Mobilizing Private Sector Finance

Quantity-Performance Instruments for Public Climate Funds

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Doha 3 December 2012

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Finding the ways that work

$$\max \left(t\ CO_2e \ / \ \$ \right)$$

Fund mechanisms to improve finance effectiveness

Mimic private market functions for public funds

- Direct purchase
  - Possibly using **reverse auction** to maximize funds
  - e.g. Amazon Fund
- Top-up mechanism
  - Akin to price floor for allowances supported by public funds
  - e.g. Prototype Methane Financing Facility
- Tradable put option
  - Project developers buy option for selling allowances

Source: Ghosh, Müller, Pizer, and Wagner (2012) “Quantity-Performance Instruments for Public Climate Funds” working draft

Evaluation criteria

Pluses and minuses differ across stakeholders

- Cost-effective? i.e. max (t $CO2_e$ / \$)?
- Require a carbon market?
- Purchased credits retired or sold in market?
- Who “gets credit”?
- Non-performance addressed?

Pros and cons across mechanisms, put options likely favorite for fund

Source: Ghosh, Müller, Pizer, and Wagner (2012) “Quantity-Performance Instruments for Public Climate Funds” working draft

Funding mechanisms as transition to carbon market

Public funds paid to project developers with high or low expected market prices

	Market > Public price	Market < Public price
Direct purchase	Incentive to dissolve public contract	Payment of full public price
Top-up mechanism	No payout	Difference paid out
Put option	Initial public earnings, no payout	Full public price, minus initial earnings

Put option comes out ahead

Source: Ghosh, Müller, Pizer, and Wagner (2012) “Quantity-Performance Instruments for Public Climate Funds” working draft

Thank You

Arunabha Ghosh, Benito Müller, Billy Pizer and Gernot Wagner's paper, **"Mobilizing the Private Sector: Quantity-Performance Instruments for Public Climate Funds",** can be found at:

http://www.oxfordenergy.org/wpcms/wp-content/uploads/2012/08/Mobilizing-the-Private-Sector.pdf

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