UNFCCC-ADB-IGES: Asia and Pacific Region Workshop

SYNERGETIC WORKING OF CDM WITH NAMAS AND GREEN BONDS

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(A) CDM AND NAMAS

Need for Synergy

1) Transformation of NAMAs from concept to reality.

2) This presupposes ascertaining:

<u>During planning and assessment</u>: GHG reduction a NAMA is expected to achieve and the cost for it → estimation methodology

After implementation: GHG reduction that has actually been attained and the cost for it → MRV procedures

Less Problematic than Feared

- 1) Except for some infrastructure functions (e.g. capacity building and over-all management), NAMAs essentially consist of a collection of individual projects, which are highly compatible with the CDM.
- 2) NAMA planners are prepared for an elaborate process.

3) CDM methodologies now cover wide varieties of project type.

Some Examples

- 1) AMS-I.L.: Electrification of rural communities using renewable energy.
- 2) AMS-III.BA.: Recovery and recycling of materials from E-waste.
- 3) AM0042: Grid-connected electricity generation using biomass from newly developed dedicated plantations.
- 4) ACM0022: Alternative waste treatment processes.

Need for Modifications for NAMA Application

- 1) Some simplifications without unduly compromising environmental integrity. For NAMAs, the approach of "Conservatism is king" does not fit.
- 2) Of particular importance is MRV procedures that take into account trade-offs between cost and accuracy and combine it with the materiality concept.

(B) CDM AND GREEN BONDs

Need for Synergy

		Availability of financing for initial investment costs	
		Available	Not available
Profitability	Adequate	Case I: Can be implemented on a business-as-usual basis	Case II: Often the key problem for mitigation actions → need for upfront financing
	Insufficient → needs annual supplementary income to be viable	Case III: Fits well with the current practice of the CDM (payment against delivery), when combined with a fair value for GHG reduction	Case IV: Difficult issue. Can be discussed only for projects with high social value.

Significant Obstacles to Synergy

1) Green Bonds are not solely for climate change mitigation.

- 2) For climate change mitigation, many Green Bond issuers opt to ensure environmental integrity through designation of project types, not by MRV.
- 3) Concentration on large projects.

A Possible Path (1)

1) Creation of Climate Change Mitigation Bonds (CCMBs) as a distinct category within Green Bonds.

- 2) CCMBs do not preclude the Green Bond avenue for other distinct categories that include adaptation measures, pollution control and biodiversity.
- 3) CCMBs commit to apply adequate MRV procedures and report GHG reductions achieved through financing with the proceeds of CCMBs.

A Possible Path (2)

- 4) Advocacy of CCMBs vis-a-via Green Bond issuers and investors, emphasizing that CSR investors' increased sophistication demands higher precision about "greenness".
- The suggested finer segmentation of Green Bonds will allow CSR investors to be clear about what exactly they intend to support through their purchase of "Green Bonds".

A Possible Path (3)

6) A need for host country aggregators to cope with the size and risk issues → National development banks, ESCOs, PoA CMEs, etc.

7) Possible NAMA Bonds (issued by NAMA funders) with the express purpose of providing debt financing to a number of NAMAs. This will allow collaboration between the CDM, NAMAs and Greed Bonds.

Future Potential

8) The creation of Climate Change Mitigation Bonds (CCMB) realizes the linking of the CDM with the mainstream capital market and enhances the much-needed conduit for funnelling private sector funds to climate change mitigation activities.

9) This will entail development of a simplified subset of the CDM focused on certified reductions not intended as off-sets for national obligations.

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