

# Draft guidelines and modalities for operationalization of loan scheme to support development of CDM project activities in countries with fewer than 10 registered project activities

**CDM-EB 56 meeting**

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### Decision 2/CMP.5

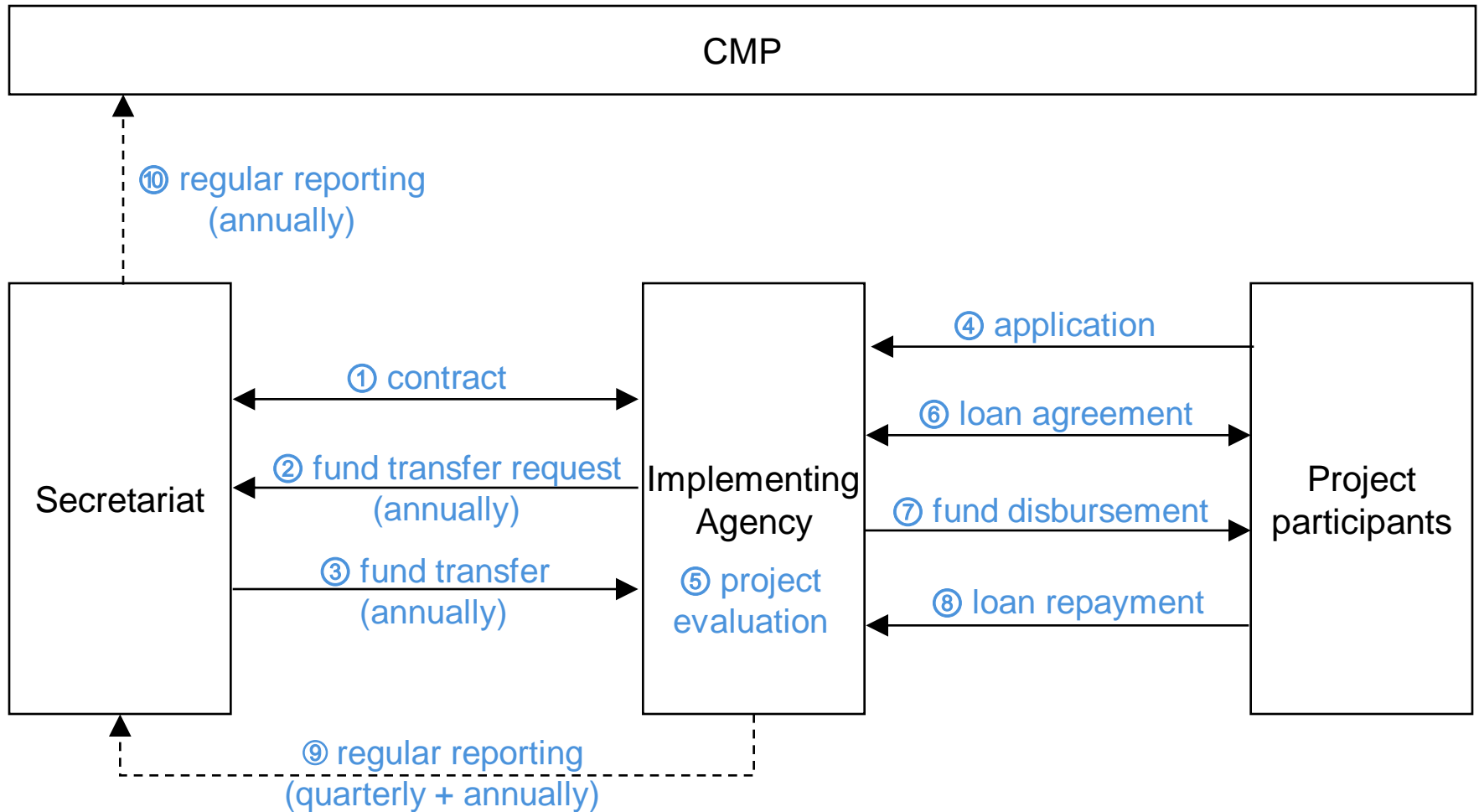
- Allocate financial resources from the interest accrued on the principal of the CDM Trust Fund and any voluntary contributions to provide loans to support CDM project development in countries with fewer than 10 registered projects, to cover:
  - Costs of development of PDDs
  - Costs of validation and first verification
- Loans to be repaid starting from first issuance of CERs
- Requested EB to recommend guidelines and modalities for operationalization of loan scheme to CMP 6

### EB 55

- Agreed on a “valiant” (option) which outsources loan management functions, with involvement of the secretariat



## Proposed loan scheme: players and main steps



## Proposed loan scheme: modalities (1)

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### Allocation of funds

- Secretariat calculates and identifies annually (as of 1 Jan each year) the interest accrued in the CDM Trust Fund and any voluntary contributions for the loan scheme
- 20% cap for administrative cost (of total funds transferred to the Implementing Agency)

### Selection of Implementing Agency

- **Selection process:** Secretariat selects and makes contract with a public or private institution in accordance with UN rules and regulations
  - **Contract term:** 5 years with possible extension by another 3 years
  - **Requirements for Implementing Agency:**
    - Experience in loan schemes
    - Ability to operate in the targeted regions
    - System to ensure human resources having relevant expertise
    - Financial strength
    - Good performance record
    - Cost-effective arrangement of administrative costs
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### Oversight by the secretariat

- Secretariat oversees the performance of Implementing Agency through:
  - Approval of annual business plans, budgets and financial statements prepared by Implementing Agency
  - Review of quarterly reporting from Implementing Agency
  - Approval of operational procedures, detailed project selection criteria and templates prepared by Implementing Agency
  - Evaluation of the loan scheme by an independent expert
- Secretariat reviews the performance of the loan scheme with regard to:
  - Fund utilization rate
  - Geographical distribution of funded projects
  - Success rate of reaching CDM registration

### Reporting to CMP

- Secretariat reports annually to CMP on the status of implementation of the loan scheme



## Proposed loan scheme: modalities (3)

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### Application, approval, fund disbursement and repayment

1. Application (PP)
2. Completeness check and initial eligibility check (IA)
3. Detailed appraisal (IA)
4. Decision on extending a loan (IA)
5. Signing loan agreement (IA, PP)
6. Disbursement of fund to successful applicants (IA)
7. Repayment by loan recipient (from first issuance of CERs) (PP)
8. Monitoring the progress of project activity and PP's compliance with loan agreement (IA)

PP: Project participant

IA: Implementing Agency



### Project selection criteria

- **Project participants** shall have:
  - Integrity
  - Sufficient capacity to implement and operate the project activity
  - Track record (or direct support by an entity with track record) of developing, hosting or implementing a successfully validated CDM project activity using the same technology or methodology
- **Project activity** shall
  - Be located in countries with less than 10 registered CDM project activities as of 1 January of the year when application is made
  - Use commercially viable and available technology
  - Be financially viable
  - Have high likelihood to be commissioned and completed
  - Have estimated emission reductions or removal enhancements of:
    - [15,000] t-CO<sub>2</sub> eq annual average (except for LDCs, SIDS)
    - [7,500] t-CO<sub>2</sub> eq annual average (LDCs, SIDS)
  - Meet eligibility criteria as a CDM project activity or a CDM PoA



### Guidelines for loan terms and conditions

- Main provisions to be included in the **loan agreement** are:
  - No interest on the loan
  - One time fee to applicant, to be reimbursed once repayment starts
  - Disbursement of the loan upon milestones, possible staggered disbursement
  - Disbursement to be made directly to service provider (i.e. CDM consultant, DOE)
  - Repayment starts from 1<sup>st</sup> year of CER issuance, in cash
  - Implementing Agency may request the secretariat to withhold issuance of CERs until repayment is done
  - If project fails to be registered as a CDM project activity, but commissioned and generated revenue, repayment remains due
  - Periodic (six monthly) reporting by loan recipient
  - Loan recipient shall seek most competitive offer from service providers
  - Loan may be cancelled, accelerated or pre-repaid
  - Loan may be written off (e.g. abandonment of project, failure to be registered, or bankruptcy)



### Suggested areas for consideration by EB

- EB may wish to consider the proposed guidelines and modalities, particularly regarding:
  - **Governance** of the loan scheme, incl.
    - Secretariat's role
    - 20% cap for administrative cost of the Implementing Agency
  - **Project selection criteria**, incl.
    - Threshold of eligible project scale
  - **Loan conditions**, incl.
    - No interest
    - One-time fee
    - No explicit cap or floor for loan amount
    - Loan security measures (withholding CERs, cancellation, acceleration and writing off)
- EB may wish to adopt the draft guidelines and modalities (with modifications as appropriate) for recommendation to CMP

