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

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Agenda

• 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$_2$e)**

* Figures exclude Kosovo.

(Units: MtCO$_2$e)

(Source: World Resource Institute (WRI) Climate Analysis Indicators Tool (CAIT) 2.0.)
Context: Carbon Intensity EBRD Region

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

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
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

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

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)
   - Project implementation
   - Monitoring, reporting & verification (1 year)

3. **Sale of carbon credits**
   - The Sale of carbon credits

Timing of carbon transaction in the EBRD project cycle

1. **Preparation**
   - Concept review
   - Structure review
   - Final review
   - Board approval
   - Signing

2. **Registration to carbon market**
   - Project implementation (commission & construction)
   - Construction completed

3. **Sale of carbon credits**
   - Project repaid
### Examples of EBRD Support to Baseline and Credit Instruments

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Project / Programme</th>
<th>EBRD Financing</th>
<th>Carbon Credit Type</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>MIDSEFF – sub-projects (5)</td>
<td>EUR 1.5 billion</td>
<td>Gold Standard, VCS</td>
<td>Carbon Asset and Methodology</td>
</tr>
<tr>
<td>Turkey</td>
<td>Bursa Light Rail</td>
<td>EUR 70 million</td>
<td>VCS</td>
<td>Carbon Asset and Methodology</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Yerementau Wind</td>
<td>EUR 59 million</td>
<td>Domestic Carbon Credit</td>
<td>Carbon Asset Development</td>
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<tr>
<td>Georgia</td>
<td>Enguri</td>
<td>EUR 58 million</td>
<td>CDM</td>
<td>Support to Asset Development and Monetise</td>
</tr>
</tbody>
</table>
Developing and Transacting an Up-scaled CDM-based Carbon Credit Approach in SEMED

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).
### MARKET

<table>
<thead>
<tr>
<th>Value Driver Instrument for Carbon Credits / GHG Emission Reduction Results</th>
<th>Illustrative Functionalities</th>
<th>Examples of USERS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance (e.g. ETS, or national obligations)</strong></td>
<td>Needed</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Carbon price underwriting</strong></td>
<td>Implicit</td>
<td>Implicit</td>
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<tr>
<td><strong>Carbon credit retirement for carbon tax relief</strong></td>
<td>Implicit</td>
<td>Implicit</td>
</tr>
<tr>
<td><strong>Result based payment</strong></td>
<td>Derived</td>
<td>Derived</td>
</tr>
<tr>
<td><strong>Climate finance grants related to ex-ante potential</strong></td>
<td>Derived</td>
<td>Derived</td>
</tr>
<tr>
<td><strong>Climate finance results reporting</strong></td>
<td>Derived</td>
<td>Derived</td>
</tr>
<tr>
<td><strong>Green bonds (results reporting)</strong></td>
<td>Derived</td>
<td>Derived</td>
</tr>
<tr>
<td>** Tradable aspect (e.g. green certificate)**</td>
<td>Similar</td>
<td>Similar</td>
</tr>
</tbody>
</table>

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

**Methodology (Standardised Baseline / Benchmarks)**

**MRV**

**Project / Carbon Credit Registry / Accounting**

**Tradable**

**State**

**Private Business / Consumers**

**Multilateral Climate Funding**
Impact on Climate Finance / Impact Reporting

• The CDM mechanism has been used as an 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 become 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.
Carbon reduction compensation = CO$_2$e 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 projects 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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