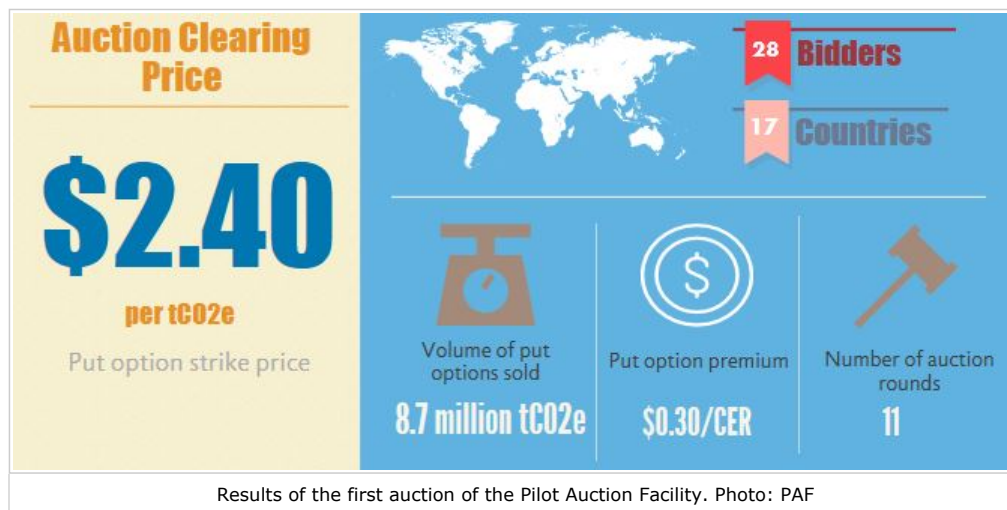


DEVELOPMENT IN A CHANGING CLIMATE

PAF first auction named carbon deal of the year

SUBMITTED BY **SCOTT CANTOR** ON WED, 03/23/2016
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4 COMMENTS



When you think of online auctions, what products come to mind? Perhaps electronics, collectibles or concert tickets, but it's unlikely that you think of climate finance. However, the [Pilot Auction Facility for Methane and Climate Change Mitigation \(PAF\)](#) recently combined the two, and for this, we are thrilled to be awarded *Environmental Finance's Carbon Deal of the Year 2016*.

The concept, first developed by [academics](#) and reviewed by the [G8](#), uses auctions to allocate price guarantees for emission reductions (commonly called carbon credits), ensuring that the maximum climate benefit is achieved per dollar spent. The PAF has a budget of over \$50 million to date, with contributions from Germany, Sweden, Switzerland the United States, and its objective is to test drive the auction concept and to demonstrate the potential for countries and international financiers to achieve maximum returns on their climate spending.

In our [first auction](#) last July, investors bought price guarantees that give them the right (but not the obligation) to sell 8.7 million tons of emission reductions to the PAF at \$2.40/ton in the future. These carbon credits are required to come from the methane reducing sectors of waste, wastewater and agricultural waste. The price guarantee was delivered in the form of a [Pilot Auction Facility Emission Reduction Note \(PAFERN\)](#), a freely tradeable security that ensures the price guarantee will end up with the firms that value it the most.

From the outset, the PAF brought together departments across the World Bank Group (WBG) to operationalize the instrument. The climate change team partnered with the World Bank Treasury to design and issue the PAFERN price guarantees and the IFC Business Risk & Compliance Department to advise on integrity screening of bidders. The World Bank Operations Risk Management Department and the IFC Transaction Risk Solutions Department also designed an [approach to mitigate environmental, health, and safety risks](#) – a difficult task when, because of the tradability of the PAFERNS, the projects that we support are not known until the time of payment. Development finance, legal support and a healthy crew of accountants also helped with the effort.

Looking ahead, we have announced PAF's [second auction for May 12, 2016](#). Acting on its mandate as a pilot facility, the PAF will use the second auction to test a new auction format, while keeping the focus on the same waste sectors. For the second auction, the PAF expanded the eligibility to include projects verified under the [Gold Standard](#) and the [Verified Carbon Standard](#), in addition the [Clean Development Mechanism](#).

Most importantly, we will continue to share our [lessons learned](#) on how this now "award winning" model can be replicated and scaled up. With this in mind, the PAF is releasing two studies in the coming months looking at other sectors where the model could be used to incentivize low-cost emission reductions and efficient use of climate funds.

With the successful completion of the first auction and with the second auction under preparation, the PAF is grateful for this award and its recognition of a range of committed stakeholders both within and external to the World Bank Group. It's a true win for those who support creative and innovative thinking in climate finance.

Comments

Excellent progress -

SUBMITTED BY **DAVID FINNEREN** ON THU, 03/24/2016 - 01:25

Excellent progress - important future project income stream and securitization element - helpful to include CCBA standard in second PAF. Continued success. DF

I find this information aSUBMITTED BY [MICHAEL UNDERWOOD](#) ON THU, 03/24/2016 - 02:59

I find this information a very useful example of carbon training in action and will use it for lecturing material. Thank you

[reply](#)**Congratulations to the PAF**SUBMITTED BY [A SCHAFFER](#) ON THU, 03/24/2016 - 09:40

Congratulations to the PAF team!

[reply](#)**Back in 2010 I had the idea**SUBMITTED BY [PAUL CURNOW](#) ON SAT, 03/26/2016 - 05:57

Back in 2010 I had the idea for a multilaterally-issued put option to underpin the price volatility in the carbon market - in particular the transition from first to second KP commitment periods. With funding support from the Swedish Energy Agency, I thought that the best pilot for this would be African CDM projects and so together with my climate change team at Baker & McKenzie I came up with the African Carbon Facility - essentially a master put underwritten by bilateral donors and syndicated through the African Development Bank and commercial banks in Africa. Imagine today if the Facility were in place: hundreds of CDM projects in Africa would still be under development and implementation having exercised the put to overcome the drop in the CER price that killed off so many projects.... For many reasons the African Carbon Facility never materialised - but not for the lack of an innovative idea or bilateral donor support. I like to think it was about 4 years ahead of its time. And then the Swedish Government (thankfully) shared the concept with the World Bank and with some further innovation the idea of auctioning off the put option is added and the PAF is born. Despite my original concept not becoming reality it is great to see the idea lend its innovation to the ground breaking World Bank auction. Let's keep thinking of the next big thing in climate finance. Paul Curnow, Partner, Baker & McKenzie

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