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

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\textsubscript{2}e 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

Three features of climate outcome opportunity

- **Auctions to set prices**
  - Information asymmetry between governments and firms
  - Sufficient number of bidders
  - Funder concern is cost-efficiency

- **Price guarantee**
  - Cost viability gap
  - Uncertain future demand

- **Results-based payments**
  - Effective MRV
  - Financial capacity
  - Institutional capacity

- Broader regulatory and NDC context + funding requirements

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