

What is CDCF*plus*?

CDCF*plus* provides governments, foundations, and corporations with an opportunity to build local capacity to prepare small-scale Clean Development Mechanism (CDM)-eligible projects in least developed countries (LDCs) and poorer communities of all developing countries.

Many small-scale projects such as mini-and micro-hydro, wind energy, small municipal and agricultural waste, as well as energy efficient appliances, and clean transport, can benefit local communities as they abate greenhouse gas emissions.

But these same communities are likely to be bypassed by carbon investors-proportionately higher business costs and bigger risks put them at a disadvantage when competing for carbon finance. To help even the odds, in September 2002, the World Bank launched the Community Development Carbon Fund.

CDCF*plus* will work in parallel with the CDCF, with its participants contributing either financial resources or technical expertise.

Through targeted technical assistance, CDCF*plus* will help to build the local capacity needed to make the CDM a reality for a larger number of developing countries.

As a CDCF*plus* Participant You Can:

- Maximize the value of scarce grant resources by leveraging private sector investment in small-scale technologies-micro-hydro, urban and agricultural waste methane capture, wind turbines-in least developed countries and poorer areas of the developing world.
- Foster the use of carbon finance as an innovative financial tool to promote cleaner, less greenhouse gas-emitting technologies.
- Help ensure a more equitable CDM by demonstrating the viability and replicability of small carbon projects in countries and areas normally bypassed by commercial interests.
- Demonstrate in practical ways how the CDM can improve the lives of the poor and contribute to sustainable development at the local level.
- Acquire first-hand knowledge of the catalytic effect of carbon finance as a tool for development. Access knowledge dissemination and acquisition services provided by the World Bank and the World Bank Institute-including training programs, carbon finance fellowships, staff exchanges, and the CDCF*plus* Internship Program.

The Case for Capacity Building

Market research by the World Bank shows that during 2002 only 13 percent of direct private sector carbon emission reduction purchases were made from projects in the developing world-and none from the least developed countries.

This research suggests that least developed countries and poorer communities will only become players in the emerging carbon market-with its potential development benefits-if international donors help them develop the local capacity and expertise required to prepare and manage carbon projects.

What needs to happen?

- **Transactions, transactions, transactions:** The work of the Prototype Carbon Fund (PCF) demonstrates that the experience gained from the first and second carbon finance transactions is essential for building the capacity of government agencies, small and medium enterprises, NGOs, and intermediaries to participate in the emerging carbon market.
- **Supportive CDM approval systems:** In a recent survey on small-scale CDM project activities by market analyst Point Carbon, experts from government and the private sector identified the existence of a supportive national CDM approval system as the single most critical factor determining the attractiveness of a CDM investment.
- **Local intermediaries:** PCF experience shows that substantial front-end expenditures are necessary to reduce investment risks, facilitate project development and replication, streamline project procedures, and bring proposals to validation stage. Project bundling and delivery through competent, low-cost, local intermediaries-typically in the private sector-can substantially reduce business costs and mitigate project risks.
- **Low-cost operational entities:** Other studies reveal that some of the highest transaction costs in small-scale projects are the fees charged by international operational entities that carry out validation and verification/certification. The same studies suggest that those specific costs could be reduced by promoting the accreditation of local and regional operational entities charging local rates.
- **Competent designated national authorities for the CDM:** PCF experience has shown that one of the most significant barriers to the delivery of high volumes of emission reductions through the CDM remains the ability of public sector institutions in developing countries to have clear, transparent, and timely project approval procedures. As of the end of 2002, only nine of the more than 70 developing countries that had ratified the Kyoto Protocol had a designated national authority, and fewer than that had implemented project approval procedures.

Learning by Doing

Through targeted activities, CDCF*plus* will:

- Identify local intermediaries-commercial banks, savings and loan associations, cooperatives, development NGOs, utilities-and train them to prepare and implement small-scale carbon projects (both individual and bundled). These intermediaries can operate at local cost structures and have local business knowledge;
- Respond to specific requests from project developers for technical assistance to bring the project to validation stage, including:
 - Partial funding for social and environmental due diligence;
 - Partial funding for feasibility study and or a business plan for underlying project;
 - Project Idea Note (PIN) completion costs;
 - Carbon asset creation/Project Design Document (PDD) preparation; and
 - Community benefits identification and selection.
- Ensure that local communities and other stakeholders are fully informed and consulted from the beginning on all aspects of project development and implementation, and that their concerns and interests are reflected in the final project; and
- Fill the gaps in project preparation financing for quality projects and support the development of a pipeline of such projects.

How CDCF*plus* Works

The World Bank has created a CDCF*plus* multi-donor technical assistance trust fund. Financial resources will accrue not only from entities that have entered into a participation agreement with CDCF*plus*, but also from investment income from upfront payments made in full by CDCF participants.

CDCF*plus* participants will receive periodic status reports, budgets, and account statements.

CDCF*plus* is part of the World Bank's Technical Assistance Program for Carbon Finance (CF-Assist), which will provide the overall coordination among the various technical assistance initiatives of the World Bank in the area of carbon finance.

Tailor-Made Participation

While participation in CDCF*plus* will typically involve the transfer of funds from donors to the technical assistance trust fund, it may also consist of technical assistance rather than financial contributions.

CDCF*plus* is tailor-made to suit the needs of individual participants: the activities to be undertaken; the countries where these activities are to be undertaken; the technologies the participant wishes to support; the duration of the participation and other modalities. Individual work programs will be discussed and agreed.

CDCF*plus* components can be designed around existing or planned capacity-building programs and projects in the area of climate change. Adding a carbon finance component will increase the value and sustainability of such projects and programs.

CDCF*plus* and the UNFCCC Process

The work of CDCF*plus* will be consistent with the principles and rules for the CDM-including those of official development assistance-as well as the capacity-building framework for developing countries, adopted at the seventh session of the Conference of the Parties to the UNFCCC (Marrakesh, October 29-November 10, 2001).