Carbon Intensity Bonds: Promoting Economic Growth Alongside Emission Reduction

The Coalition for a Better Tomorrow, Today

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We recommend the use of CI-Bonds
CI-Bonds lower the cost of capital for carbon abatement projects
7 to 15 GT of CO$_2$ can be abated per year through CI-Bonds
Cl-Bonds will attract $130 to $550 billion in new investments per year.
What the f*$k is a CI-Bond?
CI-Bonds bundle together Green Projects and Standard Projects
CI-Bonds provide financial incentives to investors.

CI-Bonds do not require government coordination.

CI-Bonds minimize and distribute risk and monitoring costs.
All bonds are assigned a CAP score.

The higher the CAP score the more carbon is abated from Green Projects.
Countries can choose to restrict tax write-offs to bonds with CAP scores higher than a certain value.
Carbon abatement is a calculated, probabilistic value.
Standard Project

VS

“Green” Project
Cl-Bonds lower the cost of capital for carbon abatement projects
Effects of the CI-Bond

Cost of Capital for a Standard Project

- 4%
- 6%
- 6.94%
- 10%
- 15%

Cost of Capital for Carbon Abatement Project

Cost of Capital for a Standard Project

Project's cost of abatement

- $1.00
- $3.00
- $5.00
- $7.00
- $9.00
- $11.00
- $13.00
- $15.00
- $17.00
- $19.00
- $21.00
We expect countries to value Carbon Abatement Project at $5 to $20 per MT
Ci-Bonds will attract $130 to $550 billion in new investments per year
Assume: Need the same ROI for investments to happen

Standard Project

Green Project

1.79 Leverage

SCC: $20

5.54 Leverage

SCC: $5

$130 billion to $550 billion market
7 to 15 GT of CO₂ can be abated per year through CI-Bonds
Green bond market is growing but small

The Solactive Green Bond Index introduced in 2013

Total Market Value: $19.2 Billion
CI-Bonds improves Green Bonds

Incentivizes carbon abatement

Targets projects with high social returns
Abate carbon by reducing taxes

Not picking winners

No International Consensus on Carbon Cost Required
Any Questions?
Tap into bank networks to reduce monitoring costs

Fund minimizes and distributes risk
CI-Bond: An Example

• Yield on corporate AAA bond = 10%.
• Tax rate = 30%
• Social cost of carbon = $15
• 10 tons of carbon abated by CAP
CI-Bond: An Example

- Standard AAA bondholder earns $70.
- CI-bond is composed of 86% AAA corporate bond, and 14% carbon abatement project (CAP).
  - The corporate bond portion earns 0.86*70=$60.2
  - Tax reduction is 0.14*10*15=$21
  - Excess return that accrues to CAP = $11.2
CI-Bond: An Example

• Market forces will force earnings between two bonds to be equal.

• The return to capital required from the CAP is -11.4%.

• This negative return from capital is the amount of subsidy given to CAP