Dr. Silke Karcher  
Head of Division KII6  
Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety  
1055 Berlin  
Germany


Dear Dr. Karcher:

1. We refer to the Agreement whereby the Contributor agreed to make certain contributions to the PAF Trust Fund (TF No. 069026), an initiative intended to facilitate low-carbon development by stimulating climate change mitigation and innovation in the delivery of climate finance.

2. Pursuant to recent discussions between the Contributor and IBRD, the Contributor and IBRD propose to amend the Agreement as follows:

The document attached at Annex 2 of the Agreement will be deleted in its entirety and replaced with the document attached in the schedule hereto.

3. Defined terms used in this Amendment and not defined herein will have the meanings given to them in the Agreement.

4. All other terms of the Agreement will remain the same.

5. IBRD will disclose this Agreement and related information on the PAF Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into this Agreement, the Contributor consents to disclosure of this Agreement and related information on the PAF Trust Fund.

6. Please confirm your agreement to the foregoing amendments, on behalf of the Contributor, by signing, dating, and returning to us the enclosed copy of this Amendment. Upon receipt by IBRD of this signed Amendment, the Amendment will become effective as of the last date of signature by the Contributor.
Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Jaehyang So
Director
Trust Funds and Partnerships
Development Finance

AGREED AND CONFIRMED:

FEDERAL REPUBLIC OF GERMANY

By:  [Signature]

Date: June 21, 2015

Name: Dr. Silke Karcher
Title: Head of Unit K16, BMUB
SCHEDULE
PILOT AUCTION FACILITY FOR METHANE AND CLIMATE CHANGE MITIGATION (PAF) FRAMEWORK

A. INTRODUCTION

1. The Pilot Auction Facility for Methane and Climate Change Mitigation ("PAF") is an innovative results-based climate finance facility aimed at stimulating investment in low-cost greenhouse gas emission reductions. The PAF would auction put options that guarantee a minimum price level on carbon emission reduction credits ("ERs") that meet pre-specified eligibility criteria ("Eligibility Criteria"). The facility utilizes a delivery mechanism that takes advantage of existing tools and experience developed at the multilateral level under the Clean Development Mechanism ("CDM") and related carbon and capital markets.

2. The facility will simultaneously stimulate climate mitigation and innovate in the delivery of climate finance (to provide powerful lessons for the future) through the auctioning of put options to largely private sector actors. These put options will give project developers a guarantee of a future payment, at a fixed level, for tons of carbon dioxide equivalent ("tCO₂e") abated by their projects, creating the incremental financial incentive needed to stimulate abatement activities. Using auctions as a resource allocation method will ensure that the facility's resources achieve the maximum impact by selecting winners with the lowest expected costs per tCO₂e.

3. The International Bank for Reconstruction and Development ("IBRD") will issue bonds which will incorporate the put options, thereby integrating capital markets features into the delivery of climate finance.

B. OBJECTIVES OF THE PAF

4. The PAF is intended to facilitate low-carbon development by stimulating climate mitigation and innovation in the delivery of climate finance. The PAF is expected to achieve the following objectives:

(a) Informing the design of scaled-up pay-for-performance climate finance approaches by piloting an innovative climate finance mechanism that leverages private capital and uses auctions to ensure maximum value-for-money;
(b) Initially achieving near-term mitigation through methane emission reductions that otherwise would be released into the atmosphere due to a lack of other policy or financial incentives;
(c) Maximizing the direct engagement and expertise of the private sector; and
(d) Testing an innovative financial mechanism by offering put options which are part of a bond obligation to guarantee a minimum carbon price.
C. OVERVIEW OF THE PAF

5. Financing Arrangements

The PAF is established as a financial intermediary fund ("FIF") administered by the IBRD as Trustee (the "PAF Trust Fund"). In addition, IBRD in its capacity as Issuer will issue bonds which incorporate put options as part of its obligations that support investment in climate mitigation activities.

6. Contributions to the PAF Trust Fund

In furtherance of the PAF objectives above, countries and/or other entities making an aggregate contribution to the PAF Trust Fund of no less than USD 5 million (each, a “Contributor”) will enter into agreements with IBRD as Trustee, under which they commit to make contributions to the PAF Trust Fund. Amounts paid or undertaken to be paid by a Contributor to the PAF Trust Fund are referred to herein as “Contributions”. In the event that an additional Contributor to the PAF Trust Fund is proposed, the Secretariat will convene a meeting of the Participants Committee to discuss the proposed Contribution, including in respect of payment method. However, additional Contributors and additional Contributions from existing Contributors to the PAF Trust Fund will not be permitted at any point after the first PAF Bond Redemption Date except as may be necessary to meet any shortfall on existing Contributor commitments or Contributions as determined by IBRD as Issuer at its sole discretion.

7. Use of Funds

All Contributions and income derived from any investment by IBRD of such Contributions will be committed and disbursed by IBRD, as Trustee, in accordance with the provisions of this PAF Framework including in respect of

(a) Payment obligations arising out of the PAF Bond, any associated fees, costs, expenses or other amounts payable which are related to performing the roles of the Trustee, Secretariat, Auction Manager and Issuer, and any amounts payable under paragraph 32 below, including such amounts required to pay investors in the event of a successful suit by an investor, or a settlement of such a suit at the Issuer’s reasonable discretion upon prompt consultation with the Participant’s Committee (hereinafter referred to together as “Payment Obligations”); and

(b) any technical assistance or knowledge management activities which may be coordinated by the Secretariat and as approved by the Participant’s Committee.

8. PAF Auctions

IBRD as Auction Manager of the PAF will conduct auctions for the premium payable for each PAF put option and/or the strike price applicable for each PAF put option (“PAF Auctions”) throughout the term of the PAF beginning from and including December 3, 2014 up to and including December 31, 2022 (the “PAF Term”), provided that all Payment Obligations in respect of the PAF will have to be completed by December 31, 2022.
9. PAF Bond Issuance

Winners from the PAF Auction process will be eligible to purchase put-able bonds issued by IBRD on its Global Debt Issuance Facility platform or any successor thereto, each as may be amended from time to time in accordance with its own provisions (the “PAF Bond”). Each holder of PAF Bonds, including holders pursuant to any transfer or sale of such bonds in accordance with the terms thereof, will have the option to deliver ERs that meet the Eligibility Criteria in exchange for a pre-agreed strike price.

10. PAF Bond Redemption

The put options will be exercisable only at the respective redemption dates of a PAF Bond (each, a “PAF Bond Redemption Date”). As the PAF Bond Redemption Date approaches, bondholders will give notice of their intention to redeem the bonds along with details of the ERs which they will deliver. Upon confirmation from an independent third-party verification agent that the ERs meet the Eligibility Criteria, and upon delivery of the ERs, bondholders will receive the strike value of the PAF Bond.

11. Treatment of ERs After PAF Bond Redemption

Eligible ERs delivered by holders of PAF Bonds will either be cancelled or available to Contributors as calculated based on each Contributor’s pro-rata share of Contributions made up to, but excluding, each PAF Bond Redemption Date. Contributors may use such ERs allocated to them for voluntary national goals provided that (a) there is no double counting in either accounting or reporting under multilateral climate agreements and (b) Contributors will not use these ERs as offsets for compliance with internationally agreed goals.

D. SCOPE AND ELIGIBILITY CRITERIA OF THE PAF

12. Eligible Sectors

Eligible sectors will be determined in accordance with paragraph 17 below and communicated for each PAF Auction round. Criteria for selecting eligible sectors and projects in all PAF Auctions will include the sector’s contribution to sustainable development and financial barriers faced. In addition, the PAF will target methane abatement sectors other than coal mine methane and oil and gas projects in its first PAF Auction round(s). After the first round, the Participants Committee will consider expanding the coverage of the facility to target additional climate pollutants over time. The facility will conduct at least one auction designed to facilitate participation of projects in low income countries.
13. Eligible Carbon Protocol

The first PAF Auction round will be limited to ERs that have been certified by the CDM methodologies. Thereafter for subsequent auction rounds, the PAF will consider broadening its scope to other carbon accounting protocols such as the Verified Carbon Standards ("VCS") and the Climate Action Reserve ("CAR"). A list of eligible carbon accounting methodologies from these carbon standards will be determined in accordance with paragraph 17 below and communicated prior to each PAF Auction round, as appropriate.

14. Social and Environmental Criteria

The PAF does not provide financial and related operational support to the underlying projects that generate ERs for which put options may be exercised. However, given that the underlying projects and their host sites may present potential environmental and social risks, the PAF will establish in each auction round a list of social and environmental criteria that the underlying projects and their host sites, as needed, must meet. The social and environmental criteria for each round will be established considering the sector and technologies selected in each auction round, and will be derived from the World Bank Group’s performance standards, national laws or other relevant standards. The holders of PAF Bonds will be required to demonstrate through an audit conducted by an independent and appropriately accredited third party auditor, that such social and environmental criteria are met before payments are made to such holders of put options at redemption. Subject to Participant Committee approval, the Secretariat may propose (upon approval of the Chief Environmental and Social Standards Officer of the IBRD or any successor thereto) that for specific projects or sectors that present low to zero environmental and social risks due to the sector and technologies involved, social and environmental criteria need not be developed and applied. The approach to be taken with regards to environmental and social risks applicable to each auction round – including the identification of potential risks at the underlying project and its host site, the environmental and social criteria, and the auditor qualifications, as appropriate, will be proposed by the Secretariat, upon the approval of the Chief Environmental and Social Standards Officer of the IBRD or any successor thereto, to the Participants Committee for approval prior to each PAF Auction round.

15. Other Eligibility Criteria

Each auction may have additional specific criteria to be determined by the Participants Committee including in relation to sectors, countries and auction bidders.

E. PARTICIPATION AND GOVERNANCE STRUCTURE

The participation and governance structure of the PAF include a Participants Committee, a Secretariat, a Trustee, an Auction Manager and an Issuer of the PAF Bond.

16. Participants Committee

The "Participants Committee" will oversee the operations of the PAF as a whole and will consist of
(a) subject to any individual arrangements as agreed between Contributors, all Contributors that have entered into a Contribution agreement and/or deed (each, a "Contribution Agreement" or a "Deed") with IBRD as Trustee, pursuant to which they have committed to make Contributions to the PAF Trust Fund; and
(b) IBRD.

The Climate and Clean Air Coalition To Reduce Short-Lived Climate Pollutants ("CCAC") Secretariat (hosted by the United Nations Environment Programme ("UNEP")) will act as an observer on the Participants Committee in order to make important linkages between the PAF and the CCAC work streams as well as between the PAF and CCAC partners.

17. The Participants Committee will have the following roles and responsibilities:

(a) Provide strategic guidance for the operations of the PAF;
(b) Approve the PAF Framework;
(c) Subject to paragraphs 6 above, approve additional Contributors and Contributions to the PAF Trust Fund, including in respect of the payment method of proposed Contributions;
(d) Approve the work plan and indicative budget for the PAF;
(e) Approve the allocation to each round of auctions;
(f) Approve Eligibility Criteria and terms and conditions for each auction as recommended by the Secretariat, including eligible sectors, carbon protocol, reserve price and environmental and social criteria;
(g) Approve the allocation of funds to and the content of any technical assistance and knowledge management activities as recommended by the Secretariat;
(h) Monitor the operations of the PAF;
(i) Make determinations for use of surplus funds held by IBRD after the redemption of each PAF Bond;
(k) Subject to paragraph 29 below, make determinations of any funds remaining at the end of the PAF Term to be applied in climate change initiatives;
(l) Approve the final appointment of the independent third-party verification agent; and
(m) Consult with the Issuer in relation to the settlement of any investor claims.

18. The Participants Committee will meet once a year or at any other frequency as may be decided by the Participants Committee on the basis of recommendations from the Secretariat. The Participants Committee may choose to meet virtually or by teleconference or video conference as may be necessary.

19. Subject at all times to Paragraph 20 below, all decisions of the Participants Committee will be made by consensus of the Contributors on the Participants Committee. Other than in respect of paragraph 17(c), if a consensus cannot be reached between the Contributors on the Participants Committee then decisions will be conducted by majority vote which will be calculated according to the percentage of a Contributor’s pro-rata Contribution to the PAF Trust Fund as at the relevant date of determination, provided that where a Contributor has contributed more than 50% of the total Contributions to the PAF Trust Fund as at the relevant date of determination, then such Contributor’s vote will only be taken into account if accompanied with the vote of at least one other
Contributor. Except as provided in paragraph 6 above, all decisions in respect of paragraph 17(c) may only be taken by consensus of all the Contributors on the Participants Committee.

20. Notwithstanding paragraph 19, no decisions, waivers, approvals and other actions taken by the Participants Committee will become effective until IBRD provides its agreement to such decisions, waivers, approvals and/or other actions to the extent that such decisions, waivers, approvals and/or other actions may have an impact on IBRD’s ability to carry out any of its roles under the PAF.

21. Secretariat

IBRD will serve as the secretariat of the PAF (the “Secretariat”) to provide secretariat services and technical support for day-to-day operations of the PAF. The Secretariat will have the following roles and responsibilities:

(a) Propose a provisional agenda for each meeting of the Participants Committee;
(b) Prepare and recommend the PAF Framework and other operation guidelines for the PAF for Participants Committee approval;
(c) Propose an annual work plan and indicative budget for the Participants Committee’s consideration and approval;
(d) Prepare and recommend Eligibility Criteria and other terms and conditions, including eligible sectors, carbon protocol, reserve price and environmental and social criteria, for each PAF Auction for Participants Committee approval;
(e) Engage independent third-party verification agents for PAF Bonds upon the Participants Committee’s approval of final appointment;
(f) Undertaking consultations, awareness raising and/or training exercises as may be required prior to each PAF Auction to maximize participation;
(g) Communicate about the PAF’s activities, commission relevant studies and disseminate information on PAF’s achievements;
(h) Prepare updates and consolidate progress reports on the individual activities of the PAF and on the PAF as a whole, for the meetings of the Participants Committee, including in respect of number of bidders at each different auction round, premium and strike price of each auction round, and tCO₂e reductions achieved; and
(i) Perform other functions necessary for facilitating the operation of the PAF, including making any necessary arrangements related to the transfer or cancellation of ERs as may be required under paragraph 11 above.

22. Trustee

IBRD will serve as the trustee of the PAF Trust Fund (the “Trustee”), and will in such capacity have the following roles and responsibilities:

(a) Establishing the PAF Trust Fund;
(b) Enter into Contribution Agreements or Deeds with each Contributor specifying the terms and conditions of the Contributions;
(c) Send payment requests to Contributors;
(d) Record and acknowledge receipt of funds from Contributors;
(e) Record commitments from the PAF Trust Fund in respect of budgets, bond issuance obligations and any other activities which are consistent with Participants Committee decisions;

(f) Make transfers of funds from the PAF Trust Fund in respect of Payment Obligations and any other items contemplated under this PAF Framework;

(g) On each PAF Bond redemption/maturity date (or such other date as may be agreed between the Issuer and the Trustee), coordinate to receive a transfer to the PAF Trust Fund from the Issuer of any premium or other amounts paid by PAF Bond holders to the Issuer and any interest applicable on such amounts, each according to the terms of each PAF Bond; and

(h) Prepare annual financial reports of the PAF Trust Fund.

23. Auction Manager

IBRD will serve as the auction manager for each PAF Auction (the “Auction Manager”), and will in such capacity have the following roles and responsibilities:

(a) Engage consultants and other experts as may be required to conduct each PAF Auction;
(b) Collate information and data necessary to finalize each PAF Auction round;
(c) Communicate results from each PAF Auction round to the Secretariat; and
(d) Perform other functions necessary for facilitating each PAF Auction.

24. Issuer of the PAF Bond

Subject at all times to Paragraph 25 below, IBRD will serve as the issuer for each PAF Bond (the “Issuer”), and will in such capacity have the following rights, roles and responsibilities:

(a) Coordinate with the Trustee, Secretariat and Auction Manager to finalize details of each PAF Bond term sheet;
(b) Issue each PAF Bond as part of its Global Debt Issuance Facility platform or any successor thereto, each as may be amended from time to time in accordance with its own provisions;
(c) Coordinate with the Trustee to receive transfers from the PAF Trust Fund in appropriate time for payments to be made to PAF Bond holders, including any amounts required to pay investors in the event of a successful suit by an investor, or a settlement of such a suit at the Issuer’s reasonable discretion upon prompt consultation with the Participant’s Committee;
(d) On each PAF Bond redemption/maturity date (or such other date as may be agreed between the Issuer and the Trustee), coordinate with the Trustee to transfer to the PAF Trust Fund any premium or other amounts paid by PAF Bond holders to the Issuer and any interest applicable on such amounts, each according to the terms of each PAF Bond;
(e) Coordinate with its existing global paying agents and other relevant agents to facilitate payments to and receipts from PAF Bond holders;
(f) Promptly consult with the Participant’s Committee in relation to the settlement of any suit by an investor, including taking any concerns raised by the Participant’s Committee into serious consideration as part of any internal deliberations on settlement; and
(g) Perform other functions necessary for facilitating each PAF Bond issuance.
25. For the avoidance of doubt, the Issuer is not obliged to issue any PAF Bond unless and until it is satisfied prior to each issuance that:

(a) all necessary steps have been undertaken in relation to the corresponding PAF Auction to develop the necessary PAF Bond term sheet;
(b) all Eligibility Criteria and any other terms and conditions which are to be included in the PAF Bonds are suitable for inclusion within such bond issuance, including in terms of any internal IBRD approvals requirements and other restrictions that may exist under its Global Debt Issuance Facility platform or any successor thereto, each as may be amended from time to time in accordance with its own provisions;
(c) all funds from Contributors which are necessary to make payments contemplated under this PAF Framework including in respect of the Payment Obligations are either
   (i) being held by the Trustee in the Trust Fund for immediate transfer to the Issuer when requested by the Issuer, or
   (ii) if such sums are not held by the Trustee in the Trust Fund, then the Trustee is able to demand payment of such sums from the Contributor(s) within a timeframe to be specified by the Issuer in accordance with the provisions of the corresponding Contribution Agreement or Deed related to such Contributor(s).

26. IBRD in its capacity as Issuer, will have the right to all funds from Contributors which are either (i) held by the Trustee in the Trust Fund, or (ii) if such sums are not held by the Trustee in the Trust Fund, then which the Trustee is able to demand payments of such sums from the Contributor(s) within the requisite timeframe, provided that such sums are equal to the Payment Obligations as they are incurred and recorded by the Issuer.

F. APPLICATION OF FUNDS BY IBRD

27. Application of Funds

Contributions received by the PAF Trust Fund will be used for the activities proposed in this PAF Framework including in respect of
   (a) the Payment Obligations; and
   (b) any technical assistance or knowledge management activities which may be coordinated by the Secretariat and as approved by the Participant’s Committee.

28. Surplus Funds

At any time during the PAF Term, and unless otherwise determined by the Participants Committee, the following amounts will be held in the PAF Trust Fund to be used for the same purposes as the Contributions:
   (a) any excess monies from Contributions initially allocated to a PAF Bond which is not redeemed; and
   (b) any premium or other amounts payable by PAF Bond holders to the Issuer and any interest applicable on such amounts, each according to the terms of each PAF Bond, which are transferred to the PAF Trust Fund by the Issuer.
29. Application of Contribution Funds Remaining

If at the end of the PAF Term, all Payment Obligations and any other payments contemplated under this PAF Framework have been disbursed, then IBRD will calculate on a pro rata basis the amount of any remaining Contribution funds (including any related investment income) attributable to each Contributor. For the purposes of calculating the pro rata amounts under this paragraph, each Contributor’s pro-rata amount will be calculated based on the aggregate amount of the Contributor’s Contribution to the PAF Trust Fund, relative to the aggregate amount of all Contributions received in the PAF Trust Fund as at the date of calculation. In the event there are such remaining Contribution funds attributable to the Contributors, then each Contributor will specify in its Contribution Agreement or Deed how such funds are to be applied.

30. Application of Other Funds Remaining

If at the end of the PAF Term, (a) all Payment Obligations and any other payments contemplated under this PAF Framework have been disbursed and (b) all Contribution amounts have been attributed to the relevant Contributor pursuant to paragraph 29 above, then any funds remaining thereafter in the PAF Trust Fund shall be applied to climate change initiatives in a manner to be determined by the Participants Committee at such point.

31. Limitation of Liability

IBRD will not be liable for any error of judgment, or for any act, omission or loss suffered by the Contributors in connection with any matter related to its role as Trustee, Secretariat, Auction Manager or Issuer under this PAF Framework. IBRD may reasonably assume the accuracy, completeness and sufficiency of any and all information and documents related to the Eligibility Criteria for each PAF Bond issuance without undertaking any separate and independent verification on its own account. IBRD’s use of such information and documents in any PAF Bond documentation will in no circumstances be deemed to constitute an explicit or implicit endorsement of their contents by IBRD.

32. Indemnity

All Contributors will (i) indemnify and hold IBRD harmless against, and pay or otherwise reimburse IBRD for, any losses, claims, damages, liabilities or expenses that IBRD and/or any of its employees, consultants, officers, affiliates or agents may incur or become subject to, including without limitation in connection with any claim, suit, action or proceedings brought against any of them by any third party (whether or not affiliated with a Contributor) on whatever ground arising out of or based on a PAF Bond issuance by IBRD, or the reliance by any person on anything done or not done by IBRD in accordance with this PAF Framework, or the actions of any Auction Managers or independent third-party verification agents; and (ii) reimburse IBRD for any expenses, including any legal expenses, reasonably incurred by IBRD in connection therewith; provided, however that the Contributors will not be liable under the foregoing to the extent that any such loss,
claim, damage or liability was suffered as a direct result of willful misconduct or gross negligence by IBRD in performance of its obligations as Secretariat, Auction Manager and/or Issuer under this PAF Framework. For the avoidance of doubt, (i) any amounts owing by Contributors under this paragraph will be limited to the amounts remaining in the PAF Trust Fund at the time of such claim, and (ii) IBRD will use all reasonable efforts to pursue other existing indemnity provisions, if any, including with Auction Managers or independent third-party verification agents, prior to pursuing its rights under this provision.

33. IBRD Right to Terminate

IBRD will act as Secretariat, Auction Manager and Issuer for the duration of the PAF Term unless IBRD chooses to terminate its participation upon providing six (6) months prior written notice to the Participants Committee. Once such notice of termination has been provided, IBRD will cooperate with the Participants Committee as reasonably necessary to arrange for an orderly transition of all services provided under this PAF Framework to another suitable entity, as well as the transfer of any assets belonging to the PAF Trust Fund to another suitable entity.

G. AMENDMENT TO THE PAF FRAMEWORK

Subject at all times to Paragraphs 19 and 20 above, the provisions of this PAF Framework may be amended only with the prior written agreement of all Contributors and IBRD, provided that the Trustee will be able to make any amendments to the PAF Framework which are not material to the operations of the PAF on the basis that there are no objections from the Participants Committee.