CLEAN DEVELOPMENT MECHANISM

CDM-EB107-AA-A09

Information note

CDM Loan Scheme: Final report

Version 01.0

United Nations
Framework Convention on
Climate Change

COVER NOTE

1. Procedural background

1. Through its decision 2/CMP.5, paragraph 49, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) requested the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) to allocate financial resources from the interest accrued on the principal of the Trust Fund for the Clean Development Mechanism, as well as voluntary contributions from donors, to provide loans to support certain activities relating to the CDM in countries with fewer than 10 registered CDM project activities. Further details about the design of the CDM Loan Scheme were provided in decision 3/CMP.6.

2. Pursuant to decision 3/CMP.12, providing further guidance regarding the CDM Loan Scheme, no further loans were issued and the Loan Scheme entered its recovery phase, whereby the implementing agency started to close and settle expired loans.

3. The CDM Loan Scheme concluded operations by the end of 2019 with outstanding administrative and budgetary issues settled in 2020.

2. Purpose

4. The purpose of this information note is to provide the final update about the CDM Loan Scheme, including performance, budgetary issues and lessons learned.

5. The CDM Loan Scheme is a first-of-its kind initiative and has generated valuable lessons about the conditions and requirements needed to allow this type of instruments to work well. The challenges and successes of the CDM Loan Scheme are not only the result of its design and operation, but are even more affected by the changing fates of the CDM itself and the markets within which it is operating. The insights and experiences gained may be useful to keep in mind for considerations of any future initiatives of this kind.

3. Recommendations to the Board

6. The Board is invited to take note of the information provided in this note.

TABLE OF CONTENTS **Page**

1. Introduction

1. Through its decision 2/CMP.5, paragraph 49, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) requested the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) to allocate financial resources from the interest accrued on the principal of the Trust Fund for the Clean Development Mechanism, as well as voluntary contributions from donors, to provide loans to support certain activities relating to the CDM in countries with fewer than 10 registered CDM project activities.

2. In annex III to decision 3/CMP.6, the CMP established the guidelines and modalities for the operationalization of a loan scheme (the G&M) to support the development of CDM project activities in countries with fewer than 10 registered CDM project activities and requested the secretariat to select and contract a public or private institution (an implementing agency) to administer the CDM Loan Scheme.

3. The secretariat selected the United Nations Office for Project Services (UNOPS) as the implementing agency for the CDM Loan Scheme in late 2011.

4. Following an evaluation of the CDM Loan Scheme in 2016 by the secretariat, leading to recommendations from the Board to the CMP, the CMP, at its twelfth session (November 2016), adopted further guidance in relation to the CDM Loan Scheme (see decision 3/CMP.12, paragraphs 11 to 17 (reproduced in the appendix)).

5. Since then, no further loan applications were received and the Loan Scheme entered into its recovery phase, during which the implementing agency managed, settled and closed expiring loans. This work was effectively concluded by the end of 2019, with administrative and budgetary closing carried out in 2020.

6. In cases where the supported CDM projects were deemed unlikely to be repaid as per the terms in the loan agreement due to delays in implementation or for other reasons, the loans entered a cancellation phase in which the repayment of disbursed funds was sought.

7. When circumstances warranted, as per the guidance in the G&M, individual loans were written off in accordance with the applicable Financial Regulations and Rules of the United Nations and the guidance from the CMP referred to in paragraph 4 above. Such write-offs by UNOPS were correspondingly recorded in the accounts of the secretariat in accordance with the Financial Regulations and Rules of the United Nations.

2. Type, location, size and status of approved loans and projects

8. The CDM Loan Scheme was officially launched in April 2012. Since then, a total of 191 applications for loans were received, of which 78 loan agreements were approved and 63 loans were proceeded to execution. The tables below provide an overview of the distribution of the 63 loans that proceeded to execution.

9. Table 1 shows the distribution of loans across different countries and indicates whether the host country of the supported CDM project is a Least Developed Country (LDC). The CDM Loan Scheme was set up to support CDM projects in countries that have fewer than

10 registered CDM projects, as well as in LDCs, recognizing the special needs of this group of countries.

Table 1. Distribution of loans across project host countries

Country	Total	LDC/non-LDC
Bangladesh	3	LDC
Belize	1	Non-LDC
Burkina Faso	1	LDC
Burundi	1	LDC
Cambodia	1	LDC
Cameroon	4	Non-LDC
Côte d’Ivoire	2	Non-LDC
Democratic Republic of the Congo	1	LDC
Ethiopia	2	LDC
Ghana	2	Non-LDC
Iran	4	Non-LDC
Kenya	3	Non-LDC
Lao People’s Democratic Republic	3	LDC
Madagascar	1	LDC
Malawi	3	LDC
Mali	2	LDC
Mauritius	2	LDC
Mongolia	1	Non-LDC
Mozambique	3	LDC
Myanmar	1	LDC
Nepal	2	LDC
Nigeria	2	Non-LDC
Rwanda	2	LDC
Senegal	3	LDC
Sudan	2	LDC
United Republic of Tanzania	3	LDC
Togo	2	LDC
Uganda	2	LDC
Zambia	4	LDC
LDC	**44**	
Non-LDC	**19**	
Total	**63**	

10. Table 2 shows the distribution of loans against different technology types of CDM projects. It can be noted that the most common supported project type is household energy

efficiency projects with a focus on clean cook stoves. This type of project is well suited for the conditions often found in LDCs and is also typically contributing to reducing indoor air pollution. The Loan Scheme has been important for enabling this type of projects, which otherwise struggles to find financing.

Table 2. Distribution of loans against project technology types

Project type	Total
Biogas	1
Biomass	6
Energy Efficiency (EE) in households – lighting	3
EE in households – cook stoves	16
EE in industry	1
EE services – water purification	3
Supply-side EE – single cycle to combined cycle	1
Energy distribution	2
Fossil fuel substitution	3
Geothermal	1
Hydropower	7
Landfill gas	4
Methane avoidance (domestic manure)	3
Methane avoidance (wastewater)	2
Reforestation	1
Solar photovoltaics	6
Transport	2
Waste handling and disposal	1
Total	**63**

11. Table 3 shows the scale of projects supported by the Loan Scheme, indicating that the most common project scale supported is programme of activities.

Table 3. Loan agreement distribution according to project scale

Scale	Total
Large-scale project	19
Programme of activities	31
Small-scale project	13
Total	**63**

12. Table 4 shows the distribution of loan amounts per project. It can be seen that the loan amounts ranged from USD 2,000 to USD 167,500 and that the majority of projects were granted loans of USD 75,000 or less.

Table 4. Distribution of loan amounts

Loan amount (USD)	Number of loans
< 25,000	13
25,000-50,000	12
50,000-75,000	18
75,000- 100,000	9
100,000-125,000	5
>150,000	6
Total	63

13. An explicit objective of the CDM Loan Scheme was to help develop CDM projects in under-represented countries (having fewer than 10 CDM projects registered) and in LDCs. A success indicator is how many projects have proceeded to registration. In this regard, the implementing agency reports progress of supported projects against six milestones: 1. Project Design Document prepared; 2. Validation start; 3. Validation report; 4. CDM project registration request submitted; 5. CDM registration approved by UNFCCC; and 6. Monitoring and verification submitted. The number of Certified Emission Reductions (CER) issued by supported projects was not monitored in the Loan Scheme.

14. Table 5 shows the number of supported projects that reached each step.

Table 5. Progress of supported loans against milestones

Milestone	Number of projects
1. PDD	41
2. Validation start	41
3. Validation report	36
4. CDM registration request	27
5. UNFCCC registration	33
6. Monitoring and verification	19

15. It should be noted that not all projects started from milestone 1, but each loan may support parts of, or the entire, process from PDD development to the verification and monitoring stage. This explains why there are, for example, more project registrations than registration requests.

3. Repayment and write-offs of loans

16. From the start of the CDM Loan Scheme in April 2012, a total of 191 applications were received. Seventy-eight loans were approved, of which 63 progressed to the signature of the loan agreements.

17. Since the CDM loan scheme went into its recovery phase, the implementing agency has worked with loan recipients to close the loans. Following an assessment procedure developed in consultation with the UNFCCC secretariat, the implementing agency

assessed in each case whether the loan could be repaid as per the original conditions in the loan agreement, or if the loan qualified for write-off according to the guidance provided in decision 3/CMP.12. Such conditions included failure to have the project registered, project abandonment, and force majeure situations, such as civil unrest and natural disasters.

18. In cases where the status of the project supported by the loan has not been possible to confirm, where the loan recipient has neither repaid nor provided documentation required to approve write-off, the loan recipients and concerned projects have been red-listed. In these cases, any further transactions, such as issuance of CERs, are blocked until the case is settled. In the meantime, the outstanding receivables have been written down in the UNFCCC account to reflect the actual financial situation. Table 6 shows the distribution of the number of projects repaid, written off or red-listed, and corresponding total loan amounts.

Table 6: Repayment and write-off of loans

Loans	Number of loans	Total sum (USD)
Fully repaid	22	1,330,937
Written off	26	1,578,049
Red-listed	13	736,308
Withdrawn	2	0
TOTAL	**63**	**3,645,294**

19. In total, USD 9,020,802 has been transferred into UNOPS loan scheme accounts since the start of the Loan Scheme, of which:

(a) USD 4,616,811 was allocated for the disbursements of loans, of which USD 3,645,294 were distributed to loan recipients;

(b) USD 2,239,286 was allocated for UNOPS service charges;

(c) Remaining funds are returned to UNFCCC as unallocated and repaid funds.

20. The implementing agency has now concluded all its transactions under the CDM Loan Scheme and returned outstanding funds to the UNFCCC secretariat. If any further repayments are made from the red-listed projects, these will be transferred to the UNFCCC secretariat and financial accounts will be adjusted accordingly.

4. Lessons learned

21. The CDM Loan Scheme was a first-of-its-kind mechanisms for the UNFCCC. The more pertinent lessons learned are summarized in the paragraphs that follow.

22. The CDM Loan Scheme was established to support the development of CDM projects in underrepresented countries, defined as countries with fewer than 10 CDM projects registered, and in LDCs. Most of the LDCs also qualify for support in terms of also being underrepresented in the CDM. The conditions for CDM project development in these countries are typically quite weak, which may explain why there are fewer projects in the first place. Factors hampering project development typically range from poor infrastructure

and lack of experts and data, to lack of administrative capacity, counter-productive domestic policies, and competing development priorities.

23. The CDM loan scheme provided a much-needed financial life-line to allow project developers to engage experts to help move their CDM projects forward, but did not in itself improve the conditions for CDM projects in these countries. Considering this, the fact that more than 50 per cent of the approved loans resulted in new CDM project registrations must be seen as a success. However, the loan scheme might have been more effective had it been complemented with targeted capacity-building efforts in the project countries.

24. Mostly due to the difficult conditions in the project countries, a majority of the projects supported by approved loans were delayed, and loan agreements had to be amended repeatedly to avoid breach of the loan contracts. Partly contributing to this were the loan conditions set at CMP level, which reduced the administrative flexibility of the Loan Scheme. A lesson learned in this regard is that development of CDM projects in countries with less favourable conditions typically requires more time than such projects would need in other countries. This could have been foreseen and built into the loan conditions from the outset to avoid the extra administrative burden associated with the delays and contract amendments.

25. A fundamental assumption underpinning the CDM Loan Scheme was that once the CDM projects had achieved registration, the loans would be repaid using the proceeds from selling CERs generated by the supported project (the CERs were both the collateral and the source of repayment income). With the collapse of the CER price in 2012, this assumption became invalid, and the business case for many CDM projects also became invalid. This is probably the foremost reason why 40 per cent of the loans had to be written off. The design of the Loan Scheme did not consider any possibility of the market for CERs not being as buoyant as it was when the scheme was designed. In addition, the overly detailed CMP decisions on exactly how the loan scheme operated prevented the implementing agency or the secretariat from adapting to these severe market changes in any material way until the evaluation and CMP guidance.

26. The evaluation of the CDM Loan Scheme in 2016 highlighted this fact and proposed that the loan scheme could be converted into a grant scheme to reduce the burden of repayment, which for many loan recipients became very difficult to handle. Considering the time and effort it had taken for loan recipients, the implementing agency and the UNFCCC secretariat to close and recover or write off loans, a grant scheme might have been more cost-effective and satisfactory for all involved.

27. The costs of running the CDM Loan Scheme have been significant, with the operational costs incurred by the implementing agency amounting to almost 60 cents for every dollar issued as a loan. The implementing agency was selected following a rigorous procurement process according to UN rules and regulations and conducted its work in accordance with agreed requirements and standard fees set by UNOPS. The relatively high administrative costs of the Loan Scheme (as compared to the loan amounts handled) may have been the same or even higher with another implementing agency and is primarily a consequence of the overly detailed structure and the G&M adopted by the CMP for the Loan Scheme itself. This is a valuable lesson. Even a loan scheme in which funds are expected to be recovered may be expensive to operate. The operational costs for a grant scheme were never evaluated, but they may offer a less expensive option, everything considered, for potential future similar initiatives.

28. The Loan Scheme was constructed as a tripartite agreement between the implementing agency granting the loan, the consultant who was the expert ("CDM consultant") providing services to help move the project forward and receiving the funds, and the project developer (legally the loan recipient) who benefited from the service by the CDM consultant and who was legally responsible for repaying the loan. The loan payments were made against work done by the consultant (the consultant's work consumed the loan amounts). During the recovery phase of the Loan Scheme, it became apparent that the separation of the formal loan recipient (the project developer) and the actual recipient of the loan funds (the CDM consultant) made recovery more difficult, with responsibilities confused or misunderstood. For example, some loan recipients had not recorded the loan as debt in their accounts, for reasons that remain unclear. Some consultants, having been paid for their work done, were not committed to ensuring repayment by their former client (the project developer). It would have been easier to operate the Loan Scheme had the project developer been both the formal and actual loan recipient, thereby making the relationship to the implementing agency limited to a direct and single one.

29. The loan scheme included an "upfront fee" of USD 5,000 payable by the loan recipient and which was deducted from the approved loan amount and repaid as an incentive to the loan recipients after full repayment of the loan. In fact, the upfront fee was never part of the loan, as it was not repayable but was considered an administrative cost to encourage repayment of the loan. The only observable effect this construction had was to generate considerable confusion in the accounting of the Loan Scheme budget. It is clear that this kind of incentive mechanism is more confusing than helpful and should be avoided in the future.

30. The CDM Loan Scheme has directly supported 63 projects, of which 33 have achieved registration at UNFCCC. Since the start of the Loan Scheme, eight of the countries hosting Loan Scheme-supported CDM projects have crossed the threshold to have more than 10 registered CDM projects. However, the indirect benefits are probably much more significant than what these numbers indicate. For every supported CDM project in any of the 28 host countries, real and tangible efforts have been made to identify and realize emission reduction opportunities that also come with sustainable development benefits. While many projects did not achieve registration, they have contributed to awareness raising, improved understanding of the conditions for climate action on the ground, created networks and cooperation that most often have straddled international borders, and overall contributed to improved readiness at the national and local levels to tackle climate change. While the CDM Loan Scheme has met with unexpected difficulties, with many loans failing to deliver CDM project registrations, there is no doubt that overall it has had a significant positive impact in building awareness and capacity for climate action in the countries suffering the most from climate change.

31. Finally, it deserves to be recognized that while a few loan recipients have not been able to satisfactorily settle their loans, the vast majority have not only honoured their commitments but have also gone to significant lengths to report, repay and cooperate to settle their loans and fulfil their obligations. Many project developers, CDM consultants and Designated National Authorities have demonstrated an impressive personal commitment to develop and support projects and to support climate and sustainable development at the project sites, even during difficult conditions due to the uncertainty surrounding the future of CDM.

5. Recommendations to the Board

32. The Board may wish to take note of the information contained in this note.

Appendix. Decision 3/CMP.12, paragraphs 11–17, Guidance regarding the CDM Loan Scheme

IV. CDM Loan Scheme

11. *Recalls* the purpose of the CDM Loan Scheme, which is to increase the participation of underrepresented countries in the clean development mechanism;

12. *Takes note* of the report on the evaluation of the CDM Loan Scheme, implemented pursuant to decision 2/CMP.5, paragraphs 49 and 50, and decision 3/CMP.6, paragraphs 64 and 67, and annex III;

13. *Recognizes* the implications for the CDM Loan Scheme of the current low price of certified emission reductions and, in particular, the implications for the recipients of CDM Loan Scheme funds with regard to potential difficulties in the repayment of loans;

14. *Decides* that the implementing agency of the CDM Loan Scheme, after consultation with the secretariat, may write off amounts disbursed under individual loans on a case-by-case basis, where it becomes evident that it will not be feasible for the loan recipient to repay the disbursed funds;

15. *Requests* the implementing agency and the secretariat to work closely with loan recipients that wish to continue under the CDM Loan Scheme to help those recipients to identify ways to progress through the project cycle, including making adjustments to loan agreement terms, if appropriate;

16. *Decides* that the secretariat should not seek a new implementing agency after the expiry of the term of the current contract as required by decision 3/CMP.6, annex III, paragraph 8;

17. *Also decides* that other changes to the CDM Loan Scheme are not required at this time;

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Document information

Version	*Date*	*Description*
01.0	7 September 2020	Published as an annex to the annotated agenda of EB 107.

Decision Class: Operational
Document Type: Information note
Business Function: Governance
Keywords: annual report, loan scheme, reporting procedures