Baseline and Credit Instruments in Delivering Sustainable Mitigation and Climate Resilient Projects at Scale

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CDM EB 16 May 2016

European Bank
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Agenda

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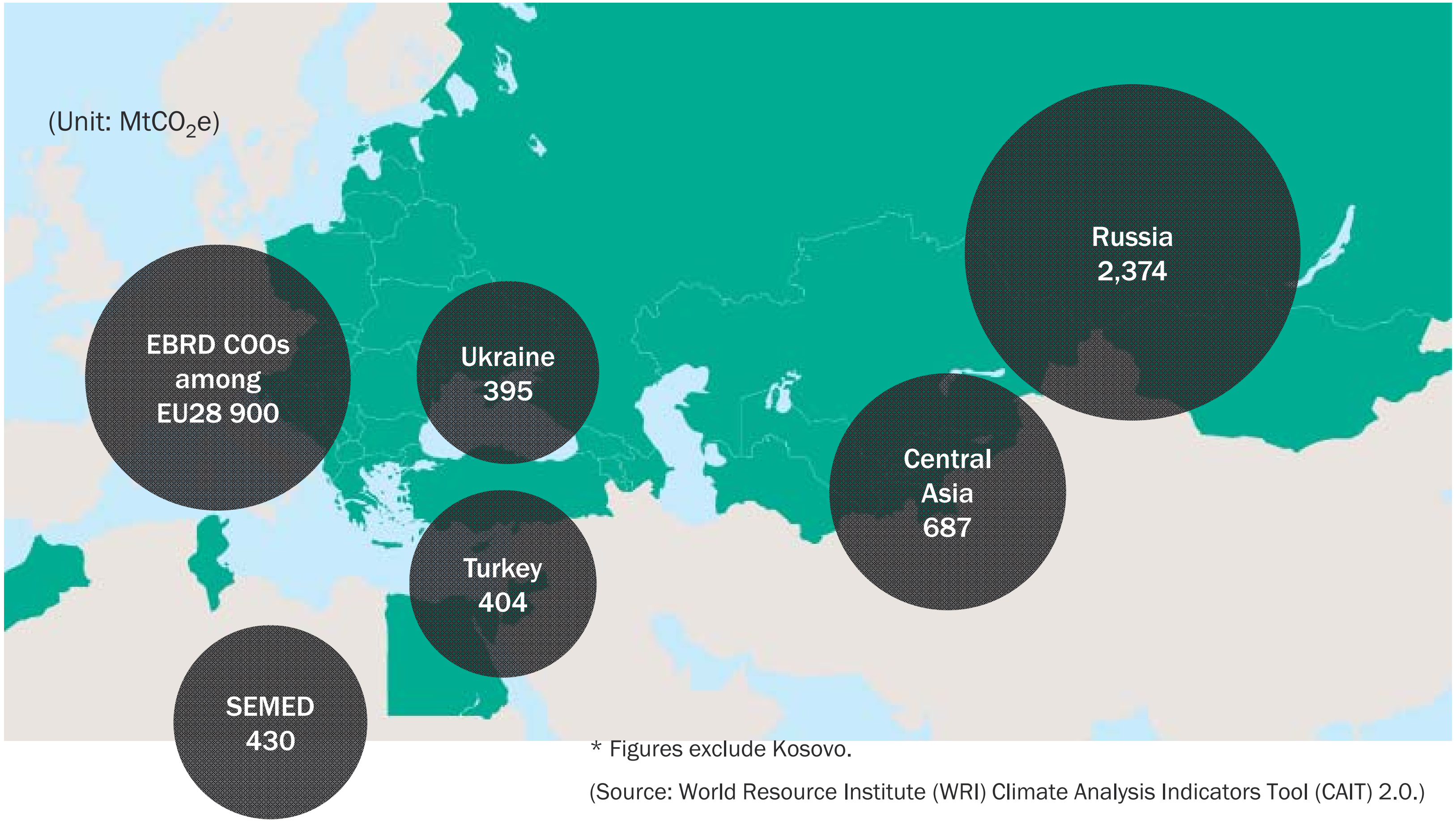
- Introduction to EBRD Region, Green Economy Transition and Climate Finance
- EBRD Carbon Market Development Support and Experience
- Developing and Transacting an Up-scaled CDM-based Carbon Credit Approach in SEMED
- Analysis of Baseline and Credit Instruments in various settings
- Principle Demands for Design Baseline and Credit Instrument

GHG Emissions in the EBRD region

- Global total global greenhouse gas (GHG) emissions in 2011: 43,817 $MtCO_2$ e
- EBRD 35 countries' share: 12.6% (5,503 $MtCO_2e$)*



* Figures exclude Kosovo.

(Source: World Resource Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0.)

Context: Carbon Intensity EBRD Region

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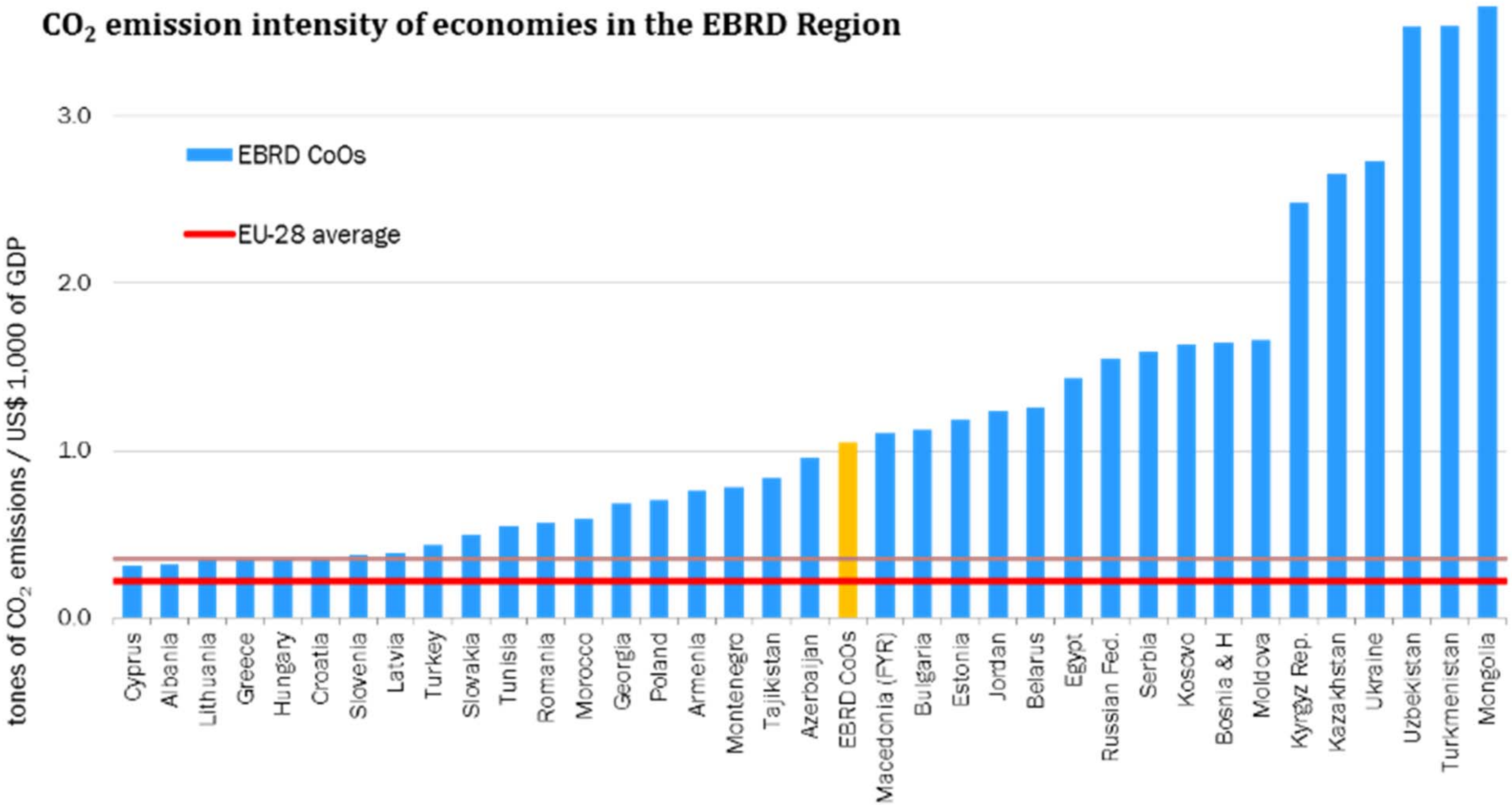
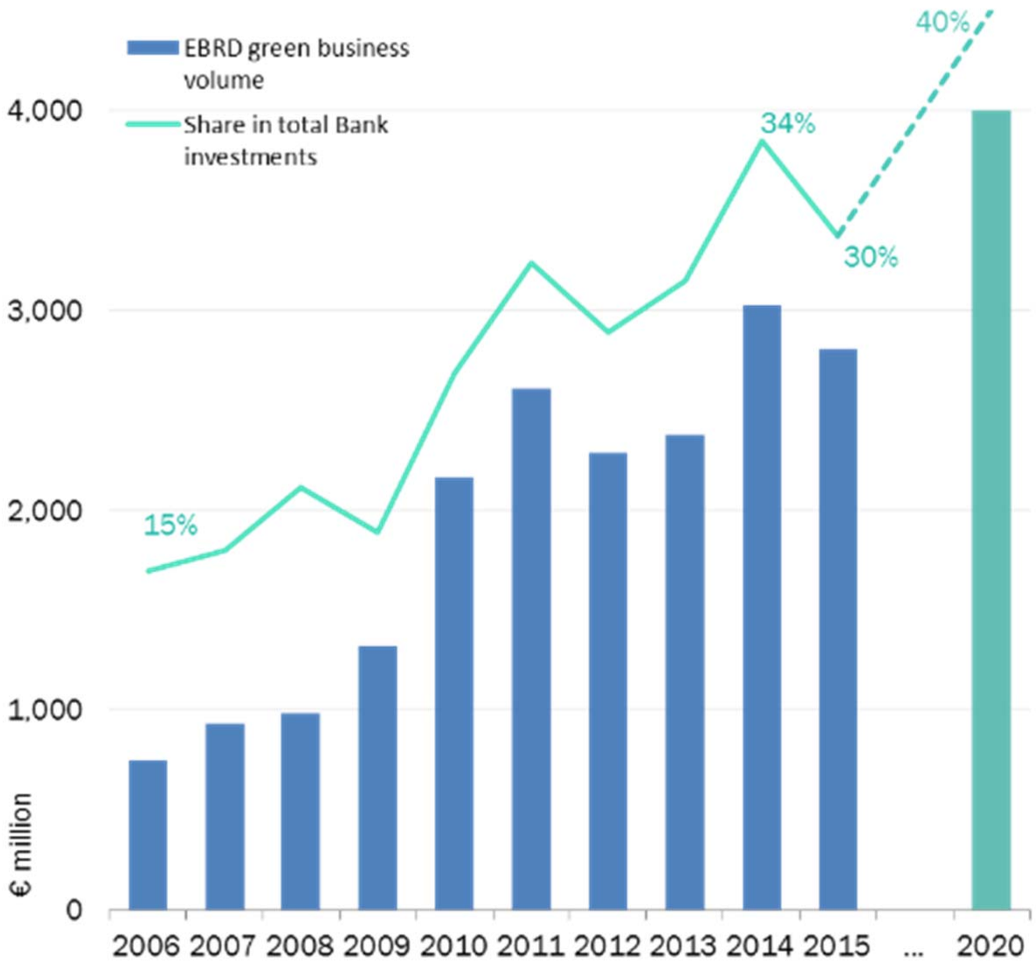


2013 energy-use related CO2 emissions per unit of GDP (2005US$ at market exchange rates) from IEA

Mainstreaming Green Financing: Results

- **€ 19.3 billion** cumulative EBRD green financing in 2006–2015
- **1,080 projects** EBRD-financed projects with green components with €100 billion total value
- **30%** the share of green financing in total EBRD annual business in 2015, up from 15% in 2006.



Mainstreaming Green Financing: GET Aims

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40%

2020 target for the share of green finance in EBRD annual business, from a current level of 30%

€4 billion

Target annual EBRD green business by 2020

€18 billion

Target cumulative EBRD green business 2016-2020

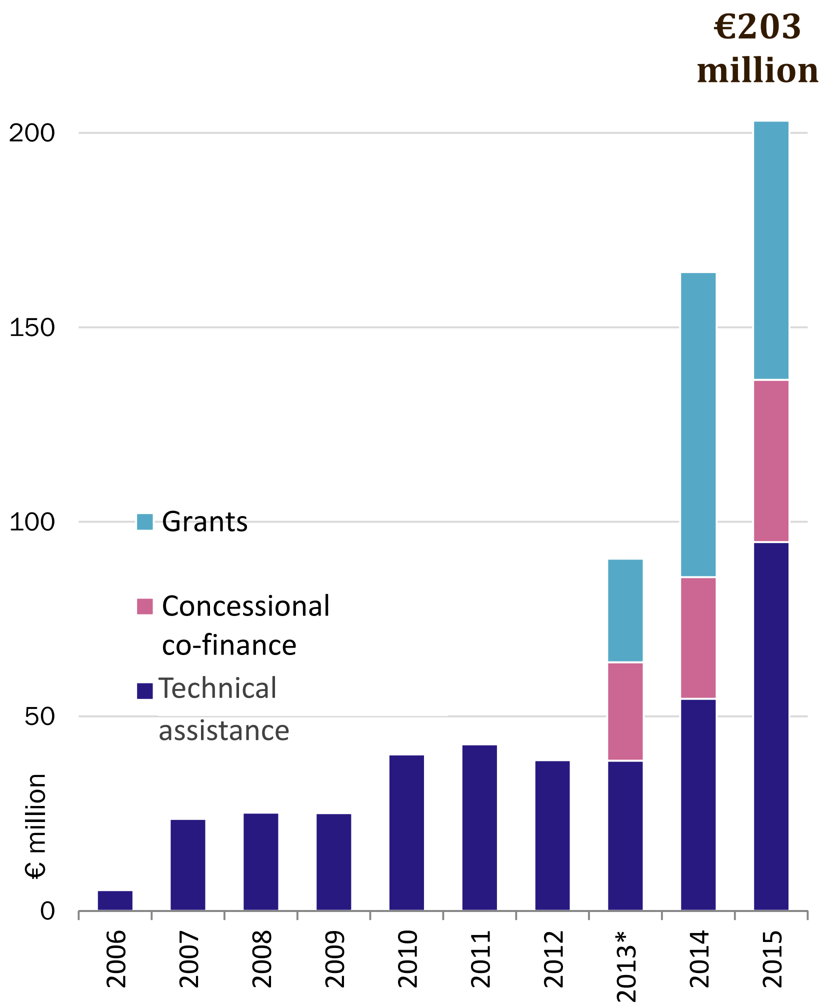
PUBLIC

Mainstreaming Green Financing: Climate Finance and Donor Support

- The EBRD facilitates access to specialised donor resources for:
  - Targeted technical assistance to complement project scoping or implementation
  - Concessional finance to blend with EBRD financing
  - Grant incentives for borrowers

  to help overcome barriers such as affordability constraints, first-mover risks, behavioural and perceived risks, low technology penetration rates

- The EBRD partners with major providers of multilateral concessional climate finance resources.



* Full SRI concessional co-finance and grant data available from 2013 on

EBRD's Support for Carbon Market Development

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•The EBRD encourages its clients to participate in the global carbon market and to monetise carbon credits.

The EBRD provides technical assistance to clients at various stages of carbon market transactions.

The EBRD facilitates policy dialogue and capacity building to create an enabling environment for carbon market development.

Carbon market transaction cycle

Where technical assistance is made

1 **Pre-registration preparation**

Initial project preparation → Project documentation → Validation by a third party (2-3 months) →

2 **Registration**

Carbon market registration (2-3 months) →

3 **Sale of carbon credits**

Project implementation → Monitoring, reporting & verification (1 year) → The Sale of carbon credits

Timing of carbon transaction in the EBRD project cycle

1 **Preparation**

2 **Registration to carbon market**

3 **Sale of carbon credits**

Concept review → Structure review → Final review → Board approval → Signing → Project implementation (commission & construction) → Construction completed → Project repaid

Examples of EBRD Support to Baseline and Credit Instruments

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The EBRD invested and supported over 35 JI, CDM and Voluntary carbon projects in its Region, including Armenia, Bulgaria, Estonia, Jordan, Georgia, Lithuania, Mongolia, Ukraine and Russia.

Examples

Country	**Project / Programme**	**EBRD Financing**	**Carbon Credit Type**	**Support**
Turkey	MIDSEFF – sub-projects (5)	EUR 1.5 billion	Gold Standard, VCS	Carbon Asset and Methodology
Turkey	Bursa Light Rail	EUR 70 million	VCS	Carbon Asset and Methodology
Kazakhstan	Yerementau Wind	EUR 59 million	Domestic Carbon Credit	Carbon Asset Development
Georgia	Enguri	EUR 58 million	CDM	Support to Asset Development and Monetise

Developing and Transacting an Up-scaled CDM-based Carbon Credit Approach in SEMED

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Project on the monetization of greenhouse gas emission reductions for the account of Spain from renewable energy project(s) in the EBRD SEMED, contributing to carbon market development in the region.

Southern and Eastern Mediterranean: Egypt, Jordan, Morocco and Tunisia

Objectives (2016 -2019):

- Develop, implement and purchase carbon credits from a carbon credit **up scaled CDM-based approach in the renewable energy sector** in one or more SEMED countries for the account of Spain.
- To contribute and **support the carbon market development**, by
  - i) reviewing the carbon market options , including domestic use of carbon credits
  - ii) developing of local capacity, in particular in the area of MRV and
  - iii) in the management of large emission reduction programmes/mechanisms.
- **To contribute to the further definition of scaled up carbon market instruments**, using the CDM experience, and taking into account carbon market developments (Paris Agreement Article 6, PoA CDM, EU neighbourhood policy and possibly ICAO).

CDM, a Baseline and Credit Instrument, Informs Transformation, Scale and Ambition in Various Settings

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MARKET	Baseline and Credit Instruments					Examples of USERS		
	Illustrative Functionalities					Domestic / International		
Value Driver Instrument for Carbon Credits / GHG Emission Reduction Results	Methodology (System Boundaries)	(Standardised) Baseline / Benchmarks	MR-V	Project / Carbon Credit Registry / Accounting	Tradable	State	Private Business / Consumers	Multilateral Climate Funding
Compliance (e.g. ETS, or national obligations)	Needed	Needed	MRV	Needed	Yes	EU – MS	EU ETS, Kazakhstan and South Korea	Purchase for States and Private parties
Carbon price underwriting	Implicit	Implicit	MRV	Implicit	Potential	Floor price (?)	Depends on maturity market	E.g. EBRD Green Investment Scheme in Slovakia, WB Pilot Auctioning Facility
Carbon credit retirement for carbon tax relief	Implicit	Implicit	MR / V	Implicit	Potential	S-Africa (developing)	Tax deductible gifts (?)	
Result based payment	Derived	Derived	MR / V	Potential / Retire	Unlikely	Donors	(?)	
Climate finance grants related to ex-ante potential	Derived	Derived	MR / V	Unlikely	No	Donors	(?)	E.g. EBRD Western Balkan Facility
Climate finance results reporting	Derived	Derived	Ex-ante	Unlikely	No	Donors	(?)	Growing experience with climate funds
Green bonds (results reporting)	Derived	Derived	Ex-ante	Unlikely	Yes	(?)	Institutional investors	Issuers
Tradable aspect (e.g. green certificate)	Similar	Similar	MRV	Needed	Yes	RES – Directive EU	Green Power in EU	

Impact on Climate Finance / Impact Reporting

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•The CDM mechanism has been used as important starting point in developing the joint-MDB approach for tracking climate finance, in particular:

- Typology list for Climate mitigation activities is developed with large- and small scale CDM methodologies as important reference

At the moment, CDM has becomes more relevant for tracking the impacts of Climate Finance:

- UNFCCC is a key member in the IFI working group for GHG accounting
- IFI working group is using CDM methodologies as a reference
- IFI working group has adopted the Standardized Baseline approach of the UNFCCC

CDM projects are generally the projects with the most robust (as externally verified) emission reduction data and are essential reference points for MDBs in ex-post evaluations of emission reduction results.

Note, connecting climate finance and its impacts has become very relevant, e.g. MDBs starting to report on Green Bonds impacts.

Example Carbon Price Underwriting
MCCF – GIS SLOVAKIA

Carbon reduction compensation = CO_2e emissions avoided per year (in tonnes) * €20 * 3 years * 0.943*

(minimum 5% of disbursed loan, maximum 20% of disbursed loan)

(*) rounded figure corresponding to a discount rate of 3% over 3 years

Projects covered by the EU ETS may also be eligible to receive a CRC provided that an equivalent amount of EU allowances (EUAs) is cancelled at the benchmark market price in respect of which the CRC is paid, to avoid double-counting of emission reductions.

The CRC calculation for ETS covered may be different.

Principle Demands for Design Baseline and Credit Instrument (BCI)

In the context of the Paris Agreement (NDCs) and Sustainable Development Goals a JI/CDM successor to help to:

- **Valorise and Monetise** GHG emission reductions
- Generate **robust emission reductions**, possible trading-off a volume discount for decision speed
- A diligent consideration of **climate resilience**, ensuring long-term sustainability
- Promote **scaling-up** by including project sponsors by emphasising climate actions, rather than controlling additionality.
- **Standardise** on key functionalities, such a Methodologies, Baselines and Registries,
- Encourage uptake of **carbon pricing schemes** (tax / ETS) that operate at lower transaction costs, by being a basis for **Early Action reward**
- Be a visible step towards a project sponsor's **carbon neutral operations** plan by [2050].

Note: **A BCI will not be a financing instrument for mitigation projects as such**. Particular to deliver mitigation at scale, whilst rebooting the carbon market, concessional funding will remain necessary, until hedging instruments in the trading market can take over. But at the moment, such advanced market conditions do not exist!

Thank you!

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