



WORLD BANK GROUP
Climate Change



Plenary 4 – Result Based Finance

CARBON LINKED PERFORMANCE PAYMENTS: CI-DEV AND PAF

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Results-based finance using the CDM

- **What is results-based finance?**
 - Payments on delivery for a desired outcome (e.g. no. of people vaccinated, no. of poor household connected to the grid, tons of GHG emission reductions achieved);
- **Why using results-based finance?**
 - Effectivity of public spending to achieve desired outcomes;
 - Reaching scale to have transformational impact;
 - Building sustainable markets and private business and enabling private sector financing.
- **Why using the CDM to deliver results-based finance?**
 - Payment for achieved GHG ERs one option to deliver RBF;
 - Relevant if achieving GHG ERs is primary objective;
 - Existing CDM infrastructure: methodologies, project cycle, issuance capacity, existing project pipeline.

Carbon Initiative for Development (Ci-Dev)

Objectives

- Assist LDCs to use carbon finance to promote energy access and low carbon development
- Support CDM projects with high development benefits through technical assistance and CER purchases
- Support the design and dissemination of new methodologies, standardized baselines and proposals for simplification of the CDM project cycle

Participants and Funding

- Switzerland, Sweden and UK participate in the fund
- The facility has a budget of circa 125 million US\$
 - Readiness Fund
 - Carbon Fund

Priority areas / supported activities

- Private sector led – energy access programs
- Household level / community scale programs
- Priority countries – poorest countries with strong focus on Africa and LDCs
- Programs under consideration include:
 - Off-grid Solar Home systems
 - Biogas digesters
 - On-grid Extension
 - Cookstoves

Carbon Initiative for Development (Ci-Dev)

- Readiness Fund: US\$ 25 million
 - Technical Support for Carbon Fund
 - Methodology Work Program
 - Methodology Development
 - CDM Reform
 - Studies: e.g. *Increasing credit issuance through improving monitoring and verification procedures and issuance rules in the CDM*
 - Readiness Grants / Technical Assistance
 - Knowledge compilation & dissemination
- Carbon Fund: US\$ 100 million
 - ERPA payments
- 16 programs under pipeline

Ci-Dev uses existing CDM infrastructure

- Rely 100% on CDM methodologies for calculating emission reductions
- Monitoring and verification framework of CDM is the main pillar for payments under Ci-Dev
- To reach its objectives, Ci-Dev will focus, apart from project development, on
 - Business model innovation
 - CDM reform
 - Knowledge dissemination / capacity building
- Methodology Work Program (Readiness Fund)
 - Finding process efficiencies
 - Reducing regulatory risk
 - Developing new methodologies and simplifying existing
 - CDM Reform Working Group

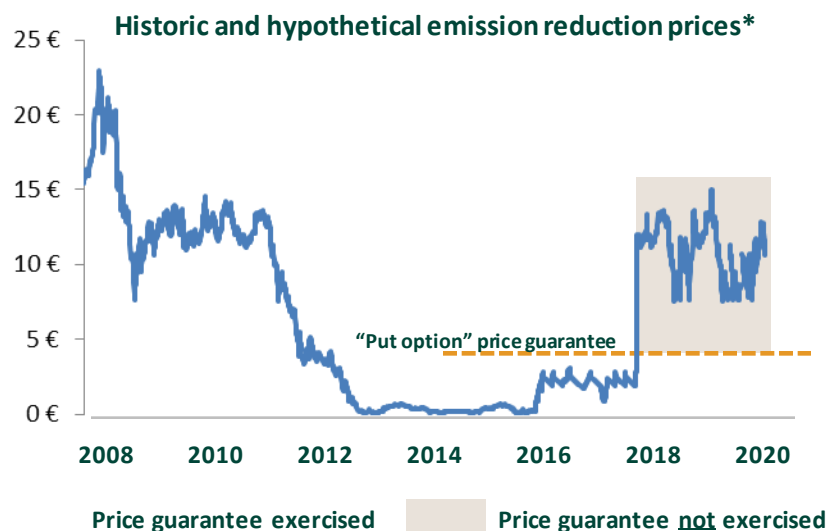
Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)

- Pilots an innovative climate finance mechanism that uses auctions to maximize impact of funds
- Provides incentive for private sector investment in projects that reduce greenhouse gas emissions
- Disburses resources against independently verified emission reductions
- Rely 100% on CDM infrastructure
- \$100m target capitalization – learning a key objective for scaling-up or replication for use with other pollutants or other results



The PAF Offers a Price Guarantee by Using the Financial Equivalent of a Put Option

- Market prices collapsed, stranding projects with no incentive to reduce emissions
- The PAF pilots using “put options” to guarantee a floor price
- Put options give the right, but not the obligation to sell at the guarantee price



- The auction result sets the guarantee price level
- Auctioning ensures that the least-cost climate mitigation activities are selected
- Auction winners purchase the price guarantee (pay put premium)

First Auction Result

Auction Clearing Price

\$2.40

per tCO₂e

Put option strike price



28

Bidders

17

Countries



Volume of put options sold

8.7 million tCO₂e



Put option premium

\$0.30/CER



Number of auction rounds

11

ABLY CARBON

AMSTERDAM CAPITAL TRADING

BATTRE BAHIA

BENG ENGENHARIA

BIOGÁS RIOGRANDENSE

BP ENERGY ASIA

12

Winners

CARBON2020

ECOURBIS AMBIENTAL

ISCCP INVESTMENT PLATFORM

RELLENOS SANITARIOS

S.P.M. FEED MILL

TIMARPUR OKHLA



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for Methane and Climate Change Mitigation

PILOT
AUCTION
FACILITY

PAF uses existing CDM infrastructure

- First auctions relies 100% on CDM infrastructure: methodologies for calculating emission reductions
- Monitoring and verification framework, as well as auditors accredited by the CDM are also used for payments under PAF, as in Ci-Dev
- Existing pipeline of CDM projects that may be at risk of decommissioning due to the collapse of carbon prices
- First auction targeted the methane sector, in order to get the most out of the auctions results

What is needed to make CDM useful for RBF?

- **Proof of concept**
 - Pilot facilities of WBG and other organizations.
- **Recognition as a mechanism to deliver climate finance**
 - Bridging the carbon market and climate finance communities;
 - Results-based finance recognized under more ambitious funds, GCF?.
- **Strategic CDM reform**
 - Make CDM understandable for broader business communities and commercial Banks: standardization;
 - Reduce regulatory risk and transaction costs: methodology simplification and project cycle reform;
 - Improve general perception of CDM by continuing to simplify processes, while maintaining environmental integrity.



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www.ci-dev.org
www.pilotauctionfacility.org

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