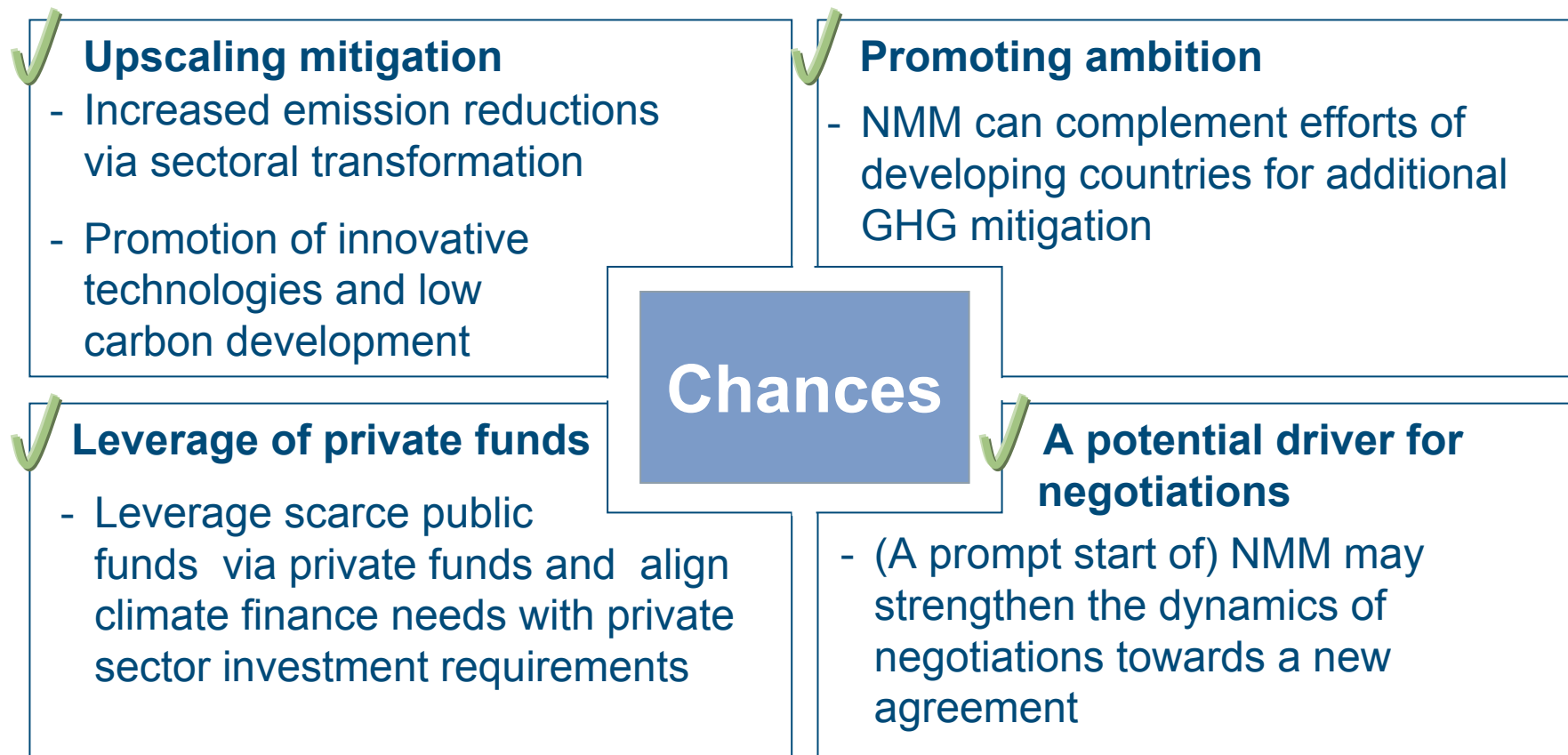


Views on New Market Mechanisms (NMM)

UNFCCC workshop on NMM
Bonn, 19 May 2012

Die Zukunftsförderer



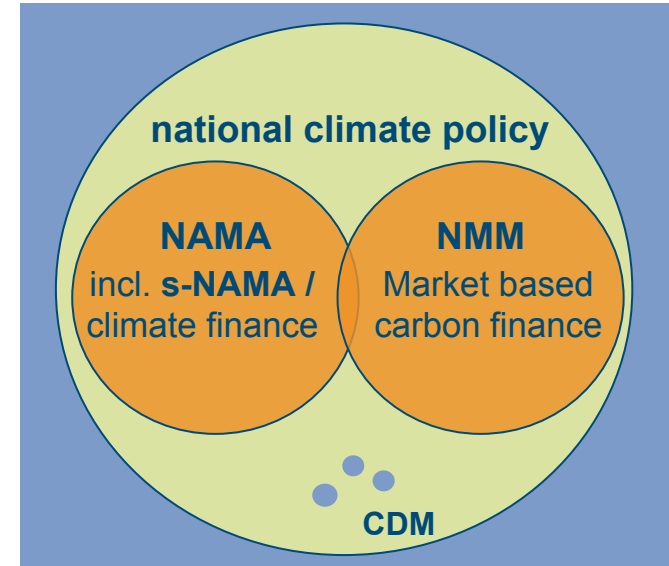


Motivation of KfW & lessons learnt from CDM/JI

KfW and NMM

- Financial cooperation: KfW facilitates climate finance through a series of instruments, especially promotional loans.
- KfW Carbon Fund: Experience in procurement programmes since 2004.

Unique position to promote NMM in synergy with NAMAs and national policies



Key lessons from CDM / JI :

- market mechanisms effectively trigger private sector investments,
- a sustainable price signal needs balance in supply and demand,
- they need to function over prolonged timeframes,
- they require a transparent regulatory framework and predictability in operation,
- risk mitigation instruments important, especially in start-up phase.

Additional action of the host country

- Via ambitious baselines. Ambition as a potential criterion for country / sector priorities.
- Baseline approach is a result of political negotiation & agreements.

Measurability- and Verifiability (MRV)

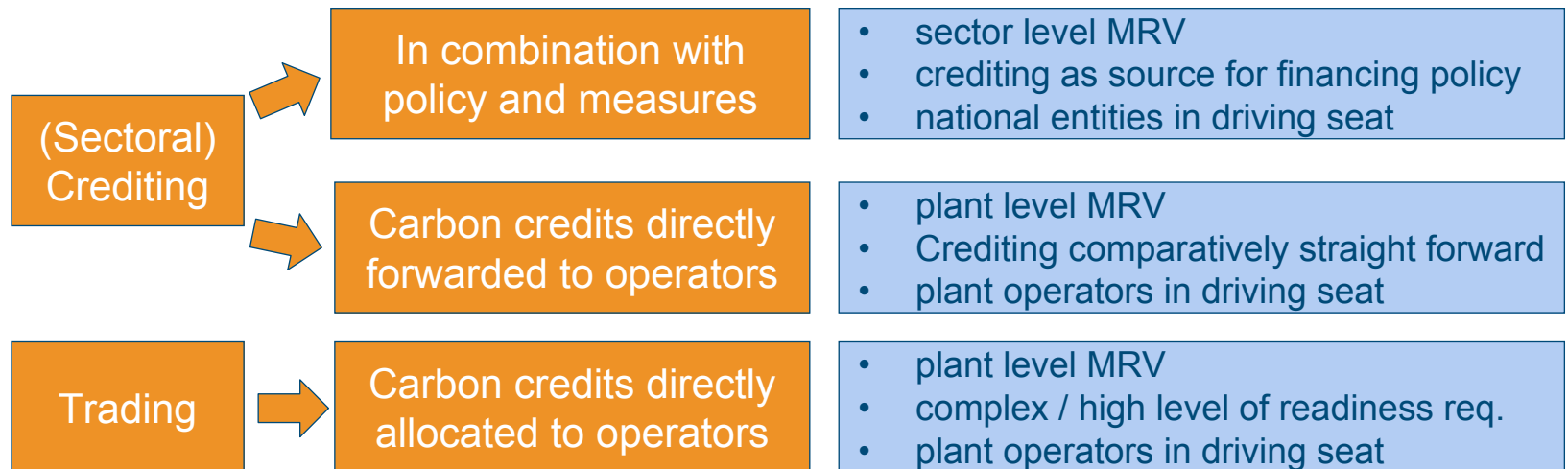
- MRV must be stringent but differs in design according to choice of instruments.
- In-country readiness will impact NMM feasibility.
- NMM requires standardized baselines.

In addition to climate finance / inclusion of private sector

- Role of private sector may vary largely dependent to choice of (policy) instruments.
- Careful definition & time for national setup needed.
- Risk mitigation may be required.

Assumptions on NMMs:

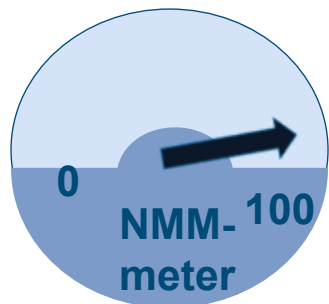
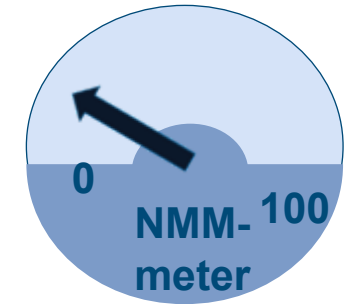
- Broad scope of intervention (“broad segments of the economy”)
- Key actor is host country government
- Financial transfers from developed country entities (purchase of credits, other assistance)
- Instruments: wide range from crediting to trading



List of proposals (desk based scoping)

Country	Sector	Possible Technology	Possible Instrument
Chile	Energy production	Renewable biomass	Green credit lines, guarantees
South Africa	Energy production	No specific technology	Carbon tax / ETS
Mexico	Waste	Landfill gas capture	Green credit lines, carbon fund
Mexico	Energy production	Hydropower	Green credit lines, guarantees
Chile	Buildings	Energy efficient buildings	Building codes, government loans for weatherization
South Africa	Buildings	Efficient appliances and lighting	Appliance standards
Colombia	Energy production	Interconnection of Colombian grid	Project implemented by government
Colombia	Transport	Bus Rapid Transit lines	Projects implemented by government, PoA
China	Energy production	Coal and gas power stations	ETS
China	Buildings	Energy efficient buildings and district heating systems	ETS or EEPS building codes, carbon fund

Need for a prompt start



2011

Definition of NMM & framework

2012

NMM Modalities & Procedures?

...

Large no. of remaining regulatory issues!

...

2015

NMM under
2nd CP / KP?
(concerns on
demand)

...

...

...

...

2020

NMM under
New
Agreement

**Need for first real
case NMMs -
going beyond
readiness!**

Financing:

1. Domestic
2. Climate finance
3. Partial fungibility with other ETS

- Big picture: NMM crucial for financing mitigation!
- Approach needs to be kept attractive for private sector – in spite of higher relevance of public players.
- Current concepts still fuzzy. Definitions e.g. on standards / MRV and instruments need to lift the fog.
- To be kept in mind: „CDM fatigue“ in private sector & certain „readiness fatigue“ in developing countries.
- Urgent need for a prompt start – to keep the momentum and to gather experience.
- While integrity of NMM could be promoted through a slim start and a gradual expansion in scope & rules over time, low perspectives for demand of NMM credits may become a significant roadblock.

KfW Carbon Fund

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Thank you for your attention!