

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

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Carsten Warnecke

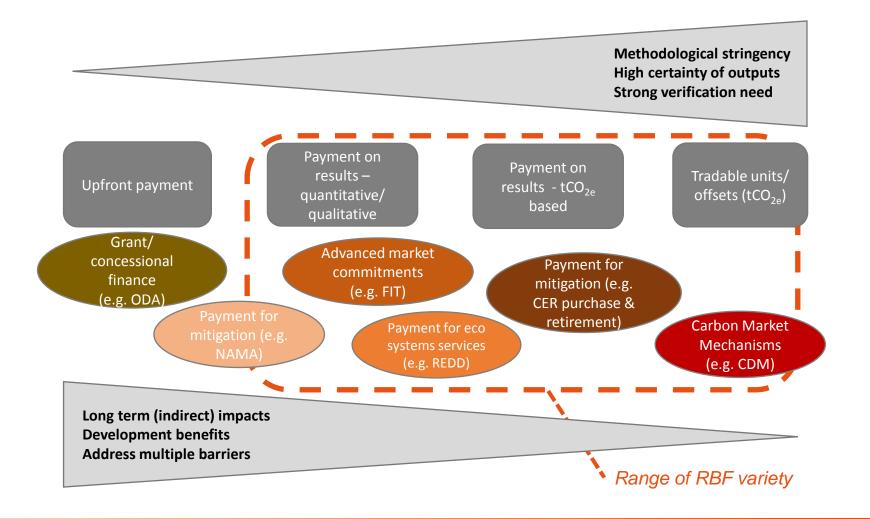
### RBF in a nutshell



- » RBF is defined as <u>financing modality</u> 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





### RBF – lessons from the CDM



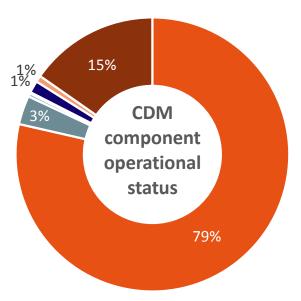
- » Ex-post finance requires financial resources to pre-finance interventions
- » Enabling measures are key
- » Risks transferred to implementing agencies are substantial
- Stringent but reliable definition and verification of results is not feasible in all sectors and for all mitigation opportunities
- 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

# **CDM Project status**



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

Source: "Analysing the status quo of CDM projects" (May 2015):

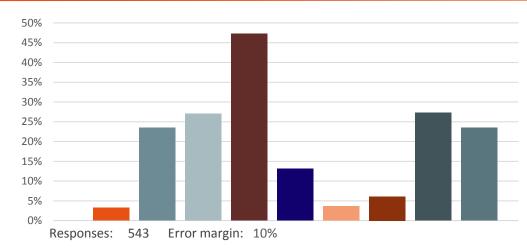
http://newclimate.org/2015/05/16/analysing-the-status-quo-of-cdm-projects/

# Project continuation



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



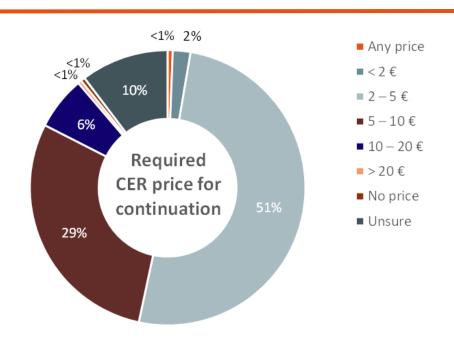
- CER revenues still sufficient
- CDM still required to overcome non-financial barriers
- A stop of the GHG mitigation equipment does not result in cost savings
- The investment (decision) is irreversible.
- Continuation is required due to binding legal contracts.
- Continuation is required by national laws or regulations.
- Project activity / emission source will be covered under an ETS
- Expectations exist to receive alt. support or convert to alt. project scheme
- Other reason.

Source: "Analysing the status quo of CDM projects" (May 2015):

http://newclimate.org/2015/05/16/analysing-the-status-quo-of-cdm-projects/

## Price requirements





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

Source: "Analysing the status quo of CDM projects" (May 2015):

http://newclimate.org/2015/05/16/analysing-the-status-quo-of-cdm-projects/

# 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



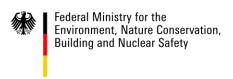
- » RBF creates strong incentives to deliver on intended programme objectives
- » RBF approaches can address further objectives beyond greenhouse gas mitigation
- » RBF approaches attract funders driven by mitigation certainty
- » RBF can foster enduring interventions
- » RBF frameworks are flexible to be locally appropriate

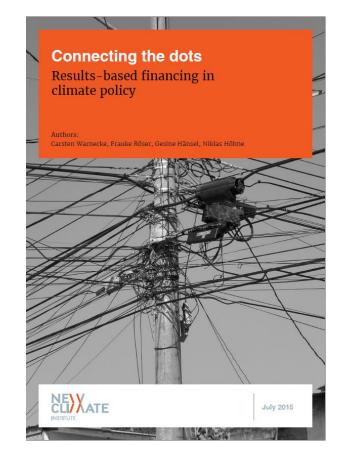
# Further reading



- "Connecting the dots Resultsbased financing in climate policy"
- Overview of results-based finance options and opportunities for linking market and non-market approaches

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