

# Linking the Clean Development Mechanism with the Green Climate Fund

Insights from Practitioners and  
Decision Makers in Africa

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## Publication series

This publication features as part of a series exploring options for linking the Green Climate Fund and the Clean Development Mechanism. The first publication in this series is entitled '*Linking the Clean Development Mechanism with the Green Climate Fund: Models for scaling up mitigation action*'. The publication explores the compatibility of Clean Development Mechanism activities with the investment criteria of the Green Climate Fund, and proposes financial and non-financial engagement models. You can access the report at <http://bit.ly/2o18Rxv>

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# Preface

Africa has achieved considerable growth in its pipeline of Clean Development Mechanism (CDM) activities. The Nairobi Framework, agreed at COP11 in 2005, mandated the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat to facilitate concerted efforts by governments, development partners and the private sector to broaden access to the CDM, in particular by African countries. It is great to see these efforts bear fruit, as a result of reformed CDM rules, capacity building and investment. Despite Africa's efforts, however, low global mitigation ambition has depressed carbon market prices. This prevents many of Africa's hard-won CDM activities from sustaining and scaling up their mitigation impact.

Looking ahead, the Paris Agreement provides new confidence in multilateral market mechanisms. Yet, the commendable ambition of the Agreement will not generate new demand for African Certified Emission Reductions (CER) before 2020. Moreover, the relationship between the CDM and these new mechanisms, established in Article 6 of the Paris Agreement, still needs to be resolved. Africa's CDM pipeline, however, already exhibits many of the qualities that will remain relevant post-2020. Programmatic CDM activities enable sustainable energy access that promise scale, deliver high sustainable development benefits, and strong country ownership. These activities have demonstrated that they deliver additional climate and development benefits, and therefore deserve the much-needed immediate support that could be provided through international climate finance.

One approach to resolving this challenge is to work towards greater synergies between the different mechanisms and institutions within the UNFCCC system. The Green Climate Fund (GCF) can contribute to building a bridge between the existing Kyoto and the emerging Paris mechanisms. For those CDM activities that meet the GCF's investment criteria, GCF finance can unlock the mitigation potential of Africa's CDM pipeline. The GCF stands to gain from drawing on UNFCCC-backed monitoring, reporting and verifying mitigation standard, which improves the transparency of its operations. This will become crucial once countries begin reporting on their nationally determined contributions.

This timely publication collects views from African stakeholders on whether and how the CDM and the GCF can mutually benefit from each other's strengths. This represents the first collection of the perspectives on this topic by project developers, GCF Accredited Entities, government focal points for the CDM and GCF, the UNFCCC and the GCF in a single report.



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# Acronyms

<b>AE</b>	Accredited Entities
<b>AfDB</b>	African Development Bank
<b>AGN</b>	African Group of Negotiators
<b>BOAD</b>	Banque Ouest-Africaine de Développement
<b>CDM</b>	Clean Development Mechanism
<b>CER</b>	Certified Emission Reduction
<b>CMP</b>	Conference of the Parties serving as the Meeting of Parties to the Kyoto Protocol
<b>CMA</b>	Conference of the Parties serving as the Meeting of Parties to the Paris Agreement
<b>COP</b>	Conference of Parties
<b>DNA</b>	Designated National Authority
<b>GCF</b>	Green Climate Fund
<b>LDC</b>	Least Developed Country
<b>MRV</b>	Monitoring, Reporting and Verification
<b>MtCO<sub>2</sub>e</b>	Million tonnes of carbon dioxide equivalent
<b>NDA</b>	National Designated Authority
<b>NDC</b>	Nationally Determined Contributions
<b>NEMA</b>	National Environment Management Authority Kenya
<b>PoA</b>	Programme of Activities
<b>REDD+</b>	Reducing Emissions from Deforestation and Degradation
<b>SBI</b>	Subsidiary Body for Implementation
<b>tCO<sub>2</sub>e</b>	Tonnes of carbon dioxide equivalents
<b>UNEP</b>	United Nations Environment Programme
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>USD</b>	United States Dollar

# Executive Summary

The Green Climate Fund (GCF or Fund) and the Clean Development Mechanism (CDM) both operate within the framework of the United Nations Framework Convention on Climate Change (UNFCCC), and share the common goal of channelling finance to activities that mitigate climate change while promoting sustainable development. The topic of linking the CDM and the Fund was explicitly discussed during a meeting of the UNFCCC's Subsidiary Bodies for Implementation (SBI 44), and the discussions were taken up again in Marrakech during the 12<sup>th</sup> Conference of the Parties serving as the Meeting of Parties to the Kyoto Protocol (CMP12).<sup>1</sup> During the first meeting, the co-chair of the GCF Board emphasised that the Fund aims to complement other financing initiatives, including the CDM.<sup>2</sup> Leveraging the synergies that exist between the GCF and the CDM is a potential opportunity to rapidly scale up mitigation action on the African continent and beyond.

This publication gathers perspectives from practitioners and decision-makers in Africa on whether and how the Fund could make use of elements of the CDM's pipeline of activities and infrastructure to strengthen the robustness of its funding activities and facilitate the allocation of funding to mitigation activities in Africa. The views expressed are based on interviews with a diverse range of stakeholders with expertise in the topic at hand, including CDM project developers, GCF Accredited Entities, governmental focal points for the GCF and the CDM, the UNFCCC Secretariat, and the GCF Board and Secretariat, amongst others.

The majority of stakeholders across all categories are **in favour of the GCF supporting CDM activities**, and there is a general consensus that elements of the CDM can add value to the Fund. Above all, they point out that the mechanism offers an existing pipeline of more than 500 registered CDM activities<sup>3</sup> in Africa that can be **rapidly mobilised** to deliver verifiable mitigation outcomes at scale. The activities are backed by **UNFCCC-approved methodologies** for calculating greenhouse

gas emission reductions and a well-functioning **verification framework** that ensures robustness. Programmes of Activities (PoA), in particular, offer mitigation opportunities that can be rapidly expanded and replicated. Many African CDM activities also have the potential to deliver sustainable development benefits in support of the Sustainable Development Goals, including the promotion of affordable and clean energy access (Goal 7), amongst others.<sup>4</sup> The CDM has furthermore proven to be an effective mechanism for **private sector engagement**, a strategic objective shared by the GCF.

Some stakeholders suggest that a **distinction should be made between new and existing activities**. New activities should for example not be required to follow the complete CDM project cycle in order to access the GCF, and could instead simply make use of the CDM's Monitoring, Reporting and Verification (MRV) framework **without seeking UNFCCC's issuance of Certified Emission Reductions (CER)**. This would reduce transaction costs and speed up access to funding. For existing projects, the GCF should give priority to **struggling projects or stranded assets** that can evidence dependence on a certain minimum carbon price to continue operations, align with national development agendas and exhibit strong **sustainable development benefits**.

After more than a decade of practical experience with the CDM, Africa has **established capacities and expertise** in the application of MRV procedures to mitigation projects and programmes. The CDM Executive Board's efforts to further **simplify and streamline** MRV activities by introducing standardised baselines, default factors, and positive lists for the demonstration of additionality are also important developments that serve to reduce associated transaction costs. At the same time, there is currently **no harmonised approach to measure mitigation outcomes** of GCF funded activities, with the Fund instead relying on Accredited Entities (AE) to propose their own approaches. This is likely to result in inconsistent MRV approaches that are not comparable, limiting the Fund's

<sup>1</sup> UNFCCC (2016) *Guidance relating to the clean development mechanism*. FCCC/KP/CMP/2016/8/Add.1

<sup>2</sup> UNFCCC (2016) *Report on the workshop on financing and use of the clean development mechanism by international climate finance institutions*. Version 01.0

<sup>3</sup> Activities refers both the standalone CDM projects, as well as Component Project Activities under a Programme of Activities

<sup>4</sup> United Nations (2015) A/70/L.1 *Transforming our world: the 2030 Agenda for Sustainable Development Knowledge Platform*. Available at <http://bit.ly/1Ep648>

ability to evaluate the effectiveness of its engagement over time. The CDM's methodologies and procedures provide a robust MRV toolkit applicable to a wide range of mitigation activities that is linked to third party verification protocols implemented by designated auditors.

Government focal points for the CDM and GCF – notably Designated National Authorities (DNA) and National Designated Authorities (NDA) – are supportive of and see added value in GCF proposals that make use of these elements of the CDM. They suggest that GCF funds could be delivered via **CER price guarantees** to secure revenues streams over time. **Concessional loans** could also be offered at low interest rates to support struggling activities. Project developers are also in favour of the GCF **offering grants** to enable the expansion of CDM activities. However, the most effective financial instrument will depend on the underlying financial needs of the activity, and should be determined on a case-by-case basis.

The stakeholders that expressed reservations about the GCF supporting CDM activities cited the long timeline and high transaction costs associated with reaching CDM registration and issuance of CERs as key barriers. The need for **further simplification** of the CDM's modalities and procedures in order to reduce the transaction costs associated with the project development cycle was stressed. The Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP) has recognised these barriers, and has issued guidance to the CDM Executive Board to *“continue the simplification of the [CDM], with the aim of further simplifying and streamlining, in particular the registration and issuance processes, and methodologies, while maintaining environmental integrity”*.<sup>5</sup> Whilst it is unclear what role the CDM will play post 2020, experience gained and lessons learned with the mechanism will likely factor into the design of the new generation of voluntary cooperation mechanisms established under Article 6 of the Paris Agreement.

Representatives from the UNFCCC Secretariat interviewed for this publication highlight that if CDM projects are to access GCF financing, there is a need to **build national capacity for the presentation of strong project and programme proposals**. The GCF has acknowledged the need for readiness support activities on the country level to assist with the development of initial pipelines of project and programme proposals aligned with the objectives and investment criteria of the Fund, but has not focused on the CDM specifically as part of this effort.

The arguments for linking the CDM with the GCF mentioned by interviewed stakeholders align with the CMP guidance, which encourages the CDM Executive Board *“to continue exploring options for using the [CDM] as a tool for other uses... [and to] explore the opportunities for the financing of the [CDM] through international climate financing institutions, such as the Green Climate Fund”*.<sup>6</sup> Equally, the GCF's Governing Instrument calls on the GCF Board to *“develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilise the full range of financial and technical capacities”*.<sup>7</sup> The CDM also features as one of four potential financing instruments that the Fund's Private Sector Facility – the Fund's arm mobilising private sector capital – could use to leverage private sector capital.<sup>8</sup>

Looking beyond 2020, the CDM for now remains the most robust and transparent results-based financing mechanism functioning in developing countries through which international climate finance flows can be matched with verifiable mitigation results. As such, the mechanism is expected to influence the shape and modalities of the new mechanism to be defined under Article 6.4 of the Paris Agreement, and opportunities for linking with the GCF should be explored.

<sup>5</sup> UNFCCC (2016) *Guidance relating to the clean development mechanism. 6 /CMP.11*, paragraphs 7 and 8

<sup>6</sup> UNFCCC (2016) *Guidance relating to the clean development mechanism. 6 /CMP.11*, paragraphs 7 and 8

<sup>7</sup> GCF (2011) *Governing Instrument for the Green Climate Fund*

<sup>8</sup> GCF (2013) *Business Model Framework: Private Sector Facility*. GCF/B.04/07



# 1 Introduction

This publication aims to present the views of a broad group of stakeholders involved in Clean Development Mechanism (CDM) and Green Climate Fund (GCF or Fund) activities in Africa. Interviewed stakeholders share their experiences in accessing GCF finance, and voice their opinions on whether the Fund should actively support existing or new CDM activities and how the Fund could consider making use of elements of the CDM's infrastructure to fast track funding to mitigation activities in Africa. It is the first such publication gathering perspectives on the topic from practitioners and decision makers active in Africa. In order to capture a wide range of views, close to one hundred individuals from the following stakeholder groups were consulted:

**Project developers** who manage and/or finance on-the-ground mitigation activities registered under the CDM. They have direct, practical experience in applying CDM rules across a broad range of sectors and countries, understand private-sector interests and needs, and in some cases have explored accessing GCF finance in support of their activities;

**Accredited Entities (AE)** to the GCF, who are responsible for channelling the Fund's financial resources to projects and programmes. The focus is on national and regional AEs that are based in Africa, and international AEs that support activities on the continent. AEs evaluate and develop project proposals for submission to the GCF, and therefore have a key role to play in guiding and ultimately selecting which activities are put forward for the GCF's consideration;

**Government authorities** include CDM Designated National Authorities (DNAs) and GCF National Designated Authorities (NDAs). These entities act as government focal points for both mechanisms, and either approve or issue 'no objection' letters to any CDM or GCF activities taking place within national boundaries. In some countries the DNA and NDA are housed within the same national authority, and at times are represented by the same individual;

**United Nations Framework Convention on Climate Change (UNFCCC)** bodies and institutions are key decision makers defining the rules and requirements of both UNFCCC mechanisms and their application in practice. The UNFCCC bodies and institutions consulted for the purposes of this study include:

- The **UNFCCC Regional Collaboration Centres** in West and East Africa. The centres were established in 2011 in order to broaden the geographic distribution of CDM activities and have on-the-ground presence in certain regions that host CDM activities;
- The **GCF Secretariat and Board**, which is governed by 24 members with equal representation from developed and developing countries.<sup>9</sup> The Board also includes members from small island developing states and least developed countries. African interests are currently represented by four Board members.<sup>10</sup>

To further capture views, an online survey was widely circulated amongst relevant stakeholders. Recipients were asked to respond (by agreeing, somewhat agreeing, somewhat disagreeing or disagreeing) to eight statements regarding their views on supporting CDM activities with climate finance. While responses were anonymous, respondents had the possibility to specify their connection to a stakeholder group and add comments. Responses received are reflected in this publication.

<sup>9</sup> GCF (no date) *The Board, Members*. Available at: <http://bit.ly/2o3pgWO>

<sup>10</sup> Including Evans Davie Njewama (Malawi), Omar El-Arini (Egypt), Tosi Mpanu Mpanu (Democratic Republic of the Congo) and Zaheer Fakir (South Africa) at the time of publication

This first chapter of the publication sets the context for the discussion to follow, providing background on the status of the Fund's engagement and CDM implementation in Africa to date. Discussions around linking the two funding mechanisms are summarised<sup>11</sup>, including the attention each respective governing board has given to the topic based on publically available information. The views of each stakeholder category are then summarised based on the interviews and surveys conducted within the context of this publication. Perspectives are presented from 'on-the-ground' project developers through to GCF Accredited Entities, government authorities and last but not least the UNFCCC and GCF Board.

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<sup>11</sup> Further details on options for linking the GCF and the CDM are provided in the first publication in this series: *Climate Focus, Perspectives and Aera Group (2017) 'Linking the Clean Development Mechanism with the Green Climate Fund: Models for scaling up mitigation action'*. Available at: <http://bit.ly/2ol8Rxv>

<sup>12</sup> Data as of April 2017

<sup>13</sup> GCF (2015) *Decisions of the Board - Eleventh meeting of the Board 2 - 5 November 2015*. GCF/B.11/24

<sup>14</sup> GCF (2016) *Readiness Support State of Play*. Available at: <http://bit.ly/2kwQK5e>

<sup>15</sup> GCF (2016) *Progress and outlook report of the Readiness and Preparatory Support Programme*. GCF/B.15/Inf.08

<sup>16</sup> GCF (2016) *First GCF Structured Dialogue with Africa kicks off in Cape Town*. Available at: <http://bit.ly/2dF3YxS>

<sup>17</sup> ECOWAS (2016) *ECOWAS Holds Workshop on Green Climate Fund*. Available at: <http://bit.ly/2nnpMxN>

## THE GCF AND AFRICA

The GCF was established with the ambition to mobilise international climate finance at scale and to streamline investments into mitigation and adaptation projects and programmes across less developed regions of the world. It represents the largest funding mechanism through which dedicated climate finance is channelled, with USD 10.3 billion currently pledged from 43 governments.<sup>12</sup> The Fund aims to channel a significant portion of the USD 100 billion in long term climate finance that is to be mobilised annually from 2020 onwards. Half of the support is to be allocated to mitigation activities, and half to adaptation activities.<sup>13</sup> Moreover, the GCF's allocation principles state that at least 50% of the adaptation allocation needs to go to least developed countries, small island developing states and African states recognising their particular vulnerability to the consequences of climate change.

Interest in the GCF across the African continent is high, with 52 out of 54 countries having nominated an NDA, the national authority that acts as the focal point for all GCF activities in the country. Equally, the GCF – headquartered in South Korea – is scaling up efforts to reach out to Africa. As part of this initiative, the GCF has established a 'readiness programme' for NDAs, aiming to build countries' capacities to access climate finance. At least 50% of this support is allocated for least developed countries, small island developing states and African states. To date, more than 40% of all readiness support approved has gone to African beneficiaries.<sup>14</sup> The GCF Secretariat currently supports 75 countries under its NDA Readiness and Preparatory Support Programme, of which 26 are African. Yet the demand remains high, with a further 89 countries globally having expressed interest in receiving NDA readiness support.<sup>15</sup>

In addition, the first *GCF Structured Dialogue with Africa* – organised by the GCF – took place in October 2016 in Cape Town,<sup>16</sup> and the Economic Community of West African States held a similar workshop in September 2016.<sup>17</sup> Both workshops aimed to accelerate African engagement with the Fund, with a focus on encouraging the submission of concrete proposals that meet the GCF's investment criteria and impact ambitions.

A significant share of the GCF funding approved to date has been allocated to beneficiaries in Africa. Of the 37 projects approved by the Board, 44% are located in Africa (see Annex I for further project details).<sup>18</sup> The GCF will allocate grants to most projects and programmes, with some also receiving equity investment or concessional loans.

Whilst the GCF has done well to prioritise African needs within the approved project pipeline<sup>19</sup>, there is wide consensus among African stakeholders that the current financing pledges need to be scaled up. This request has been echoed several times by the African Group of Negotiators (AGN) to the UNFCCC who have called for a clear needs assessment and roadmap with milestones to be established up to 2020<sup>20</sup> and emphasised that the USD 100 billion per year "*must be a floor for finance, with larger amounts post-2020*"<sup>21</sup>. There is also consensus that Africa continues to benefit minimally from existing financing mechanisms such as the Global Environmental Facility (GEF) or the CDM<sup>22</sup>, whilst the GCF could – and is – addressing this.

<sup>18</sup> GCF (no date) *Project Portfolio*. Available at: <http://bit.ly/2o2Xw4Z>

<sup>19</sup> GCF (2017) *Portfolio* available at: <http://bit.ly/2oYpH4p>

<sup>20</sup> UNFCCC (2015) *Adoption of the Paris Agreement*. FCC/CP/2015/L.9, paragraph 115

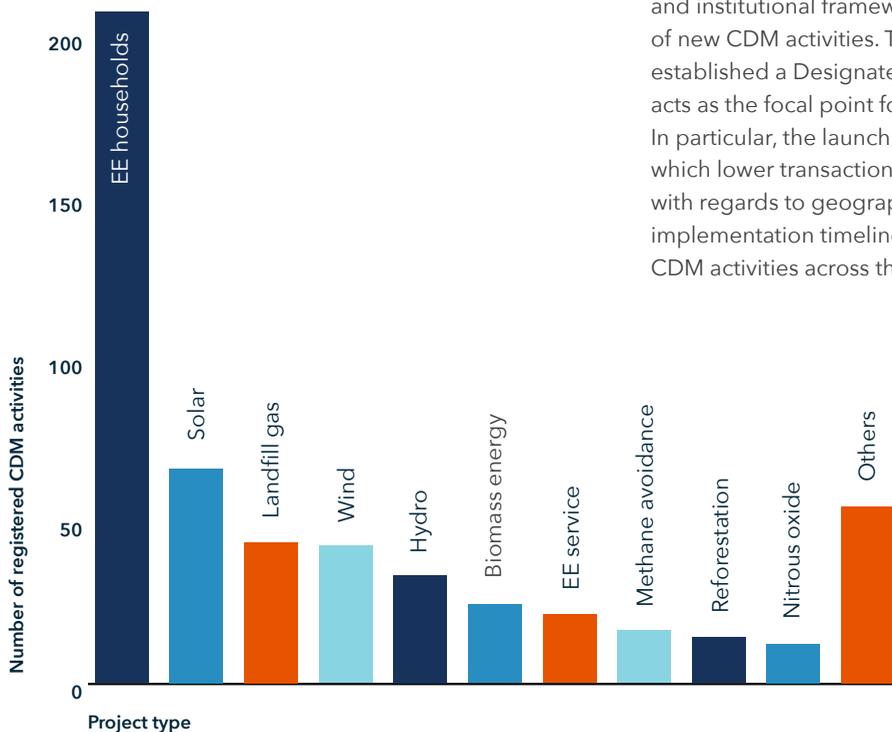
<sup>21</sup> UN Economic Commission for Africa (no date) *Why is COP21 important for Africa?* Available at: <http://bit.ly/2l0u7to>; *ClimDev Africa (2016) COP22 Africa in Action: Climate Finance*. Available at: <http://bit.ly/2kak9GE>

<sup>22</sup> As pointed out by Carlos Lopes (Secretary General of the UN Economic Commission for Africa), who stated that Africa could only receive 7% of all funds allocated under the Global Environmental Facility (2015) COP21: *sauve qui peut l'Afrique!* Available at: <http://bit.ly/2kPe1k3>; and Hela Cheikhrouhou (former Executive Director of the GCF) (2015) *Fonds vert pour le climat - Hela Cheikhrouhou : L'Afrique n'a pas été bien servie jusqu'ici par les finances climatiques*. Available at: <http://bit.ly/2lqT42i>

## CDM ACHIEVEMENTS IN AFRICA

Despite the low representation of the CDM activities in Africa, a number of governments have made it clear in their Nationally Determined Contributions (NDC) that they expect to make use of market mechanisms to fulfil their mitigation ambitions. One analysis carried out for twenty East African countries found that almost 30% of the countries referenced carbon markets in their NDCs, sending a clear signal to their continued role under the UNFCCC post 2020.<sup>23</sup> In Uganda, for example, NDC implementation is conditional upon support “from both climate finance instruments and international market mechanisms”.<sup>24</sup> Furthermore, in South Africa carbon offsetting already forms a substantial element of the country’s plans to introduce a carbon tax in 2018, although the country is rather an exception in its intentions to use markets domestically.

**Figure 1: Registered CDM projects and Component Project Activities on the African continent<sup>26</sup>**



There are currently more than 500 CDM activities – including both standalone projects and Component Project Activities (CPA) – registered in Africa, covering a wide range of sectors. The most common CDM activity type is energy efficiency in households, which includes improved/clean cookstoves and lighting alternatives, such as solar lamps (Figure 1). This is followed by solar photo voltaic, landfill gas, wind- and hydro-power activities, almost all representing projects registered after 2012. South Africa hosts the largest portfolio of registered CDM activities, followed by Kenya, Uganda and Rwanda (Figure 2). In aggregate, these activities are expected to achieve emission reductions of more than 450 million tonnes of carbon dioxide equivalent (MtCO<sub>2</sub>e) by 2020.<sup>25</sup>

Over the years, much effort has gone into reforming CDM rules and modalities to lower the hurdle for project development in less developed regions, including through technical support aimed at strengthening local capacities and institutional frameworks to support the development of new CDM activities. Today, 51 of 54 African states have established a Designated National Authority (DNA), which acts as the focal point for all CDM activities in a country. In particular, the launch of Programmes of Activities (PoA), which lower transaction costs and allow greater flexibility with regards to geographies, eligible technologies and implementation timelines, have encouraged the uptake of CDM activities across the continent.

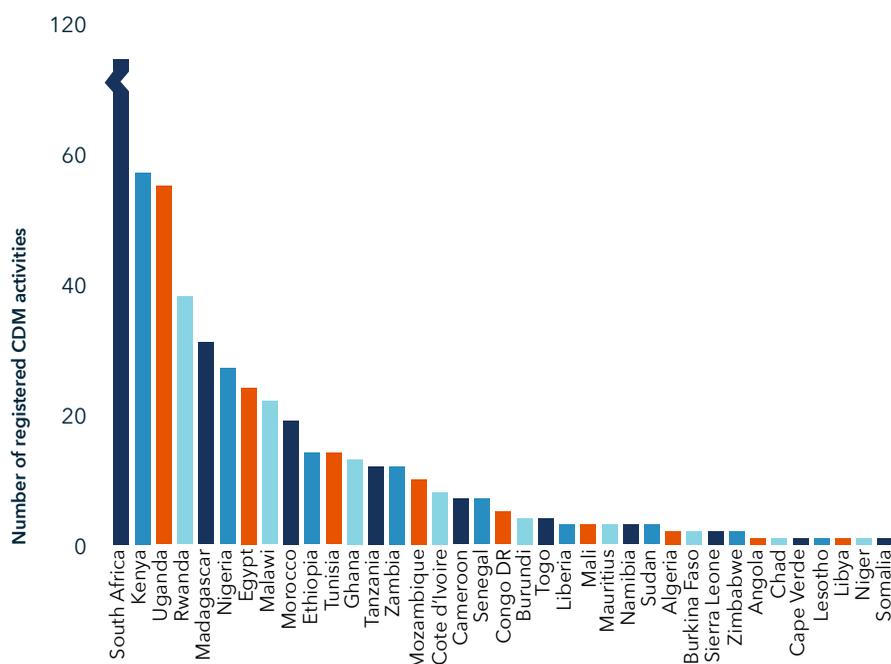
<sup>23</sup> Centre for Climate and Energy Solutions (2015) *Comparison Table of Submitted INDCs (as of December 21, 2015)*. Available at: <http://bit.ly/2pp9cPt>

<sup>24</sup> Ministry of Water and Environment (2015) *Uganda’s Intended Nationally Determined Contribution (INDC)*.

<sup>25</sup> With almost 318 MtCO<sub>2</sub>e coming from CDM stand-alone projects, and 134 MtCO<sub>2</sub>e coming from Component Project Activities by 2020. Source: calculated from UNEP DTU CDM and PoA Pipeline Database. Available from: <http://bit.ly/1pzJAPC>.

<sup>26</sup> EE = energy efficiency, N<sub>2</sub>O = nitrous oxide, CO<sub>2</sub> = carbon dioxide. UNEP DTU CDM and PoA Pipeline Database. Available from: <http://bit.ly/1pzJAPC>

Figure 2: African stand-alone CDM project and Component Project Activities, by country<sup>27</sup>



Other aspects facilitating project implementation include the simplification of CDM methodologies, introduction of default factors for emission reduction calculations, and automatic additionality for certain technologies and project locations (i.e. least developed countries and small island developing states). According to the CDM pipeline, most African countries have by now managed to register at least one CDM activity.<sup>28</sup> Should CDM activities be terminated or side-lined altogether in the post-2020 climate regime, these reforms that have worked well for project developers active in Africa could be almost in vain.

### “The CDM’s mitigation potential could be achieved with GCF support.”

Usman Muhammad, Executive Director, Centre for Renewable Energy and Action on Climate Change, Nigeria

Indeed, the future of these activities and any future scale up plans remains uncertain due to a lack of clarity as to how Article 6 of the Paris Agreement - which concerns the use of market mechanisms by countries to achieve their mitigation objectives - will be implemented. Recognising this, the African Group of Negotiators (AGN) recently made a submission to the UNFCCC’s Subsidiary Body for Scientific and Technological Advice (SBSTA), which requests clarification on how the CDM can transition into the post-2020 framework: “As the African Group, we expect the roundtable to provide space to discuss the issue of transition of mitigation activities registered under the CDM to the Paris Agreement. Africa has built a pipeline of Programme of Activities that are ready to scale up and constitute a key contribution from African Parties.”<sup>29</sup> The AGN also expressed that operationalisation of market-based mechanisms under Article 6.4 should “build on the achievements of flexible mechanisms under the Kyoto Protocol, particularly the CDM, and not lose mitigation activities on the ground and their scaling up potential”.<sup>30</sup>

<sup>27</sup> UNEP DTU Partnership (2017) *UNEP DTU CDM/JI Pipeline Analysis Database*. Available from: <http://bit.ly/1pYDBUx>. Countries not listed do not yet host a registered CDM activity.

<sup>28</sup> UNEP DTU Partnership (2017) *UNEP DTU CDM/JI Pipeline Analysis and Database*. Available at: <http://bit.ly/1pzJAPC>.

<sup>29</sup> UNFCCC (2017) *Submissions and statements at SBSTA 46*. Available at: <http://bit.ly/2nAwA06>

<sup>30</sup> AGN (2017) *Submission by the Republic of Mali on behalf of the African Group of Negotiators (AGN) on Rules, Modalities and Procedures for the Mechanism Established by Article 6, paragraph 4, of the Paris Agreement (Agenda sub-item 10(b))*

## STATUS OF LINKING THE CDM AND THE GCF

Both the CDM and the GCF promote a bottom-up approach to climate action and exist under the premise of “*common but differentiated responsibilities*”, whereby developed countries take the lead in financing mitigation action globally. Given the aligned aspirations of the CDM and the GCF, and the fact that both operate under the auspices of the UNFCCC, it naturally follows that linking the two features on the agendas of the governing boards of both mechanisms. In Paris, the CMP11 encouraged the CDM Executive Board to explore new opportunities for financing the CDM through international climate finance channels.<sup>31</sup> This mandate was renewed in Marrakech during CMP12.<sup>32</sup> The UNFCCC Secretariat in the meantime identified areas where the CDM can contribute to global efforts to reduce greenhouse gas emissions, including:<sup>33</sup>

1. Supporting the implementation of NDCs, whereby the CDM can provide means for realising domestic targets or for supporting the achievement of higher conditional targets proposed by Parties;
2. Serving as an effective MRV tool to enable credible and transparent results-based payments using both public and private climate finance.

### “The CDM can assist the GCF in disbursement of resources”

Abdel Traore, Regional Coordinator for Africa  
(Climate Technology Centre & Network)<sup>36</sup>

In March 2016, the CDM Executive Board issued a call to receive input on the identified options for using the mechanism as a tool for other uses. Further to this, a workshop on financing and use of the CDM by international climate finance institutions was held during the 44<sup>th</sup> session of the Subsidiary Body for Implementation (SBI 44). Linking the CDM with the GCF was one of the topics discussed during this workshop, and the potential for the CDM to support climate financing activities was noted.<sup>34</sup> During the meeting, the co-chair of the GCF Board emphasised that “*the GCF works collaboratively with funds or initiatives, [but that] the GCF aims not to duplicate what other funds or finance systems are doing but rather to complement them... The GCF does not preclude any type of project from funding, and CDM projects are eligible*”.<sup>35</sup> The CDM Executive Board will continue to deliberate this issue based on the inputs received during this workshop.

The GCF’s Governing Instrument, adopted in 2011, acknowledges the value and necessity of building on established UNFCCC mechanisms. Specifically, it calls on the Board to “*develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilise the full range of financial and technical capacities*”.<sup>37</sup> Following the COP17 request<sup>38</sup> to actively collaborate with other UNFCCC bodies the Fund acknowledged the need to develop an engagement strategy with relevant thematic bodies established under the Convention to draw on expertise and lessons learned to date. While its initial communication released in June 2013 explicitly mentioned the CDM as a relevant mechanism, it has been broadly omitted from formal discussions in later board meetings.<sup>39</sup>

<sup>31</sup> UNFCCC (2015) *Guidance relating to the clean development mechanism*. FCCC/KP/CMP/2015/L.4

<sup>32</sup> UNFCCC (2016) *Guidance relating to the clean development mechanism*. FCCC/KP/CMP/2016/8/Add.1

<sup>33</sup> CDM (no date) *Options for using the clean development mechanism as a tool for other uses*. CDM-EB-88-AA-A01. Other options included encouraging voluntary offsetting by corporations, governments or sectors that are likely to face compliance targets in a post-2020 environment; and increasing the number of market-based carbon pricing policies intended to utilise CERs by linking to emerging Emission Trading Schemes worldwide.

<sup>34</sup> UNFCCC (2016) *Report on the workshop on financing and use of the Clean Development Mechanism by international climate finance institutions*, Version 0.1. CDM-2016SR1-INFO0

<sup>35</sup> UNFCCC (2016) *Report on the workshop on financing and use of the clean development mechanism by international climate finance institutions*. Version 01. CDM-2016SR1-INFO0

<sup>36</sup> The views expressed herein are those of the quoted author and do not necessarily reflect the views of the Climate Technology Centre & Network (CTCN) itself

<sup>37</sup> GCF (2011) *Governing Instrument for the Green Climate Fund*

<sup>38</sup> UNFCCC (2012) Report of the Conference of the Parties on its seventeenth session, held in Durban from 28 November to 11 December 2011. FCCC/CP/2011/9/Add.1

The CDM does however feature as one of the four<sup>40</sup> potential financing instruments that the Fund's Private Sector Facility – the Fund's arm mobilising private sector action – could use to leverage private sector capital. The Private Sector Facility's Business Model Framework proposed in June 2013 recognises that the CDM has created a “credible and transparent framework for results-based (pay-for-performance) financing of low cost mitigation activities”.<sup>41</sup> The guidance document lists Certified Emission Reduction (CER) price guarantees for certain types of CDM activities (e.g. energy access) as one way in

which the Fund could encourage private sector investors to support mitigation action at scale. To date only one activity that is also a registered CDM project has been awarded GCF funding.<sup>42</sup> However, approval was awarded on the condition that it did not seek to sell CERs in order to “avoid double counting on our climate finance”,<sup>43</sup> despite the ability to cancel CERs and thereby avoid any double counting. The project will not use a CDM methodology to monitor realised mitigation results, despite being registered. As such there is not yet any formal link between the GCF and CDM.

## The Private Sector Facility

The GCF recognises the importance of directly engaging the private sector and aims to mobilise funds from institutional investors such as pension funds, sovereign wealth funds, impact investors and commercial banks. For that purpose, the Fund is designing modalities for a Private Sector Facility. The objective of the Facility is to address barriers to private sector investments in mitigation and adaptation projects, including market failures, insufficient capacity and lack of awareness. In its guidance document, the GCF Secretariat has outlined possible objectives for the Private Sector Facility, including to:

- ‘De-risk’ investments, such as through exchange-rate risk management;
- Scale up investment opportunities, by aggregating many small project activities under one investment vehicle;
- Fund innovative climate-related technologies, by for instance reducing barriers of entry and facilitating access to market;
- Build technical and financial capacity, including raising awareness about climate investment opportunities.

By addressing these issues the Fund could mobilise private capital and expertise at scale. An initial ‘Micro-, small- and medium-sized enterprise pilot programme’ has been launched at the 13<sup>th</sup> Board Meeting held in June 2016, earmarking a funding volume of USD 100 million for high-impact projects and programmes involving small and medium enterprises. This marks the first financing activity announced by the Facility.

<sup>39</sup> GCF (2013) Relationship with UNFCCC and External Bodies. GCF/B.04/14

<sup>40</sup> The other three instruments include: 1) tariff support and guarantees for small scale renewable energy; 2) viability-gap support for low carbon power sector infrastructure; and 3) country risk insurance for low carbon infrastructure in risky country business environments

<sup>41</sup> GCF (2013) *Business Model Framework: Private Sector Facility*. GCF/B.04/07

<sup>42</sup> CDM Project 9311: *Atacama Solar Photovoltaic Power Plant Project*. Available at: <http://bit.ly/2nZcd8b>; Project FP017: *Climate Action and Solar Energy Development Programme in the Tarapacá Region in Chile*. Available at <http://bit.ly/2nUKmG8>

<sup>43</sup> Quote from Andrea Ledward, GCF Board Member. *CarbonPulse (2016) Stalled CDM project among nine to win GCF funding approval despite board doubts*. Available at: <http://bit.ly/2onlwvY>

## GCF FUNDING APPROVAL PROCESS

In order to access GCF finance, a project or programme must first go through an approval process. An established NDA (the government focal point for the GCF) and AE<sup>44</sup> (responsible for submitting funding proposals and channelling finance) pave the way towards the submission of funding proposals to the GCF. The amount of funding and the financial instrument that project implementers can request is dependent upon the AE through which the proposal is submitted. This, in turn, is defined by the form of accreditation granted by the GCF. The Fund accredits organisations to undertake activities of a certain funding size (micro/small/medium or large) per submitted project or programme. Next to this, the applicant entities' ability to manage GCF's resources in line with the Fund's fiduciary standards also govern the type of activities that organisations can be involved in. All AEs must meet the basic fiduciary standards, and can apply for one or more of the specialised fiduciary standards including project management, on-granting and on-lending and/or blending. Finally, a track record in overseeing project implementation in areas exposed to a certain level of environmental and social risk also play a role in defining the accreditation form.

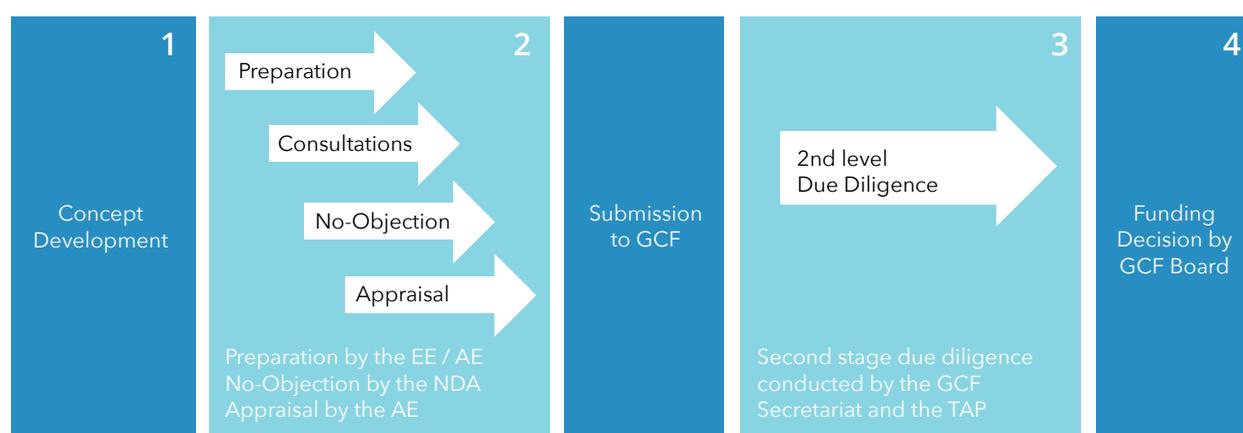
Once an AE is identified, funding proposals can be submitted to the Fund either through calls for funding proposals initiated by the GCF Secretariat or on an ad-hoc basis. Figure 3 summarises the GCF proposal preparation and appraisal process.

GCF proposals must demonstrate how they meet the Fund's objectives and investment criteria, as summarised in Figure 4. In addition to supporting activities that increase resilience to climate change, the Fund prioritises investments in activities that reduce emissions from:

- Energy generation and access;
- Transport;
- Forests and land use;
- Buildings, cities, industries and appliances.

As of April 2017, the GCF has approved a total of 43 projects and programmes, amounting to a total commitment of USD 2.2 billion. Including other sources of public and private co-finance, the total value of this portfolio is USD 7.3 billion.<sup>46</sup>

Figure 3: Simplified GCF funding approvals process<sup>45</sup>



<sup>44</sup> A full list of Accredited Entities is available from the GCF's Directory at: <http://bit.ly/2oGkw9I>

<sup>45</sup> Climate Focus, Perspectives and Aera Group (2017) *Linking the Clean Development Mechanism with the Green Climate Fund: Models for scaling up mitigation action*. Available at: <http://bit.ly/2ol8Rxx>

<sup>46</sup> GCF (2017) *GCF approves eight projects at its first Board meeting in 2017*. Available at: <http://bit.ly/2ojQg5i>

<sup>47</sup> GCF (2015) *Decisions of the Board: Ninth Meeting of the Board, 24-26 March 2015. Annex II: Initial investment framework: activity-specific sub-criteria and indicative assessment factors*. GCF/B.09/23

Figure 4: GCF's investment criteria<sup>47</sup>





## 2 Project developers' insights

**CDM activities can support the GCF's ambitions to scale up private sector engagement**

**CDM methodologies offer a useful framework for the GCF to standardise mitigation outcome calculations and monitoring, reporting and verification efforts**

**Easier/direct access to GCF finance should be granted to registered CDM activities**

**Concessional loans and equity are preferred for the expansion of revenue generating activities, such as renewable energy**

**Grant financing is preferred for activities such as outreach and capacity building**

**Carbon price guarantees are of interest, payable upon issuance of carbon credits**

**Activities that are already certified under a recognised (carbon) standard to demonstrate their sustainable development benefits should not be required to additionally demonstrate their contribution to such benefits towards the GCF**

Project developers lead implementation efforts of CDM activities. The mechanism is one of the few climate finance vehicles that have successfully mobilised private sector engagement in mitigation action at scale. The project developers interviewed for this publication have practical experience in implementing CDM activities across a broad range of sectors and countries in Africa. This includes taking projects through the project registration cycle, as well as periodic monitoring of realised mitigation outcomes, resulting in the issuance of Certified Emission Reductions (CERs). The views expressed here offer a private-sector perspective on whether and how the GCF should consider making use of the CDM's infrastructure.

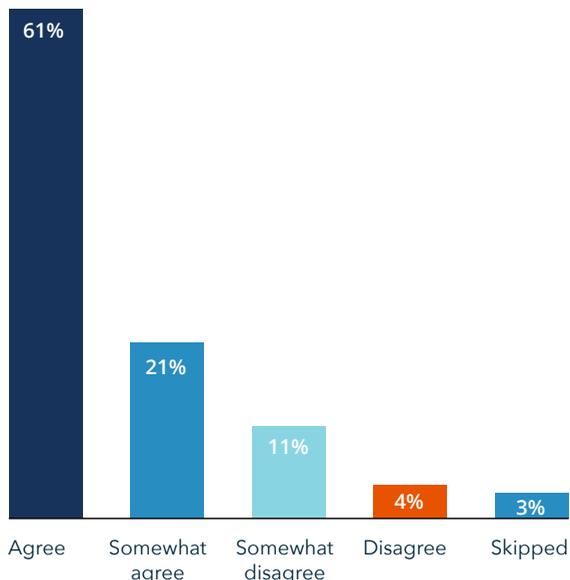
Interviewed project developers are aware of the GCF as a potential financing opportunity, and many are considering exploring the prospect of applying for funding. The Fund is considered to be an applicable financing source due to its mandate to provide financing to activities that are considered too risky by regular financial institutions and face barriers to securing project finance, or need support during the operations stage. Both issues

are relevant for private sector led CDM activities that envisaged carbon finance to play a significant role in underlying business models. Respondents to the online survey agreed (82%) that CDM-certified activities could support the GCF's ambitions to scale up private sector engagement and leverage additional commercial capital (Figure 5). Depressed carbon prices have considerably impacted the profitability and long term financial sustainability of certain project types, and carbon finance has generally not been successful in helping project developers to leverage additional capital to cover upfront investments in fixed assets.

When asked about which financial instruments are most promising to support and further promote CDM activities, project developers expressed that this would need to be assessed on a case-by-case basis and linked to the financial needs of the underlying project. To expand existing revenue generating activities (such as investments in renewable energy generation), concessional loans or equity were viewed as most applicable. For outreach and capacity-building activities, or serving to support activities that lack a revenue generation component, grants are preferred. For example, the Uganda Carbon Bureau, which manages the "Improved Cookstoves in East Africa" PoA, expressed that grants are needed to expand outreach and raise awareness of improved cookstove technologies and alternative fuels. Where appropriate, grants could also be used to enable the creation of an enabling environment in support of mitigation actions at the government level, such as the establishment of legal and institutional frameworks to support the expansion of the renewable energy sector. Carbon price guarantees could also be of interest, to be delivered upon issuance of carbon credits.

Project developers also agree that the CDM can bring added value to mitigation activities supported by the GCF by offering a framework for standardising mitigation outcome calculations, including UNFCCC-approved baseline methodologies and MRV procedures. Some project developers are already exploring making use of these CDM elements to access climate finance under the GCF. For example, Biokala, a biomass-to-energy project developer in Côte d'Ivoire, is currently discussing such an

**Figure 5:** Responses to the question on whether “CDM activities could be a useful instrument for the GCF to engage with the private sector and leverage further private investments”.



option with the Agence Française de Développement. Another example is the Ibi Batéké programme, which has submitted a proposal with the Food and Agricultural Organization that includes their registered CDM project.<sup>48</sup> This project aims to establish various types of forest plantations in degraded savannah regions of the Democratic Republic of the Congo.

Interviewed project developers expect that many high-quality CDM activities will not encounter significant difficulties in meeting the Fund’s eligibility criteria. This is considered to be especially relevant in the case of PoAs, which are well positioned to rapidly scale up mitigation action and contribute to a ‘paradigm shift’ in line with the objectives and ambitions of the GCF. Given that CDM registration requirements are already costly and stringent, one project developer expressed that no additional eligibility criteria should need to be met by CDM projects applying for GCF finance. There is also support for a direct access modality, whereby CDM activities would be able to access GCF finance without the need to go through an AE.

To further simplify the application process for registered CDM activities, respondents suggest that the Fund could consider developing a standardised approach to allow proposals to demonstrate that they meet the funding

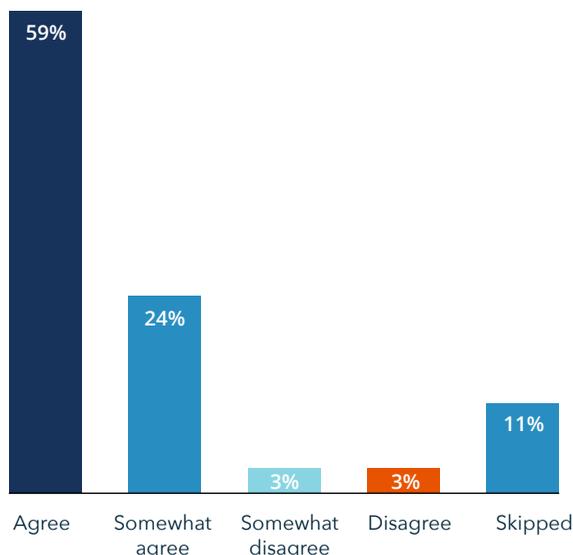
criteria. One example could be a positive list to demonstrate certain eligibility criteria. Project developers also argue that CDM activities with already certified contributions to sustainable development benefits through another recognised standard (e.g. the Gold Standard)<sup>49</sup> should not be required to additionally demonstrate their contribution to such benefits towards for the GCF.

On average, it took CDM activities in Africa nearly two years to reach registration, and a further three years to have carbon credits issued.<sup>50</sup> As such, if the Fund is to support the CDM, project developers expressed that ongoing efforts to simplify and streamline CDM rules should further intensify to reduce associated transaction costs and speed up the CDM project development cycle. This view is supported by the online survey results, where 83% of the respondents agreed that reforming and scaling up PoAs could help accelerate climate action pre-2020 and assist in the implementation of countries’ NDCs (Figure 6).

**“If one CDM project can already achieve so much, imagine what the country could achieve with international support from the GCF”**

Ana Monteiro, Head of Environment, Social and Administrative Department of Cabeolica S.A. (Cabo Verde)

**Figure 6:** Responses to the question on whether “Reforming and scaling up certified mitigation activities under the CDM, and in particular PoAs, could accelerate climate action pre-2020 and assist in the implementation of NDCs”.



**David Simbiri** – Director of Marine Power Generation Company Limited (MPG) and Coordinating/Managing Entity of the MPG Geothermal Energy PoA



“CDM certification can bring added value to the GCF by offering a framework for standardising emission reduction calculations through the use of approved methodologies. However, if CDM certification – rather than only application of CDM methodologies – is to be pursued, the CDM registration process needs to be simplified to reduce the transaction cost for projects. For example, CDM additionality requirements could be limited to a technology positive list.

Recognising the verifiable greenhouse gas benefits that CDM activities have to offer, the GCF should permit a direct access facility for CDM projects. This would mean that registered activities would not need to go through an Accredited Entity to access funds. Whilst filtering criteria could be applied to determine eligible activities, CDM projects should not be required to demonstrate additional eligibility criteria since CDM registration criteria are already very stringent and result in high transaction costs. PoAs are particularly well-suited to meet the GCF’s investment objectives since they are scalable over time”.

*David Simbiri is the Director of MPG, a geothermal company that has registered the CDM PoA “MPG Geothermal Energy PoA” (No. 10175). The main purpose of the PoA is to replace fossil fuel based electricity by supporting the development and implementation of geothermal energy projects in the Rift Valley region of Kenya.<sup>51</sup> The PoA was registered in 2016.*

**Aurélie Lepage** – CEO and Co-Founder of AERA Group



“Although particularly vulnerable to global warming, Africa has mobilised less than 3% of CDM projects and about 2% of the total volume of issued carbon credits globally since 2005. From our extensive ground experience in Sub-Saharan African CDM initiatives, these statistics, however, reflect only part of the reality. We see in Africa massive possibilities to reduce greenhouse gas emissions through, for example, renewable energy and energy efficiency projects. These activities have the double advantage of being achievable at low marginal costs while providing high social and environmental added value, thereby even increasing resilience in many cases.

At the same time, the implementation of Sustainable Development Goal 13 (Take urgent action to combat climate change and its impacts) can only be achieved with the strong support of dedicated financing instruments such as from the GCF. In this regard, ensuring an outlet for African carbon credits is crucial as the structural imbalance between global supply and demand for carbon credits does not allow us to foresee any reasonable market price for the next years. In addition, the CDM is a key tool that can provide a transparent and robust system to both track where climate finance is flowing and also monitor whether it is being used effectively, which is extremely important.”

*AERA Group is the leading climate finance group in Africa managing a portfolio of carbon reduction projects in 17 countries. The company holds a considerable number of African carbon credits projects registered under the CDM, the Verified Carbon Standard and the Gold Standard (35 projects, of which 21 are located in least developed countries).*

<sup>48</sup> CDM Project 4176: *Ibi Batéké degraded savannah afforestation project for fuelwood production (Democratic Republic of the Congo)*. Available at: <http://bit.ly/2ocOs07>

<sup>49</sup> Further information available at <http://www.goldstandard.org/>  
<sup>50</sup> Standalone CDM projects required an average of 3.3 years from the date of registration till their first issuance, Component Project Activities required a shorter 2.5 years till their first issuance. Average length of time needed till registration is calculated based

on the difference between the date of start of the commenting period and the date of registration. Average length of time needed till issuance is based on the date of the first issuance only. Source: UNEP DTU CDM/JI Pipeline Analysis and Database. Available at: <http://bit.ly/1pzJAPC>  
<sup>51</sup> CDM PoA 10175: *MPG Geothermal Energy PoA*. Available at: <http://bit.ly/2nE7U2O>

**Olivier Mushiète** – Manager and Board Member of agro-industrial and public relations small/medium enterprises



“We made the decision to apply for GCF funding since the costs incurred to certify our activities under the CDM came to EUR 300,000, whilst only EUR 140,000 in carbon credits have been monetised to date. We also expect that our project will be able to meet the GCF’s eligibility criteria without any difficulties. The project is an under-capitalised, low-cash activity but very successful in terms of vegetal performance, hence Ibi Batéké’s current application to the GCF for additional finance with the help of the Food and Agricultural Organization.

The CDM can fulfil an MRV function in combination with cost accounting along the project value chain. Such a monitoring system, including the emission reductions (which generates revenues), shall boost and catalyse project performance. The GCF criteria and the complexity of GCF Project Concept Notes are reasonable and necessary, and still less demanding compared to CDM project documentation.”

*Olivier Mushiète founded and manages the registered CDM activity “Ibi Batéké degraded savannah afforestation project for fuelwood production” (No. 4176). This afforestation project is located in the Democratic Republic of the Congo and aims not only to sequester CO<sub>2</sub> and contribute positively to the local environment and communities, but will also supply renewable charcoal to Kinshasa.*

*In 2016, the company submitted a USD 10 million funding request to the GCF. The request is split into a grant and a concessional loan, complemented by USD 7.5 million of private sector capital co-financing. Ibi Batéké applied to GCF both as a stand-alone project concept and as part of a Food and Agricultural Organization USD 100 million investment portfolio targeting the Democratic Republic of the Congo. Project preparation funds are also sought for feasibility studies, including further CDM efforts.*

**David Billon** – Founder of Biokala and Board Member of Société Immobilière et Financière de la Côte Africaine (SIFCA) Group



“The business climate rating in Côte d’Ivoire is difficult and there are several risks related to the operation of a biomass thermal power plant. As a consequence, it is challenging to attract project finance, calling for the intervention of climate finance institutions. We are considering accessing the GCF for additional finance of our CDM activity in the hope that it can de-risk our environmentally-ambitious investment. There is value in CDM certification for the GCF since the project needs to monitor, report and verify greenhouse gas abatement performance according to strict monitoring rules. GCF eligibility criteria are not more strenuous than that of the CDM, yet we would welcome greater clarity on eligible financial instruments for the private sector, levels of contribution and modalities for accessing preparation funds.

Capital grant and carbon price guarantees are the most promising instruments to promote our CDM activity. The abatement cost of our project over its lifetime is estimated at EUR 35/tCO<sub>2</sub>e (415,000 tCO<sub>2</sub> savings per year over 25 years). Therefore, only optimistic carbon credit revenues (e.g. EUR 6/tCO<sub>2</sub>e) and significant grant financing from the GCF could allow our project to decrease the electricity tariff to that of the current average selling price of energy in Côte d’Ivoire (FCFA 50/kWh) in line with goals of the Ministry of Petroleum and Energy to contain the rise in electricity prices for the population while reducing the amount of subsidy granted by the State.”

*David Billon initiated and has been developing the registered CDM activity Biovea<sup>52</sup> (No. 8819) since 2010. The project is a renewable biomass-to-energy project in Cote d’Ivoire, which will rely on woody by-products from oil palm plantations to fuel a 46 megawatt power plant and replace grid electricity. Biokala, the Ivorian project company owned by SIFCA Group, has already invested USD 6.5 million into project development and plans to replicate these efforts at four different sites.*

<sup>52</sup> CDM Project 8819: BIOVEA Renewable Biomass-to-energy project at Aboisso. Available at: <http://bit.ly/1AjznA>

Ana Monteiro - Head of Environment, Social and Administrative Department of Cabeolica S.A. (Cabo Verde)



"Cabo Verde's NDC to the Paris Agreement expressly states that the country supports the use of market-based mechanisms - including the CDM - to achieve the conditional part of its pledges. Cabeolica S.A. registered a CDM wind power project in Cabo Verde in 2013. The project provides renewable electricity to the island where each wind farm is located, and has been generating around 55,000 tCO<sub>2</sub>e in emission reductions each year.

Our CDM project broke many barriers and has been seen as having sparked positive changes in the country. It is due to our project that the local DNA was established. Our renewable energy investments also demonstrated on the ground that it was possible to implement large-scale activities, obtain positive financial results and secure a reliable energy supply at reasonable costs. In addition, Cabeolica's investments in wind energy sparked a lot of changes at regulatory and technical level. For instance, the local energy regulatory agency began to evaluate new regulatory tools that are needed to deal with renewable energy and its intermittent mode of supply (as opposed to the stability normally seen with fossil fuels). The implementation of the project in the country has also helped to stimulate youth to engage in this field, and facilitated the local educational and training sector to offer related courses.

If one structured renewable energy project can already achieve these substantial results, imagine what Cabo Verde could achieve if the country had the international support from the GCF to roll-out the necessary public reforms and investments. GCF funds could flow first to the Government to assist Cabo Verde in progressing faster with the creation of the necessary enabling environment. This would encompass the relevant legal and institutional frameworks. The private sector cannot expand its renewable energy production with the current energy infrastructure limitations and shortcomings. While we think that the CDM alone cannot move us forward, in combination with the GCF, Cabo Verde and private actors would have additional mechanisms to ease the expansion of their renewable energy activities (including through the CDM), contributing to low-carbon development, avoiding the lock-in of long-lived carbon intensive infrastructure, and increasing access to clean and sustainable energy produced domestically."

*Ana Monteiro has a degree in Environmental Engineering Science and a Master of Arts in Environmental Science and Policy. She has roughly 10 years of work experience throughout which she has conducted various environmental field studies at international standards and been an environmental consultant for project development.*



# 3 Accredited Entities' insights

CDM methodologies are useful in quantifying mitigation impacts in a comparable manner in the absence of guidance from the GCF

Activities making use of CDM tools do not necessarily need to issue carbon credits

Opportunities for private sector engagement with the Fund are limited due to the high upfront investment needed to prepare a GCF funding proposal

High quality GCF proposals need to be supported by (pre) feasibility studies and data that is often not available, making delivery of proposals that meet all criteria a challenge

Most AEs find the accreditation process to be challenging and lengthy

Accredited Entities (AE) to the GCF are responsible for channelling the GCF's financial resources to projects and programmes. This includes evaluating and developing project proposals, submitting these to the Fund for its

consideration, and taking an active role in managing and monitoring projects' performance, with an emphasis on managing environmental and social risks. Any institution can become an AE as long as it meets the requirements of the GCF with regards to, amongst others, financial, environmental and social management performance standards. An AE can seek accreditation under different categories, which determines the types of projects and volumes of finance they can manage (see the Annex). There are currently 48 entities that have been accredited globally, one quarter of which are headquartered in Africa (Figure 7). This includes three international AEs (Africa Finance Corporation; African Development Bank; United Nations Environment Programme), two regional AEs (Banque Ouest Africaine de Development; Development Bank of Southern Africa) and seven national AEs based in Ethiopia, Kenya, Morocco, Namibia, Rwanda, Senegal and South Africa (Figure 8). In addition, there are a further 22 international AEs headquartered largely in Europe and North America that may support GCF proposals for projects and programmes located in Africa.<sup>53</sup>

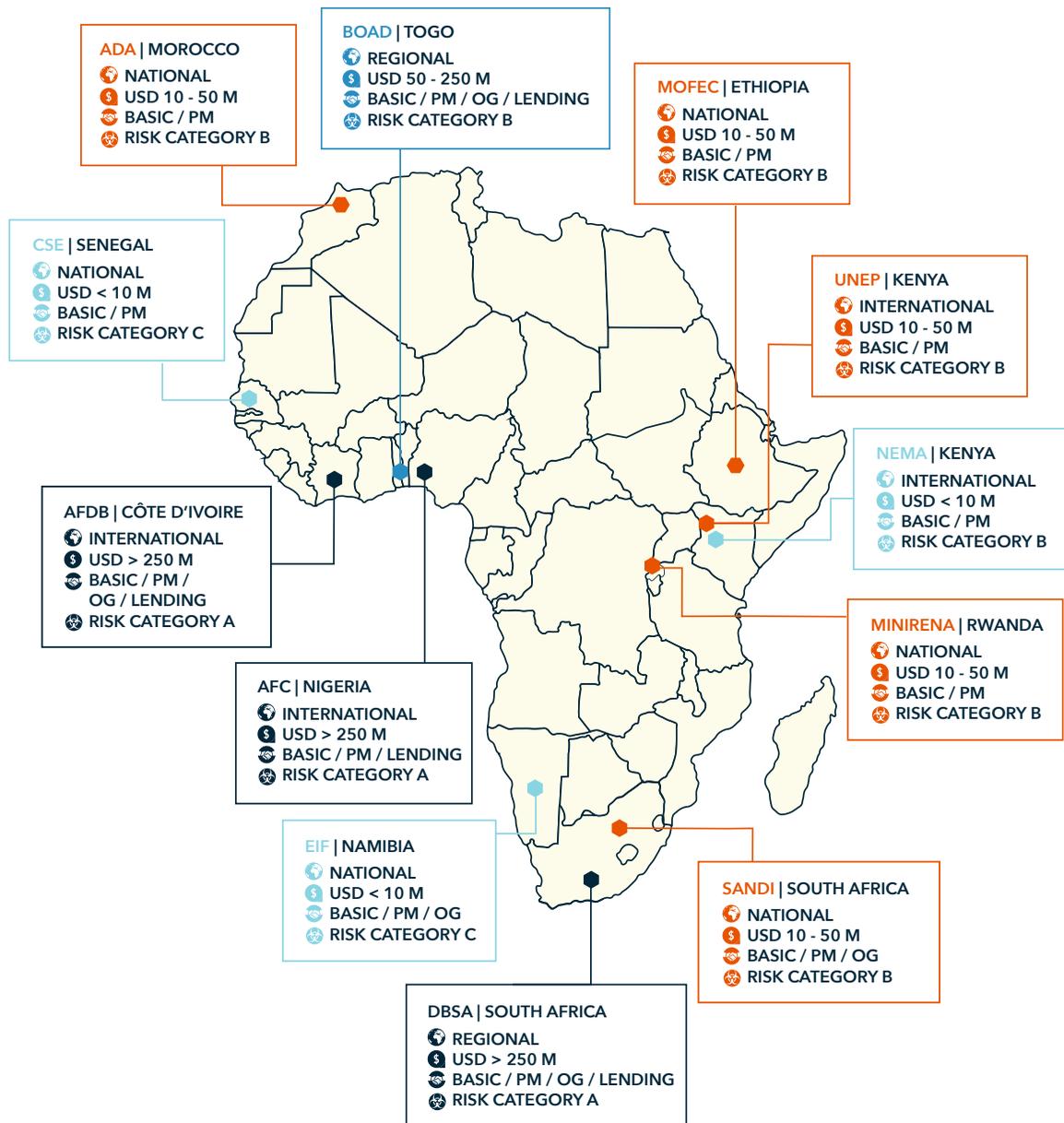
Figure 7: Regional distribution of Accredited Entities, based on registered headquarters<sup>54</sup>



<sup>53</sup> The full list of AEs is available at: <http://bit.ly/2oGkw9l>

<sup>54</sup> GCF (2017) *AE Directory*. Available at: <http://bit.ly/2oGkw9l>

Figure 8: Overview of Accredited Entities headquartered in Africa, including their accreditation profile<sup>55</sup>



ACCREDITED ENTITY SIZE  
 ● LARGE  
 ● MEDIUM  
 ● SMALL  
 ● MICRO

FEATURES  
 ● ENTITY TYPE  
 ● SIZE  
 ● FIDUCIARY STANDARD  
 ● ENVIRONMENTAL AND SOCIAL RISK CATEGORY

FIDUCIARY STANDARDS DEFINITION  
 BASIC: Key administrative, financial capacities, transparency and accountability  
 PM: Project management  
 OG: On-granting  
 LENDING: On-lending and/or blending

<sup>55</sup> GCF (2017) AE Directory. Available at: <http://bit.ly/2oGkw9l>

Most interviewed AEs active in Africa have put forward or are considering GCF project proposals addressing adaptation interventions. However, where mitigation is concerned, AEs feel that there is no clarity on greenhouse gas monitoring, reporting and verification requirements from the GCF. Consequently, most AEs report to use their own approaches to estimate and consequently monitor mitigation impacts, or do not provide any information on how they seek to track mitigation impacts. One AE points out that CDM methodologies are the only approaches that are UNFCCC approved and are therefore relevant to the GCF as a financing mechanism falling under the UN Convention. In the context of the Paris Agreement - where every Party is to contribute to mitigation action - AEs point out that it is important that all countries have a harmonised approach to quantifying mitigation outcomes.

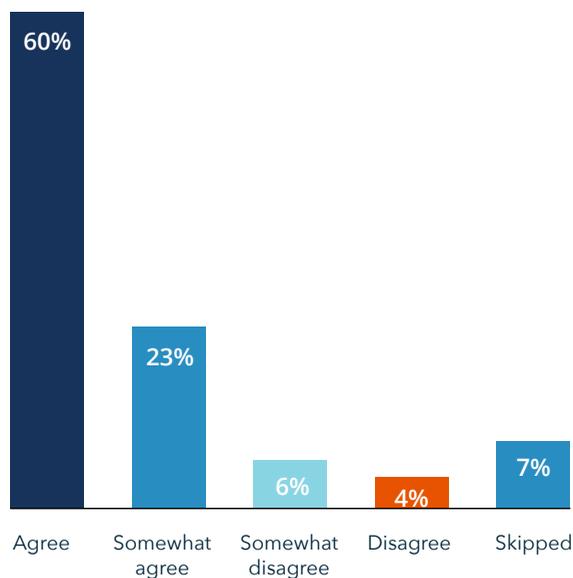
**“We use CDM methodologies to quantify the greenhouse gas mitigation impact. The underlying mitigation measures are however not registered under the CDM and are not seeking such status”.** Accredited Entity

Most interviewed AEs do recognise that CDM methodologies can be useful in quantifying the mitigation results of implemented activities. However, one AE cautions that the GCF should not aim to apply CDM MRV approaches across all project types. While CDM methodologies have been widely used across energy efficiency and renewable energy activities, the transport sector is one example of a project type that has not been benefiting due to complications associated with baseline definition and monitoring requirements.

**“The issue of high upfront costs associated with the development of full GCF funding proposals is not fully acknowledged by the GCF”** Accredited Entity

One AE reports to use approved CDM methodologies to establish a baseline and monitor mitigation results, but without pursuing official CDM registration in any form. Such a ‘simplified’ approach to linking to the CDM is supported by respondents to the online survey, where 83% agree that either CDM methodologies alone or in combination with the certification process can be a useful tool to quantify mitigation outcomes funded through international climate finance (Figure 9). Another AE has mentioned the CDM in their discussions with the GCF, and several others are considering doing so in the future.

**Figure 9:** Responses to the question on whether *“The methodologies [and/or] certification process laid out by the CDM can be a useful tool to accurately and transparently measure, report and verify mitigation outcomes in the context of results-based climate finance”.*



Views on whether other aspects of the CDM should be used to accelerate the disbursement of GCF resources in the national context diverge. One AE has strong reservations in establishing an institutional link between the CDM and the Fund. The CDM process is considered too lengthy and represents an inefficient allocation of resources due to the high transaction costs incurred to generate CERs. One AE believes there are more efficient ways to disburse climate finance since the CDM creates a unit (the CER) that is beyond what is needed given that the credits will be voluntarily cancelled, rather than traded or used for offsetting. This concern reflects the fact that the CDM framework was designed to meet the needs of the Kyoto Protocol, under which tradable units are used to offset the emissions produced in countries with emission reduction targets. The Paris Agreement creates a different architecture in which all countries have obligations to reduce their emissions. The AE cautioned that in the new climate regime, if CERs are exported to a buying country which has expressed their intention to use market mechanisms to meet their NDC, this will make it more difficult for the exporting country to meet its own commitments. Under the Paris Agreement, CERs would correspond to sovereign assets that are being sold, and as such should be valued appropriately.

**“Successful GCF proposals need to be embedded in strong country ownership”** Accredited Entity

Overall, most interviewed AEs acknowledge that CDM methodologies could be useful to quantify mitigation impacts for specific project types in the absence of other approaches, but are not convinced that full project registration and issuance of CERs is necessary or would be an efficient use of financial resources.

Beside the mitigation impact of projects, AEs note a number of other aspects that are important for the preparation of successful funding proposals to the GCF. With reference to the Fund’s investment criteria, demonstrating alignment with the host country’s national priorities (e.g. NDCs) and ensuring that proposals are embedded in strong country ownership is considered to be a crucial element for success. Other important aspects of effective proposals include the need to demonstrate proof of

concept that can be scaled up with GCF support and sustained over the long term, as well as sufficient maturity of projects that are able to demonstrate a mid- to long-term strategy. The need for strong sustainable development co-benefits is also key, as is the need for a strong business model supported by detailed technical/economic studies. Other aspects that AEs mention include the need for a well-defined baseline, clear case for additionality, potential to deliver transformational impact, and gender considerations. For mitigation activities, the need for achieving cost-effective mitigation outcomes is another criterion.

**“In the context of the Paris Agreement, everyone needs to speak the same language and use the same methodologies”** Accredited Entity

The ability to leverage other sources of public or private finance is also an important aspect of strong proposals. This is particularly challenging, with many AEs acknowledging that private sector engagement remains an issue. Lack of (pre-) feasibility studies and an unclear case for investment readiness is considered to be a significant barrier to not only private sector engagement, but also to finding proposals that are sufficiently mature to be considered by the AEs. At the same time, such requirements are often difficult to satisfy in the context of many developing country project implementers, leading to a shortage of adequate investment propositions towards the Fund.

When evaluating the quality of proposals received, several AEs express that the witnessed level of preparation of projects and programmes is insufficient. AEs observe limited links to technical, economic and environmental impact studies in the proposals submitted to date. AEs recognise this as an important bottleneck and consider the high upfront costs associated with the development of high quality GCF proposals as an issue that is not fully acknowledged by the Fund.

## INSIGHTS ON THE ACCREDITATION PROCESS

In order to be eligible for channelling GCF finance, an entity must go through an accreditation process. A fast-track direct access accreditation process has been established to ease the process for those entities that are eligible. Such process allows entities that are already accredited under the Global Environment Facility, the Adaptation Fund and/or the European Union's Directorate-General for International Cooperation and Development to go through a simplified accreditation procedure.

### **“The GCF accreditation process has triggered valuable improvements within the Bank’s socio-environmental evaluation processes, fiduciary norms and gender considerations”**

Pape Demba Ndiaye, West African Development Bank

Despite the fast-track process, the ease of obtaining accreditation depends largely on the type of accreditation sought. The Kenyan National Environment Management Authority (NEMA), which already acts as a National Implementing Entity to the Adaptation Fund, found the accreditation process to be *“not overly demanding since NEMA was considered under the fast-track window”*<sup>56</sup>. NEMA is accredited for micro-scale projects up to USD 10 million. However, AfDB stated that *“a significant effort”*<sup>57</sup> was needed to achieve accreditation, despite seeking accreditation under the fast-tracked process. AfDB is accredited at the highest possible level, to manage all types of financial instruments and fiduciary functions (including on-lending/blending) and large-scale operations above USD 250 million.

Perceptions of the accreditation process vary considerably across African AEs. Even for those AEs that find the process to be relatively straight forward, they recognise that a considerable amount of resources need to be invested upfront despite the outcome being unclear. Difficulties encountered included strict public disclosure requirements, limited ability of the GCF Secretariat to make certain (small) decisions without the need to consult the Board, slow communication channels, and the Fund's limited French speaking and reading capacities.

AEs recognise that these factors make the process especially cumbersome for private sector entities or smaller institutions, with one AE even stating that *“it appears as though the accreditation process was designed for large financial institutions only”* (Anonymous). A number of suggestions for improving the accreditation process were put forward, including to:

- Improve the GCF's communication efficiency. Long time-lags in response times from the Fund are being experienced, although AEs acknowledge that communication has been improving;
- Improve the French-reading capacity of GCF staff to facilitate communication with French-speaking nations and speed up the review process;
- Increase the authority of the Secretariat to avoid small decisions needing to be approved by the Board, reducing delays.

<sup>56</sup> Interview with Dr. Anne Omambia, NEMA's Climate Change Coordinator and Designated National Authority for Kenya.

<sup>57</sup> Interview with Audrey Rojkoff, Senior Energy Specialist and the Green Climate Fund Coordinator at Agence Française de Développement

**Pape Demba Ndiaye** – Team Leader at BOAD (West African Development Bank) and UNFCCC Regional Collaboration Centre Lomé



“BOAD has approached the GCF about the possibilities of using features of the CDM in its applications, given it is a robust and transparent mechanism.

If CDM activities were to be supported through the GCF, carbon credits could fit in several of the funding models proposed to the GCF, such as by increasing the concessionality of funding terms based on emission reduction performance. BOAD is currently expecting their Master Agreement signature (which would allow them to receive and channel GCF finance), and would consider bringing forward a CDM project for consideration to the GCF since the Bank is already willing to embrace a systematic approach of CDM certification and monitoring for its portfolio of eligible projects and programmes.

In general terms, proposal selection and endorsement remain challenging as among the dozen proposals already assessed, the witnessed level of preparation efforts of draft funding proposals is poor. Project promoters rarely undertake detailed technical, economic and environmental impact studies. Besides, as private sector interests may differ from national priorities, there are very few concrete projects submitted by the private sector to date that would receive national endorsement.

Communication with GCF secretariat was poor at first, with some technical issues and lack of French-reading capacities resulting in almost a year's delay in accreditation. On the bright side, however, the GCF accreditation process has triggered valuable improvements within the Bank's socio-environmental evaluation processes, fiduciary norms and gender impact assessments.”

*BOAD is the development finance institution of the member countries of the West African Monetary Union. It was established in 1973 to promote the balanced development of its member countries and foster economic integration within West Africa by financing priority development projects. In December 2016 it became an Accredited Entity to the GCF.*

**Audrey Rojkoff** – Senior Energy Specialist and Green Climate Fund Coordinator at Agence Française de Développement



“When reviewing the African Development Bank's (AfDB) GCF project/programme pipeline, the main challenge is probably to identify projects that are designed in line with the GCF investments criteria and are investment ready. Even though financing is now made available through the Project Preparation Facility, the Bank has had no access to the readiness facility previously put in place by the GCF, which is exclusively dedicated to direct access entities. We can therefore only submit projects for which the feasibility studies are already financed and available.

The Bank's Climate Change Action Plan 2 highlights both adaptation and mitigation as key impacts. Considering Africa's need for adaptation and climate resilience, we can expect a greater focus on identifying adaptation impact in the future. Mitigation remains important and, where relevant and necessary, mitigation benefits may be quantified in line with the International Financial Institution's Harmonised MRV Methodologies where possible. In the absence of methodologies AfDB may use existing CDM methodologies or their own greenhouse gas estimation approaches. We are also interested in the carbon footprint of assets as this has more relevance to reporting actual greenhouse gas emissions.”

*Audrey Rojkoff is Senior Energy Specialist and the Green Climate Fund Coordinator at Agence Française de Développement. She exercised a similar role at the AfDB, for which she oversaw the GCF strategic work programme and project pipeline. Both institutions are accredited entities to the GCF. As of December 2016, AfDB had submitted nine proposals to the GCF, with expectations to have the first one approved at the 16<sup>th</sup> GCF Board meeting in April 2017.*

**Aïssata Boubou Sall and Aïssatou Diagne - Monitoring and Evaluation Officers at Centre de Suivi Ecologique (CSE), Senegal**



“CSE’s motivation to become an Accredited Entity to the GCF is based on its long-standing involvement in environmental monitoring since 1987. Prior to GCF accreditation, CSE was already a National Implementing Entity to the Adaptation Fund, which facilitated the GCF accreditation. Becoming an AE for the GCF was faster but not necessarily easier. Main difficulties were to fulfil GCF requirements related to environmental and social risks management and gender aspects. As of December 2016, CSE has received over 30 project ideas, of which only two are mitigation projects and of which five to six have been proposed to the GCF.

Successful GCF proposals align well Senegal’s national strategy, meet the GCF investment criteria and demonstrate mid to long term potential. Unfortunately, CSE projects are limited in scale (USD 10 million) and show a certain maturity due to our current accreditation status and limited internal resources, which we plan to change.

As long as it is within CSE’s GCF accreditation scope, we would consider the possibility of bringing forward a CDM project as part of a GCF proposal. Project ideas that have not yet been registered as a CDM activity, but are mitigation activities, could be supported by the GCF. The Fund does not currently have mechanisms in place to finance CDM projects.”

*Aïssata Boubou Sall is a Monitoring and Evaluation Officer at CSE. The CSE is a National Accredited Entity located in Senegal, whose core activities include environmental monitoring, natural resources management and conducting environmental impact assessments. The CSE have been awarded GCF readiness and preparatory support for delivery to Senegal, the Democratic Republic of Congo, Togo and Djibouti.<sup>58</sup>*

<sup>58</sup> GCF (2016) Progress and outlook report of the Readiness and Preparatory Support Programme. GCF/B.15/Inf.08



## 4 Government authorities' insights

**DNAs/NDAs are in favour of GCF proposals that use elements of the CDM (e.g. methodologies, emission factors and standardised baselines)**

**If the GCF is to support CDM activities, priority should be given to stranded/struggling CDM activities with strong sustainable development benefits, possibly through a direct access facility**

**PoAs are well-suited to contribute to a paradigm shift through their potential to scale up**

The CDM and GCF both appoint national government focal points. The GCF has established National Designated Authorities (NDAs), which are typically national ministries. NDAs are mandated to endorse project ideas by issuing 'No-objection' letters for funding proposals, thereby acknowledging that funding proposals are in line with national priorities and consistent with the domestic climate or development policies. This process is comparable to the CDM, where Designated National Authorities (DNAs) issue 'letters of approval' confirming a project's contribution to the sustainable development of the host country. Most African States have already made progress in terms of NDA or focal point nominations to the GCF, with 52 out of 54 countries having nominated an NDA.<sup>59</sup>

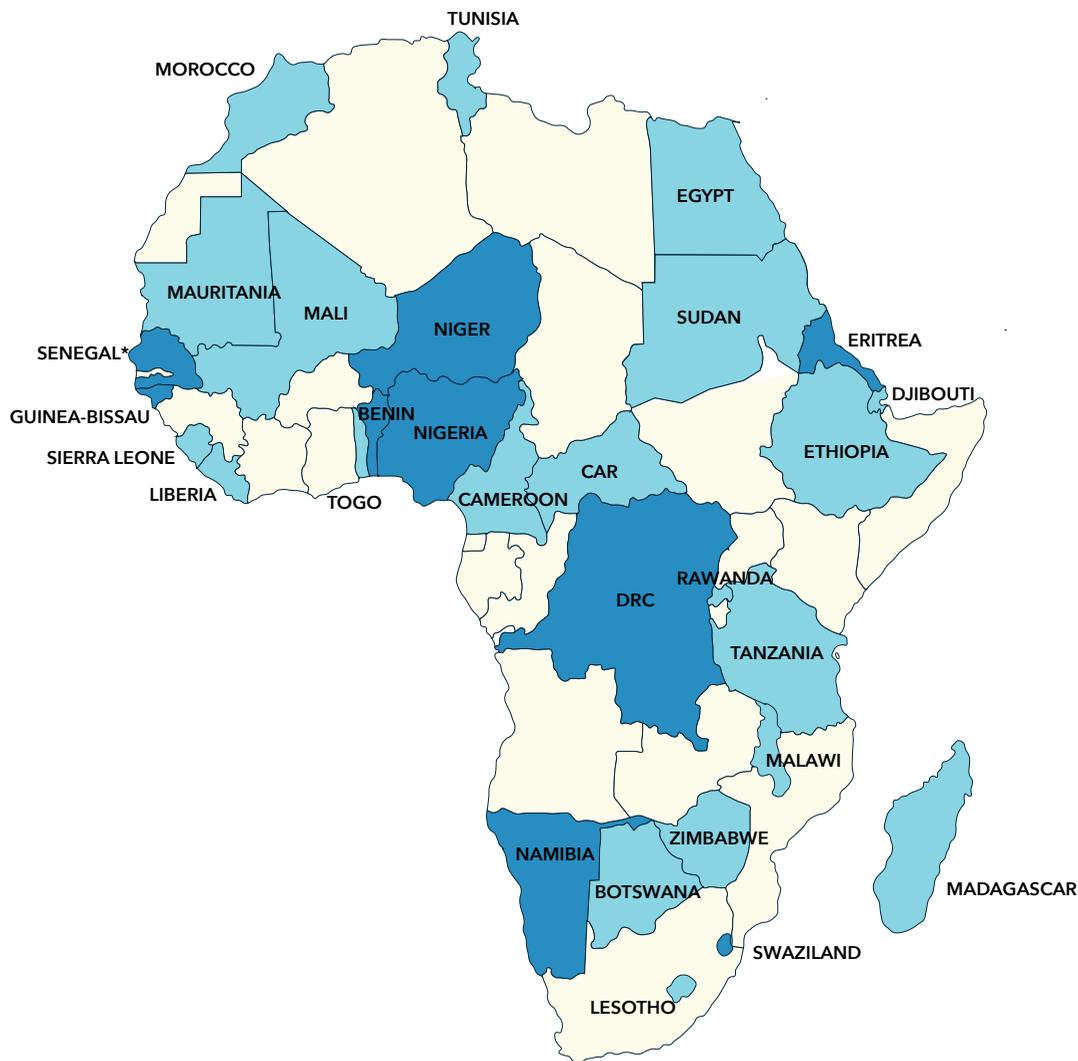
A screening of DNAs and NDAs reveals that in many African countries both are housed within the same ministry, or are even represented by the same individual (Figure 10). This presents a good opportunity to learn from the experience gained through the longer-established DNAs. DNAs can provide valuable lessons learnt from working on the CDM that can serve to strengthen GCF financed project implementation going forward. In fact, all NDAs and DNAs interviewed for this publication are in favour of GCF proposals that use elements of the CDM, including methodologies, emission factors and standardised baselines. This view is also supported by respondents to the online survey, where 89% agreed that elements of the CDM could be used to promote mitigation action beyond its original purpose of offsetting (Figure 11).

**"I can confirm the link between the GCF and the CDM. The Project Concept Notes submitted for funding by the GCF exclusively comply with the Fund's requirements. Lately, the CDM's goals emerge silently. That's why we are advising most programme or project developers to continue registering with the CDM too"**

Hans Andre Lohayo Djamba, GCF NDA & CDM DNA, the Democratic Republic of the Congo

<sup>59</sup> GCF (2017) *National Designated Authority Directory*. Available at: <http://bit.ly/2IsHEac>

Figure 10: Map highlighting countries where the CDM DNA and the GCF's NDA are housed within the same government institution (light blue) or are represented by the same contact person (dark blue)<sup>60</sup>



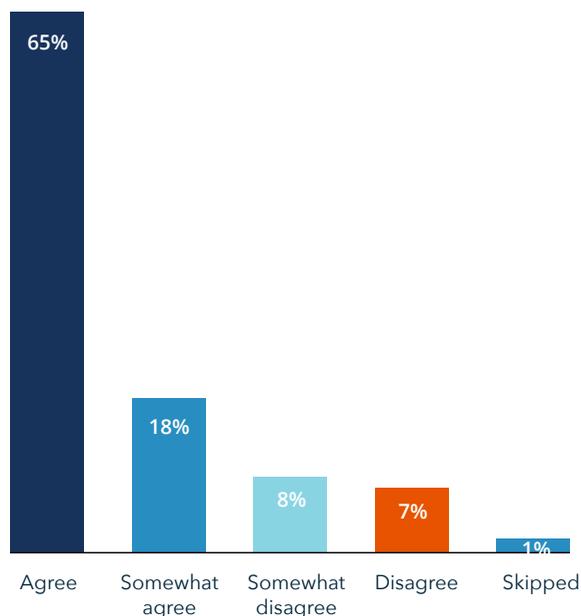
**“Market-based mechanisms, including CDM, may constitute one of the new, additional and innovative sources for climate finance, based on its environmental integrity and the contribution to sustainable development”**

Kamal Djemouai, Former Chair of the African Group of Climate Change Negotiations and Former Deputy Director for Climate Change at the Ministry of Environment of Algeria Climate Change and Sustainable Development Expert.

<sup>60</sup> Based on publicly available data from the CDM's DNA website (available at: <http://bit.ly/2lueyb3>) and the GCF's NDA Directory (available at: <http://bit.ly/2lrp5TR>). CAR - Central African Republic; DRC - Democratic Republic of the Congo; \* = highlights Senegal,

in which the DNA and NDA ministries and individual contacts listed by the CDM and the GCF are not the same. In practice, however, the same individual is the contact person. This may also be the case for other countries not highlighted.

**Figure 11:** Responses to the question on whether “The infrastructure and toolbox of the CDM have proved valuable and could be used to promote mitigation action beyond pure offsetting”.



DNAs and NDAs feel, however, that a distinction should be made between new and existing CDM activities. For new activities, projects should not be required to follow the complete CDM project cycle, but could instead pursue “simplified technical steps” under the GCF.<sup>61</sup> For existing CDM activities, priority should be given to stranded or struggling projects that also exhibit strong sustainable development benefits. PoAs are also considered

particularly well-suited to meet the GCF’s ambitions to deliver a paradigm shift due to their replicable and scalable nature. DNAs and NDAs suggest that GCF funds could be delivered via:

- The provision of up-front finance to cover the cost of CDM project development;
- An Emission Reduction Purchase Agreement acting as a guarantee for project developers to secure further funding for stranded/struggling projects; or
- Concessional loans offered at low interest rates to supported struggling activities. This could work for private sector project developers or investments backed by foreign capital. Alternatively, grants would be preferred to support the activities of local project developers or governments.

There is also support for a direct access facility for high quality CDM projects that are at risk of becoming stranded, given the effort that such projects have already gone through to reach registration.

No NDAs interviewed have reported the evaluation of a GCF proposal that explicitly referred to a CDM project or programme. This is partly due to a focus on the submission of adaptation proposals. However, the Senegalese NDA does, for example, refer to CDM methodologies to estimate the mitigation potential of received GCF project ideas, but these have not yet reached the funding proposal stage.

**“A balance must be struck between the MRV model created by the CDM to ensure environmental integrity and the needs (and realities) of larger policy or sectoral programmes in Africa. Programmes should avoid getting trapped in excessive measurement and monitoring”**

Afef Jaafar, Agence Nationale pour la Maîtrise de l’Energie, part of CDM DNA in Tunisia

<sup>61</sup> Interview with Afef Jaafar, Agence Nationale pour la Maîtrise de l’Energie, part of the Tunisian NDA/DNA



**Dr. Anne Omambia** – Climate Change Coordinator at National Environmental Management Authority, Kenya



“The National Environment Management Authority (NEMA) of Kenya acts as the CDM DNA, the AE to the GCF and the National Implementing Entity to the Adaptation Fund. Coordination between the CDM, GCF and Adaptation Fund institutional structures is working well. The DNA is able to provide relevant lessons learnt from the CDM that may be of use in the GCF context, such as the CDM’s MRV frameworks or use of standardised baselines.

CDM projects should benefit from the GCF given that the CDM has an established project cycle with approved methodologies, modalities and procedures that govern it. The GCF may also tap into the existing CDM pipeline to accelerate funding disbursement. Existing or stalled projects that relied on the CDM as a revenue stream to sustain their operations should be prioritised. Finance could be delivered, for example, through a guaranteed price for the resulting carbon credits. Such credits could be subsequently cancelled by the GCF to avoid double counting. Beyond the delivery of mitigation results, many CDM projects also deliver essential sustainable development benefits. Thus, funding these projects would support both the attainment of climate change mitigation, provide adaptation co-benefits where applicable and foster sustainable development.

NEMA is also participating in the GCF Readiness Programme to build national capacity to access the GCF. Kenya has received capacity building support through partner organisations including the United Nations Environment Programme (UNEP) and the World Resources Institute, with financial support from the United Kingdom’s Department for International Development through the Climate and Development Knowledge Network.”

*Dr. Anne Omambia is NEMA’s Climate Change Coordinator and DNA for Kenya. NEMA was established in 2002 with the objectives of supervising and coordinating environmental activities in Kenya, and serving as the main national body to implement environmental policies in all sectors within the country.*

**El Hadji Mbaye Diagne** – Lead Negotiator for Carbon Markets of the African Group of Negotiators and the Least Developed Countries and Delegation of Senegal



“CDM projects can assist the GCF in accelerating the disbursement of financial resources. In its current state - in the current context - the GCF cannot buy credits directly but instead could support projects with some form of guarantee which would simplify and increase the chance of securing Emission Reduction Purchase Agreements. In addition, directly providing concessional loans at low interest rates would also be something to explore.

However, with current market conditions there is no point for new projects to go through CDM registration. Instead, priority should be given to stranded CDM projects located in least developed countries or countries that host less than ten CDM activities, in particular those with strong social co-benefits. Demonstrating that projects comply with the GCF’s ambitions of achieving a ‘paradigm shift’ may be a challenge for single CDM projects, but many PoAs can meet this requirement.

The GCF can also build on the CDM’s well-established MRV and methodologies experience. Currently, the emissions reduction component of project proposals are evaluated by the GCF’s Technical Committee on a case-by-case basis. In the long run such an approach will not be sustainable considering the ambitious disbursement target the GCF has set itself. Adopting a more systematic approach by building on the CDM’s approved methodologies could be one solution.

Within the Senegalese context, all the GCF project idea notes being developed have used CDM methodologies to quantify emission reductions. None of the projects are, however, considering going through CDM cycle due to the low market prices of the carbon credits, and no CDM activities currently registered in Senegal have applied for GCF funding so far.”

*Mr. Diagne is the lead UNFCCC negotiator for carbon markets for the African Group of Negotiators and the head of the Senegalese delegation to the UNFCCC negotiations.<sup>62</sup>*

<sup>62</sup> Least Developed Country Group at UN climate change negotiations. Available at: <http://bit.ly/2n65xJy>



# 5 UNFCCC Secretariat's insights

**The GCF should make use of the CDM's framework for results-based climate finance and can learn from the CDM's MRV framework**

**Programmes of Activities in the energy access and renewable power generation sectors are most promising for linking the GCF to the CDM**

**Registered CDM activities should have the possibility of fast-tracking access to GCF finance**

**Selection of most appropriate financial instruments should be determined on a case-by-case basis**

**Linking the GCF with the CDM may require high-level political decisions from UNFCCC bodies**

The UNFCCC Secretariat was established to support the intergovernmental climate change negotiations as well as the implementation of related policy instruments. The Secretariat supports the CDM Executive Board and administers the CDM's institutional infrastructure, such as the registration and issuance processes and the CDM registry. In 2013 the Secretariat established several Regional Collaboration Centres in order to broaden the geographic distribution of CDM activities and have on-the-ground presence in regions with CDM potential.<sup>63</sup> The two centres located in Africa are hosted by sub-regional financial institutions: BOAD and the East African Development Bank.<sup>64</sup> This makes them well suited to promote the CDM's use by international climate financing institutions, in particular as BOAD is a GCF AE and the East African Development Bank is currently seeking accreditation.

The CDM Executive Board is exploring options to utilise the CDM beyond offsetting, and has identified the GCF as a high probability and high impact opportunity.<sup>65 66</sup> CMP11 provided guidance to the Executive Board to "explore the opportunities for the financing of the CDM through international climate financing institutions, such as the Green Climate Fund".<sup>67</sup> In May 2016, the Subsidiary Body for Implementation (SBI) - which oversees the effective implementation of the Climate Change Convention - hosted an in-session workshop presenting initiatives for mobilising international climate finance for CDM activities.<sup>68</sup> Furthermore, in September 2016 the UNFCCC Secretariat provided a draft proposal to the Executive Board on opportunities to link the CDM to green bonds<sup>69</sup> and other innovative sources of finance, such as a United Nations Development Programme crowdfunding facility that targets registered CDM projects in the renewable energy sector.

Interviewees see potential benefits in linking the CDM and the GCF, but recognise that institutional linkage of these climate financing mechanisms may require a political decision at the CMA and COP level.<sup>70</sup> A starting point could be a joint session between the CDM Executive Board and the GCF Board (and its sub-committees or bodies), as one interviewee suggests. Interviewees consider the CDM's MRV framework a key strength, which the GCF could learn from. They identify low-emission energy access and renewable power generation as promising sectors for linking the CDM and the GCF, followed by low-carbon transport, energy efficiency in buildings, cities and industries, and sustainable land use and forest management.

<sup>63</sup> Regional Collaboration Centres are located in Lomé, Togo, Kampala (Uganda), St. George's (Grenada), Bangkok (Thailand); and Bogota (Colombia)

<sup>64</sup> More information is available at: <http://bit.ly/2mpXrly>. (The Regional Collaboration Centre in Kampala) and <http://bit.ly/2m6s0RC> (the Regional Collaboration Centre in Lomé)

<sup>65</sup> "Probability" here refers to the likelihood that the opportunity materialises. "Impact" refers to the estimated amount of CERs per year required by the opportunity: low: 0-5 million CERs, medium: 5-9 million CERs, and high: more than 10 million CERs. UNFCCC (2016) *Concept note: Options for using the clean development mechanism as a tool for other uses*. CDM-EB-88-AA-A01

<sup>66</sup> UNFCCC (2016) *Concept note: Options for using the clean development mechanism as a tool for other uses*. CDM-EB-88-AA-A01

<sup>67</sup> UNFCCC (2015) *Guidance relating to the clean development mechanism*. FCCC/KP/CMP/2015/L.4. Available at: <http://bit.ly/2oUocsx>

<sup>68</sup> UNFCCC (2016) *In-session workshop: Exploring financing and use of the CDM by international climate finance institutions*.

<sup>69</sup> The CDM refinancing facility and the Paris Climate Bond have been presented. UNFCCC (2016) *Report on the workshop on financing and use of the clean development mechanism by international climate finance institutions*. CDM-2016SR1-INFO01



In order to recognise the partial alignment of registered CDM activities to GCF criteria, the UNFCCC stakeholders interviewed agree that CDM activities should have the possibility of fast-tracked access to GCF finance. Registered CDM activities have already undergone UNFCCC scrutiny, are third-party validated, provide a harmonised approach to monitoring and can be further scaled up or replicated, in particular in the case of PoAs.

Regarding financial support, interviewees considered payments against issued carbon credits to be one possible approach. An interviewee proposed the idea of a GCF-funded facility that could buy CERs at a fixed price from a portfolio of projects that meet certain eligibility criteria. However, (pre-) payments for part or all of the credits will not easily allow projects to secure upfront funding necessary for implementation, especially for activities with limited emission reductions. Overall, the interviewees agree that the appropriateness of certain financing instruments needs to be assessed on a case-by-case basis, as previously indicated by interviewed project developers.

The interviewees also suggest that the GCF could provide tailored financing solutions to existing CDM activities that are stranded or at risk of stalling by providing tailored financing solutions. This could require an assessment of CDM activities that are already registered but struggle to sustain operations or scale up mitigation measures. Other activities might be in operation but do not issue CERs due to the low prices.

With regards to how the CDM could best link with the GCF, PoAs covering a broader region are considered to be better placed to evidence the potential to contribute to a 'paradigm shift', which stand-alone projects may struggle to demonstrate well. However, one interviewee points out that there is a clear need for a technical definition of what constitutes a 'paradigm shift'. In addition, the GCF and the CDM take two very different approaches to demonstrating the case for financial need. Whilst the Fund requires evidence of a certain level of financial soundness and long-term sustainability of the supported activity, the CDM targets projects that in the baseline scenario would struggle financially and can thus be considered 'additional'.

**Vikrant Badve** – Technical Officer, Regional Collaboration Centre, Kampala<sup>71</sup>

"There are some early stage CDM projects and programmes in Eastern and Southern Africa looking for alternate sources of funding, including GCF funding. Most of these are cookstove, energy efficient lighting, or off-grid projects with strong sustainable development co-benefits.

There should be an institutional link between the CDM and the GCF as the Fund can learn many things from the CDM, especially from its MRV framework. The GCF could consider fast-tracking registered CDM programmes as they are already UNFCCC approved and nationally endorsed. Leveraging on existing, hard acquired capacities and CDM methodologies could be a great added value.

The types of financial instruments used by the GCF to promote CDM activities should depend on project specifics, such as the maturity of the activity and host country, amongst others. For example, community-level financing mechanisms require different tools than independent power producer investments exporting to the grid. Grant options for (pre-) feasibility assessments would be welcomed, as well as loan approaches. The GCF should encourage funding against carbon credits as a form of results-based finance, which should be part of the instruments to ensure and align interests and commitments. However, a particular challenge in this respect is the GCF's sustainable development criteria, which currently are mostly voluntarily reported under the CDM and may thus not be measured and reported to fully match the Fund's expectations. There is probably some capacity building needed to build such a reporting framework, and the UNFCCC sustainable development tool could apply – once revised."

*Vikrant Badve is a Technical Officer with UNFCCC's Regional Collaboration Centre in Kampala, Uganda. He provides technical and procedural support to regional stakeholders including DNAs and the private sector on issues related to implementation of their mitigation actions. Vikrant is also an accredited energy auditor from the Bureau of Energy Efficiency, Ministry of Power, India.*

<sup>70</sup> CMA = Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement; COP = Conference of the Parties to the UNFCCC

<sup>71</sup> The views expressed herein are those of the author(s) and do not necessarily reflect the views of the UNFCCC



# 6 The Green Climate Fund's insights

GCF currently has no official position on whether it will engage directly with the CDM

CDM is recognised as a corner stone of results-based finance

Elements of CDM methodologies and tools are already being applied in funding proposals

GCF recognises that relationships with other mechanisms and funds need to be created

Quality of funding proposals can still be improved - the GCF set up a project preparation facility to address this, and enhanced involvement of NDAs and AEs is necessary

GCF recognises the need for readiness support, and is building new capacity within government institutions

The GCF represents the key UNFCCC funding mechanism through which international climate finance is to be channelled. The GCF is governed by a Board that supervises the Fund's operations and makes final funding decisions. It is composed of 24 members, with equal representation from developed and developing country Parties. The Board's tasks are supported by a Secretariat, which executes day-to-day operations of the Fund. The GCF Secretariat has been initially tasked with establishing the GCF institutionally, supporting country readiness, as well as evaluating funding proposals for consideration by the GCF Board.

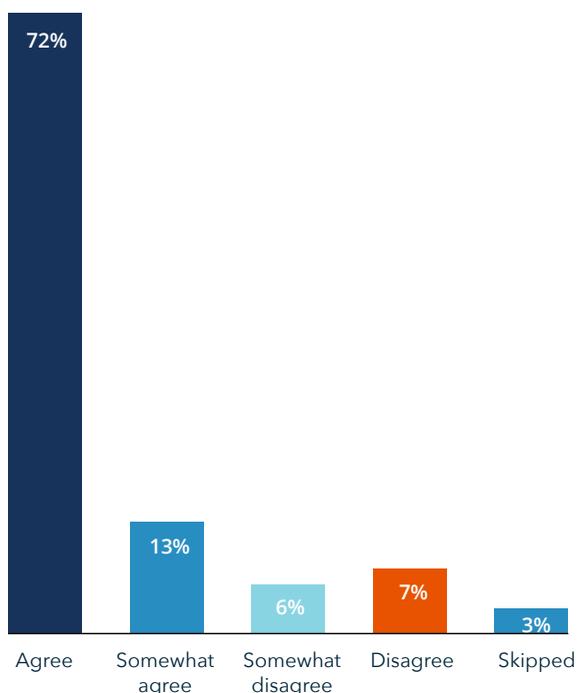
The Fund is a much younger institution than the CDM, and is in the process of elaborating, testing and streamlining its operational procedures. The GCF is supporting African countries in engaging with the Fund, facilitating knowledge exchange and capacity building. One recent initiative is the so called Structured Dialogue,<sup>72</sup> which directly involves African NDAs and AEs with the aim of strengthening strategic engagement with the GCF and the development of a solid pipeline of activities that could be submitted to the GCF in the short- to mid-term.

**"The GCF has no specific requirements on greenhouse gas reduction methodologies, which results in different approaches presented in GCF proposals"** Analyst from GCF Secretariat

The Fund currently does not propose a harmonised approach to measure mitigation outcomes. Interviewees confirmed that the GCF relies on the AEs submitting funding proposals including a methodology for the quantification of the mitigation benefits (where appropriate), with the Fund only performing a higher level review of the proposed approach. Some funding proposals do make use of elements of CDM methodologies and tools, such as calculating grid emission factors or standardised baselines for mitigation outcomes, but as one analyst from the Secretariat points out *"the GCF has no specific requirements on greenhouse gas reduction methodologies"*. Interviewees suggest that the GCF could make more formal use of the available CDM tools. Respondents to the online survey feel that the GCF should explore such forms of collaboration with the CDM Executive Board (Figure 12).

<sup>72</sup> The structured dialogue took place in October 2016 in South Africa. More information available at: <http://bit.ly/2p1ou0h>

**Figure 12:** Responses to the question on whether “The GCF should explore possible forms of collaboration with the CDM Executive Board”.



Interviewees are not aware of any formal discussion within the GCF regarding the use of CDM tools or the possibilities of the Fund to purchase and cancel CERs. However, the GCF is exploring the options to channel results-based payments to support Reducing Emissions from Deforestation and Degradation (REDD+) programmes. This comes in response to a request from the COP to the UNFCCC to “encourage the GCF to play a key role in collectively channelling adequate and predictable results-based finance”.<sup>73</sup> Despite the current lack of an official position on whether the GCF will engage with the CDM, one interviewee feels that the relationship with other relevant mechanisms and funds needs be established in order to allow countries to explore all possible options to

finance their NDCs. The GCF has already decided to “hold an annual meeting... in order to enhance cooperation and coherence of engagement between the GCF and UNFCCC thematic bodies”.<sup>74</sup> However, the CDM Executive Board is notably excluded from the list of UNFCCC thematic bodies, with which the GCF is to engage.<sup>75</sup>

With regards to the overall quality of the proposals submitted to the GCF, one interviewee points out that most proposals received to date fail to address all of the Fund’s investment criteria equally well. Enhanced involvement of NDAs to ensure country ownership, together with increased capacity at national level for engaging with the Fund are needed to improve proposals’ quality, as is frequent interaction with AEs. There is clear need for readiness support in many countries, and through its Readiness Programmes the Fund is making progress on strengthening national capacities and helping governments in the preparation of project and programme pipelines.

**“Linking with CDM is not the priority of the GCF at the moment, but will happen later on in my view”** Readiness Advisor, GCF

Another effort by the GCF to enhance the quality and impact of funding proposals is the launch of the Project Preparation Facility, which offers upfront finance for feasibility work capped at USD 1.5 million. The Facility aims to support project and programme preparation requests from all types of AEs, but is especially interested in assisting direct access entities and AEs preparing submissions that fall in the micro-to-small project size category.<sup>76</sup> Other barriers still exist, and interviewees acknowledged that the Fund also needs to enhance its internal procedures to facilitate countries’ participation. The GCF is piloting - and plans to scale up - Enhancing Direct Access, which is to allow host-country nominated entities to directly submit proposals to the Fund, rather than having to go through an AE.<sup>77</sup>

<sup>73</sup> GCF (2016) Support for REDD-plus. GCF/B.14.03. Available at: <http://bit.ly/2nqKvBT>

<sup>74</sup> GCF (2016) *Decisions of the Board - Thirteenth meeting of the Board, 28 - 30 June 2016*. GCF/B.13/32/Rev.01, Decision B.13/10

<sup>75</sup> UNFCCC bodies includes the Standing Committee on Finance, The Adaptation Committee, The Least Developed Countries Expert Group, The Technology Mechanism (The Technology Executive Committee and the Climate Technology Centre and Network) and the Executive Committee of the Warsaw International Mechanism

for Loss and Damage. GCF (2016) *Relationship with United Nations Framework Convention on Climate Change thematic bodies*. GCF/B.14/Inf.11. Available at: <http://bit.ly/2oU34yu>

<sup>76</sup> GCF (no date) *Project Preparation Facility Guidelines*. Available at: <http://bit.ly/2ms4fHh>

<sup>77</sup> GCF (2016) *USD 200 million pilot of additional modalities to enhance direct access under GCF*. Available at: <http://bit.ly/2mVxow1>

**Tosi Mpanu Mpanu** - GCF Board Member, Head of the Democratic Republic of Congo Negotiators, UNFCCC



“The GCF Board acknowledges the need for multiple channels of finance targeting least developed countries and Africa, but there are ideological confrontations at the Board level. Maximum flexibility in the use of different instruments is needed in order not to exclude countries with less favorable investment environments, such as a weak private sector or low interest of the local banking sector to invest in mitigation technologies. This echoes recurring calls by least developed countries for direct access to GCF finance as well as the concerns that multilateral banks may favor loans over equity and grants.

Any sort of joint approach between the GCF and the CDM is positive as the CDM is a cornerstone of result-based finance. Unfortunately, no formal discussions about the CDM have taken place at GCF Board level so far. These discussions are hampered by a lack of political consensus and procedural issues between the CMP and the GCF Board.

The GCF can learn from the CDM, as LDCs and Africa benefitted from several simplifications in CDM modalities, and the CDM proved it was able to adapt to the African context. The CDM should be combined with the specific facilities offered by the Fund (through direct and fast track access) to increase the likelihood of a wider mitigation impact.”

*Tosi Mpanu Mpanu is serving as a Board Member to the GCF. Apart from his role at the GCF Board, he is a former chair of the LDC Group at the United Nations climate change negotiations and was a former focal point for the Democratic Republic of the Congo’s CDM Designated National Authority.*



# 7 Annexes

## AFRICAN GCF PROJECT AND PROGRAMME PIPELINE<sup>78</sup>

	Project/programme name	Country	Accredited Entity	Access modality	Amount of GCF financing (million USD)	GCF financing instrument (million USD)	Amount of co-financing (million USD)
ADAPTATION	FP034 Building Resilient Communities, Wetlands Ecosystems and Associated Catchments in Uganda	Uganda	United Nations Development Programme	International	\$ 21.4	Grant	\$ 20.1
	Empower to Adapt: Creating Climate-Change Resilient FP024 Livelihoods through Community-Based Natural Resource Management in Namibia	Namibia	Environmental Investment Fund	Direct National	\$ 10	Grant	\$ 0
	FP023 Climate Resilient Agriculture in three of the Vulnerable Extreme northern crop-growing regions (CRAVE)	Namibia	Environmental Investment Fund	Direct National	\$ 9.5	Grant	\$ 0.055
	FP021 Senegal Integrated Urban Flood Management Project	Senegal	Agence Française de Développement	International	\$ 16.7	Grant	\$ 62.5
	FP012 Africa Hydromet Program - Strengthening Climate Resilience in Sub-Saharan Africa: Mali Country Project	Mali	International Bank for Reconstruction and Development and International Development Association (World Bank)	International	\$ 22.8	Grant	\$ 4.5
	FP011 Large-scale Ecosystem-based Adaptation in the Gambia River Basin: developing a climate resilient, natural resource based economy	Gambia	United Nations Environment Programme	International	\$ 20.5	Grant	\$ 5
	FP003 Increasing Resilience of Ecosystems and Communities through Restoration of the Productive Bases of Salinized Lands	Senegal	Centre de Sui- vi Ecologique (CSE)	Direct National	\$ 7.6	Grant	\$ 0.55
	FP002 Scaling Up of Modernized Climate Information and Early Warning Systems in Malawi	Malawi	United Nations Development Programme	International	\$ 12.3	Grant	\$ 4

<sup>78</sup> GCF (no date) Project Portfolio. Available at: <http://bit.ly/2o2Xw4Z>

	Project/programme name	Country	Accredited Entity	Access modality	Amount of GCF financing (million USD)	GCF financing instrument (million USD)	Amount of co-financing (million USD)
MITIGATION	FP033 Accelerating the Transformational Shift to a Low-Carbon Economy in the Republic of Mauritius	Mauritius	United Nations Development Programme	International	\$ 28.2	Grant	\$ 163.2
	FP029 SCF Capital Solutions	South Africa	Development Bank of Southern Africa	Direct Regional	\$ 12.2	Equity	\$ 95.8
	FP027 Universal Green Energy Access Programme	Benin, Kenya, Namibia, Nigeria, United Republic of Tanzania	Deutsche Bank	International	\$ 80	Equity \$ 78.4 Grant \$ 1.6	\$ 221.6
CROSS-CUTTING	FP026 Sustainable Landscapes in Eastern Madagascar	Madagascar	Conservation International Foundation	International	\$ 53.5	Equity \$ 35 Grant \$ 18.5	\$ 16.3
	FP025 GCF-EBRD Sustainable Energy Financing Facilities	Armenia, Egypt, Georgia, Jordan, Moldova, Mongolia, Morocco, Serbia, Tajikistan, Tunisia	European Bank for Reconstruction and Development	International	\$ 378	Loan \$ 344 Grant \$ 34	\$ 1,034
	FP022 Development of Argan orchards in Degraded Environment - DARED	Morocco	Agency for Agricultural Development of Morocco	Direct National	\$ 39.5	Grant	\$ 9.9
	FP005 KawiSafi Ventures Fund in East Africa	Rwanda, Kenya	Acumen Fund	Direct Regional	\$ 25	Equity \$ 20 Grant \$ 5	\$ 85

## OVERVIEW OF GCF ACCREDITATION CATEGORIES

	ACCREDITATION CATEGORY	DEFINITION
ENTITY TYPE	Direct (national)	Recipient country nominated subnational or national entities for accreditation to receive funding.
	Direct (regional)	Recipient country nominated regional entities for accreditation to receive funding.
	International	International entities including United Nations agencies, multilateral development banks, international financial institutions and regional institutions.
SIZE	Micro	Total projected cost is up to USD 10 million
	Small	Total projected cost is USD 10 - 50 million
	Medium	Total projected cost is USD 50 - 250 million
	Large	Total projected cost is above USD 250 million
FIDUCIARY STANDARD	Basic	All entities seeking accreditation are required to meet the basic fiduciary standards demonstrating administrative and financial capacities. In addition, entities can apply for one or more of the specialised fiduciary standards below
	Project management	AE has ability to manage projects, including: <ul style="list-style-type: none"> <li>- Identifying, formulating and appraising projects or programmes</li> <li>- Managing/overseeing the execution of funding proposals, managing executing entities/project sponsors and supporting project delivery and implementation</li> <li>- Consistently and transparently reporting on progress, delivery and implementation of funding proposals</li> </ul>
	On granting	AE has ability to receive and disburse grant financing. The eligibility evaluation criteria are based on the criteria stated in the call for proposals
	Lending	AE has ability to provide on-lending and blending as financial instruments
ENVIRONMENTAL AND SOCIAL RISK CATEGORY	Category A	Project has significant adverse risks that may be irreversible
	Category B	Project has mild adverse risks that would likely be irreversible
	Category C	Project has minimal or no adverse risks

