Developing the Carbon Markets: Overview of Phased Approach

**Near Term**
- Voluntary carbon markets
  - Limited number of pilot projects (incl. ‘resource mobilization’ projects)

**Med. Term**
- ODS Climate Facility
  - Donor-led fund to ensure demand and purchase credits
  - Oversight framework to ensure quality and avoid perverse incentives
- Objective is to give market and policy-markers confidence in high quality ODS credits

**Long Term**
- Link to demand from the compliance carbon markets
- Cost of financing ODS climate benefits now fully internalized into ‘capped’ economies
- This phase is only pursued if ODS Climate Facility regarded as successful

**Key Model**
- Voluntary carbon markets
- ODS Climate Facility
- Link to demand from the compliance carbon markets

**Comment**
- Concerns regarding long-term suitability of voluntary markets as a financing source for ODS
  - Quality
  - Price
  - Demand
The voluntary market is unlikely to be able to absorb the supply of ODS credits.

ODS Climate Facility: *Potential Architecture*

Architectural components of ODS Climate Facility addressed in issues paper:
- Possible structural configurations
- Fund’s investment approach
- Oversight framework
- Project types
- Co-financing
- Timing
ODS Climate Facility: Considerations for ExCom

The ODS Climate Facility in a ‘Nutshell’

- A facility to develop and establish the compliance carbon markets as the source of financing for ODS climate benefits. It recognizes that the voluntary carbon markets may not be sufficient.
  - Precedents exist, e.g. UN-REDD; Prototype Carbon Fund (CDM)

For Donors
- It is not an open commitment to fund all future costs of ODS climate benefits
- It is a limited fund to ‘prime the pump’, with the aim that the compliance carbon markets will subsequently finance ODS climate benefit costs
- The fund will cover the climate benefit cost of a defined number of high quality, diverse demonstration carbon projects. Payment from the fund will be incremental-cost based, in the form of the accounting units of carbon credits

For A5 Parties
- It will not require mandatory participation
- It is an optional, non-obligatory, mechanism, similar to the CDM, whereby projects in A5 Parties can freely choose to fund activities through this financial incentive