

Green Impact Funds for Transformation

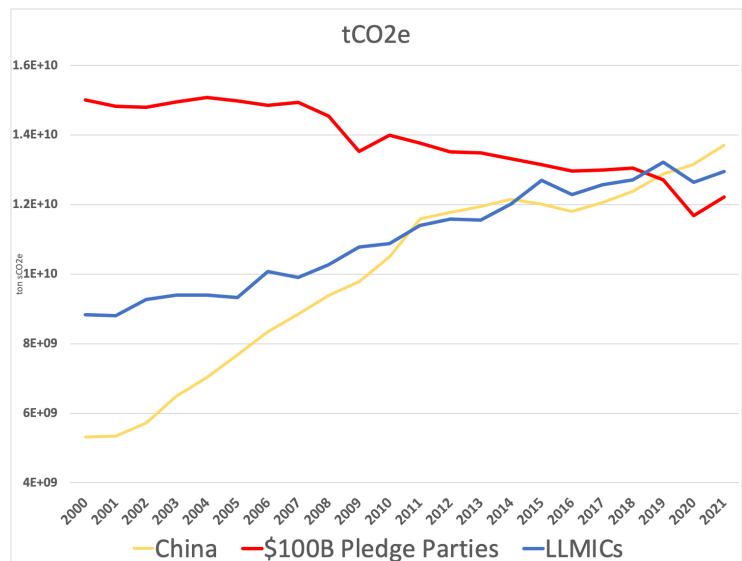
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The Problem: Greenhouse Gas Emissions Need to be Addressed Globally

There is an urgent need to direct global climate finance for the greatest possible impact: the available funds are limited, and rapid reductions in emissions are essential. This requires a mechanism that targets projects with the greatest impact. Responding to this need, *Green Impact Funds for Transformation* are designed to achieve both fairness and efficiency in climate finance. Wealthy countries have committed to mobilizing \$100bn per year to support climate change mitigation and adaptation in low and lower-middle-income countries (LLMICs): how can it be best allocated?

The Background

The overwhelming share of financial flows to reduce global emissions is invested in high-income countries, reflecting their historical contribution to emissions. However, this focus is now misdirected: while the countries that pledged in the 2009 Copenhagen Agreement to mobilize \$100bn a year have seen their emissions fall over the past 20 years, emissions in LLMICs have been rising. Carbon pricing and green subsidies are relatively rare outside high-income countries. Given both budgetary and political constraints, it is clear that most LLMICs cannot achieve optimal emissions reductions without financial support from high-income countries. This affects everyone: a ton of CO₂ has the same effect on our climate, regardless of where it originates.



Green Impact Funds for Transformation (GIFT): Summary

Financed by one or more states, GIFT would create an option for projects in LLMICs to earn impact payments for qualifying emissions-reducing projects, based on results. Projects might, for example, include installation of solar panels or biochar production. Using a competitive auction mechanism, GIFT would minimize administrative burdens while automatically selecting high-value projects. The model would create a predictable stream of subsidies for winning projects, facilitating co-financing from commercial lenders and others.

Advantages of the GIFT

- **Openness:** Project proponents can participate with fewer administrative barriers.
- **Cost control:** Limits cost by means of a fixed annual budget and secures cost-effectiveness through competition among a wide variety of projects.
- **Fairness:** Funded by wealthy countries that have historically benefited from greenhouse gas emissions to support green transformation in developing countries.
- **Flexibility:** Designed to support deployment of a variety of green technologies in many different areas of technology and industries.

- **SDGs:** Advances sustainable industrial and technological development in low-income countries (SDG9), mitigates emissions to reduce climate change (SDG13), including through helping to support access to clean energy (SDG7) while strengthening international partnerships (SDG17).

Operation of the Green Impact Funds for Transformation

GIFT would commit a funding amount to a specific technology area in a given year and issue a call for bids. Proponents would submit bid documents including qualification, the subsidy rate requested, and the amount of the target measure expected to be achieved. For renewable energy, for example, the producer would submit a bid specifying the number of megawatt-hours to be generated per year and the subsidy per megawatt-hour required. Qualification would include commitments to meet standards for other ESG goals. GIFT could be targeted to any geography in which support for climate-friendly investments is needed.

Eligible bids would be ranked according to the requested subsidy rate, with the bids awarded on the lowest subsidy rate projects until the budget was used up. Contracts would be signed with successful bidders, subject to payment of a small performance bond by the bidder. Finally, payments would be made according to the agreed subsidy rate based on performance by the bidder during a pre-identified term.

The GIFT model could be implemented by an existing organization, such as the Green Climate Fund or the EBRD, in order to minimize costs and institutional duplication.

GIFT would normally have different competitions for different technologies, depending on funder interest and technical opportunities. For example, an auction call might be for renewable energy in Sub-Saharan Africa. Other potential auctions could include biochar, enhanced rock weathering, DAC, industrial or consumer emissions abatement, forestry, or land use. While each field of technology has its own challenges, GIFT has a general application. Indeed, the GIFT model is similar to that of the EU's Hydrogen Bank, which is intended to efficiently incentivize hydrogen production. We think that the best technologies to start with would be biochar and renewable energy.

Why are Green Impact Funds for Transformation needed?

There are numerous existing, effective climate finance vehicles, including the Green Climate Fund, Climate Investment Funds, JETPs, and bilateral finance. GIFT would complement these organizations by adding a results-based subsidy mechanism. Because payment is based on results, rather than a loan or grant given in advance, the project proponent need not provide comprehensive justification for the subsidy, and GIFT does not need to evaluate it in advance. Instead, the risk of performance is imposed on the proponent. This would open financing opportunities for projects which currently are excluded by the burden of making a lengthy and complex application (typically with the assistance of consultants). Moreover, because GIFT applies a pay-for-results model, it would be attractive for some funders who prefer a competitive, "market-based" approach.

Climate finance is complex and multifaceted, and different approaches are needed. Green Impact Funds for Transformation represent an innovative, effective tool to achieve significant progress in the transition to a healthier world.