RESULTS-BASED CLIMATE FINANCE IN PRACTICE: DELIVERING CLIMATE FINANCE FOR LOW-CARBON DEVELOPMENT

- Findings of the report*

May, 2017

* By Felicity Spors, Klaus Oppermann, Caroline Ott, Charis Lypiridis, Pablo Benitez, Tambi Matambo (all World Bank Team), Christine Gruening, Ulf Moslener and Menglu Zhuang (all Frankfurt School-UNEP Collaborating Centre for Climate & Sustainable Energy Finance)

CONTENT

- Purpose of the report, RBCF rationale & definitions
- Volumes and design characteristics of existing RBCF programs
- Selected examples
- Conclusions

WHAT IS THE PURPOSE OF THE REPORT?

Providing an overview on approaches, volumes, design features and lessons learnt from RBCF to date:

- Main characteristics of RBCF programs
- Overall volume of RBCF funding flows
- Approaches to design & implement RBCF programs
- Compare practical experiences with existing theory and literature

Based on a review of 74 RBCF programs in developing countries & selected subsamples with more detail.

WHY TALKING ABOUT RBCF?

- **Two main pillars of international climate cooperation:**
  - Climate Finance;
  - Climate Markets.

- **In the past (Kyoto) Climate Finance and Climate Markets were "siloed":**
  - Climate Finance rather not deployed strategically and focused on transformational change to mobilize resourced needed to achieve climate targets;
  - Climate (Carbon) Markets low performing on environmental integrity and stability.

- **In the future (Paris) perspective of an INTEGRATED APPROACH:**
  - Climate Finance used to support domestic policy processes and market creation and to become "subsidiary" to markets once they are established;
  - Climate markets to build on domestic policies and robust, predictable regulation to enable financial solutions to build on them.

- **RBCF has a bridging role: it is finance that can support market creation.**

TERMINOLOGY

<u>Climate Finance:</u> no asset transfer for NDC compliance purposes.

<u>Climate Market Mechanisms:</u> transfer of assets for NDC compliance.

<u>Results-Based Climate Financing (RBCF) – belongs to climate finance</u>

- <u>Modality of climate finance</u> where finance for climate results (mitigation or adaptation) are provided upon delivery and subject to verification. Such climate results are <u>not</u> used for NDC compliance of finance provider.
- RBCF can be delivered through different <u>financial instruments</u> such as grants and loans.

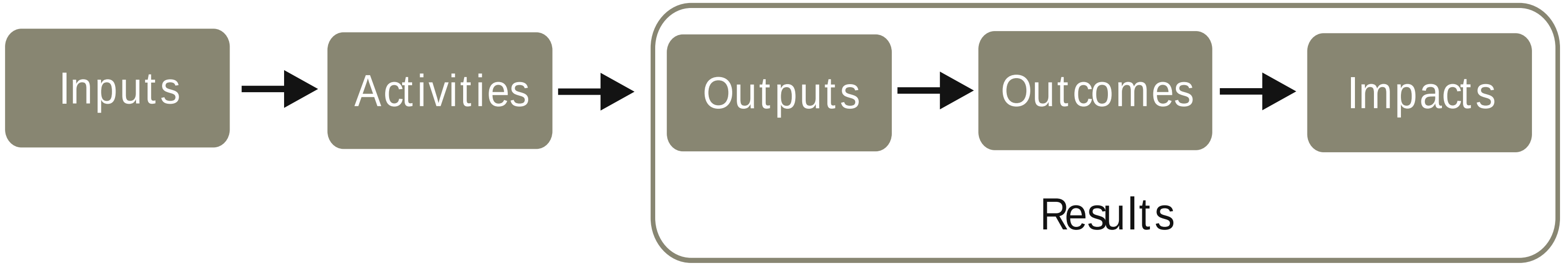
<u>Carbon Crediting – can be Climate Finance or Climate Market Mechanism</u>

- Baseline-and-crediting approach to generate verified emission reductions (VERs).
- If used by buyer for NDC compliance: climate market mechanism.
- If <u>not</u> used for compliance: sub-type of RBCF within climate finance.

UNDERSTANDING OF RESULTS-BASED CLIMATE FINANCE IN THIS REPORT

Results-based Climate Financing (RBCF):

- Results-based Finance (RBF) provided specifically for climate mitigation or adaptation results
- RBCF criteria:
  - payments are made for **climate mitigation or adaptation results**
  - payments are made **ex post**
  - payments are made once **predefined results have been achieved**; and
  - reported results have been **independently verified**.
- Results Chain of Results-Based Financing (RBF) Programs:



WHY IMPLEMENT RBCF?

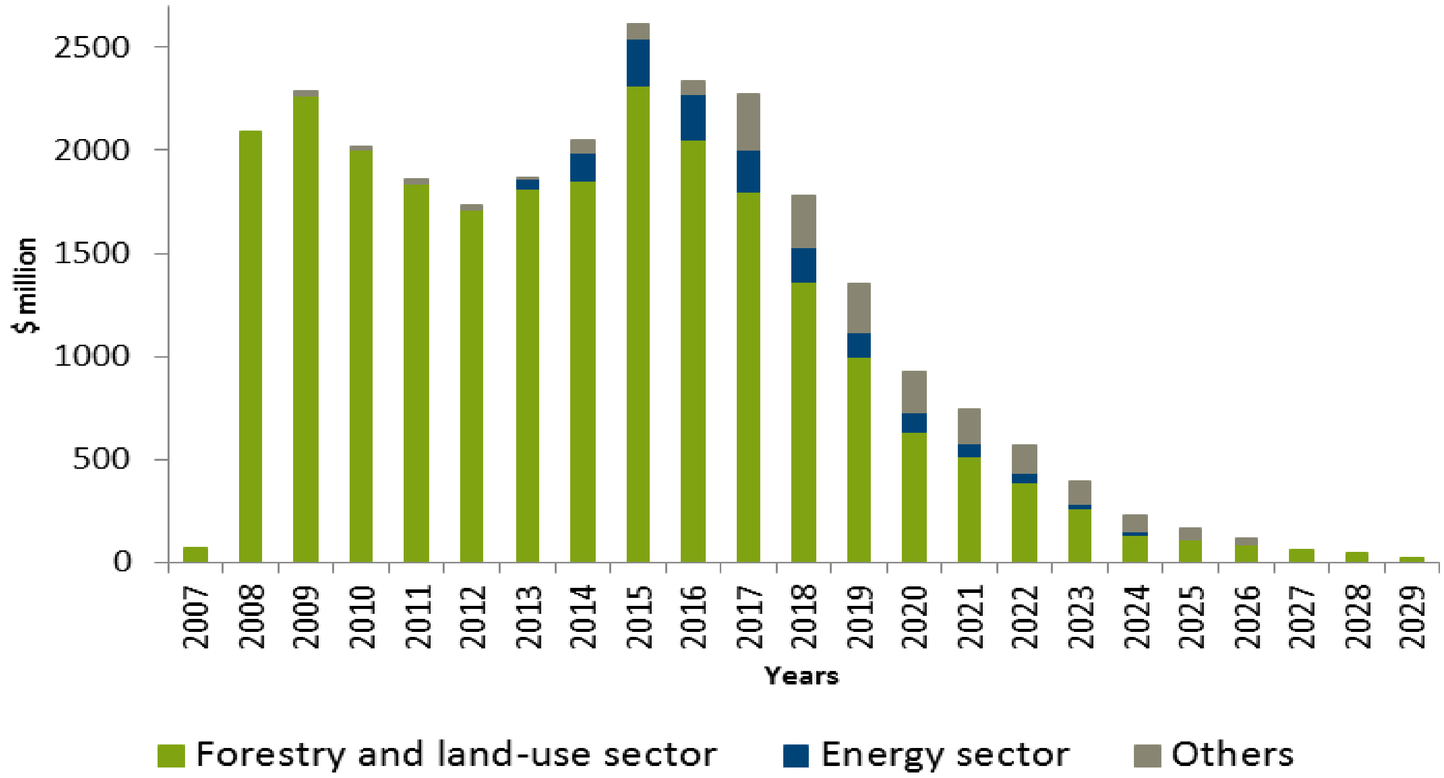
The report identifies two main rationales of using RBCF

- **Principal-agent rationale:**
  - Alignment the objectives of the “principal” (= funder) with those of the “agent” (= receiving funds)
  - Goal: Increased focus of the agent on the results
  - Challenge: Shifting financial risk of non-delivery of results to the agent

- **Structural change rationale:**
  - Support of structural change leading to the long-term delivery of desired results
  - RBCF having an additional effect on policy implementation, market creation, MRV, etc.

THE VOLUME OF INTERNATIONAL PUBLIC RBCF

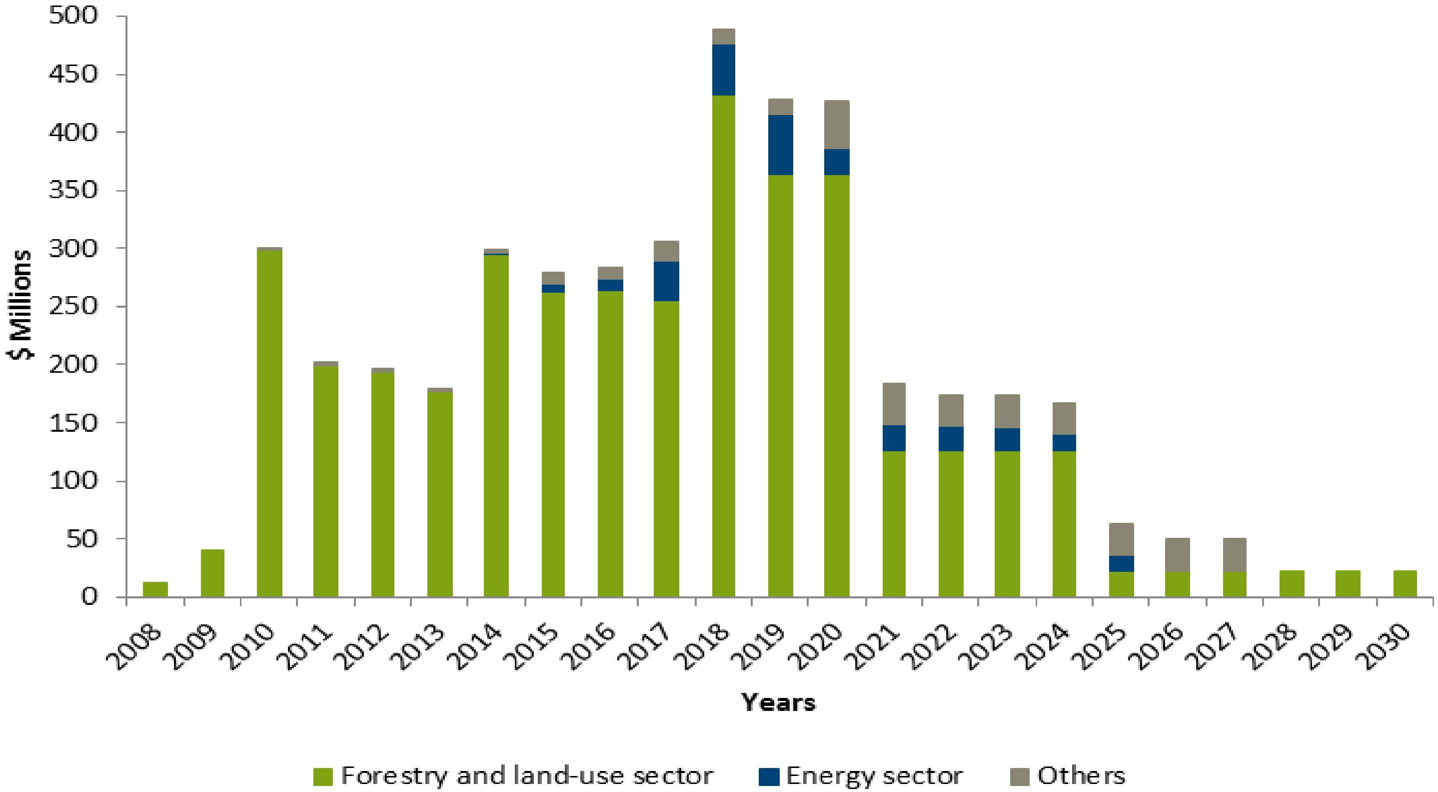
Capitalization of $ 2.6 billion estimated from the 12 largest programs providing international public RBCF to developing countries in 2015



Note: Estimated Capitalization of the 12 Largest International Public RBCF Programs by Sector, 2007–29
RBCF volumes do not include total finance mobilized by RBCF

VOLUME OF RBCF (EXPECTED DISBURSEMENTS)

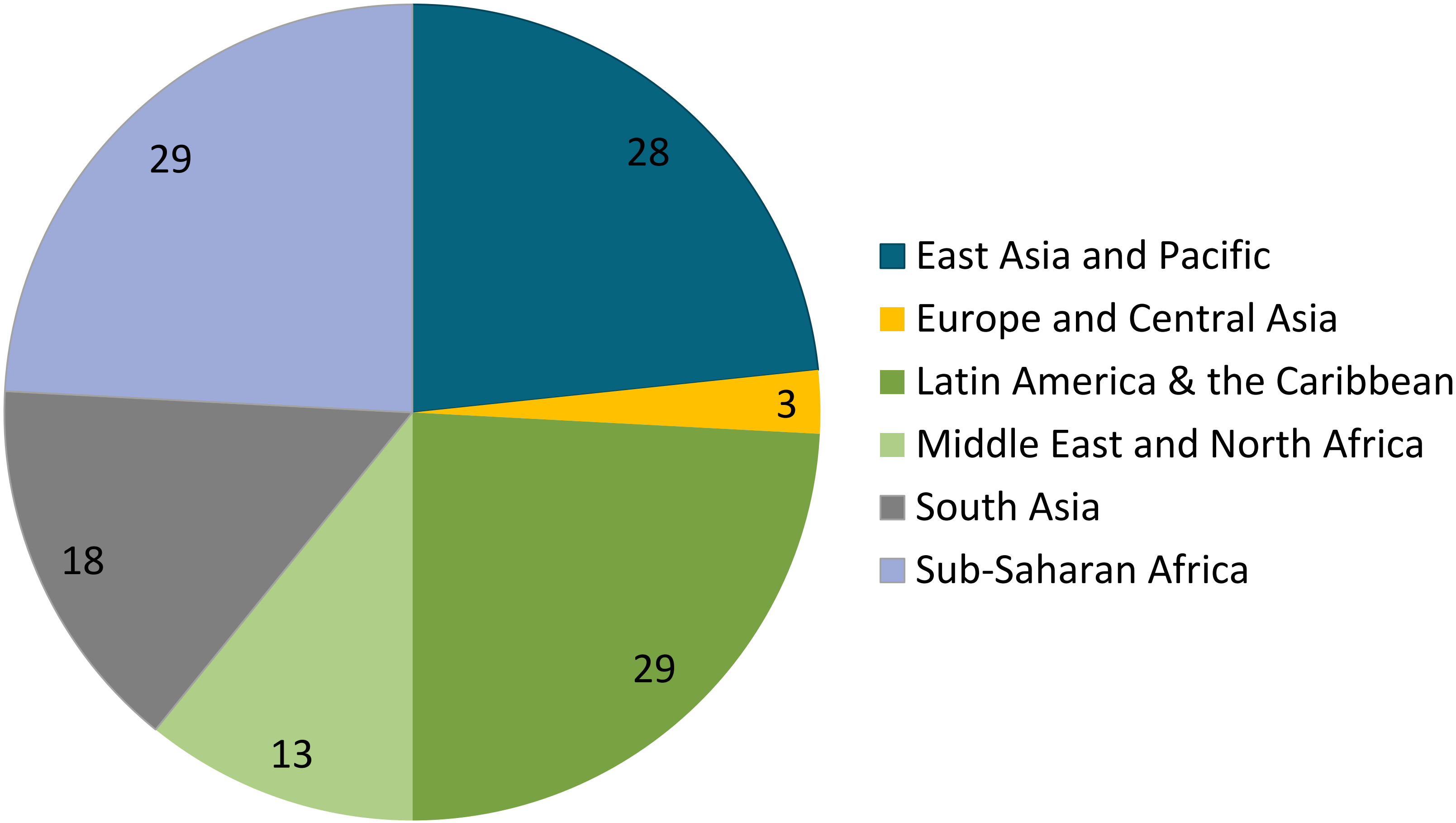
$280 million annual disbursements estimated in 2015 and 2016



Note: Estimated Disbursements of the 12 Largest International Public RBCF Programs by Sector, 2008–30
RBCF volumes do not include total finance mobilized by RBCF

WHERE IS RBCF LOCATED?

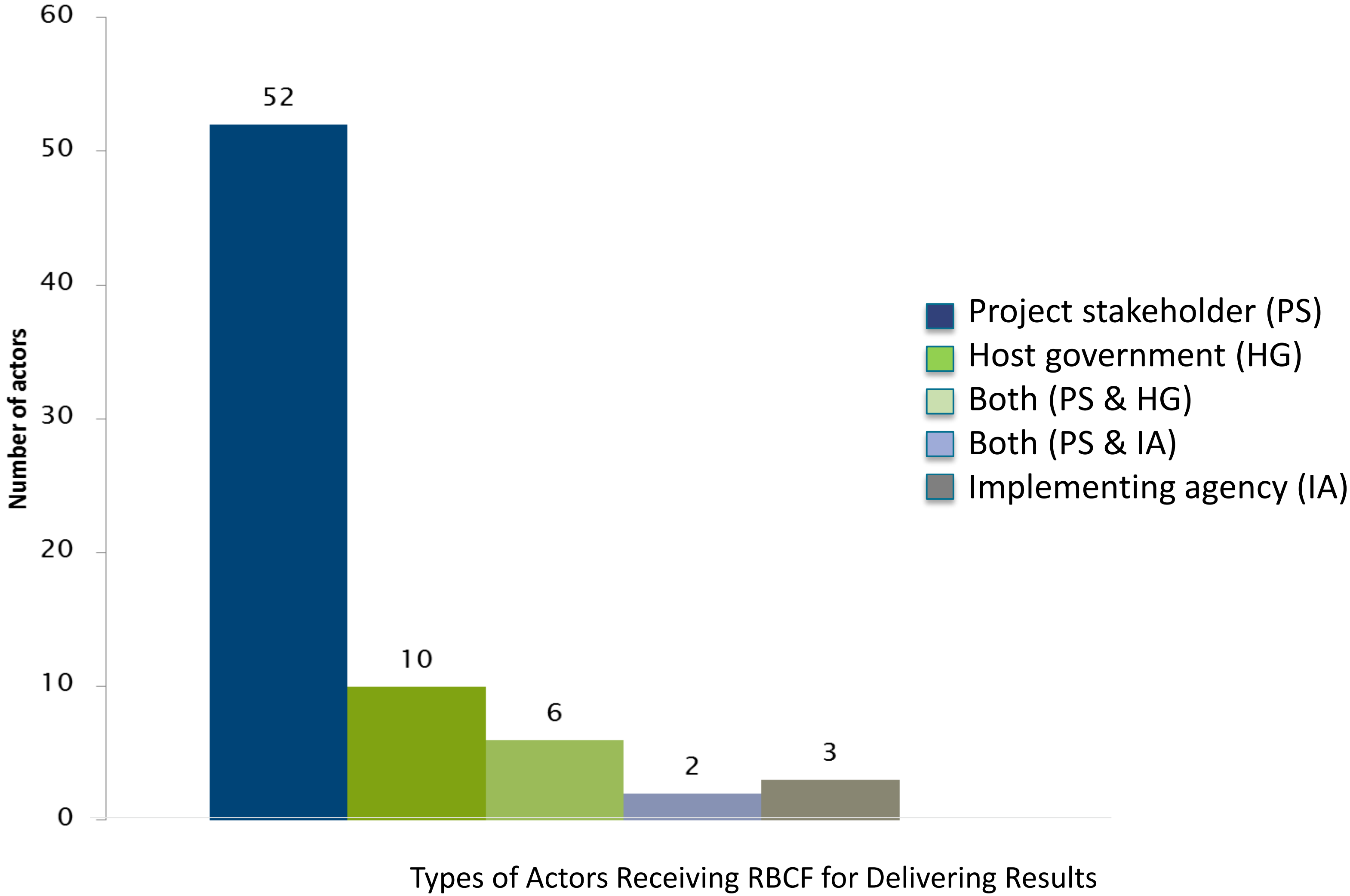
RBCF in both advanced economies and low-income countries



Note: Number of RBCF Programs by WB Region (74 programs in total). Many programs implement projects simultaneously in several regions.

"INCENTIVIZED" ACTORS IN RBCF DESIGN

Typically project stakeholder targeted – followed by the host government



VARIATIONS IN RBCF DESIGN

- **Delivered through / and in combination with different financial instruments**
  - Grants, loans or risk mitigation instruments can be delivered results-based (mostly grants)
  - RBCF is typically combined with up-front support and/or technical assistance
  - RBCF can be combined with upfront financing
- **Results defined through Disbursement-Linked Indicators (DLIs)**
  - Reflect mitigation, adaptation, development, or a combination of these objectives (mostly mitigation)
  - Unit-based or scalable indicators
  - Mix of unit-based indicators and qualitative milestone indicators
- **Institutional structure: often dual objectives**
  - Supporting the focus of project implementers (or policy makers) on results
  - Strengthen domestic institutions and infrastructure

EXAMPLE 1- TRANSFORMATIONAL CHANGE: GET FIT PROGRAM

A program supporting structural and transformational change towards a climate-resilient, low carbon economy

- **Objective:** Addressing the investment barriers in small RE projects
- **Instrument:** Premium Payment Mechanism, IDA Partial Risk Guarantee Facility, and Technical Assistance
- **Volume:** $102 million donor funding incentivized private investment of about $400 million
- **Lessons learnt:**
  - Creates an investment environment favorable to RE investment through combination of
    - Feed-in-type RBCF payments
    - Technical assistance (e.g. PPA standardization, Financial Modeling)
    - Partial risk guarantees

EXAMPLE 2 – COST EFFICIENT FAST TRACKED MOBILIZATION OF PRIVATE INVESTMENTS : PILOT AUCTION FACILITY

RBCF pay-for performance mechanism designed to stimulate private investment in projects that reduce GHG Emissions – in an efficient fast tracked way

- **Objective:** Stimulating private investment in projects that reduce GHG emissions
- **Instrument:** A guaranteed floor price on carbon credits
- **Volume:** $53 million in options contracts for carbon credits (as of February 2017)

- **Lessons learnt:**
  - **Flexibility mechanisms at the portfolio level to reduce the risk of non delivery**
  - **A cost efficient program with fast disbursement**

EXAMPLE 3 – SUCCESSFUL SCALING-UP: BANGLADESH RERED PROGRAM

A successfully scaled-up RBCF program to increase the supply of and demand for new technologies

- **Objective:** Boosting rural electrification and RE development in Bangladesh
- **Instrument:** Financing through grants and refinancing instruments
- **Volume:** $400 million in financing for electricity access, household energy, energy-efficient lighting, and Technical Assistance

- **RERED Results:**

  > 650,000 new connections to the power grid

  >2 million SHSs installed in remote rural areas

- **Scaling-up:** RERED II approved and started in 2012

EXAMPLE 4 - ADAPTATION: R4 RURAL RESILIENCE INITIATIVE

RBCF has potential in adaptation, albeit through fewer programs than in mitigation so far.
R4 - An RBCF program in adaptation

- **Objective:** Increasing climate resilience of rural communities in developing countries
- **Instrument:** Providing funding to facilitate farmers' access to agricultural insurances
- **Volume:** $26.05 million (including upfront and results-based payments)
- **Lessons learnt:**
    - An effective risk management approach has to be flexible
    - Critical role of risk management tools and data management tools

CONCLUSIONS

- RBCF particularly **suitable for climate mitigation** as it focuses on carbon emissions—a well-defined, measurable global externality
- RBCF has also demonstrated **potential in adaptation** albeit so far through fewer programs

- RBCF can:
  - facilitate **carbon pricing and market creation**
  - **support host countries'** policy processes to achieve their **NDCs**
  - leverage **private sector** activity and financing

- RBCF can play a critical role in mobilizing the resources needed to achieve the **objectives of the Paris Agreement** and be a bridge to an integrated approach to climate markets/finance.

THANK YOU

Access the report here:

http://documents.worldbank.org/curated/en/410371494873772578/Results-based-climate-finance-in-practice-delivering-climate-finance-for-low-carbon-development