Checking the Results – the Role of the Verification Agent

Results-based Climate Finance Dialogue

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Results-based Finance under the PAF

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

Source: PAF, World Bank, 2016

- **“Results” are Emission Reductions (ER)** under recognized carbon standards; payment is due upon successful delivery of **eligible** emission reductions as stated in the Final Redemption Notes (FRN)

- Eligibility refers to: a) type of carbon standards, b) methodologies, c) countries, d) generation / issuance period, e) EHS and integrity criteria
The Role of KPC as Verification Agent

- **Independent third-party verification** (selected through competitive bidding, 
  - KPC: and expertise Austrian JI/CDM Programme, pre-finance facility, Capacity

- Verifier ensures unbiased decisions related to eligibility of ER, avoiding potential perception of a conflict of interest (Bank as administrator of PAF and as issuer of PAFERNS)

- **KPC**: wealth of experience and expertise through management Austrian JI/CDM Programme over past decade:
  - approx. 70 million t CO2 for Kyoto (CP1) compliance
  - Pre-finance facility (EUR against ERPA value, bank guarantee-secured)
  - CDM in Africa Initiative (focus on LDCs!)
  - Capacity building and fostering private sector involvement (Green Investment Schemes)
  - Involvement in UNFCCC negotiations
  - Core competence: due diligence and financial administration of climate-relevant projects

- 2 checks, entailing receipt of ER on account(s) and forwarding to / cancellation on behalf of PAF investors
Approach: KPC according to Bank Guidance (1)

- Preparatory work carried out
  - Elaboration of a detailed **quality manual**: processes, tasks, timelines, tools, roles & responsibilities
  - Set-up of dedicated **registry accounts** that fit the eligible carbon standard
    (Swiss registry, Markit)
  - Arrangement of **the team** of highly experienced internal and external experts for verification
    (lead / second verifier, ISO standards for handling of documentation)
  - Getting prepared through in-house **training sessions**.
Approach: KPC according to Bank Guidance (2)

- Details on the verification
  - **1st check**: PAF eligibility criteria
    \[\text{Receipt of (eligible) ER on account(s)}\]
  - **2nd check**: check whether delivered ER match the ER stated on the Final Redemption Notes
  - **Forwarding / cancellation of ER** according to Bank instructions

- Communication:
  - Noteholders
  - Global Agent
    \[\text{(Payment for Results)}\]
  - World Bank
    according to communication protocol
Verification: Tools & Templates prepared by KPC

- Dedicated spreadsheets to
  - guide and structure the verification process,
  - define responsibilities,
  - document key results.

- “Final Redemption Notice Check Sheet” (on lot level, aggregated to FRN level)
  - 1st check section: key data, eligibility criteria, verification summary
  - 2nd check section
  - Summary on notifications to selected stakeholders (communication protocol)

- “Final Redemption Notice Summary Sheet” (per FRN)
  - Overview on verified (eligible) ER
  - List of rejected ER (if any).
Thank you.

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