



WORLD BANK GROUP
Climate Change

The CDM as an vehicle for delivering Results Based Climate Finance

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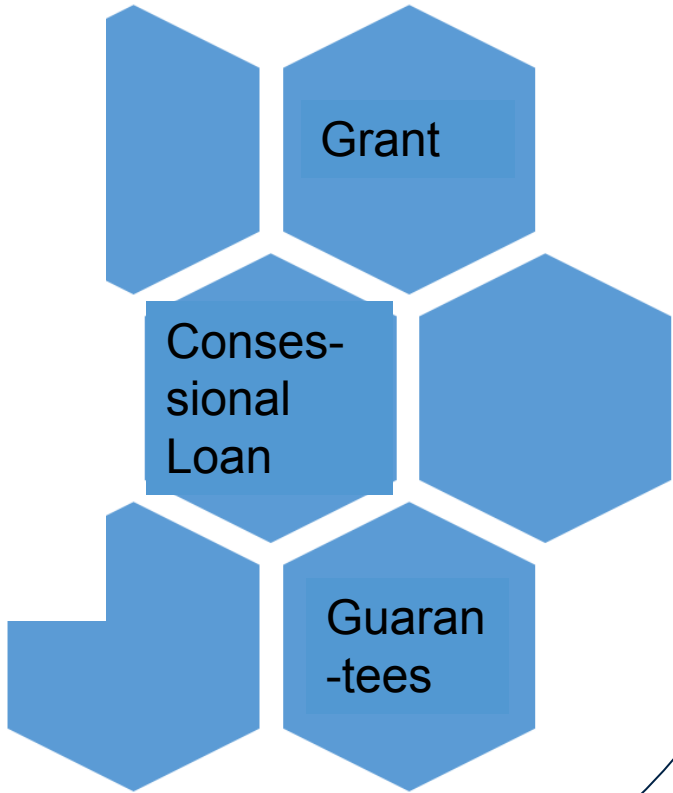
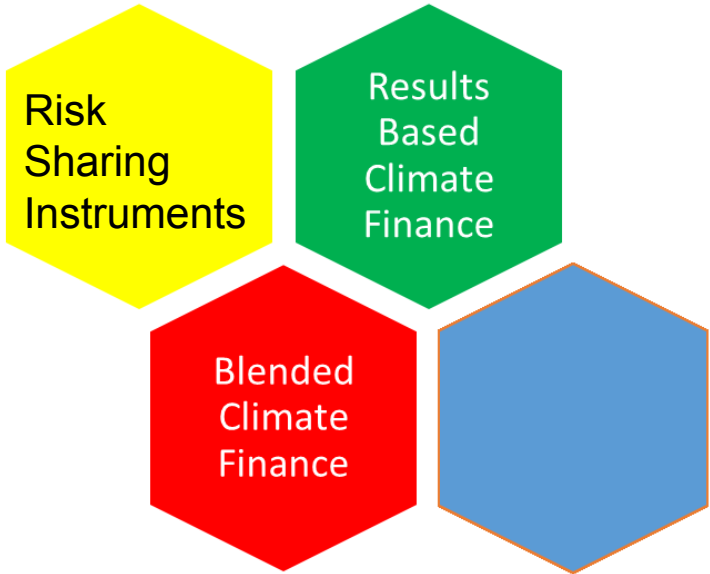
- Context
- Defining Results Based Climate Finance
- 2 WB initiatives using the CDM as an option for implementing a results based climate finance approach
 - Carbon Initiative for Development (Ci-Dev)
 - The Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)
- Challenges and implications for the CDM.

The climate challenge requires multiple tools

- Need to achieve **2 degree Celsius** global mitigation target - (Cost estimate approx. 1-2 trillion US\$ per year)
- Need to finance **transformative** initiatives that lead to low-carbon development
- Activities needs to be scaled up by **crowding in private capital** and ensuring **effective use public finances**
- Initiatives need to be flexible to **accommodate national and sectoral differences** and be **cost-effective**
- Need transparency and consistency to ensure alignment of **development and climate finance**
- Need to track & **monitor global GHG emissions**

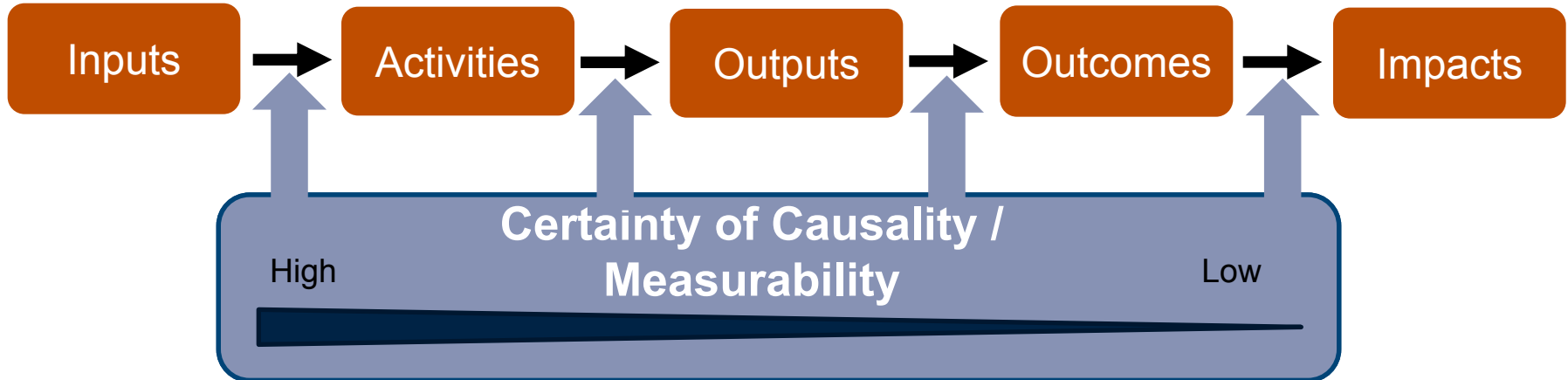
Context for RBCF – one of many options

Traditional Climate Finance Instruments



“New” Climate Finance Instruments

Results Based Climate Finance



Source: Draft Report Frankfurt School of Finance and Management 2016

- RBCF is an approach for financing and there are multiple forms.
- The closer the finance “trigger” is to impacts, the greater the control over results.
- The closer the finance trigger is to the activity the lower the risks for an investor.

Two areas where CDM can play a role

- In an ideal world – carbon would have a value. However it does not.
- Domestic climate policy and carbon pricing essential. However need to be complemented by other measure to overcome capital market and investment imperfections.
- The CDM can be seen as a RBCF tool to support:
 - **Pre-2020 Carbon market development** by addressing technical issues relevant to the design of the “SDM” defined in the Paris Agreement pre 2020. e.g. Carbon Initiative for Development (Ci-Dev)
 - Support the development **of Climate Finance** delivery vehicles . E.g. Pilot Auction Facility for Methane and Climate Change Mitigation (PAF).

2 initiatives utilizing CDM as RBF vehicle

WB Facility



Focus

Carbon finance to promote energy access and low carbon dev. in LICs

Resources

\$127 million[^]

Partners

Donor governments (Sweden, Switzerland, UK) aiming to sustain carbon market capacity and **test results based finance frameworks**

Piloting an innovative **results based carbon finance delivery vehicle**



Pilot Auction Facility (PAF) for methane & climate change mitigation

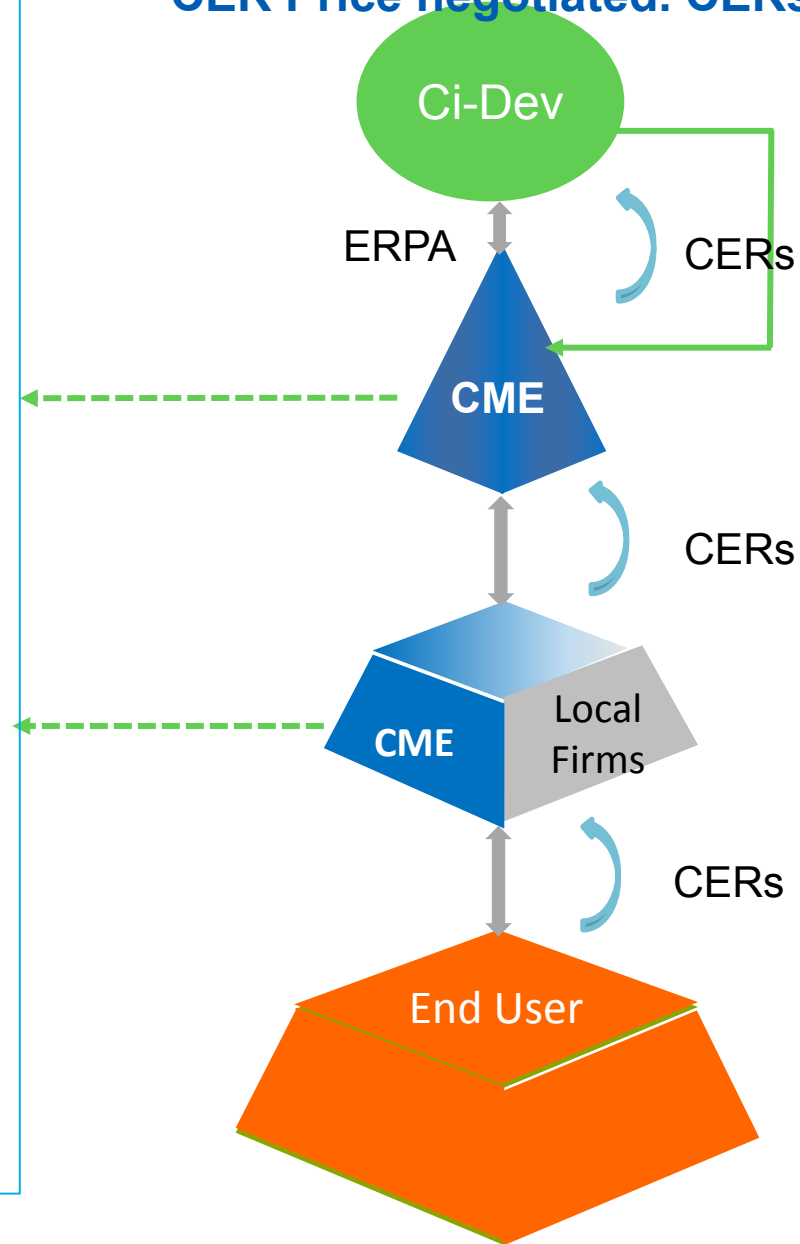
\$100 million target

Germany, Sweden, Switzerland, USA exploring how to cost effectively deliver **results based carbon finance** by establishing a carbon price through auctions.

1. Ci-Dev supporting markets in LDCs

- Technology/ Product i.e. availability/reliability/affordability
- Market. i.e. Demand, sales etc
- Implementation/Delivery i.e. distribution network, service, monitoring, warehousing etc
- Policy regulatory compliance
- CDM program administration i.e. costs & training
- Ease access to Project Financing. i.e. equity, debt, grants, subsidies, risk sharing, guarantees etc
- Consumer financing i.e. subsidies, rebate on products, micro finance, leasing/deferred

CER Price negotiated. CERs cancelled



Kenya: SimGas

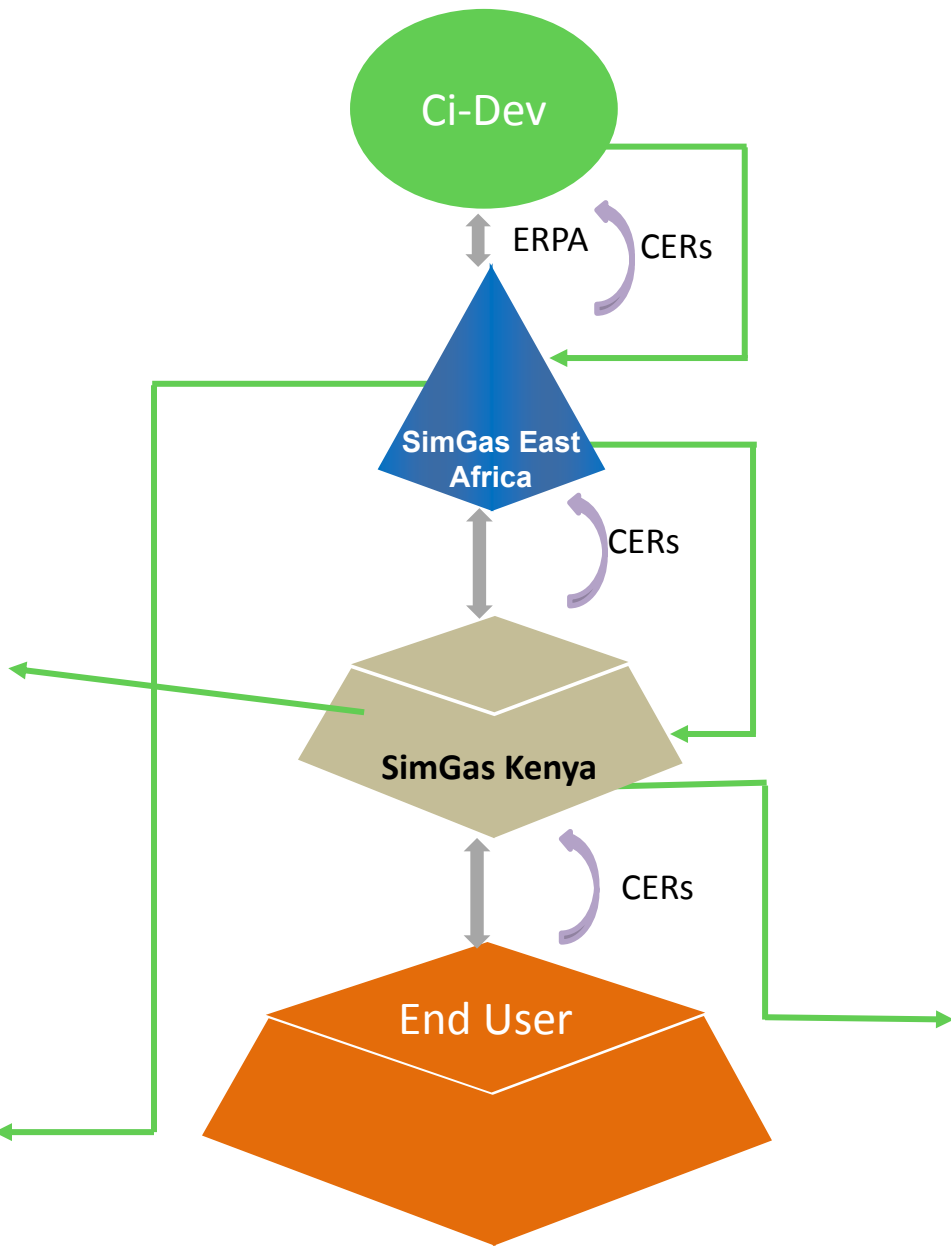
Technology/Product
Availability (Domestic/Import)
Reliability (Standards/Specifications)
Affordability

Market
Consumer Mobilization/Demand Creation
Sales and Marketing

Implementation/Delivery
Delivery/Distribution Network
After-Sales Service, Maintenance and/or Warranty
Monitoring and Evaluation
Warehousing/Logistics

Policy/Regulatory Environment
Policy/Regulatory Compliance

CDM Program Admin.
CDM Program Cost
Institutional Cost/Training

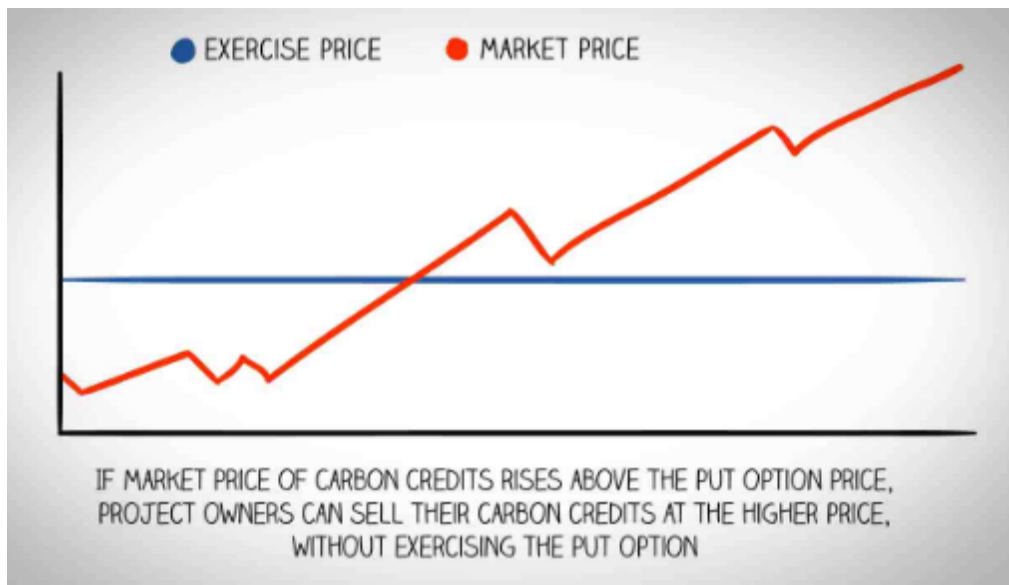


Project Financing
Equity Investment
Debt Finance
Grants/Subsidies
Working Capital Finance
Risk Sharing/Guarantee Arrangements

Consumer Financing
Subsidies/Rebate on Products
Consumer Finance/Micro Finance
Leasing/Deferred Payments

2. The PAF – supporting climate finance delivery

- Carbon credit prices collapsed, stranding projects with no incentive to reduce emissions
- The PAF sells “put options” to guarantee projects a floor price for carbon credits (aka strike price)



- Auctioning ensures that the least-cost climate mitigation activities are selected
- Auction winners purchase the price guarantee (a.k.a., premium)

How the PAF works: Step-by-step

1. Select and contract for emission reductions:



Publicize auctions



Execute auction to determine the winning bids



Sign put option contracts with the winning bidders

2. Achieve emission reductions:



Put option contract in hard currency helps implementer overcome financial and other barriers

3. Verify & pay-for-performance:



Monitor and verify emission reductions using established GHG accounting standards



Should the market price be below the put option strike price, contract holders exercise options and the PAF purchases the carbon credits

Challenges and implications for CDM

- CDM was not envisaged as a RBF tool.
- Governance by EB is political not professional. This is a significant disincentive for investment in CDM certified activities.
- CDM reform needed to achieve scale up reductions – baselines, additionality addressed but not monitoring verification and project cycle.
- Consideration of new metrics – e.g. MWh or connects to grid could better align CDM with RBF approaches.
- Reforms urgently needed to road test potential blueprints for SDM and other climate finance delivery vehicles.



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