Enhancing Green Bond Transparency through CDM

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Green bonds play a crucial role for unlocking and channeling capital to finance the low-carbon transition of countries required to reach the ambitious targets of the Paris Agreement. 2015 constituted the fourth consecutive record issuance year, with green bonds of a total value of over USD 45 billion being issued[1]. There have, however, been growing concerns regarding "greenwashing" and the environmental integrity of the green bond market[2]. Asset managers criticize that there is no accepted industry standard, comparing the green bond market with the "wild, wild west"[3]. Investors need transparent and accepted standards and procedures to ensure credibility and in turn sustained growth of the asset class. Moreover, as the Paris Agreement has established that all countries report on their respective nationally determined contributions (NDC) to greenhouse gas mitigation, transparent and comparable reporting on the climate impacts of the underlying assets becomes increasingly important.

The relevance of more transparent reporting has also been highlighted by initiatives such as the Green Bonds Principles (GBP), which provide guidance and enable disclosing the

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1 Bloomberg, 2016: Bond Market Asking `What Is Green?' Curbs Climate-Friendly Debt
2 See I4CE, 2016: Beyond transparency: unlocking the full potential of green bonds
3 Bloomberg, 2016: Municipal Market is `Wild West' for Green Bonds, TIAA Says

actual environmental benefit of green bonds. Moreover, major bilateral and multilateral finance institutions are in the process of developing a "Harmonized Framework for Impact Reporting" (for Green Bonds).[4] Private commercial actors such as BNP Paribas are also starting to move in the same direction, and have started to align Green Bonds with the Clean Development Mechanism (CDM) framework[5].

These efforts point towards continuous progress regarding more robust standards, however, it needs to be highlighted that all measures concerning the green bond market use a fragmented array of climate impact methodologies. These are limited to an ex-ante review of underlying projects' "greenness" by sustainability rating and consulting agencies. A more rigorous monitoring, reporting and verification (MRV) framework would also allow ex-post impact assessments of the mitigation performance of Green Bond-financed projects. Yet, no commonly accepted methodologies for ex-post quantification of mitigation impacts of Green Bonds exist.

That is why we suggest **harmonizing climate benefit reporting** for financial instruments such as green bonds with established **UNFCCC-approved methodologies**. The CDM has generated over 200 UNFCCC-approved methodologies to quantify mitigation impacts, which have been tested in close to 10,000 projects in more than 100 developing countries. These methodologies are ready to use and able to cover the majority of project types financed through green bonds. By using standardized CDM methodologies, climate impact assessments of Green Bonds would be streamlined, quicker, more cost-effective and robust.

The high quality and transparency of CDM MRV elements is increasingly being recognized by commercial and public financial institutions. The potential for harnessing synergies between the CDM and climate financing institutions such as the Green Climate Fund (GCF) has already been examined. As an accepted standard for demonstrating the mitigation impact of Green Bond portfolios, simplified CDM methodologies can satisfy the need for transparency from investors, in particular those specialized on innovative approaches to credit enhancement through credible proof of achieved mitigation results.

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[4] Multilateral Development Banks 2015; Harmonized Framework for Impact Reporting
[5] UNFCCC 2016; latest CDM stakeholder interaction workshops

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