Overcome investment barriers:
Foundation: ‘Future of the Carbon Market’

4th workshop on enhancing the regional distribution of CDM projects in Asia-Pacific, Session 6 C 3: Innovation in Carbon Finance
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I. Introduction

• KfW established the new foundation on behalf of the German Ministry of Environment (BMU) in December 2011.

• The endowment capital of EUR 10 Million was provided by the International Climate Initiative (ICI) of BMU.

• The time-frame of the foundation is set up for at least 10 years.

Objective:

To reduce greenhouse gas emissions in developing countries through targeted promotion of climate protection projects.

Promotion and dispersion of Programmes of Activities (PoAs)
II. Types of Support

Start-up Finance

- The foundation provides start-up finance via upfront payments on carbon credits.

Complementing Activities

- Increasing public awareness of the PoA concept and reducing concerns of investments in PoAs.
- Increasing the capacity of governments in dealing with PoAs and integrating the concept in countries’ climate strategy.
III. Why should PoAs be promoted?

- PoAs can work in sectors untapped by classical CDM and has the potential to be scaled-up to future mechanism.

However, getting financing and equity is difficult:

- Incentives for reducing emissions need to be paid up front in order to start the project.
- PoAs need seed money for the investment and break even point might be reached relatively late.
- There is limited private financing available for the complex needs of PoAs.
- and thus there is a need for public support and funding at an early stage of a PoA.

➔ Here the foundation „Future of the Carbon Market“ steps in.
IV. Investment criteria

1. Focus on small scale emission reductions in underrepresented sectors and PoAs which have a high likelihood of being replicated in other regions or countries.

2. PoAs must be financially viable (including carbon revenues) and should generate more than 25,000 CERs per annum.

3. The coordinating entity must have the necessary expertise and capacity in order to implement an eligible programme successfully.

4. The PoA should already be at an advanced stage (typically registered with UNFCCC).

5. The sector should play a strategic role in the national climate strategy of the host country.
# V. Selection Criteria: Strategic Focus

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<th>Improving regional distribution of PoAs</th>
<th>Cooperation with third parties</th>
<th>Linking the carbon market mechanisms to NAMA</th>
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| • PoAs applying new approaches are particularly eligible  
  • E.g. Standardized baselines, new methodologies including suppressed demand | • Cooperation at organizational level and on individual programs  
  • Possible cooperat.: external funding, joint funding of start-up activities, early purchase of certificates | • Development of national climate change policies in host countries can be linked to PoAs.  
  • PoA methodologies could also be used to cover “broad segments of the economy” |
VI. Pricing strategy

- Current market prices do not provide incentives for mitigation
- Foundation gives long term price guarantee
  - fix price, not market linked
- Price determination:
  - Combination of bottom up and top down pricing structure
  - Project-by-project based: Marginal mitigation costs vs. realistic market value

◮ Regardless of the market situation should the project demonstrate economic viability in the medium term (e.g. LDC, NAMA-component or other economic pillars).
VII. Operation of the Foundation

Example: Energy-efficient household stoves

• Using energy-efficient wood stoves not only conserves wood but saves time and improves the indoor air.

• Subsidies make these improved stoves affordable and incentivize people to buy them.

• Solution: Upfront financing of the emission reductions.

• Foundation provides upfront financing to programme executing agency (EA).

• In return foundation and EA enter into a ER purchase agreement and the Foundation receives the ER from UNFCCC.
VIII. Workplan: Current Status

1. **Star-up Finance for PoA:**
   
   • Start of first application round in February 2013.
   
   • Contracting the first two projects this year.

2. **Complementing Activities:**
   
   • Development of ToR: Transferring the SB Charcoal Production into other African Countries.
   
   • Seeking for an opportunity to fund SB development in Asia-Pacific Region next year.
THANK YOU FOR YOUR ATTENTION

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