The role of carbon pricing mechanisms in financing a sustainable transition to a low-carbon society

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Carbon Pricing for Climate Finance: Funds, Use, Channels, Structure and Manage
Example – Slovakia - SlovSEFF
EBRD green financing results 2006 – 11/2017:

FINANCED
1,414 projects and credit lines
1,000+ directly financed projects with green components, and
300 credit lines to locals financial institutions for on-lending to smaller projects

SIGNED
€24.9 billion of green financing
For projects with a total value of €145 billion signed in 2006-YTD 2017
In 2014-2016 green financing represented a third of EBRD’s total business, up from only 15% in 2006

REDUCED
88 million tonnes of CO₂/year
Emission reductions more than annual energy emissions of Romania
+annual water savings of 200 million m³ since 2013 equal to more than a third of annual water use in London
Carbon pricing in the EBRD region

ETS launch 1 Jan 2018

Established ETS

PMR

PUBLIC
EBRD Carbon Market – Current Activities

Integrated Carbon Programmes

Combining policy dialogue with carbon transactions and investments in programmatic approaches in Slovakia, Southern Europe and Mediterranean region, Egypt, Kazakhstan and Turkey.

Contribute to carbon market policies and standards

• Seek to reduce carbon market transaction costs, e.g. by automated monitoring, reporting, and verification (MRV)

• New methodology development for geothermal projects in Turkey

Support to financial sector

• Astana International Financial Centre

• Turkey: carbon market services for banks under the Bank’s MIDSEFF carbon market programme
Carbon Pricing: a source of funds for climate finance (and can encourage in turn the uptake of carbon pricing)

Example of carbon price funding sources:

- **International**:  
  - Carbon trading: e.g. KP AAU trades leading to Green Investment Schemes  
  - Share of proceeds via international body – JI / CDM proceeds of USD 198 million for the Adaptation Fund.

- **Country – level**:  
  - ETS auctioning proceeds, e.g. funding national climate funds  
  - Carbon taxation  
  - Auctioning of allowances and use for funds, e.g. Phase IV EU ETS Modernisation Fund: est. €4 - 5.5 billion and Innovation Fund: est €5.3 - 8 billion (under approval)

- **Corporate**:  
  - Self-levy

In return, climate finance can help to path the way for the development of new carbon markets, such as the GCF USD 110 million sponsored EBRD renewable energy facility in Kazakhstan.
Use of Carbon Pricing Proceeds for Climate Purposes

Mitigation

• Under carbon price regime: accelerate growth low carbon technology uptake, ensure integrity of the carbon pricing (e.g. under ETS, EUAs to be cancelled equivalent to the result of the concessionality provided)
• Outside carbon price regime: accelerate uptake and mitigate energy cost increase impact by energy efficiency

Adaptation – embedding of climate resilience

Other use, such as social-economic policy to sponsor the low carbon transition (e.g. training, re-skilling and gender action)
Using carbon proceeds to leverage climate finance

Examples of channels for the allocation of carbon price proceeds

- Generic tax / subsidy measures (e.g. tax liability reduction upon surrendering carbon credit, rebate on high efficiency labels, etc)
- Swap like structures, like EU ETS Transitional free allocation (in 10 countries): estimated €7.7 - 11.8 billion
- Tendering / Call for Proposals, e.g. contract for difference in renewable energy auctions
- Invest in global climate funds, such as GCF, GEF and CTF or fund new carbon funds that seek to raise ambition, allocation in line with such funds’ rules and procedures.
- Contribution to IGOs / MDBs or national “Green Banks”
How to structure to ensure result and impact?

Ensure adequate funding and resources for policy, legislative and regulatory reform, as this is key to long term sustainability.

Seek the best support instruments and channels (e.g. grants, guarantees, concessional co-financing, or commercial financing) depending on the key barriers to be mitigated.

Ensure technical assistance to facilitate uptake, good structuring and MRV of results.

Structure to avoid negative impacts: i) double benefiting, ii) crowding out private sector, iii) lacking exit strategy, iv) low leverage, and v) funding uncertainty / interference.
Example: SlovSEFF structure

Currently €85 M total committed to local banks

Expected reduction of 68,000 tons CO$_2$/a (upon completion)

A total budget of up to €10 million for incentive payments and TA.

Budget funded in part by sale of AAUs

Expected leverage factor of AAU proceeds of over 10!
SlovSEFF incentive payments

- Upon successful completion of renewable energy and industrial energy efficiency projects, borrowers are eligible for incentive payment or carbon reduction compensation.
- The payment is based on a €20/tonne carbon price and 3% discount rate over the crediting period.
- Incentive payment minimum 5% of disbursed loan, maximum 20% of disbursed loan.

Incentive payment = annual reduction CO₂e (tonnes) x €20/t x 3 years x 0.943

Example: energy efficiency in SME
Loan amount: €348,000
Avoided tCO₂/yr: 569
Incentive payment = 569 x 3 x 20 x 0.943 = €32,190
(Incentive payment is 9.25% of loan amount)