



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

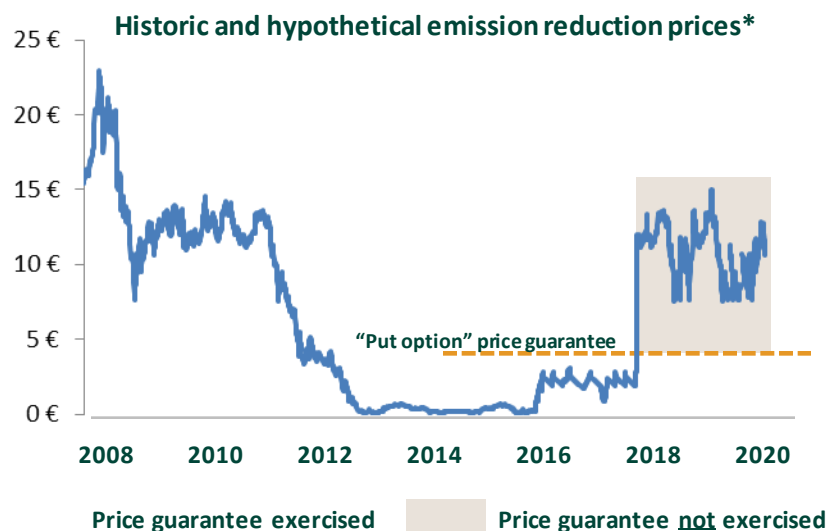
Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)

- 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



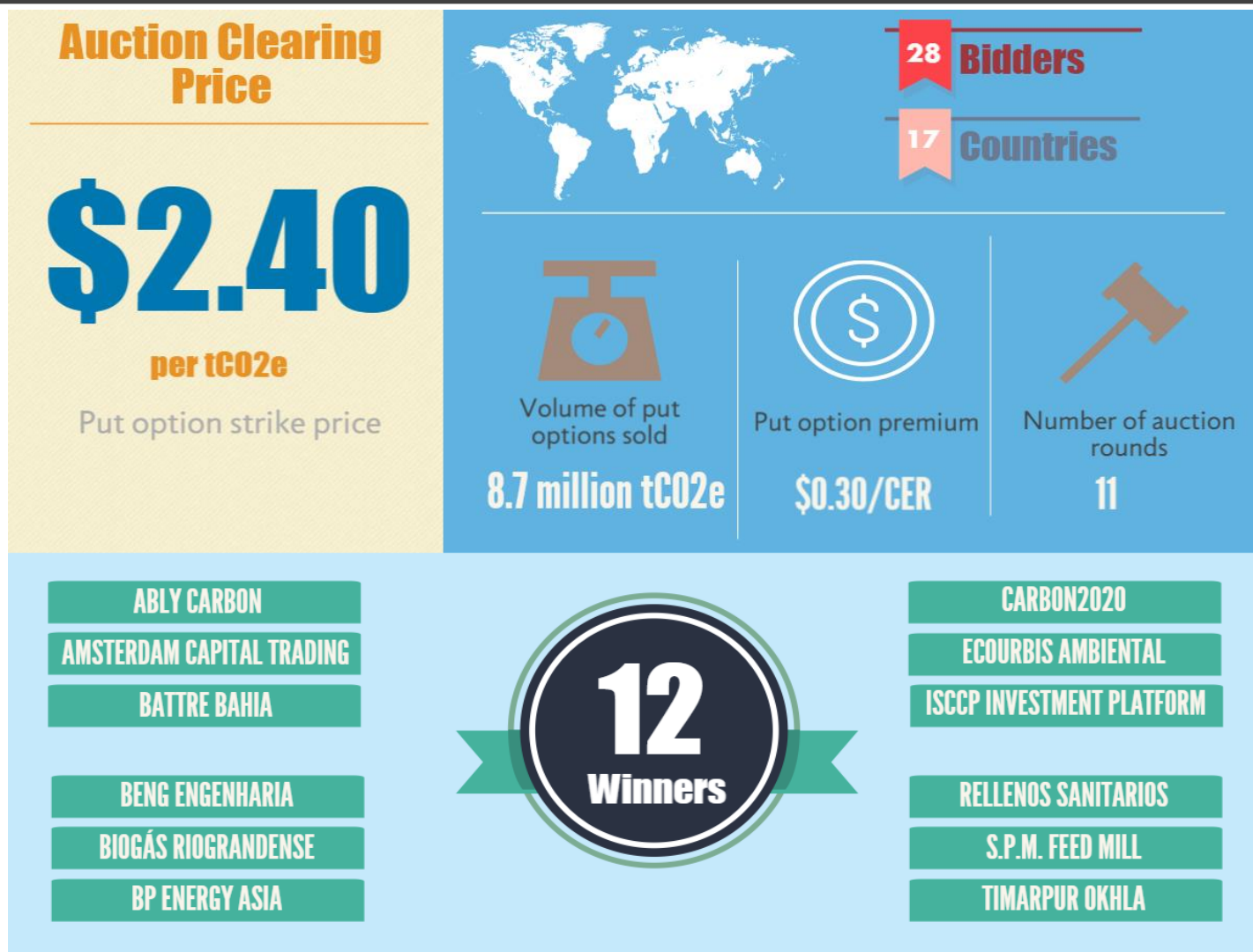
The PAF Offers a Price Guarantee by Using the Financial Equivalent of a Put Option

- 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



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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