

Agenda item 2.2

Paragraph 5 of the annotated agenda, Annex 1

Financing and use of the CDM by international finance institutions

CDM EB 97

Bonn, Germany, 30 October - 3 November 2017



Historical background

- **CMP.3** (3/CMP.1, Annex, para B 4(d)): COP/MOP shall assist in arranging funding of CDM project activities, as necessary;
- **CMP.3** (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*;
- **EB-88, EB-90, EB-91, EB-94** initiated neutral, unbiased, non-commercial support for several activities, and provided relevant information to DNAs.
- **CMP.12** (3/CMP.12, para 4): encouraged the Board to continue its activities in response to decision 6/CMP.11, paragraphs 7 and 8.



Purpose

The purpose of this note is to provide the Board with an **update** of the support provided by the secretariat, for the reporting **period 2nd and 3rd quarters of 2017**;

An update for the reporting period **4th quarter 2016 and 1st quarter 2017**, was provided by the secretariat at EB-94;

Introduction of **two additional** proposed activities, which the Board may wish to consider supporting in 2018

All support so far has been carried out in collaboration with and with assistance from the **Regional Collaboration Centres (RCC)**.



Key issues and proposed solutions

Activities*:

1. Support for the development of CDM project financing via green bonds (**Green Bond**)
2. Finance for projects via crowd- investing and -funding platforms (**Crowd-finance**)
3. Support to the East African Development Bank (**EADB**)
4. Support to the West African Development Bank (**BOAD**)
5. Support to the Infrastructure Development Bank of Zimbabwe (**IDBZ**)

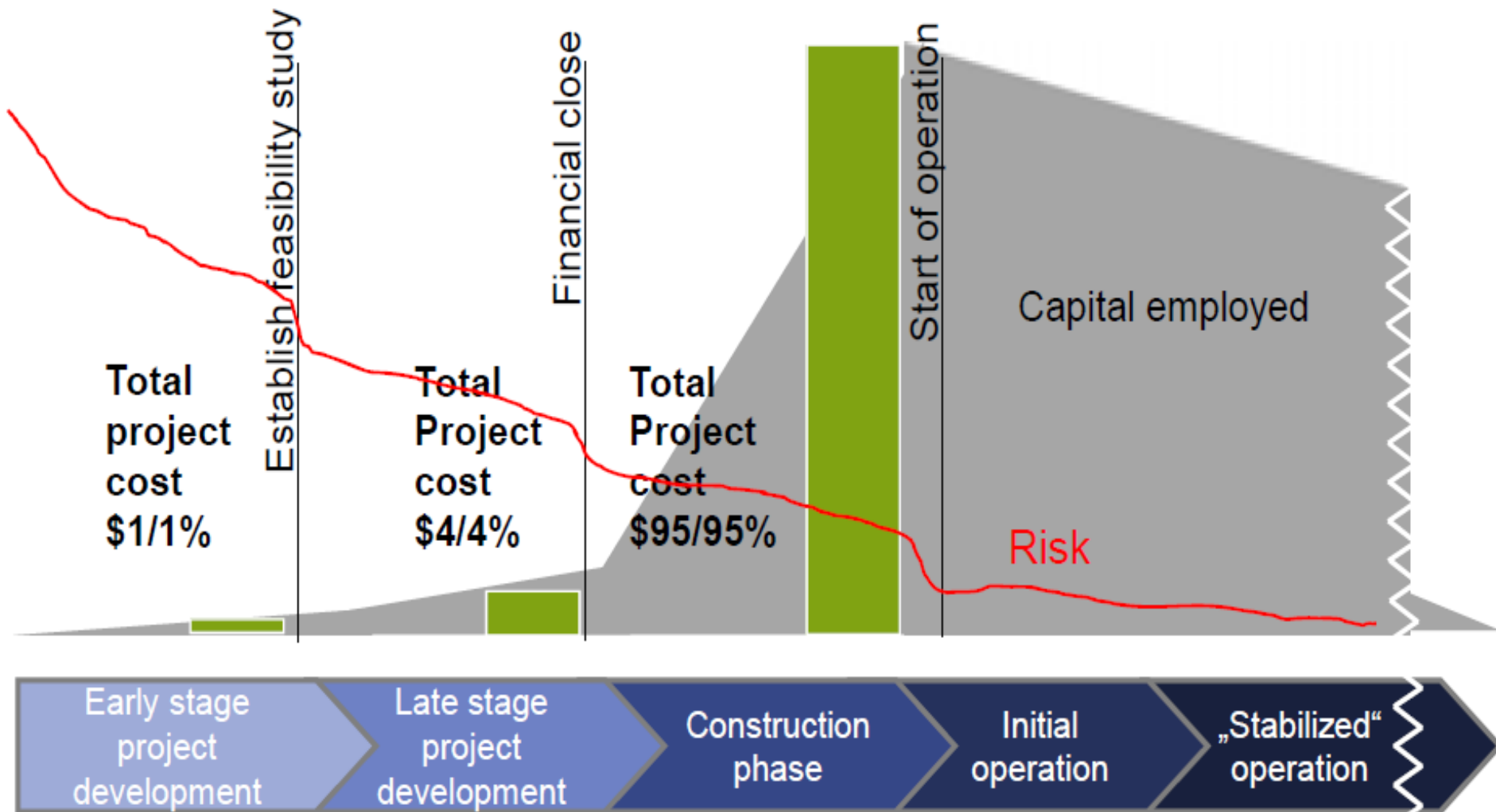


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* In Q1–Q3, 2017 the support for previous activity 1 (*CDM refinancing facility*) was completed and the remaining time and resources were allocated to activity 5 (IDBZ). The previous activity 2 (*Paris Climate Bond*) has been re-named to reflect support provided to all CDM green bond finance concepts. The previous activity 4 (*BOAD and EADB*) has been separated into two activities. 4

Key sources of project finance



Source: UNEP, Aequero



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Results - Green Bond

Agreed actions:

- Sharing information on the concept with market players, CDM project developers and DNAs;
- Providing technical support on design specifics to ensure alignment of eligibility conditions for project inclusion with GCF investment requirements;
- Disseminating information on the concept to prospective IFIs, credit-rating agencies and development banks, and DNAs;
- Establishing links with other finance organizations and finance networks, and including outreach and web-based promotion of the concept.



GREEN
CLIMATE
FUND

Results to date:

A submission was made by the institution to the [GCF, Private Sector Facility](#) (*Pitch for the Planet* programme) in August 2017 for funding to capitalize the Project Finance Company and Investment Vehicle, which will enable the demonstration of the concept in replacing expensive loans with cheaper lending via a green bond for a portfolio of CDM projects in developing countries. The proposal included a sample transaction based on a portfolio of CDM projects in one country.

An elaboration of opportunities and means for accessing finance via green bonds was delivered at the [Global DNA](#) forum.



Results - Crowd-finance

Agreed actions:

For CDM projects selected by the facilities, supporting the gathering of project details from project developers and portfolio managers interested in using the platforms;

Maintaining a direct relationship with platforms to ensure that projects suitable for crowd-investing are connected and benefit from crowd-funding and other innovative funding sources;

Establishing links with new platforms and other networks, including outreach and web-based promotion of the sources of finance and opportunities.

Results to date:

Interacted with **additional crowd-investing** platforms and provided CDM project listings for their consideration. At the **Global DNA forum**, delivered an elaboration of opportunities and means for accessing finance via the crowd. In collaboration with the RCCs, conducted a well-attended **webinar for the Caribbean and Latin America region** in partnership with LEDES-LAC. In collaboration with the RCCs, provided outreach to **DNAs in Asia** on provision of financing opportunities and information on crowd-funding for project developers. **Connected two CDM projects with potential funders**. In collaboration with the RCCs, connected crowd-investing platforms to **12 project developers needing seed capital** to establish new projects in the waste management, renewable energy and energy efficiency sectors in Africa.



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Results – EADB

Agreed actions:

Providing support to the EADB in setting up an operational and institutional framework for using the CDM in climate finance, also drawing examples and lesson learned from the other activities;

Assisting the EADB in completing information on CDM projects, as identified by the banks as suitable opportunities for their climate finance programmes;

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.



Results to date:

Appointment of an [Environment Social Management expert by EADB](#) is still underway. The expert will aim to work with the secretariat and RCC to establish a climate finance desk that includes operational frameworks and policies to identify, assess and prioritize CDM projects for funding by the bank and its client banks, build bank and client capacity at all levels on the [use of the CDM in lending arrangements](#) and CDM as a source of finance for projects in the region. In addition, the desk will provide [up-to date information](#) on all sources of finance available for all stages of project financing.



Results – BOAD

Agreed actions:

Providing support to the BOAD in setting up an operational and institutional framework for using the CDM in climate finance, also drawing examples and lesson learned from the other activities;

Assisting the banks in completing information on CDM projects, as identified by the banks as suitable opportunities for their climate finance programmes;

Assisting in the establishment of a green bond programme to finance CDM projects, including capacity- and expertise-building on the use of the CDM in climate finance.

Results to date:

In collaboration with the AfDB and the RCC, convened a green investment [catalyst roundtable](#) and established a platform on finance for the [Economic Community of West African States](#) region, to include the BOAD green bond programme and other facilities that will enable finance for projects (including CDM) in the ECOWAS region. In collaboration with the RCC, secured a concessional credit line for direct and on-lending to CDM projects via regional commercial banks; provided technical support to a guarantee finance partnership - [Renewable Energy Performance Platform](#) - that finances project preparation, resulting in finance for a biomass project in Benin; developed selection criteria for funding project selected from a call for proposals; arranged for [Green Cornerstone Bond Fund](#) support in the development of the BOAD green bond programme; conducted capacity building on [access to climate finance](#), GCF procedures, and identification of [project proposals](#) in collaboration with the World Bank; established the [Carbon Initiative](#) with BOAD and a pan-African finance group on initial project finance for CDM projects.



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Results – IDBZ

Agreed actions:

Providing support to the 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;

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;

Providing technical support on design to ensure alignment with GCF investment requirements;

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.

Results to date:

In partnership with the IDBZ, the Reserve Bank of Zimbabwe and the Ministry of Environment, arrangements were made to convene a [green investment catalyst roundtable](#) to include local and international expertise in green debt, asset management and private sector development, in order to explore mobilizing assets managed by institutional investors (such as pension funds and insurance companies) to finance projects in the region and to initiate the development of a [green bond programme for IDBZ](#) that will aim to provide new sources of finance for CDM projects.



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Initial scoping of the work:

UDB is a national development finance institution with a vision to promote sustainable socio-economic development through innovative financial products and services. UDB recently signed a resolution (with the European Organisation for Sustainable Development, the Association of Development Financing Institutions in Asia and the Pacific, and the Association of African Development Finance Institutions) to promote investments that will contribute to creating a green, inclusive and sustainable economy considering the Sustainable Development Goals and the Paris Agreement. In this regard, the UDB wishes to promote the use of the CDM.

Proposed actions:

Assist in aligning UDBs 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;

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;

Support the preparation of [detailed information on CDM](#) projects and programmes selected by the banks, including finance criteria, barriers and opportunities with RCC support.

Initial scoping of the work:

Seed funding was secured by IGES from their Strategic Research Fund to develop a strategy for deepening the opportunities in green bonds in Association of Southeast Asian Nations (ASEAN) countries through research and capacity-building activities, as well as outlining ways to address the risks and challenges associated with accessing capital market debt via green bonds, and exploring how best to integrate the CDM and green bonds for the region.

Proposed actions:

Supporting the [identification of green bond market actors](#) that are interested in issuing green bonds in at least two countries with mature capital markets and two in developing capital markets to include CDM project debt;

Raising interest in green bond actors in providing refinancing for CDM projects through capacity-building activities to further enhance understanding of green bonds for public and private sector bodies, including the possibility of convening a [green investment catalyst roundtable](#) in the region.



Impacts

The work promotes use of the CDM by IFIs:

- contribute to **pre-2020** climate action;
- mitigation action that is **verified, additional & internationally** tracked;
- contribute to the **exploration other uses of the CDM** and potentially lend itself towards the implementation of **intended nationally determined contributions**

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



Subsequent work and timelines

1. 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.
2. The proposed additional activities provided in table 2 could be **initiated in 2017**.
3. Any actions initiated in 2017 are likely to **continue into 2018**.



Budget and cost

Indicative costs for the 7 activities comprise both non-staff and staff time.

These costs are already included in MAP 2018 budget, as considered by the Board at EB 97.



Recommendations to the Board

The secretariat recommends the Board:

Take note of the [progress of the support](#) provided by the secretariat and in collaboration with the RCCs for the reporting period Q2 to Q3 2017

and [provide guidance on the additional activities](#) to support the Uganda Development Bank and CDM projects in ASEAN, as necessary.

