De-risking investment & Climate auctions

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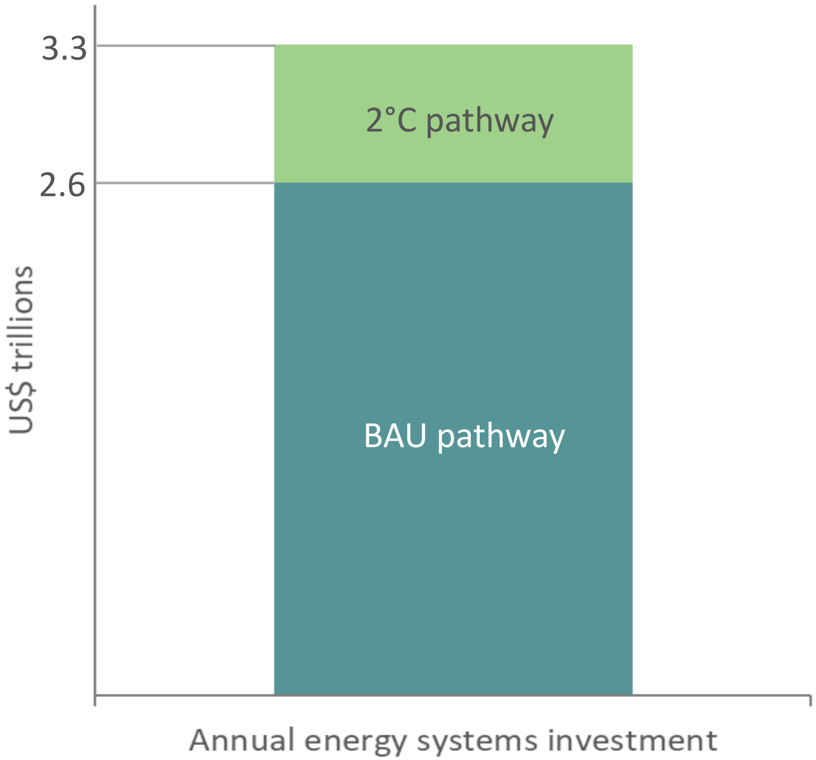
vivideconomics

Trillions in investment are needed to achieve NDC targets

a 2°C pathway requires $3.3 trillion

$700 billion more than under BAU



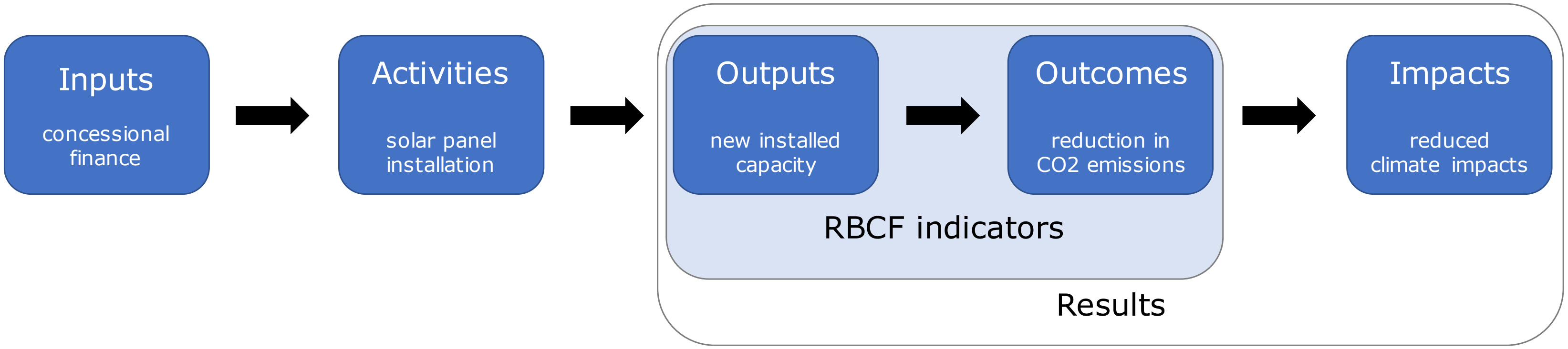
developing nations could required two-thirds of global low-carbon investment

achieving the NDCs of just 21 emerging nations requires annual investment of US$ 1.6 trillion over 2016-2030

Results-based climate finance to facilitate the private sector response to environmental pricing

CLIMATE MARKETS

FACILITATING PRIVATE SECTOR RESPONSE TO ENVIRONMENTAL PRICING	SUPPORTING DOMESTIC POLICY PROCESSES	IMPROVING MRV SYSTEMS	PILOTING MARKET MECHANISMS
e.g. PAF	e.g. Feed-in tariffs	e.g. REDD+	e.g. TCAF



Source: adapted from World Bank & Frankfurt School of Finance and Management, "Results-Based Climate Finance in Practice: Delivering Climate Finance for Low-Carbon Development", (2017).

Climate auctions can facilitate the transition from climate finance to markets, implying transitional reliance on public funds

Climate finance

Optimal concessionality

Compatibility

Efficiency and environmental robustness

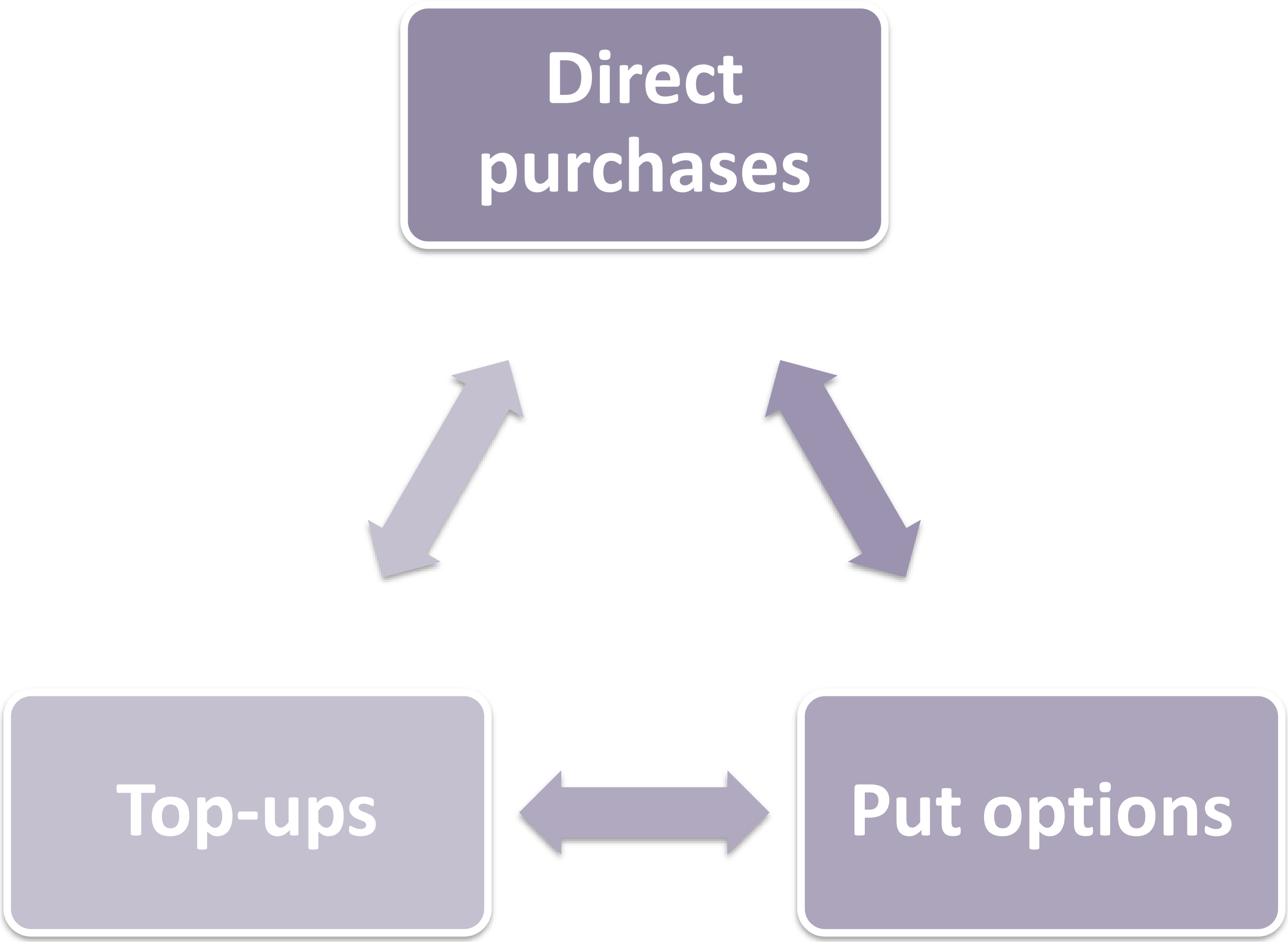
Subsidiarity

Climate markets

domestic climate auctions

- support domestic policy processes
- facilitate private sector response to environmental pricing
- improve MRV systems

Price guarantees designs interact differently with markets and tradability maximises chances of successful delivery



Discussion – how to de-risk investment

- Where have price guarantees and/or results-based climate finance (RBCF) worked for you?
  - Which sector, technology?
- What are different implementation modalities (how prices were determined, whether it was a top up or other form)?
  - How successful were they?
- Was other support (technical assistance etc.) needed to overcome additional barriers?
  - What was the role of it?

Climate auctions can cost-effectively deliver climate outcomes and may be useful in helping countries achieve their NDCs

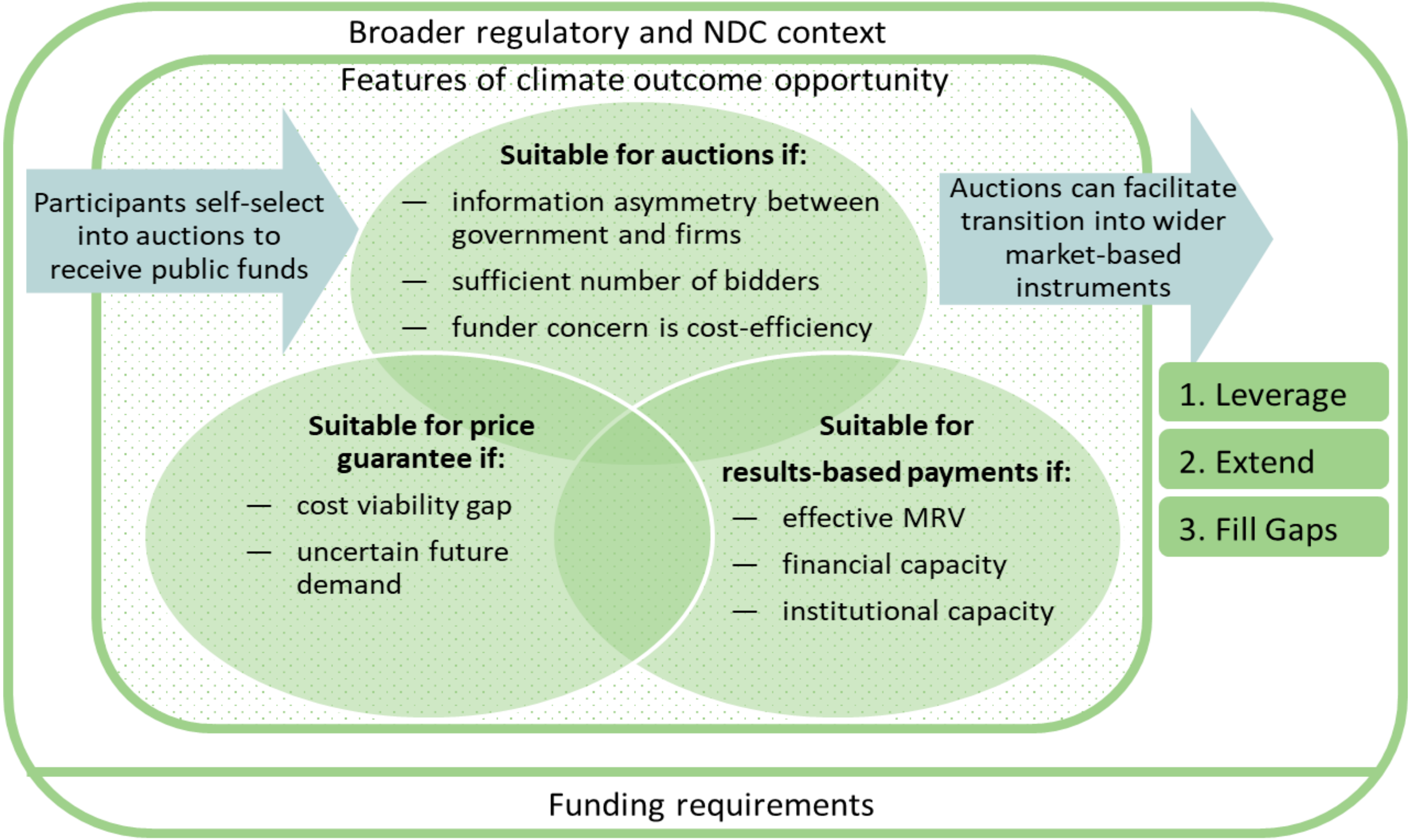
climate auctions consist of **three key elements** (World Bank, 2017)

1. **products** that are sold **are (tradeable) price guarantees for climate outcomes** (e.g. CO_2e reductions, kWh savings, or kWh generated) backed by public funds

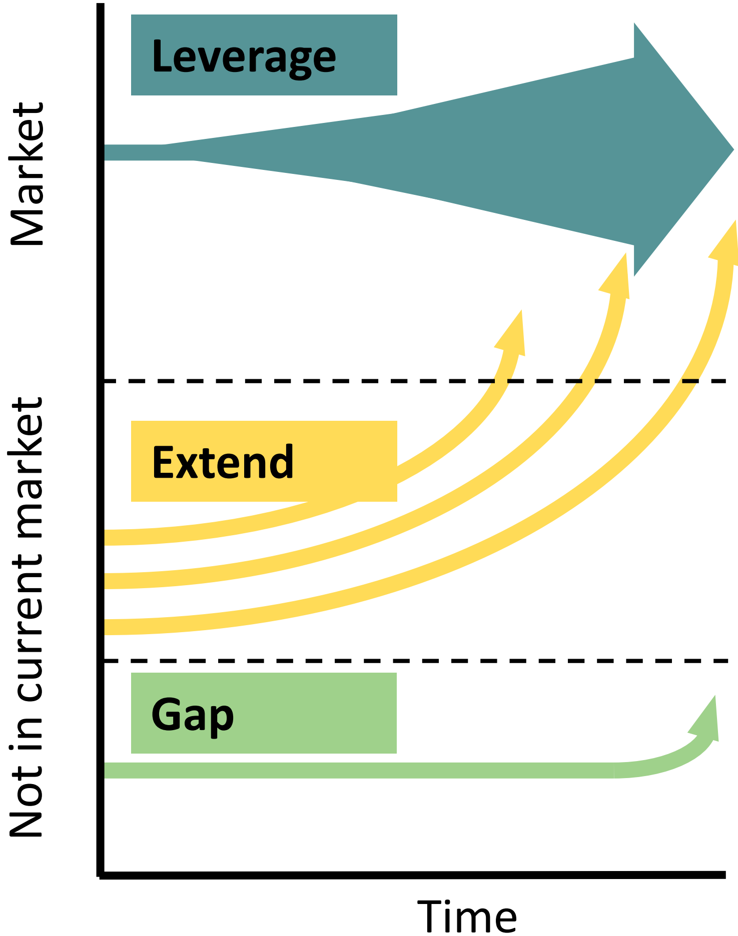
2. **price formation:** the price paid for the guarantee/the guarantee's future price is determined by an **auction format,** whereby bidders compete to own contracts

3. **risk-sharing** is ensured as the owner of the price guarantee can only receive financing upon **third party verification of the climate outcome**

Climate outcomes must satisfy three criteria to be suitable for auctions



Climate auctions can help reach NDC targets through three transition models



leveraging the power of price signals

— to achieve additional climate outcomes from existing market-based instruments, untapped by current prices

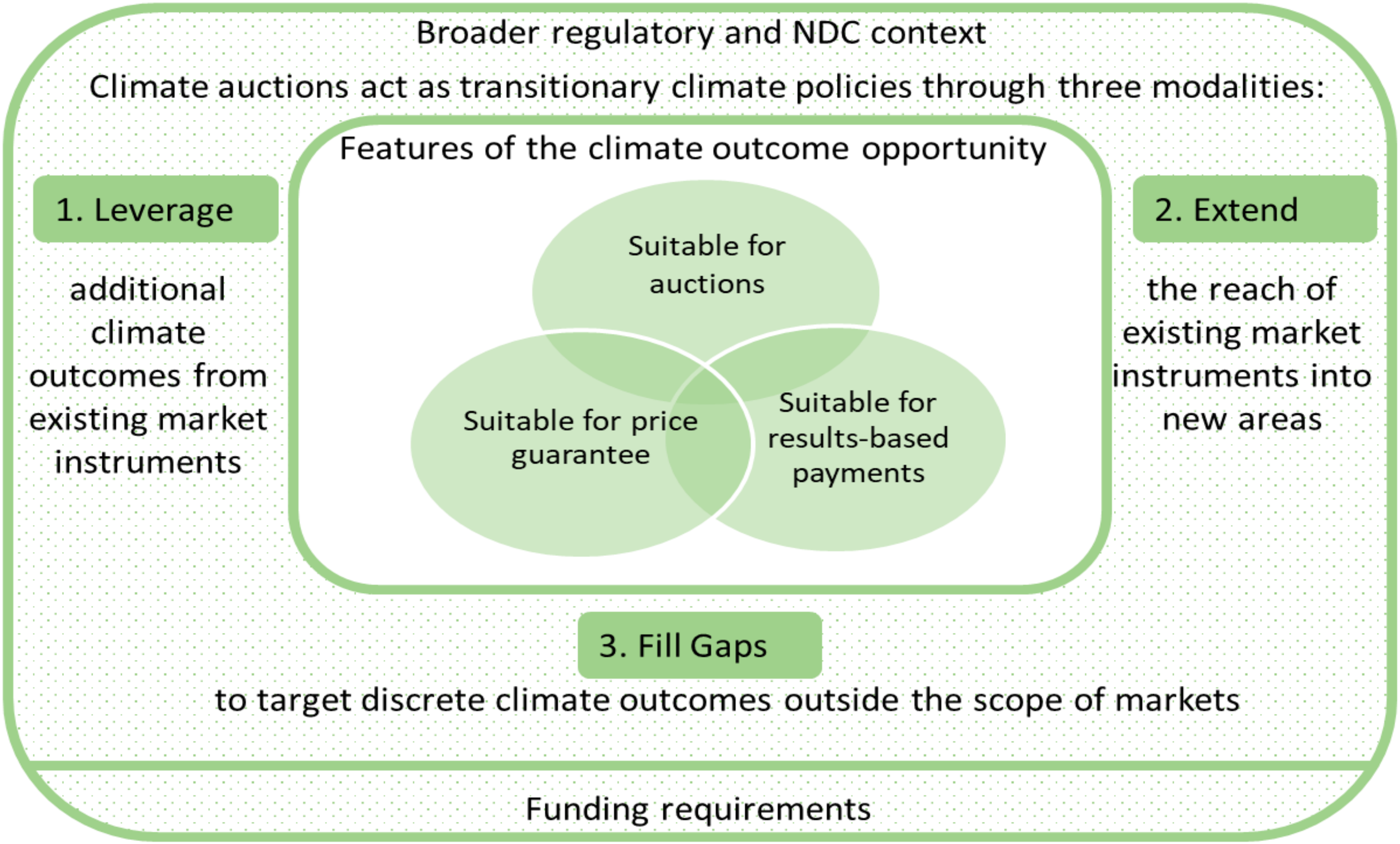
extending the reach of price signals

— to achieve climate outcomes from areas not currently covered by market-based instruments but where there is a near-term expectation that this can change

gap filling to achieve discrete non-market policy objectives

— to deliver climate outcomes identified in NDCs where no market can yet function

Bringing it together – and where climate auctions can be used in the future



Discussion – climate auctions to transition toward carbon pricing

- What has been your experience with similar mechanisms?
- Previous work identified areas where auctions are suitable: what do you think are the sectors and policies in your country where climate auctions could be used?
  - Sectors you want to cover that are not (currently) covered by policy instruments
- How do you feel about using climate auctions to help transition towards carbon pricing instruments?