Climate auctions

Webinar April 2019

:vivideconomics
putting economics to good use

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

Inputs
concessional finance
→
Activities
solar panel installation
→
Outputs
new installed capacity
→
Outcomes
reduction in CO_2 emissions
→
Impacts
reduced climate impacts

RBCF indicators (Outputs, Outcomes)

Results (Outputs, Outcomes, Impacts)

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).

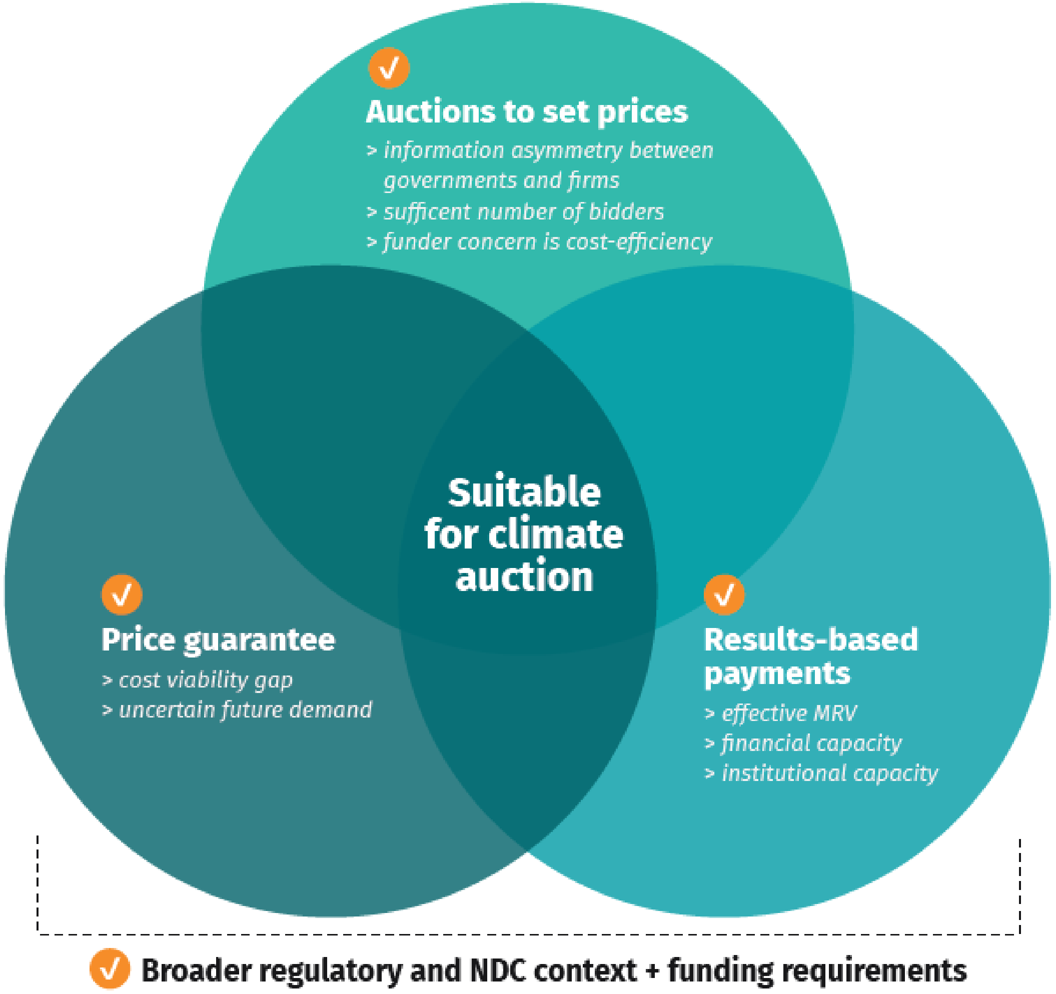
Climate auctions can cost-effectively deliver climate outcomes and may be useful in helping countries achieve their NDCs

climate auctions consist of **three key elements**

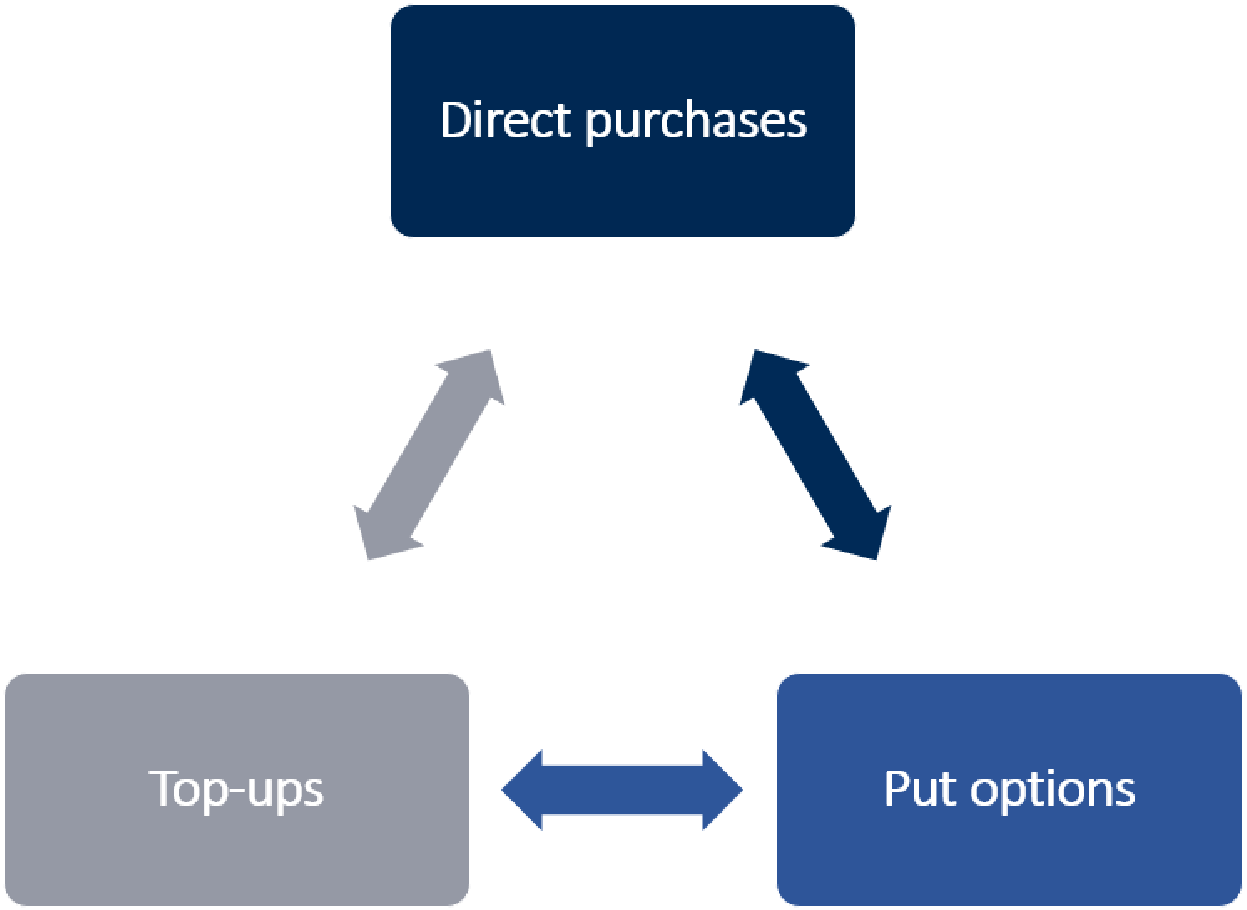
1. **products** that are sold are (tradeable) **price guarantees for climate outcomes** (e.g. CO_2e reductions, kWh savings, or kWh generated) backed by public funds

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

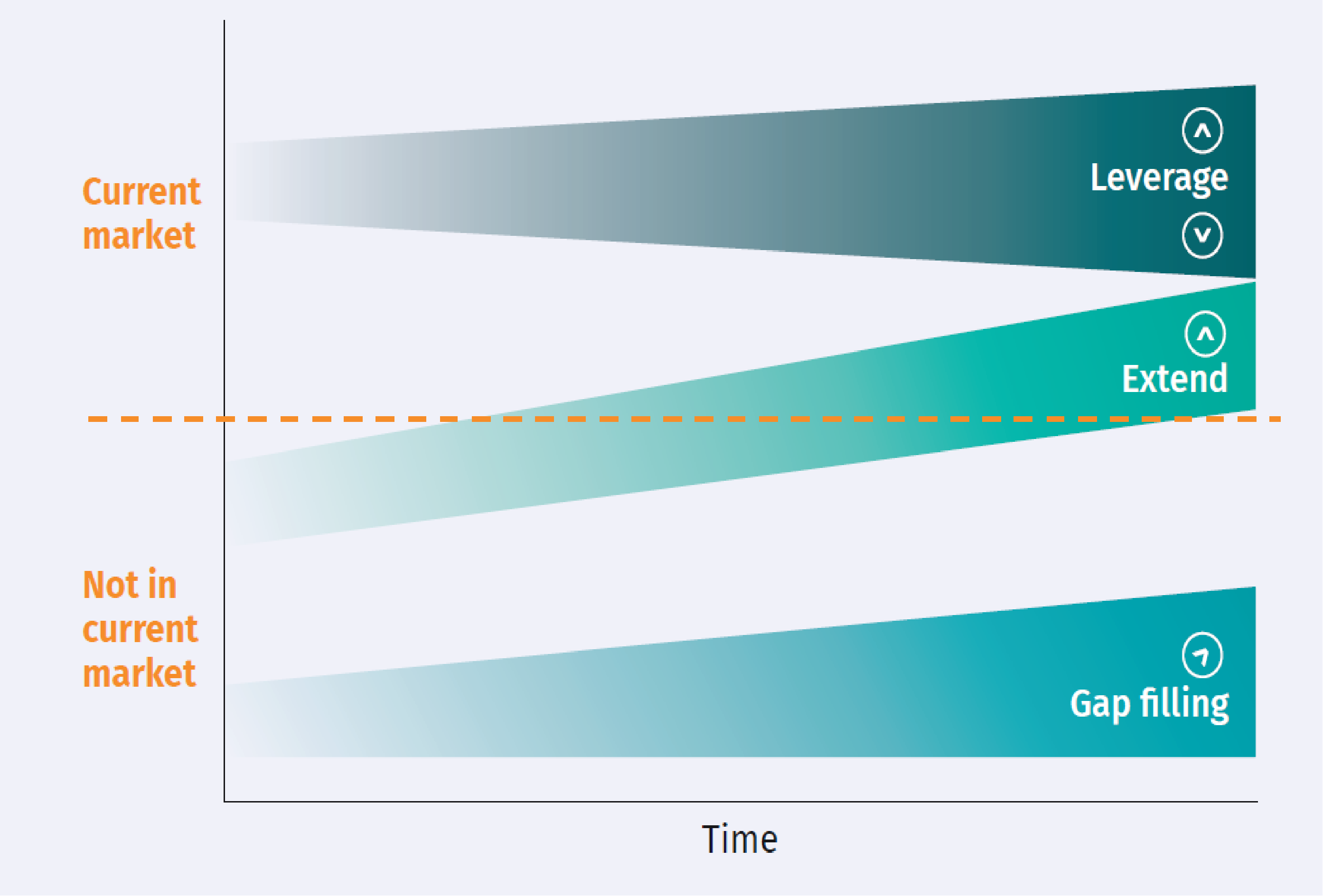
3. **risk-sharing** is ensured as the owner of the price guarantee can only receive financing upon **third party verification of the climate outcome**



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



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

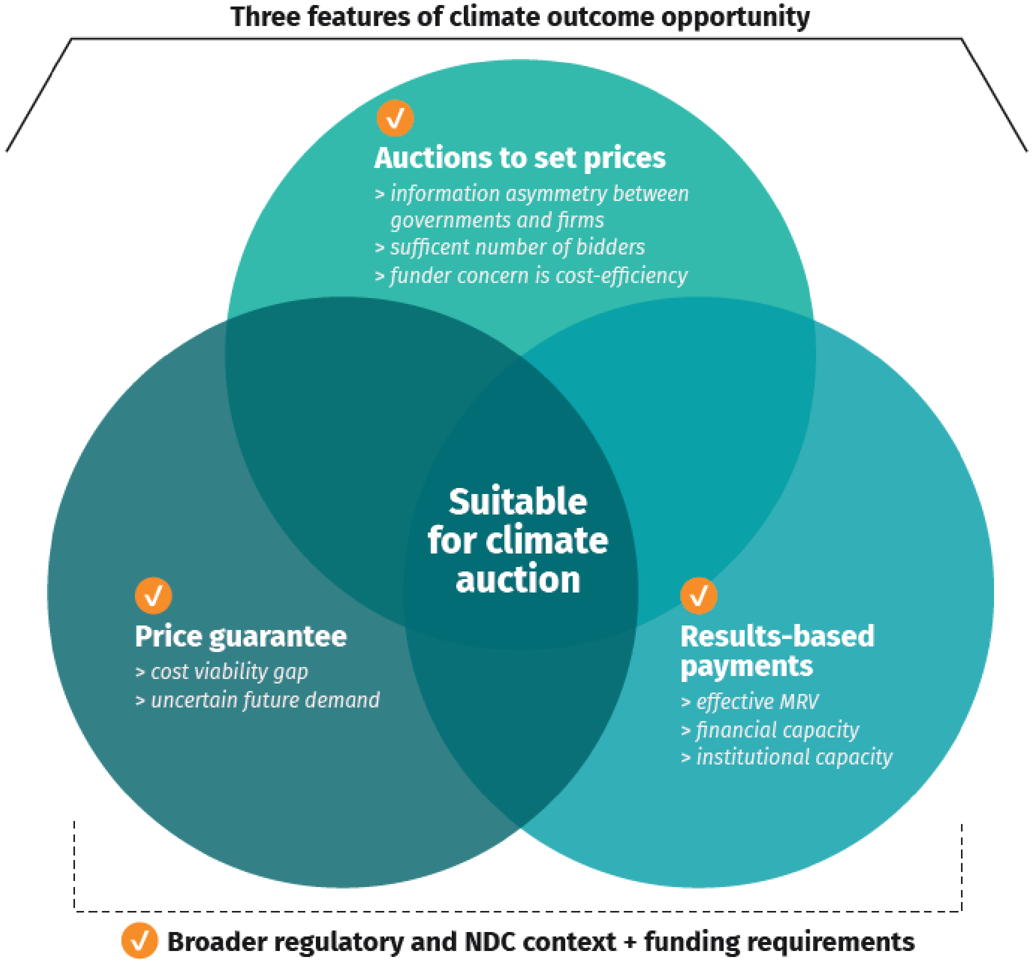
extending the reach of price signals

- 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



Participants self-select into auctions to receive public funds.

Auctions can facilitate transition into wider market-based instruments through three implementation modalities.

1. Leverage
2. Extend
3. Fill gaps

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