</li> </ul> |
| 3. Crowdfunding facility ( <b>UNDP Crowdfunding facility</b> )   | <p>a. Assistance in identifying and gathering CDM project details from project developers and portfolio managers with their consent;</p> <p>b. Maintaining a direct relationship with UNDP to ensure the facility is populated with suitable projects for crowdfunding;</p> <p>Establishing links with other organizations and networks, and media outreach and web based promotion.</p>  | <p>Identification of small-scale renewable energy projects, including profiling new project opportunities for crowdfunding;</p> <p>On-the-ground technical support to identify project bankable CDM project opportunities that can draw on crowdfunding in collaboration with RCC partners;</p> <p>Agenda design and convening arrangements in promotion (also at COP22), including general promotion via the UNFCCC</p>  | <p>Potential benefits</p> <ul style="list-style-type: none"> <li>• Mobilization of new sources of finance for CDM project development, in particular small and micro-scale.</li> <li>• Potential for replication and expansion to new partners.</li> </ul> <p>Risks and challenges</p> <ul style="list-style-type: none"> <li>• Competing platforms</li> </ul>   |

| Activity   | Actions by the secretariat  | Means of delivery   | Benefits and Risks  |
|--|---|---|---|
|  |   | newsroom and social media.  | <ul style="list-style-type: none"> <li>• Language access</li> </ul>   |
| 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 BOAD and EADB to set up an operational and institutional framework for using the CDM in climate finance, also drawing examples and learnings from the above activities;</p> <p>b. Assisting the banks in identifying CDM project opportunities for the above facilities;</p> <p>c. Assisting in the establishment of a climate finance desk at EADB, including capacity- and expertise-building.</p> | <p>Analysis of operational procedures in the banks for environmental due diligence, standards for determining mitigation outcomes, and issuance of local and international listed bonds;</p> <p>Development of lists of potential and interested CDM projects, finance criteria, barriers and opportunities with RCC partners;</p> <p>Supporting the development of a green bond programme to include the use of CDM in conjunction with other IFI and green bond standards organizations (e.g. CBI and green bond principles), by providing expertise on the requirements.</p> | <p>Potential benefits</p> <ul style="list-style-type: none"> <li>• Strengthened capacity of African development banks for accessing new sources of finance and incorporating CDM.</li> <li>• CDM recognized as a tool for ensuring credibility and quantifying mitigation impact of finance flows.</li> </ul> <p>Risks and challenges</p> <ul style="list-style-type: none"> <li>• Enhancing credit worthiness to attract significant investor interest.</li> </ul> |

## 4. Impacts

8. Use of the CDM by IFIs can: (i) contribute to pre-2020 climate action; (ii) deliver as mitigation action that is verified, additional and internationally tracked; and (iii) thereby contribute to the exploration other uses of the CDM and potentially lend itself towards the implementation of intended nationally determined contributions.

## 5. Subsequent work and timelines

9. The actions listed under the activities outlined in table 1 in section 4 of this note can be initiated in the remainder of 2016 as soon as the Board agrees to any of them. Any activities initiated are likely to continue into 2017.
10. The outcome of the work in 2016 may serve as a basis for informing the CMP on progress against the mandate given by the CMP to the Board at CMP11.

## 6. Budget and costs

11. Should the Board approve any of the proposed activities, they can be initiated this year, and initial staff and non-staff costs can be accommodated within the approved 2016

MAP budget. Other costs will need to be approved in the 2017 MAP budget. Indicative costs are provided in table 2.

**Table 2. Estimated budget for 2017 activities**

| Activity     | Meetings and trainings | Consultants       | Knowledge materials / portals etc. | Travel        | Staff                 |
|--------------|------------------------|-------------------|------------------------------------|---------------|-----------------------|
| 1            | 30,000                 | 7,500             | 10,000                             | 6,000         | 15 person week        |
| 2            | 15,000                 | 7,500             | 10,000                             | 6,000         | 15 person week        |
| 3            | 10,000                 | 3,000             | 5,000                              | 5,000         | 10 person week        |
| 4            | 10,000                 | 3,000             | -                                  | 5,000         | 10 person week        |
| <b>TOTAL</b> | <b>65,000</b>          | <b>21,000</b>     | <b>25,000</b>                      | <b>22,000</b> | <b>50 person week</b> |
|              |                        |                   |                                    |               |                       |
|              |                        | <b>Total 2017</b> | <b>133,000</b>                     |               | <b>50 person week</b> |

12. The proposed work does not foresee any cost implications for third parties/stakeholders.

## 7. Recommendations to the Board

13. The secretariat recommends that the Board:
- (a) Take note of the proposed role of the secretariat for the activities listed in order of priority in table 1, their specific actions, means of delivery and initial cost;
  - (b) Decide which activities and actions are to be carried out and/or amended;
  - (c) Provide further guidance on the progress of the work in the Board response to the CMP via its report to the CMP.

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### Document information

| Version  | Date           | Description  |
|--|----------------|--|
| 01.0   | 30 August 2016 | Initial publication as an annex to the annotated agenda of EB91. |
| Decision Class: Operational  |                |  |
| Document Type: Information note  |                |  |
| Business Function: Governance  |                |  |
| Keywords: budget, climate finance, cooperation between organizations, increasing CER demand, mitigation, private sector, work programme, GCF |                |  |