

# Financing and use of the CDM by international finance institutions

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## Historical background

- **CMP.3** (decision 3/CMP.1, Annex, para B 4(d)): **COP/MOP shall assist in arranging funding of CDM project activities**, as necessary.
- **CMP.3** (decision 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, taking into account the transparent and prudent management of the resources of the CDM**, and report back to CMP at its 12<sup>th</sup> session\*.
- **CDM-EB 88, CDM-EB 90** considered notes, and at **CDM-EB 91** requested the secretariat to **initiate support of 4 activities**, ensuring support of concept **not commercial product**, CDM projects are **selected by the IFIs**, and interested **DNAs are provided** with relevant information.
- **CMP.12** encouraged the Board to **continue its activities** in response to decision 6/CMP.11, paragraphs 7 and 8.



\*The Board also **hosted a half-day in-session workshop** during SB44 (as per 6/CMP.11, para 9), a report is available online.

## Key issues and proposed solutions

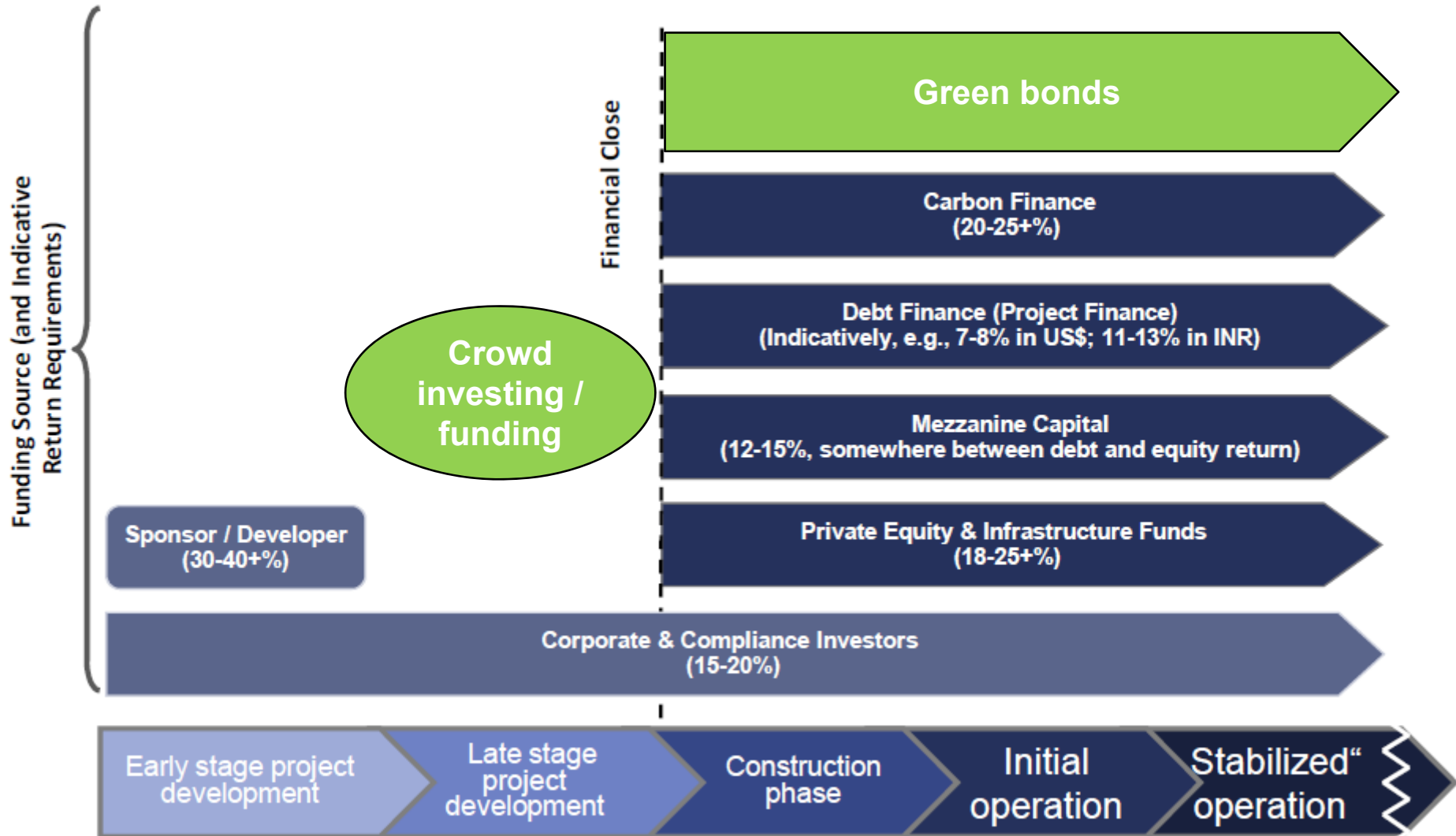
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Activities in order of priority are:

1. Support for the development of a green bond-based **CDM refinancing facility** (CDM refinancing facility)
2. Support for the development of a green bond-based **CDM investment trust fund** (Paris Climate Bond)
3. Finance via crowd investing and funding (Crowd-investing)
4. Support for the development of a green bond programme for the West African Development Bank (BOAD) and the East African Development Bank (EADB)

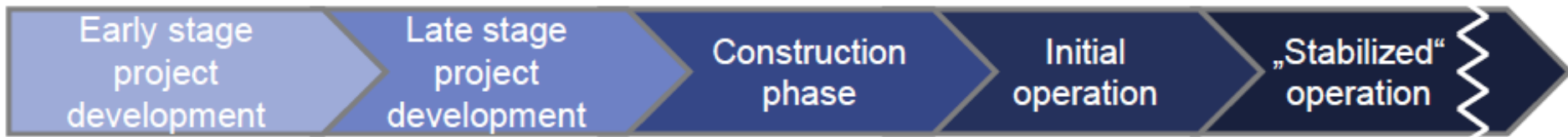
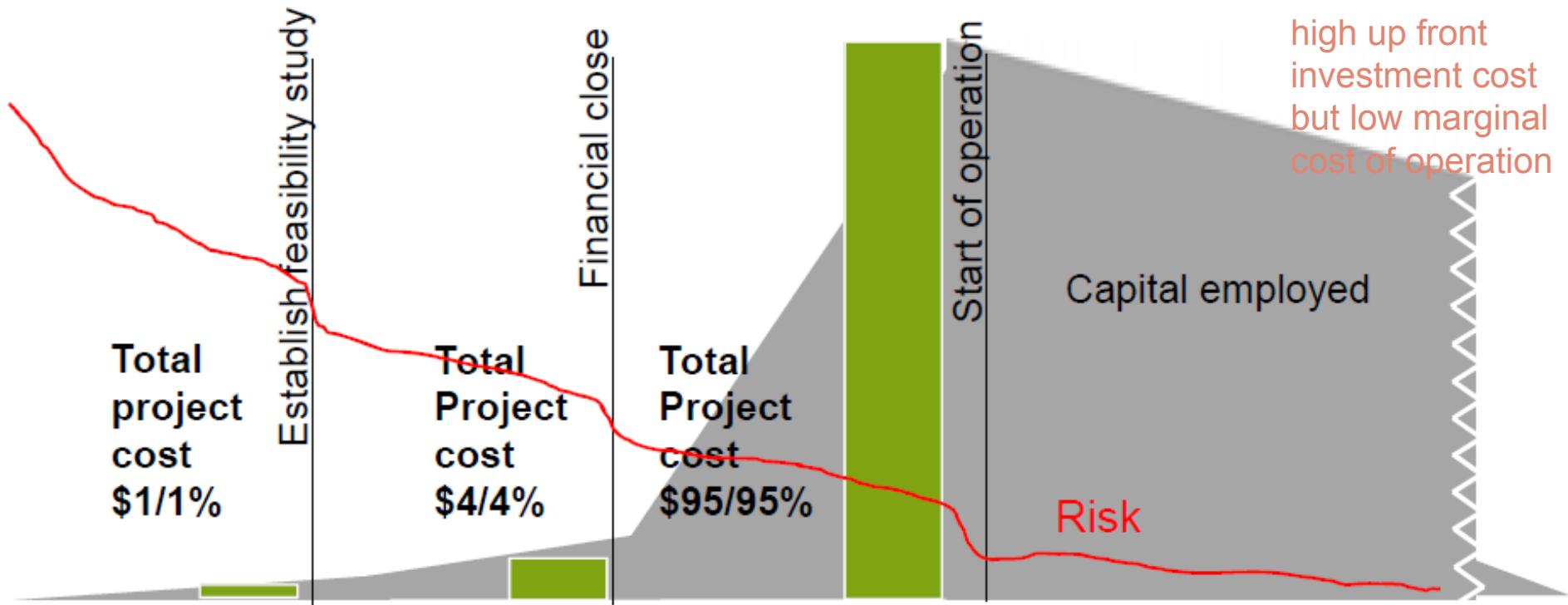


# Key sources of project finance



Source: UNEP, Aequero





Bank finance - high cost capital + owner equity



No exit, non-perform, asset liability



Green bonds – low cost capital

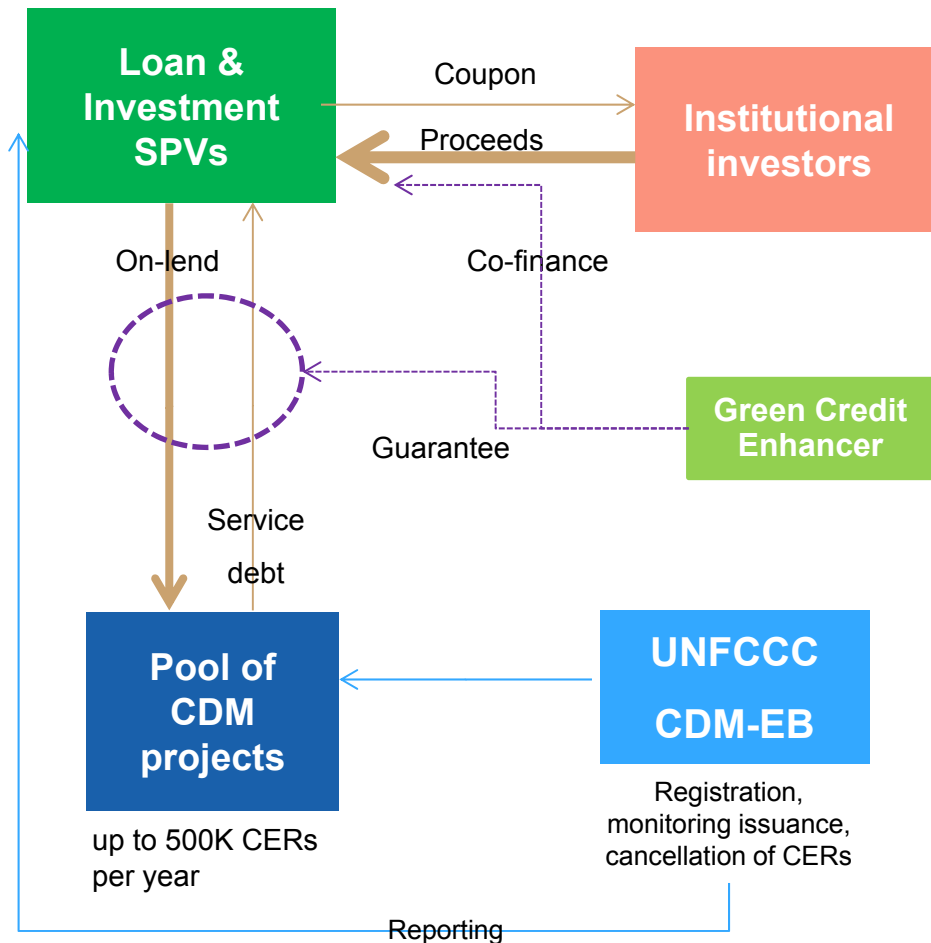


Free-up capital for use in new investments

Green bonds allow early risk taking investors to exit – creating a financing conveyor belt

# CDM & green bonds, how does it work

## CONCEPT



- **Re-finance** registered CDM projects/programmes and also **for new** projects that commit CDM registration.
- Projects must **issue and cancel CERs** to be eligible and in the event of shortfalls below the minimum specified CER level for each project the Investment Vehicle shall exercise its rights to remedies under each loan agreement.
- Expect CERs generated from the first PCB portfolio to be just over **1.5 million p.a.**
- Sponsors must **discharge** their existing debt and agree to use the released finance for new projects.
- Funds for the new loans are **raised** by issuance of a green bond primarily from institutional investors, receive a contractually enforceable recourse mechanism in case mitigation does not occur.
- Improves project return on equity or sponsors can **pass** debt cost savings onto consumers as lower priced affordable access to clean energy.
- Project **selection** is a commercial risk/return decision – based on how the ultimate risk to investors **relates** to the credit of the underlying projects as determined in consultation with investors, by the bond issuer.
- Represents a breakthrough in the introduction of **Result-Based Climate Finance** within the sector of climate-themed bonds



## Results - CDM refinancing facility

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### Agreed actions:

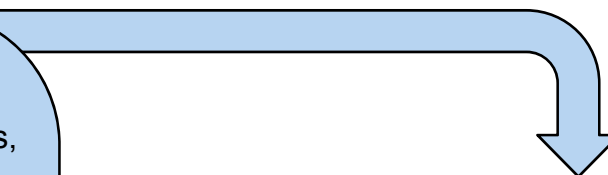
**Sharing knowledge** between project stakeholders, sponsors, credit enhancement and financial intermediaries and DNAs;

**Supporting the process** to ensure that certified emission reductions (CERs) issued and cancelled are the basis for disbursement of the bond proceeds;

**Providing guidance** and advice to align the facility design with the GCF provisions and investment criteria so that the CDM is included;

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;

**Establishing links with other organizations**, finance networks. Including media outreach and web based promotion of the concept.



Prepared **detailed information on the CDM projects** and programmes as selected by the facility, as derived from the database for projects and programmes of activities;

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;

### 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.



## Results - Paris Climate Bond

### Agreed actions:

**Sharing information** on the Paris Climate Bond (PCB) 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 organizations,** finance networks. Including media outreach and web based promotion of the concept

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.

### 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.

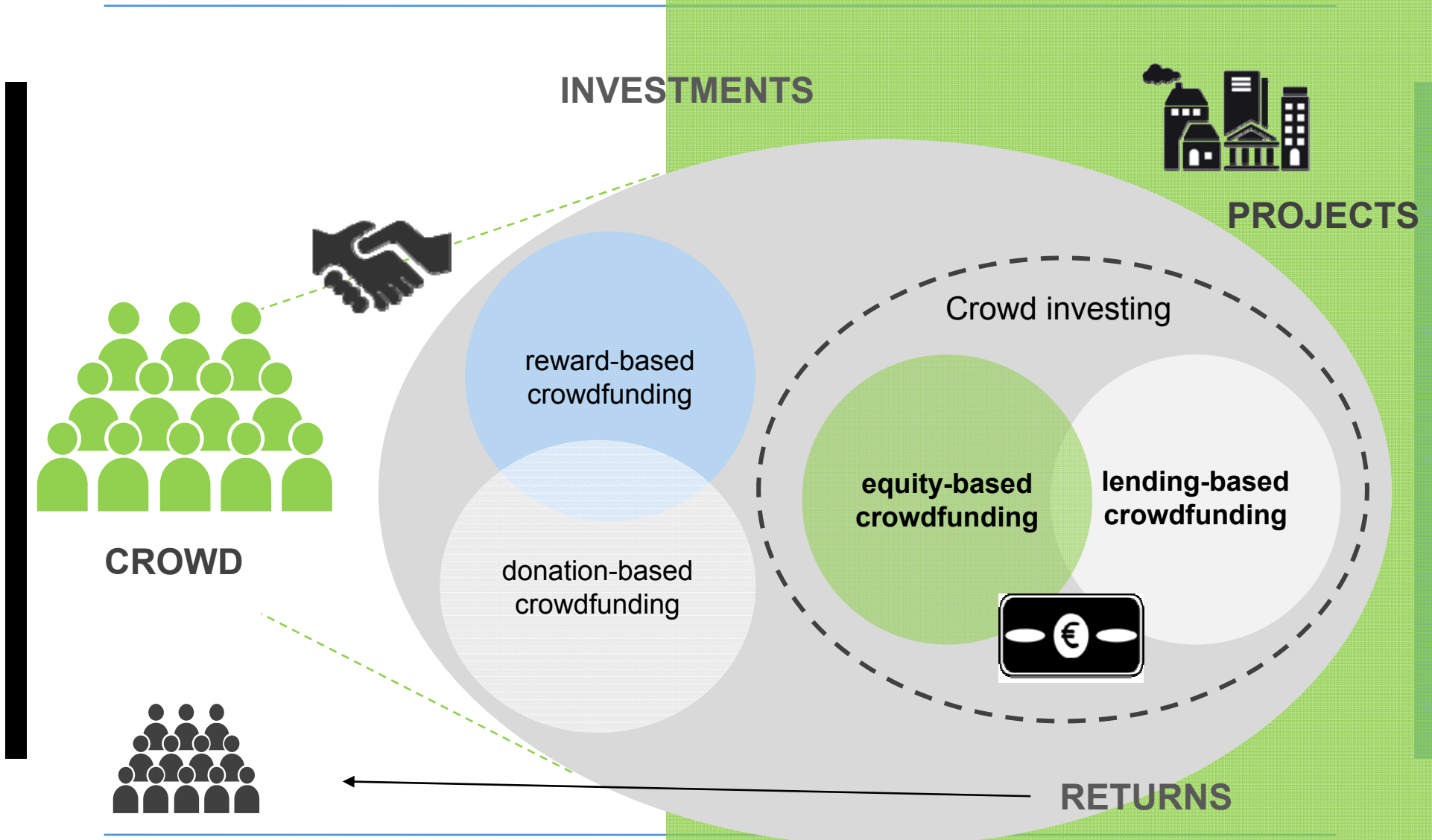
Developing **documentation for both investors and project sponsors**, including green (climate) covenants and provisions for green (climate) default based on the quantities of CERs issued.

Preparing **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.





# Crowdfunding and investing, how does it work?



## Results - Crowd-investing

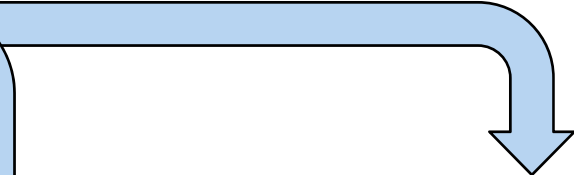
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### Agreed actions:

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

Maintaining a direct **relationship with UNDP and crowd-funders** to ensure that the facility finances projects suitable for crowd-investing;

**Establishing links with other organizations** and networks, and media outreach and web- based promotion of the concept.



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.

### 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.



# First set of CDM projects to benefit from crowd investing

**Climate-friendly Landfill Gas Project in Columbia**  
funded in 18 hours and 1 minute

**8% Return on investment**

**146,214 t CO2 saved**

**3 year term**

**100% more efficient**

**110,300 € invested**

**110,300€ from 195 investors**

Funding Threshold: 72,210€

**Jetzt kostenlos registrieren**

The remaining capital required to restart operations and complete operation was sourced with 18 hours via a crowdinvest platform – a company that forms part of a bilaterally funded initiative to stimulate innovative crowdfunding solutions



## Results – Support to BOAD and EADB

### Agreed actions:

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 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 climate finance desk at the EADB, including capacity- and expertise-building on the use of the CDM in climate finance.



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.

### Results to date:

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. BOAD to hold a roundtable to launch its green bond programme in June. 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;





## Infrastructure Development Bank of Zimbabwe (IDBZ)

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The IDBZ was formed on the 31st of August 2005, taking over the assets and liabilities of the former Zimbabwe Development Bank (“ZDB”). It was primarily set up as a vehicle for the promotion of economic development and growth, and improvement of the living standards of Zimbabweans through the development of infrastructure, which includes but not limited to energy, transport, water and sanitation, information communication technology (ICT) and housing.

The IDBZ’s Medium Term Strategy: 2016-2020 is informed by three agendas namely the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset), the Ten-Point Plan and the recently approved United Nations’ 2030 Agenda for Sustainable Development Goals (SDGs).



via the RCC, the CEO of the IDBZ formally requested assistance in late 2016



## Additional activity – Support IDBZ



### Proposed actions:

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;

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.

### Proposed means of delivery:

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;

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.

Develop the use of the CDM and sale of CERs to assist sovereign debt restructuring in emerging markets.



## Impacts

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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

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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. Any actions initiated in 2017 are likely to continue into 2018.





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**THANK YOU**

