Introduction to the Paris Climate Bond concept & case study projects
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Paris Climate Bond (PCB) Concept

- PCB is a financing concept that provides cost-effective, long-term debt funding for projects and programs in emerging markets that are registered with current and future mechanisms of the UNFCCC.

- PCB raises funding primarily from the private sector. It also deploys climate finance available from public sources and aggregation concepts to optimize the risk and return profile of the finance mobilized.

- PCB is focused on creating and popularizing an asset class that provides international debt capital markets a liquid instrument through which to invest in low carbon infrastructure in emerging markets.

- In order to benefit from PCB financing, a core criterion for participation is that projects and programs be registered with current and future mechanisms of the UNFCCC (such as the CDM).

- PCB introduces a contractual mechanism by which the ex-ante volumetric mitigation outcome estimates, including CER delivery, are enforced.

- UNFCCC-registration and contractual enforcement provisions afford certainty to investors that projects are delivering climate and sustainable development benefits that are real, verified and additional to business as usual, determined in accordance with multilateral standards.

- The above features render PCB a much needed innovation in the area of climate-themed bonds and in the allocation of climate finance.
PCB and the UNFCCC Process

Procedural background to the PCB Concept

- Decision 6/CMP 11 – “Encourage the Executive Board to continue exploring options for using the clean development mechanism as a tool for other uses and report back to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its twelfth session.”

SB44 Bonn, 2016 & EB-91 Bonn, 2016
- Workshop held at SB-44 in Bonn at which Paris Climate Bond concept, developed by Climate Mundial and Baker & McKenzie, was presented to delegates. PCB included in the concept note presented to EB-91 for formal support and included in report back to CMP12.

COP22 Marrakech, 2016 & CMP12, Marrakech, 2016
- Decision 4/CMP 12 – Based on the outcomes of SB-44 and EB-91, CMP12 agreed to ask the Executive Board “to continue its activities in response to decision 6/CMP.11, paragraphs 7 and 8”.

Commercial in Confidence
The PCB Project is designed as the first, real-case demonstration of the PCB concept. It involves the establishment of two new forms of investment entity as follows:

- **Project Finance**: PCB entity established to make loans to projects registered with current and future mechanisms of the UNFCCC (Eligible PCB Projects) in target developing countries.

- **Investment Vehicle**: an entity that purchases PCB loans and issues an appropriate range of capital markets instruments, including PCB commercial notes, to finance its activities.

Together with our implementation partners we are designing PCB such that it may be possible in future to list both the Investment Vehicle(s) and PCB commercial notes on one or more exchange(s), leading to increased liquidity.

Following first issuance of PCB commercial notes, a Best Practice Guide shall be published to generate additional interest and drive scaling-up.
Examples of Green Field PCB Application

Methane reduction in rice cultivation in the Philippines

- Engaged with the Philippines Government (led by the Philippines Rice Research Institute) and UNDP to implement a nationwide sectoral program that provides financial incentives for small-scale farmers and irrigation associations to adopt Advanced Wetting and Drying (AWD) techniques instead of continuous flooding.

- Measurement and verification utilises a CDM standardised baseline.

- Financial incentives provided to farmers take the form of direct payments for emission reductions (in USD) and the provision of microfinance through local financial institutions.

- Cost and tenor of finance is supported via application of PCB. Program is currently in its detailed preparation phase following completion of AWD piloting.
Examples of Green Field PCB Application

Grid-connected solar photovoltaic power generation in The Gambia

- Engaged with the Government of The Gambia (led by the Ministry of Environment) and UNDP to implement a sectoral program that will deliver up to 15MW of distributed solar photovoltaic power generation connected to national and regional electricity grids over the next five years.

- All projects participating in the program shall be financed utilising PCB.

- The program will be registered as a Program of Activities under the CDM and CERs will be cancelled as a contractual requirement using the UNFCCC platform for voluntary cancellation.

- The program was included in the UNFCCC secretariat’s report at the 99th meeting of the CDM Executive Board and is currently in its detailed preparation phase.
Summary of Key Points

Providing long-term financing to support NDC implementation in developing countries

Broad Applicability with Private Sector Engagement

- PCB offers opportunities to both public and private sector projects, across the full spectrum of sectoral scopes and in all countries able to participate in UNFCCC mechanisms, subject to confirmation through robust regulatory due diligence, to raise funding at scale.

Benefits to Developing Countries

- Financial benefits to projects and programs are delivered through a real funding cost advantage, which can be used to capitalise the value of the mitigation benefits to be delivered, with access to international capital markets and additional sources of finance.

Transparency on Mitigation Outcomes

- Public and private investors gain certainty over the quantity and environmental integrity of mitigation outcomes to be delivered, as well as a method to track title (via serial numbers) on transfers of units. Host countries accelerate implementation of NDC.
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