

CLIBOR – Climate based London Interbank offer rate, the way to help fund climate change projects

As part of 2030 UN goal and recently concluded Paris Climate event, world leaders have agreed to bring down emission and help us reduce the impact of climate to our planet. It is estimated that around USD 100 billion is required basis the agreement to support various climate challenge and to support smaller nation impacted by climate change. One of the key challenge faced is around how to we raise funds and then handing over to the needy and for research work

Quote from Paris climate summit draft agreement on funding

Paris Climate funding agreement says “The agreement acknowledges that \$100 billion (in loans and donations) will need to be raised each year from 2020 to finance projects that enable countries to adapt to the impacts of climate change (rise in sea level, droughts, etc.) or reduce greenhouse gas emissions. The agreement specifies that this amount should increase. Some developing countries will also be able to become donors, on a voluntary basis, to help the poorest countries. This is a first. The agreement schedules an initial meeting in 2025, where further quantified commitments will be made regarding assistance to the poorest countries”

What is LIBOR? – As per Investopedia

LIBOR or ICE LIBOR (previously BBA LIBOR) is a benchmark rate that some of the world’s leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world. LIBOR is administered by the ICE Benchmark Administration (IBA), and is based on five currencies: U.S. dollar (USD), Euro (EUR), pound sterling (GBP), Japanese yen (JPY) and Swiss franc (CHF), and serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. There are a total of 35 different LIBOR rates each business day. The most commonly quoted rate is the three-month U.S. dollar rate.

Time to introduce CLIBOR or ICE CLIBOR (Climate based London Interbank Offer Rate)

Is CLIBOR the answer for Financial System to fund Climate Initiative – Financial system plays a key role in economy as we have seen how LIBOR helps in controlling rate and helps define what Banks earn or able to lend at the rate to a particular goods in a particular country. With Climate Challenge at the center of all challenges, Financial system has opportunity to help fund the climate change needs of the world by differentiating the interest basis the pollution a product is going to emit or the impact it has on the eco system. Basis the risk posed by goods to economy and the countries impact over climate, extra margin will be added and this will be going to UN and World Bank to support climate cause.

The extra money coming will be moved to separate account and this will be exempted from taxes, bank will maintain a separate line in its books and will transfer every quarter to UN Special Account to help fund climate challenges/research the money in this account.

This can be one of the source which UN can get funds to support Climate changes across the world apart from Government funding and private donations.

What will CLIBOR contain and how it will work?

CLIBOR = LIBOR + Margin at which banks charge+ Country Pollution Index Margin + Product Pollution Index Margin

Today any interest is generally defined as LIBOR + margin, CLIBOR goes one step ahead and includes an index which will have the country pollution index and pollution index of the goods financed for e.g.

Bhutan emits – 0.8 CO2 (metric ton per capita) and Bahrain emits – 17.9 CO2, when financing happens to any company in Bhutan, it would shell out lesser than what Bahrain based company. Refer below table for an example.

Likewise on product – Diesel cars emits higher than a Petrol car, when financing a loan for diesel car, consumer pays higher amount than compared to petrol car and likewise when a company wants funds from bank, the funding will be at higher interest compared to making an electric car.

An example on financing happens for a Diesel Car assuming in US, then the interest for dollar loan basis CLIBOR will be?

LIBOR interest for 1 year \$ loan assuming it is at 0.5%

Margin is at 3%

Per Country CO2 index, margins is 0.0170%

Per Product index, margin is 0.01%

Net Interest per CLIBOR will be 3.527% as against of 3.5%

Interest earned for a USD 10000 loan for a year per LIBOR will be USD 350 and per CLIBOR it will be USD 352.70, net contribution to Climate cause will USD 2.70 and this will be credited to UN account and free of any tax.

Assuming we have around a 500 billion worth of car loan in US is for Diesel car, then net earning toward Climate change cause will be around USD 135 million.

Likewise, the additional interest component can be added to various other lending products to help improve the opportunity of getting more in the hands of UN to facilitate various initiatives

The below index provides an example to help derive the climate impact margin, this can be enhanced further basis various research carried out by scientist in climate industry and professional in Banking industry to arrive at the best possible way to get a margin which can help get the additional funding to support climate change challenges

Sample index for reference –

Country Pollution Index Margin basis emission of CO2 per capita

Country	CO2 emission per capita	Interest Margin
Lao PDR	0.2	0.0002

Liberia	0.2	0.0002
Myanmar	0.2	0.0002
Nepal	0.2	0.0002
China	6.7	0.0067
Greece	7.6	0.0076
Austria	7.8	0.0078
New Zealand	7.1	0.0071
United Kingdom	7.1	0.0071
Germany	8.9	0.0089
Bhutan	9	0.009
Israel	9	0.009
United States	17	0.017
Bahrain	17.9	0.0179

Source - <http://data.worldbank.org/indicator/EN.ATM.CO2E.PC>

Product Pollution Index Margin basis the CO2 emission

Product	Pollution Index	Interest Margin
Diesel Car	1	0.01
Petrol Car	0.8	0.008
Cycle	0	0
Wind Mill	0	0

Note – Diesel, Petrol, Windmill and Cycle just an example to help calculate the margin and to demonstrate the difference