CDM as a Tool to Support Innovative Climate Finance


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Result-based finance and CDM

• What is result-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 result-based finance?
  – Effectiveness of public spending to achieve desired outcomes;
  – Reaching scale to have transformational impact;
  – Building sustainable markets and private business and leveraging private sector financing.

• Why using the CDM to deliver result-based finance?
  – Payment for achieved GHG ERs one option to deliver RBF;
  – Relevant if achieving GHG ERs is primary objective;
  – Existing infrastructure: methodologies, project cycle, issuance capacity, existing project pipeline.
# Carbon Initiative for Development

## Objectives

- Assist LICs 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

## Priority areas / supported activities

- Private sector lead – energy access programs
- Household level / community scale programs
- Focus on IDA-eligible countries in Africa, LDCs in Asia, and new energy connections in rural areas.
- List of technologies:
  - Water purification/filtration
  - Off-grid solar lighting (lanterns and solar home systems)
  - Solar PV mini-grids
  - On-grid extensions
  - Household biogas digesters
  - Clean cook stoves

## Participants and Funding

- Switzerland, Sweden and UK participate in the fund
- Capitalized at US$ 125 million
- 25 million US$ in Readiness Fund
  - Methodology, Readiness Grants / Technical Assistance, Knowledge dissemination
- 100 million US$ in Carbon Fund
  - ERPA payments

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Pilot Auction Facility

Objectives and Scope

• Pilot an innovative climate finance mechanism that pioneers the use of auctions to allocate scarce public resources for climate change mitigation

• Stimulate private sector investment in projects that reduce greenhouse gas emissions

• Initially target methane mitigation projects

• At $100 million in target capitalization, the PAF is designed as a pilot and could be replicated for use with other pollutants or via other financial institutions, such as the Green Climate Fund, and has the potential for significant scale up

Innovative Mechanism

• By using the rules and procedures of existing carbon market standards, it will disburse its resources against independently verified emission reductions, making it a results-based payment mechanism

• The PAF will establish a price floor for future carbon credits in the form of a tradeable put option, which will be competitively allocated through an auction
How it works: Step-by-step overview

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

- The PAF will pilot using “put options” to guarantee a floor price on emission reductions
- Put options give the project owner the right, but not the obligation to sell at the guarantee price (a.k.a., strike price)
- Auctioning ensures that the least-cost climate mitigation activities are selected to get the price guarantee

*Prices after 2014 are hypothetical and for explanatory purposes only.

Historic and hypothetical emission reduction prices*

- Price guarantee exercised
- Price guarantee not exercised

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Thank you!

More information on Pilot Auction Facility:

Brief

Fact sheet

Brochure

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