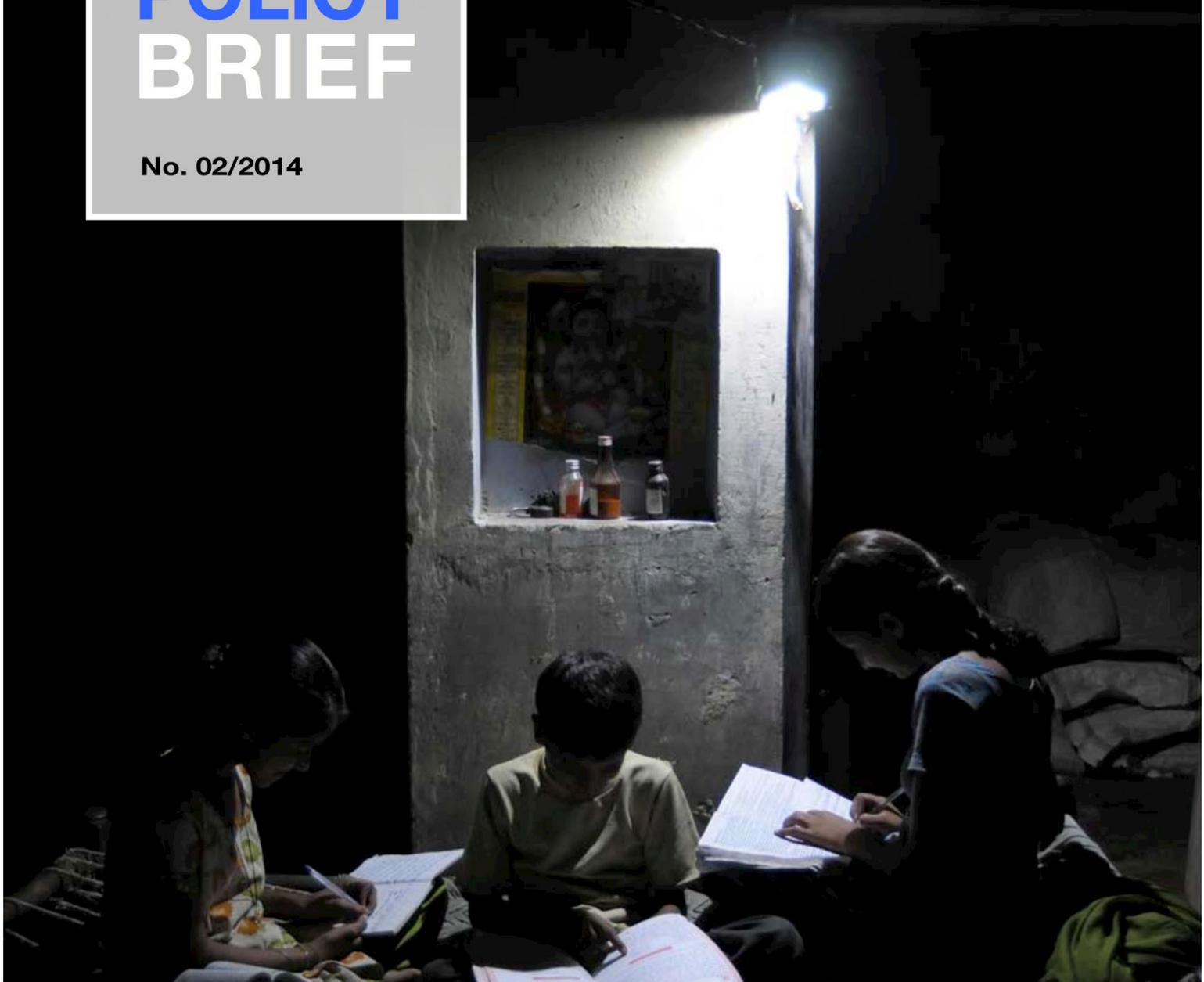


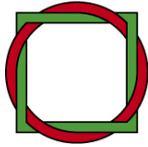
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Using Results-Based Finance for Climate Action Existing Initiatives and the Role of the CDM

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and Energy

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Existing Initiatives and the Role of the CDM

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Contents

- Summary II**
- 1 Introduction 1**
- 2 RBF and its relationship with the CDM 2**
 - 2.1 *The Concept*.....2
 - 2.2 *The CDM as an RBF pioneer and its potential for being used in other RBF schemes*3
- 3 Results-based finance in the mitigation context 5**
 - 3.1 *Criteria for the assessment of existing RBF initiatives*5
 - 3.1.1 Goal of the initiative5
 - 3.1.2 Type of results5
 - 3.1.3 Use of the CDM5
 - 3.1.4 (Additional) quality criteria.....5
 - 3.2 *Comparison of RBF schemes*6
 - 3.2.1 The World Bank’s Ci-Dev Carbon Fund6
 - 3.2.2 DFID-financed RBF facility within the Energising Development (EnDev) Programme6
 - 3.2.3 GET FiT Premium Payment Mechanism Uganda7
 - 3.2.4 The World Bank’s FCPF Carbon Fund.....7
 - 3.2.5 Norwegian International Climate and Forest Initiative (NIFCI) and the Amazon Fund8
 - 3.2.6 International Energy and Climate Initiative Energy+9
 - 3.3 *Comparison of design features*..... 10
 - 3.3.1 Goals 10
 - 3.3.2 Type of results 10
 - 3.3.3 Use of the CDM 10
 - 3.3.4 (Additional) Quality Criteria..... 11
- 4 Conclusions 13**
- References 15**

Summary

With climate change advancing at high speeds, action must not only be taken in developed countries but at global scale, including less developed regions. These activities are and will be supported by developed countries, including through financial means. In this context, results-based finance is receiving increasing attention, being considered a potential funding mode of new financing instruments such as the Green Climate Fund (GCF). In addition, the Clean Development Mechanism (CDM), by itself a results-based mechanism, has been cited to potentially contribute to this goal. Against this background, this paper explores the concept of results-based approaches paying special attention to the role of the CDM.

The paper briefly outlines the rationale of the concept and provides a terminological clarification before presenting six climate change mitigation initiatives that build on the results-based finance approach. The analysis of these initiatives along four different parameters shows that there is a large variety in terms of design features depending on the initiatives' overarching aims and the different circumstances of operationalisation. The three design elements analysed – overarching goal, definition of results and use of additional quality criteria – are characterised by strong inter-connectedness. These elements are designed and combined in different ways, depending on the individual character of the RBF initiative.

Regarding the role of the CDM, the analysis has revealed that the mechanism currently has a very limited role, despite its large potential. Most initiatives analysed do not use the elements of the institutional or methodological infrastructure developed under the CDM. In particular, there seems to be a lack of experience in the identification and use of single elements

developed under the CDM, such as CDM methodologies or individual elements of the MRV infrastructure.

The paper concludes that closing this 'experience gap' by effectively making use of the 'CDM heritage' should be considered a key task for future, more innovative RBF schemes. Using the CDM's infrastructure or individual elements of it would be a significant step towards preserving the know-how established, allowing it to be used for the measurement, reporting and verification (MRV) of results-based finance. More generally, the experiences made by initiatives such as those analysed can be expected to inform the design of new large-scale financing instruments, such as the GCF, with the relevance of results-based approaches further increasing in the future.

1 Introduction

The devastating impacts of climate change are already visible today: the destructions caused by Typhoon Haiyan in the Philippines in November 2013 show what could become the 'new normal' if greenhouse gas emissions continue at current trends. A threatening scenario with ever higher frequencies of extreme weather events such as floods and cyclones that are further reinforced by slow onset events makes clear that climate change mitigation action must not only be taken in developed countries but at a global scale, including less developed regions. These activities are and will be supported by developed countries, including through financial means.

In this context, results-based approaches are receiving increasing attention. They are being considered a potential funding mode of new financing instruments such as the Green Climate Fund (GCF), which was established at the 16th United Nations Framework Convention on Climate Change Conference of the Parties (UNFCCC COP) in Cancún and is expected to play a key role in channelling financial resources to developing countries. The Decision on launching the Green Climate Fund states that „[t]he Fund may employ results-based financing approaches, including, in particular for incentivizing mitigation actions, payment for verified results, where appropriate“ (Decision 3/CP.17 para 55, UNFCCC 2012).

With more than 7000 registered projects and having mobilised billions of investments into climate-friendly technologies in developing countries, the Clean Development Mechanism, by itself a results-based initiative, might contribute to this goal. This has also been recognised by the CDM Policy Dialogue, a high level panel that was installed in 2012 to assess the CDM and make recommendations for its future:

“There may (...) be the scope for collaboration for the design of any process for payments of verified results, including steps to leverage the CDM infrastructure, knowledge base, and lessons learned” (CDM Policy Dialogue 2012: 36).

Against this background, this paper explores the concept of results-based finance, paying special attention to the role of the CDM. In doing so, the paper first outlines the main rationale of the concept and provides a terminological clarification, before analysing six results-based finance initiatives. The analysis will look at different design elements and further shed some light on the relationship between the initiatives analysed and the CDM before concluding with an outlook on the future role of the CDM in the field of results-based finance.

2 RBF and its relationship with the CDM

2.1 The Concept

The fundamental idea behind results-based approaches is to provide financial means upon the delivery of pre-defined results. In this regard, results-based payments are fundamentally different from conventional approaches in the field of international development cooperation where financial support is provided on the basis of inputs or through upfront grants. By linking payments to performance, part of the (financial) risk is transferred from the entity providing the payments to the implementing entity. With this risk transfer, the implementing entity faces a stronger incentive to deliver on the desired results, potentially leading to a higher probability that the funder's goals are met. This structure further allows the funding entity to maintain part of the control over how resources are being spent (Methane Finance Study Group 2013).

Another key characteristic of the approach is that it is at the discretion of the recipient how the results will be achieved. Hence, the recipient of results-based finance has more autonomy in the design and implementation of the activities, potentially activating creativity and innovation while leading to more efficient results when compared to a structure where funding is provided on the basis of inputs. A third characteristic of results-based approaches is the verification of results by an independent (third) entity, potentially leading to greater transparency (Methane Finance Study Group 2013).

Results-based approaches have been pioneered in the health sector and became increasingly

prominent in the context of international development cooperation before entering the climate policy debate (Vivid Economics 2013). Through the application of the concept in different contexts and sectors a large variety of terms has emerged over the years, leading to a general lack of uniform terminology.

As shown by Vivid Economics (2013) in their overview study, there are many umbrella terms when referring to the overall concept, such as "performance-based financing", "performance based funding", "payment by results", and "results-based approaches". In addition, there is a large variety of terminologies used to denote specific characteristics of the individual instruments, such as: "output based aid", "output based disbursement", "advance market commitments", "cash on delivery aid", etc. As many terms were developed ex-post to describe concrete performance-based concepts, some of them refer to overlapping concepts (Vivid Economics 2013).

One element that allows to fundamentally differentiate between two different types of concepts is the recipient of the funding, as highlighted by DFID (2012). DFID distinguishes between results-based aid (RBA), where payments are made from funders to partner governments, and results-based financing (RBF), involving payments from funders to service providers. Depending on the design of the initiative, the funder may be a local or national government, a development partner, or an international financial institution, while the recipient could be a service provider, a private company, or a non-governmental organisations (DFID 2012).

2.2 The CDM as an *RBF pioneer* and its potential for being used in other RBF schemes

The Clean Development Mechanism (CDM) has inter alia been installed to support developed countries that are part of the Kyoto protocol in meeting their emission reduction targets. Hence, developed countries can count the carbon credits (Certified Emission Reductions, CERs) generated by CDM project activities against their quantified emission reduction objective. In order to safeguard the environmental integrity of the climate targets agreed under the Kyoto protocol, the implementation of CDM activities must follow rigorous provisions for measurement, reporting and verification (MRV) that involve, inter alia, the application of approved methodologies, the external validation of project documents and the independent verification of results. Payments are made only against the delivery of verified emission reductions. Due to this structure, the CDM can by itself be considered “an extreme form of a results-based mechanism” (Neeff et al. 2014: 153).

With the number of countries participating in the Kyoto protocol’s second commitment period shrinking and the greenhouse gas emissions targets lacking ambition, demand for carbon credits has however been significantly reduced, putting climate change mitigation projects under the CDM at risk.

Against this backdrop and in the context of a general need to scale-up climate change mitigation actions in developing countries, the application of the mechanism’s MRV infrastructure and its methodological toolbox has been proposed to be used as a basis for results-based finance. Expectations related to this proposal are that they could contribute to safeguard and further enhance the capacities, methodologies and the MRV system established with the CDM.

In its report on opportunities and solutions for the implementation of CDM projects and use of the CDM framework in situations with low CER prices, Warnecke et al. (2013) propose to use RBF in the CDM context for a twofold purpose:

1. as a means to preserve the CDM framework
2. to maintain the readiness of market players for a situation where price signals are back.

While RBF cannot directly address the supply-demand imbalance, it could provide an incentive to maintain and further develop capacities, methodologies, and MRV systems and further motivate market players to stay in the market. CDM methodologies and the CDM framework could be used under an RBF initiative to quantify greenhouse gas (GHG) emission reductions without these GHG reductions necessarily resulting in issuance of tradable certificates. Particularly high potential for the use of the CDM is expected in cases where the quantification of GHG reductions plays a major role. In cases where a high accountability of emission reductions is desired, the use of CDM components can reduce transaction costs and provide for a reasonable balance between credibility, transaction costs and regional or sectoral capabilities (Warnecke et al. 2013).

According to the authors, there is a huge overlap between carbon market purchase programmes and RBF schemes, which could even be merged when purchase programmes are not seeking to reconnect to the carbon market. However, since under an RBF initiative donor countries can support CDM activities without having to purchase CERs directly, they can use the RBF context to meet part of their climate finance pledges. With such an approach not requiring the issuance of CERs, the risk of double counting issues is reduced, since the emission reductions cannot be used to meet own commitment targets (Warnecke et al. 2013).

A proposal to use the CDM in the broader context of climate finance was also made by the CDM Policy Dialogue, an independent high-level panel launched by the CDM Executive Board in 2011 to assess the past developments of the CDM and make recommendations for its future. In its final report, the CDM Policy Dialogue states that there might be a potential for cooperation between the CDM and the Green Climate Fund (GCF) in the design of a results-based finance approach. This process could build on the CDM infrastructure, knowledge base and experiences made. The collaboration could comprise the joint designing of a process for payment of verified results or even outsourcing the design and management of this process to the CDM. According to a background study elaborated for the CDM Policy Dialogue, such a collaboration could provide a unique win-win opportunity for both institutions in the context of RBF (CDM Policy Dialogue 2012; Gallo 2012).

As this brief overview shows, there are multiple ways of using the CDM and (parts of) its infrastructure in the context of RBF. Our analysis will therefore also look at how the CDM is currently being used by existing RBF initiatives.

3 Results-based finance in the mitigation context

This chapter analyses how results-based approaches are being used (or are envisaged to be used) by different institutions, funds and programmes in the context of climate change mitigation. The analysis will look at initiatives that provide financing to governments as well as at results-based finance initiatives where funds are flowing to subnational entities (NGOs, companies, service providers, banks, etc.).

3.1 Criteria for the assessment of existing RBF initiatives

The analysis, which is limited to public-sector driven initiatives, will be guided by a comparison of the following criteria.

3.1.1 Goal of the initiative or programme

First and foremost, the RBF initiatives must be differentiated with regard to their overall purpose. What is the key aim of the instrument analysed? Is it focusing on climate change mitigation or is it intended to more generally support sustainable development in developing countries?

3.1.2 Type of results

A second key question is related to the kind of results that are used as a basis for providing payments. Results could be thought of in quantitative terms and measured in tonnes of CO₂e abated, MW of renewable energy fed into the national grid, or hectares of forested land pro-

tected, etc. However, results could also be defined in qualitative terms and may for instance be indicated through concrete outputs that, among other things, contribute to an increased level of awareness about climate change that led to behavioural changes of individuals. Furthermore, results could be expressed through a combination of quantitative and qualitative indicators.

3.1.3 Use of CDM elements

Another criterion relates to the CDM and its potential use under an RBF initiative, as outlined in section 2.2. In cases where the CDM is being used by an RBF initiative, the analysis will look at how this is done, putting the emphasis on the exploring the following questions: What elements of the CDM infrastructure are used? How innovative is the use of the CDM?

3.1.4 Additional quality criteria

In order to achieve impacts that go beyond the measured impact, RBF initiatives can also establish additional quality criteria. These criteria could relate to impacts such as increased access of the rural population to energy services, increased resilience of local communities, or contributions to the conservation of biodiversity. From a climate change mitigation perspective, these impacts can be considered 'co-benefits' or 'non-carbon benefits', while they could be termed 'main-benefits' if the RBF initiative focuses on fostering sustainable development. These quality criteria can be used in a trifold way:

1. They can limit the access of projects to the RBF initiative.
2. They can guide the selection of projects.
3. They can be used as a basis for determining the level of funding provided to the project.

RBF initiatives can limit the use of quality criteria to option one or two, or combine all three possibilities of application.

3.2 Comparison of RBF schemes

3.2.1 The World Bank's Ci-Dev Carbon Fund

The *Carbon Initiative for Development (Ci-Dev)* is a new facility managed by the Carbon Finance Unit of the World Bank. The initiative pursues several **goals**. Ci-Dev aims at influencing the design of future carbon market mechanisms so that the participation of low income countries is increased and high development benefits that avoid carbon emissions are achieved. Further, it inter alia intends to demonstrate that performance-based payments for the purchase of CERs can lead to successful business models.

In order to achieve these goals, the initiative is to provide technical assistance as well as financing for energy access projects in Least Developed Countries. Correspondingly, Ci-Dev consists of two components: While technical assistance is provided through the Readiness Fund, the Carbon Fund, Ci-Dev's second component, provides results-based finance to energy access programs (Ci-Dev Website 2013; World Bank Website 2013a). **Results** are determined quantitatively in tons of CO₂e.

For the measurement, reporting and verification (MRV) of results, Ci-Dev fully relies on the **CDM infrastructure** and supports the energy access projects by purchasing Certified Emis-

sion Reductions (CERs) from them. The CERs purchased will be cancelled and not sold to the market.

With this first request for proposals in 2013, the initiative also published the **criteria** projects will have to meet to access funding as well as the criteria against which projects will be assessed in the selection process: Access will inter alia be limited to projects that deliver development benefits, result in result in financial savings or welfare improvements at community or household level, become registered CDM projects and adhere to the World Bank's environmental and social safeguards. The selection process will prioritize small to medium scale projects that demonstrate how carbon finance can benefit the poor, to projects that do not require additional donor finance and which are using new CDM methodologies that are particularly well suited for low-income countries, inter alia (Ci-Dev 2013).

3.2.2 DFID-financed RBF facility within the Energising Development (EnDev) Programme

DFID-financed RBF facility within the *Energising Development (EnDev) Programme* is an international partnership programme financed by the German, Dutch, Norwegian, Australia, UK and Swiss governments, which was launched in 2004 with the **aim** to increase access to modern energy technology and services in developing countries. Building on its experience in the use of performance-based approaches, EnDev is currently piloting RBF as a tool to kick-start the development of markets for low-carbon off-grid solutions in sub-Saharan Africa and South East Asia. With the financial support of DFID, who initiated the process, the RBF Facility has been installed within the programme. The facility provides financing for up to fifteen results-based finance schemes that are being implemented at the national or subnational level.

Since the primary goal of EnDev is to increase energy access, **results** are defined in terms of independently verified sales of low carbon energy appliances or the number of people that have been connected to the (mini-)grid providing sustainable energy services, depending on the design of the individual RBF scheme. Payments to the businesses are made on the basis of these results (EnDev 2013).

The individual schemes differ significantly in their design and there are no general programme-wide MRV requirements. However, to receive funding, the sampling has to include end-user level and external verification of results. None of the RBF schemes is currently making use of the **CDM** and its infrastructure for the MRV of the results achieved.

For the selection of RBF schemes in its internal selection process among EnDev's local project offices and selected partner organisations, the RBF Facility has established several **quality criteria**. Schemes are selected by inter alia taking into account the number of people that will be provided with access to low carbon energy, the tonnes of CO₂e that will be reduced, as well as other benefits, such as the number of jobs that will be created. At the level of the individual RBF schemes, by contrast, there are no predefined additional quality criteria that must be applied by all RBF schemes to select potential recipients of funding. However, businesses receiving incentives need to be capable of marketing the products / solutions (EnDev 2013).

3.2.3 GET FiT Premium Payment Mechanism Uganda

GET FiT Uganda is a first pilot of the Global Energy Transfer Feed-in Tariffs (GET FiT) Programme initiated by Deutsche Bank. Its principal **goal** is to make small-scale renewable energy projects viable by providing additional financing on top of Uganda's existing Feed-in Tariff (REFiT). This support is intended to contribute the clean generation capacity, help

strengthening regional grids and result in emission reductions of 11 million tCO₂ (GET FiT n.d.). The GET FiT Premium Payment Mechanism is the main element of the programme and is being implemented by the Government of Uganda and KfW with the support of a secretariat at the Electricity Regulatory Authority (GET FiT Website 2013).

Results are measured in quantitative terms and payments are made on the basis of the kWh fed into the national grid.

In terms of MRV, GET FiT Uganda is not using the **CDM infrastructure** but relies on the certification procedures established at the national level by the public Uganda Energy Transmission Company Limited .

Support is being provided in tranches, which require projects to meet **additional quality criteria**. Applications for the first tranche are limited to small hydropower (up to 20 MW), co-generation (bagasse) and biomass projects. Generally, the programme is targeted at advanced projects that have concluded a feasibility study and meet the following requirements:

- a) financial and economic feasibility
- b) technical soundness
- c) compliance with IFC Performance Standards on Environmental and Social Sustainability

In addition to these criteria, a legal due diligence will be performed before projects are appraised by independent experts and a final decision on the support is taken (GET FiT n.d.).

3.2.4 The World Bank's FCPF Carbon Fund

Since 2005, Parties are negotiating how to integrate activities that aim at reducing forestry related emissions in developing countries into the international climate regime. Since then, the scope of the envisaged mechanism for reducing emissions from deforestation and forest

degradation (REDD) was expanded to also account for the conservation of forest carbon stocks, sustainable management of forests, and enhancement of forest carbon stocks (REDD+).

The World Bank was involved in the REDD+ process from the very beginning and launched the *Forest Carbon Partnership Facility* (FCPF) in 2007 to support countries to get ready for REDD+ and to complement the negotiations by demonstrating how REDD+ could be implemented at the national level. In order to meet the latter **goal**, the FCPF Carbon Fund was designed to provide results-based payments to five large-scale Emission Reduction Programmes (ER Programmes) in countries that have made considerable progress in their efforts towards getting ready for REDD+ (FCPF 2013a). Since piloting REDD+ activities is the main purpose of the FCPF Carbon Fund, the overarching goals of REDD+ can be considered the fund's main goals. While reducing forestry emissions and preserving and increasing the capacity of forests to store carbon lies at the heart of the concept, REDD+ is also expected to deliver on non-carbon benefits, such as improved governance, biodiversity conservation, inter alia.

Results of these programmes will be measured in tons of emission reductions. The price per ton will be negotiated in deal-by-deal negotiations between the REDD+ country and the Carbon Fund as part of an emission reduction purchase agreement (ERPA). A pricing approach is currently being discussed but not established yet. Potential parameters include the ER Programme's costs and financial viability as well as its contribution to non-carbon benefits, inter alia (FCPF 2013b).

With regards to MRV of the activities, the Carbon Fund requires programmes to demonstrate their conformity with the Fund's Methodological Framework. Hence, instead of having developed a genuine set of methodologies and MRV provisions, the FCPF Carbon Fund expects ER Programmes to use existing approaches and

methodologies. This may give ER Programmes the possibility to use the methodologies for afforestation and reforestation developed under the **CDM**, as long as they can demonstrate that they meets the requirements of the Methodological Framework.

The Carbon Fund uses **additional quality criteria** to guide the eligibility and selection of ER Programmes into its portfolio. Access to the carbon fund is limited to those ER Programmes that adhere to the World Bank Safeguards. The World Bank Safeguards comprise several individual policies on environmental, social and legal issues, such as environmental impact assessment, involuntary resettlement and indigenous peoples. In the selection of projects, the Carbon Fund Methodological Framework is applied. Its set of almost 40 criteria and indicators is related to five major aspects of ER Programmes: Level of ambition, carbon accounting, safeguards, sustainable programme design and implementation and ER Programme Transactions (FCPF 2013c). However, programme selection will also be based on other criteria, including the ER Programme's potential to generate emission reductions at scale as well as its technical soundness, expected co-benefits, diversity and learning value (FCPF 2013b).

In March 2013, Costa Rica was the first REDD+ country to have its Emission Reduction Program Idea Note (ER-PIN) selected into the Carbon Fund pipeline. In September, a letter of intent was signed with the Carbon Fund's trustee (FCPF 2013d; World Bank Website 2013b).

3.2.5 Norwegian International Climate and Forest Initiative (NIFCI) and the Amazon Fund

The *Norwegian International Climate and Forest Initiative* (NIFCI) was launched in December 2007. The initiative was established to work towards the inclusion of REDD+ into a future international climate regime, while at the same time pursuing the **goal** of reducing forestry re-

lated greenhouse gas emissions and conserving natural forests (Government of Norway 2013).

As part of its commitment to results-based payments, Norway built on its bilateral relationship with Brazil and pledged up to US\$ 1 billion between 2008 and 2015 to Brazil's Amazon Fund (Government of Norway 2013). The Amazon Fund is a climate fund administered by the Brazilian development bank BNDES dedicated to support activities that reduce emissions from deforestation and forest degradation in the Amazon biome (Müller et al. 2013).

Results are measured in tonnes of CO₂e reduced or sequestered. The approach for measurement, reporting and verification does not apply the methodologies developed under the **CDM** but a genuine approach was developed. The amount of CO₂e emissions reduced is calculated on the basis of annual deforestation rates and using satellite imagery collected by the Brazilian space agency. Emission reductions are to be valued at a fixed price of US\$5 per tCO₂e, a price level agreed by Norway and Brazil following a proposal made by Brazil (Forstater et al. 2013).

With regard to the use of additional **quality criteria** it should be noted that, while Norway as a donor has the possibility to evaluate the results at the programme level, the selection of projects and terms of implementation lies within the responsibility of BNDES. In this context it should also be highlighted that the results-based payments approach is only applied at the fundraising side, while resource allocation in the Amazon Fund does not follow this rule. Projects on the ground have to meet certain national sustainable development aspects, but do not necessarily have to demonstrate effectiveness in terms of low cost emission reductions or hectares of forest conserved. This together with the fact that spending of resources is lagging behind the funds pledged and that deforestation rates are falling may indicate that the ap-

proach in fact is not results-based (Forstater et al. 2013).

3.2.6 International Energy and Climate Initiative Energy+

The *International Energy and Climate Initiative Energy+* (Energy+) was launched by the Government of Norway in October 2011. The main **goal** of the initiative is to improve access to sustainable energy services and reduce energy-related greenhouse gas emissions by expanding the share of renewable energy and increasing energy efficiency in developing countries. Building on its international Energy+ Partnership of currently 12 developing and 8 developed countries, the initiative aims at implementing sector-wide activities that result in a transformational change of the energy supply sector (Norway Ministry of Foreign Affairs 2013a).

The initiative envisages a phased introduction of the 'payment by result' approach. In phase one, support for the preparation of low emission development plans as well as measures to establish the institutional framework required (MRV system, reference level) will be made on a conventional basis. In phase two, support will be provided on the basis of the progress in the implementation of enabling policies and measures. The third phase will be fully results-based. In this third phase, **results** are defined in access to energy and use of renewable energy making payments contingent on the achievement of these goals.

In terms of MRV, the initiative intends to build on the Global Tracking Framework developed by the UN-led initiative *Sustainable Energy for All (SE4all)*, with which it shares the same goals. SE4all has recently launched its Global Tracking Framework to monitor the energy status of countries regarding access to sustainable energy services, progress towards greater energy efficiency and increased use of renewable energies. Energy+ will use the indicators devel-

oped by SE4all while MRV-systems will be developed at sectoral level to provide data on the results achieved (Norway Ministry of Foreign Affairs 2013c). Due to its sectoral approach, use of **CDM** methodologies is not envisaged but sectoral MRV systems will be developed.

Energy+ is a cooperation between donor and recipient countries open to all countries that agree with the Guiding Principles of the Energy+ Partnership (see: Norway Ministry of Foreign Affairs 2013b). However, recipient countries are selected on a case-by-case basis before agreements are signed with one or several of the donor countries. In line with the phased approach, access to results-based payments will be restricted to those countries who have successfully completed phase one and two. No information was found on the use of **additional quality criteria** used to guide the selection of activities on the ground.

Despite having been initiated in 2011, the initiative's progress was limited due to failure in finding other donors and difficulties in deciding on the recipients. In December 2012, a first payment of NOK 20 million (US\$3.4 million) was made to Ethiopia (Garside 2013).

3.3 Comparison of design features

The six initiatives analysed above illustrate the large diversity in which results-based approaches can be used, while common elements have also been identified. An overview of the initiatives analysed is provided in **Table 1** below.

3.3.1 Goals

All six initiatives pursue a combination of goals, and none is exclusively focusing on either climate mitigation or contributions to sustainable development. However, some of the initiatives

focus primarily on the sustainable development (SD) impact, such as the DFID-financed RBF facility within the Energising Development (EnDev) Programme, while other initiatives, such as the FCPF Carbon Fund and NIFCI and the Amazon Fund, are more focused on climate change mitigation (CCM) emissions.

3.3.2 Type of results

In terms of the results that are used as a basis for defining the payments, all initiatives rely on quantitative parameters. Four (Ci-Dev, GET FiT, FCPF and NIFCI) of the six initiatives analysed rely exclusively on parameters that describe the climate mitigation impact of the activities. This is remarkable, since all of these initiatives also intend to make a contribution to sustainable development. In contrast, two initiatives (RBF Facility within EnDev and Energy+) are using parameters that describe the contributions to sustainable development achieved through the activities financed.

3.3.3 Use of the CDM

As the analysis of the relationship between existing results-based finance initiatives and the CDM has shown, the RBF initiatives analysed are not yet exploiting the full potential of the CDM as an MRV tool and methodological treasure chest. Currently, only one initiative (Ci-Dev) is making use of the CDM for MRV: The Ci-Dev Carbon Fund will use the entire CDM infrastructure. Its key goal is to support energy access projects in low income countries, mainly LDCs, that provide clear development benefits. Despite the fact that CERs will not be used for compliance but cancelled in order to achieve a global climate net benefit the Ci-Dev Carbon Fund is clearly operating within the CDM arena.

In contrast to this rather "classical approach" of using the CDM infrastructure, one initiative (FCPF Carbon Fund) might offer the potential to use the CDM in a different way: the FCPF ex-

pects countries to demonstrate conformity with its guidance without prescribing the application of a specific set of methodologies. This might open up the possibility to use CDM methodologies or single elements of them and apply them to the activities implemented under the FCPF. A similar approach is applied by two initiatives (Energy+, RBF Facility within EnDev). While Energy+ expects countries to develop their own MRV systems that build on the indicators developed by the SE4all initiative, the RBF Facility within EnDev requires the individual RBF schemes to develop their own MRV approach. However, since both initiatives are using parameters linked to the contributions to sustainable development when measuring the results of the activities (compare section 3.3.2) the CDM methodologies cannot be expected to make a significant contribution in terms of MRV. Similarly, the CDM has no potential of being used under the two initiatives (GET FiT, NIFCI) which rely on approaches developed by other institutions to measure, report and verify their activities.

Facility within EnDev) and expected co-benefits (FCPF).

3.3.4 (Additional) Quality Criteria

Out of the six initiatives analysed, four use additional quality criteria to regulate the access to their funding and/or to guide the selection of activities.

From these four, all three initiatives that determine results exclusively in terms of the climate mitigation impact (Ci-Dev, GET FiT, FCPF) require the adherence to social and environmental safeguards in order to be eligible for receiving funding. Ci-Dev further expects projects to deliver development benefits.

In the process of selecting activities, three initiatives (Ci-Dev, RBF Facility within EnDev, FCPF) apply criteria related to their non-carbon impact. Criteria include benefits to the poor (Ci-Dev), number of people who will gain access to low carbon energy and additional benefits (RBF

	The World Bank's Ci-Dev Carbon Fund	EnDev/DFID's RBF for low carbon	GET FIT	The World Bank's FCPF	NIFCI and the Ama-	Energy+
Goal	Increasing (future) participation of low-income countries and result in high development benefits that avoid carbon emissions. <i>Sustainable Development (SD) + Climate Change Mitigation (CCM)</i>	Increase access to modern energy technology and services in developing countries. <i>SD (+ CCM)</i>	Contribute to clean energy generation capacity, help strengthening regional grids and reduce CO ₂ emissions. <i>CCM (+ SD)</i>	Demonstrate how REDD+ could be implemented at the national level (=all REDD+ goals) <i>CCM (+ SD)</i>	Reducing forestry related greenhouse gas emissions and conserving natural forests. <i>CCM (+ SD)</i>	Improve access to sustainable energy services and reduce energy-related greenhouse gas emissions. <i>SD + CCM</i>
Type of results / unit	Quantitative: tCO ₂ e expressed in CERs. <i>CCM</i>	Quantitative: Number of low-carbon energy access appliances sold/installed or number of households connected to the (mini-) grid. <i>SD</i>	Quantitative: kWh fed into the national grid. <i>CCM</i>	Quantitative: reductions of tons of emission reductions. <i>CCM</i>	Quantitative: tonnes of CO ₂ e reduced or sequestered. <i>CCM</i>	Quantitative: Access and use of renewables <i>SD</i>
Use of the CDM	Full use of the CDM infrastructure for MRV (purchase of CERs).	No use of the CDM and its infrastructure.	No use of the CDM and its infrastructure.	Potential use of CDM methodologies if they meet the requirements of the Methodological Framework.	No use of the CDM and its infrastructure.	No use of the CDM and its infrastructure.
Additional quality criteria	Eligibility: <ul style="list-style-type: none"> Projects must deliver development benefits, become registered CDM projects, adhere to the WB's environmental and social safeguards. Selection: <ul style="list-style-type: none"> Project type: Renewable energy projects that create new access to energy or address suppressed demand. Potentially other projects if they are innovative, provide transformational benefits Focus on small to medium scale projects that benefit the poor and use CDM methodologies suited for low-income countries 	Eligibility: <ul style="list-style-type: none"> Businesses targeted by the schemes need to be financially viable. S <ul style="list-style-type: none"> Selection of scheme on the basis of the no. of persons who will gain access to low carbon energy, CO₂ emissions reduced, additional benefits. 	Eligibility: <ul style="list-style-type: none"> financial and economic feasibility technical soundness compliance with IFC Performance Standards on Environmental and Social Sustainability Selection: <ul style="list-style-type: none"> Legal due diligence 	Eligibility: <ul style="list-style-type: none"> World Bank Safeguards Selection: <ul style="list-style-type: none"> Several criteria, including safeguards, sustainable programme design, expected co-benefits. 	No use of additional criteria at bilateral level.	No use of additional criteria at multilateral level.

4 Conclusions

As the analysis has shown, results-based approaches are already being applied by several climate change mitigation initiatives. While all initiatives analysed aim to contribute to climate change mitigation, there are notable differences with regard to the specific **goal** pursued and the contexts they are operating in. Some initiatives target emissions of a specific sector or activities that reduce emissions of a specific type of greenhouse gas, while others are designed to support a broad range of activities or foster the achievement of sustainable development more broadly. The same can be said with regard to the actors targeted by the initiatives: These range between national governments to subnational businesses and project developers.

The analysis of the initiatives further illustrates how the individual initiatives adapt the concept of results-based finance to the specific goals pursued and to the circumstances of implementation. Significant differences have been identified: For instance, while all initiatives define **results** in quantitative terms, different parameters are used for the measurement of results, some of them being clearly linked to the climate mitigation impact, while others are more closely connected to the impact on sustainable development.

The three design elements analysed – overarching goal, definition of results and use of additional quality criteria – are characterised by strong inter-connectedness. In this context, it is remarkable that the overarching goal of an RBF initiative does not necessarily predefine the type of results used as a basis for payments. For instance, Ci-Dev's goal of achieving development benefits is not reflected as a parameter in terms of results and level of payments, which are exclusively defined in terms of the climate

mitigation impact. Instead, the initiative establishes additional quality criteria to define the eligibility of projects and to select those activities that are expected to result in the desired impacts. Hence, as this example illustrates, additional quality criteria can be used to further steer the impact of the activities financed, without having to define these impacts as results of the RBF system. The experiences made with the CDM regarding its goal to support sustainable development in CDM host countries however shows that there is a considerable risk of a system resulting in an exclusive focus on carbon when payments are not made contingent on non-carbon impacts.

With regard to the **relationship between the CDM** and existing results-based finance initiatives, the analysis revealed that the mechanism currently has a very limited role. Most initiatives analysed do not use the elements of the institutional or methodological infrastructure developed under the CDM, and only one initiative is making explicit use of the CDM. However, here the entire CDM infrastructure is being utilized and activities must be fully MRVed following the CDM project cycle. In contrast to this approach, there is no initiative using only single elements of the 'CDM heritage'. With the FCPF Carbon Fund, there might however be some potential to use the methodologies established by the CDM. It remains to be seen whether this possibility will actually be used and whether future RBF initiatives will build more extensively on the CDM infrastructure. Using the CDM infrastructure or individual elements of it would be the way forward if the know-how in the field of MRV is to be preserved.

However, even if RBF schemes are not formally linked to the CDM, the experiences made with the mechanism in the last years can be ex-

pected to assist potential recipients of RBF funding in their efforts to develop and implement respective activities. This holds for organisations experienced in the CDM (project developers) as well as for CDM administrative units in the CDM host countries. Both may be able to build on the know-how gained through the CDM and use it in the broader context of results-based finance and climate finance.

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