Trends of result based finance: How it can support in achieving short term climate impact

Regional Workshop on Carbon Finance for Latin America and the Caribbean

7th September 2015, Santiago de Chile

Carsten Warnecke
RBF in a nutshell

» RBF is defined as **financing modality** not a new mechanism

» Term emerged from development finance to improve aid effectiveness compared to conventional financing

» Finance is dispersed upon achievement of predefined result

» Inherent in existing climate finance mechanisms, CDM, REDD and discussed in the context of NAMAs and the GCF
RBF variety in climate policy

Methodological stringency
High certainty of outputs
Strong verification need

Upfront payment
Grant/concessional finance (e.g. ODA)

Payment on results – quantitative/qualitative
Advanced market commitments (e.g. FIT)

Payment on results - tCO$_2$e based
Payment for mitigation (e.g. CER purchase & retirement)

Tradable units/offsets (tCO$_2$e)
Carbon Market Mechanisms (e.g. CDM)

Long term (indirect) impacts
Development benefits
Address multiple barriers

Range of RBF variety
Ex-post finance requires financial resources to pre-finance interventions

Enabling measures are key

Risks transferred to implementing agencies are substantial

Stringent but reliable definition and verification of results is not feasible in all sectors and for all mitigation opportunities

Objectives that are not linked to payments might not be met

Recurring results-based payments and recurring verification lead to endurance of interventions and long-term success
What is the operational status of the CDM component of the GHG mitigation activity?

- In regular operation
- Regular operation temporarily stopped
- Regular operation permanently stopped
- Regular operation not started, no GHG mitigation
- No CDM-conformant operation, alternative GHG mitigation equipment operating
- I do not know

» **Up to 79%** of registered CDM projects are implemented and in regular operation

» **Excl. China and India just up to 53%** of projects are operational

Despite the recent drop in CER prices, what are the reasons to continue with the CDM GHG mitigation activity?

» CER revenues are sufficient for fewer than 3% of fully implemented projects

» High rate of irreversible investments

» Expectations for alternative support

What CER price level is required by the project to continue verification & issuance activities?

- For 53% CER prices below €5 are sufficient to continue VI activities
- Low price requirements might include acceptance of sunk costs

RBF – a linking element?

» **Benefits for carbon markets:**
  » Short term support through CER purchase and cancelation
  » Opportunity to test new and innovative mechanism approaches in a safe environment
  » Piloting of tailored approaches for sectors

» **Benefits for climate finance:**
  » Quantification of short-term interventions with proven approaches
  » Increased recognition of mitigation impacts achieved through climate finance
  » Increased effectiveness and persistence of interventions through MRV framework and recurring processes
RBF benefits in climate policy

» RBF creates strong incentives to deliver on intended programme objectives

» RBF approaches can address further objectives beyond greenhouse gas mitigation

» RBF approaches attract funders driven by mitigation certainty

» RBF can foster enduring interventions

» RBF frameworks are flexible to be locally appropriate
Further reading

» “Connecting the dots - Results-based financing in climate policy”

» Overview of results-based finance options and opportunities for linking market and non-market approaches

Supported by

Download report at newclimate.org