Results and Trends of Result Based Finance - the Future Carbon Fund Experience

Future Carbon Fund
Asian Development Bank

29 September 2015
**Future Carbon Fund (FCF)**

- US$115 million trust fund
- Commenced operations in 2009 and will close in 2021
- Fund Participants include four Governments and two private sector entities, from Europe and Asia
- Contracted 10.5 million CERs
- Supporting 37 CDM projects
- Providing Carbon finance support to 1.2 GW renewable energy projects in 12 countries in Asia and Pacific region
Result Based Financing

- CDM is a classic example of the Result Based Financing, a programme where payments are made upon achievement of certain results (i.e., GHG reduction).

- Current spot price (about 0.50 Euro/CER) is only enough to pay for the CDM transaction costs and provides no return/incentive to Project Entity (PE). In today’s market, CDM is no longer a sustainable Result Based Financing.

- To provide a faire CER price and incentive to PE, FCF adapted the Transaction Cost+ Mechanism.

  FCF purchasing price (fixed price) = Per CER transaction cost (DOE fee, CDM consultant fee, and issuance fee) + PE’s incentive (varies among countries, project sizes and types).
Result Based Financing

- To maximize the effect of carbon financing, FCF purchased CERs at a fixed price on Payment-in-Advance (PIA), Payment-on-Delivery (POD) and Surplus basis.
- PIA: Upfront payment for the pre-purchased CERs, providing co-financing support for early stage on the project development.
- POD: Long term forward contact secures future income stream of PE.
- Surplus: PE has no obligation to deliver the surplus, whereas, FCF has an obligation to purchase them, if generated. Oftentimes, contracted CERs volume is more than the expected, providing add-on incentives to reduce extra GHG emissions.
Case Study (overviews)

- Improved Cooking Stove (ICS) project in LDC (PoA). The PoA will replace Traditional Cooking Stoves (TCS) with ICS at rural households.

- Both ICS and TCS consume fuelwood. However, through better design, ICS achieves over 20% higher efficiency than TCS.

- Each ICS costs over US$ 30, which is financed through ICS owner, foreign donor, etc.

- FCF contracted the PoA to purchase CER to be generated until 2019, at a fixed price (POD and Surplus). Total proceed from FCF transaction is estimated to be, on average, 15% of the ICS cost (after deducting CDM transaction cost).
Case Study (benefits)

- PoA contributes to GHG reduction through reduction of fuelwood consumption, while contributes to mitigate deforestation rate of the country.
- Lower fuelwood consumption reduces time needed for fuelwood collection and cooking of rural households, especially women.
- Inefficient burning and open fire of TCS generates serious indoor air pollution, which creates serious health threats to the rural communities. With chimney and proper ventilation, ICS makes an effective way to reduce the indoor air pollution.
Thank you

Takeshi Miyata
Transaction Manager
Future Carbon Fund
Asian Development Bank
Metro Manila, Philippines
Tel: (+632) 632 4444
E-mail: tmiyata@adb-fcf.org