

# Multilateral Carbon Credit Fund

A joint EBRD and EIB climate change initiative



April 2010

In cooperation with:



The European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) established the Multilateral Carbon Credit Fund (MCCF) as a key instrument in their strategy for combating climate change. Fully subscribed, with €208.5 million in commitments, the MCCF is one of the few carbon funds dedicated specifically to countries from Central Europe to Central Asia.

## Project types

- ▶ Energy efficiency in industry (co-generation) and larger projects in the residential sector (double glazing, insulation).
- ▶ Renewable energy such as wind, hydro, biogas (from land-fills/waste water) and biomass.
- ▶ Avoidance of venting/flaring from gas exploration, transport and distribution and petro-chemical plants.
- ▶ Fuel-switching from carbon intensive (coal, mazut, oil shale) to lesser carbon intensive fuels such as natural gas.
- ▶ Sequestration of greenhouse gases (forestry).

## Purpose

By joining the MCCF, private and public companies as well as EBRD and EIB shareholder countries can purchase carbon credits from emission reduction projects financed by EIB or EBRD to meet their mandatory or voluntary greenhouse gas (GHG) emission reduction targets.

In addition to the project credits, countries can also participate via the MCCF in green investment schemes. This is an innovative way to facilitate government-to-government trade in carbon credits, whereby the selling country uses the revenue from the sale of carbon credits to support investments in climate-friendly projects.

By selling carbon credits to carbon funds, such as the MCCF, the investor increases the financial return on a project. For example, renewable energy projects (e.g. wind, hydro and biomass) are able to boost their internal rate of returns by 1-7 per cent. There are also projects such as landfill gas collection and flaring projects at large waste management sites that can be financed almost completely from the sales of carbon credits.

## Carbon credit potential of countries in transition

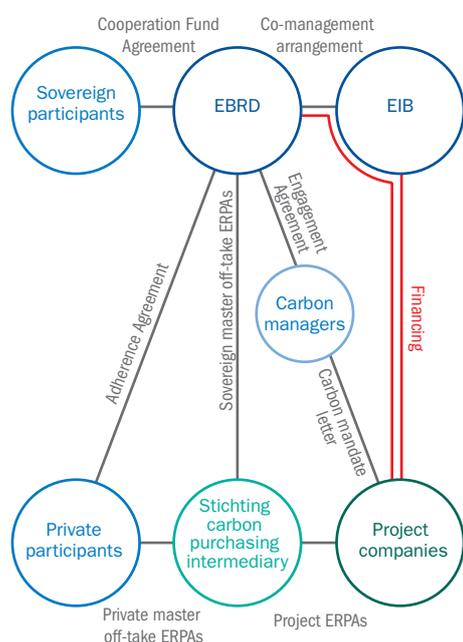
The region covered by the MCCF currently contributes around 13 per cent of global carbon emissions, yet it generates just 3 per cent of global carbon credits. The countries in transition have a high potential for generating carbon credits because high carbon and energy intensity industries create significant opportunities for low-cost emission reductions. The marginal cost of achieving an emission reduction unit in such countries is low relative to western countries whose economies are much more energy efficient and generally less carbon intensive.

In addition, certain countries will be below their Kyoto targets as economic contraction has resulted in a sharp drop in emissions since the Kyoto Protocol's base year (e.g. 1990 for the Russia and Ukraine). These countries are therefore likely to be sellers of Assigned Amount Units (AAUs) through Green Investment Schemes.

Carbon credits from projects in the following countries may be purchased by the MCCF:

Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Russia, Kazakhstan, Serbia, Kyrgyz Republic, Latvia, Lithuania, FYR Macedonia, Moldova, Mongolia, Montenegro, Poland, Romania, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

## MCCF: Outline of Contractual Framework



## Participants

The MCCF includes both private and public sector participants through two distinct windows:

- ▶ The sovereign window, being sovereign shareholders in the EBRD or EIB;
- ▶ The private window, which is open to private and public companies that require carbon credits for compliance reasons or that participate in voluntary schemes.

Six countries and five companies have provided initial commitments totalling €208.5 million:

- ▶ **Sovereign participants:** Finland, Belgium (Flanders), Ireland, Luxembourg, Spain and Sweden.
- ▶ **Private participants:** Zeroemissions (Spain), CEZ (Czech Republic), Endesa (Spain), Gas Natural (Spain) and PPC (Greece).

## How the MCCF works

The MCCF combines the strengths of the private sector, in particular its technical know-how and commercial drive, with those of the two major international financial institutions, which bring expertise in investment appraisal and risk mitigation.

For project-based carbon credits the MCCF was developed from the outset using an intermediate structure involving three independent, private sector companies (the “carbon managers”). These carbon managers, each covering a specific region, develop, negotiate, sign and monitor carbon credit transactions. The carbon managers work under the supervision of the MCCF Secretariat, a team of dedicated staff from the EBRD and EIB.

The carbon managers have appointed Fortis Intertrust Netherlands as service provider for the fund. Fortis will take care of putting in place an operational contracting structure, including amongst others the Stichting CPI (Carbon Purchasing Intermediary). Whilst the carbon managers negotiate the Emission Reduction Purchase Agreements with the selling project

companies, the actual contracting will be done by the Stichting CPI with the selling project companies, under back-to-back off-take agreements with the MCCF Participants (with or without the intermediation of EBRD, depending on whether or not the Participant is a Sovereign).

Participants have the opportunity to approve, and decide whether to participate in, each carbon credit transaction submitted to them by the MCCF Secretariat. Project-based carbon credits are allocated amongst participants pro rata to their contributions.

## Green Investment Schemes

The MCCF is in a unique position to help facilitate and structure the government-to-government trade in Assigned Amount Units (AAUs) under Article 17 of the Kyoto Protocol. Under such Green Investment Schemes (“GIS”), the selling country uses the revenue from the sale of AAUs to support investments in climate-friendly projects. The Green Fund of the MCCF has received €58.5 million in commitments from Sovereign participants (so far Ireland and Spain).

In respect of GIS the MCCF Secretariat fulfils a facilitating role in both bringing together selling and buying countries, and in defining the greening programme, herein also co-operating with the EBRD and EIB banking departments. The MCCF Secretariat staff members are EBRD and EIB employees.

## MCCF Secretariat contacts

Developers and owners of greenhouse gas emission reduction projects, including sovereign entities, who are interested in bringing their projects forward for financing and carbon credit sales, are invited to contact the MCCF Secretariat.

## MCCF areas and carbon managers

### West Zone

Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia;

Carbon manager: Haskoning, [cmwest@ebrd.com](mailto:cmwest@ebrd.com)

### North-East Zone

Belarus, Kazakhstan, Russia, Ukraine; Carbon manager:

Greenstream Network, [cmnortheast@ebrd.com](mailto:cmnortheast@ebrd.com)

### South-East Zone

Albania, Armenia, Azerbaijan, Bosnia Herzegovina, FYR Macedonia, Georgia, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Serbia, Tajikistan, Turkmenistan, Uzbekistan.

Carbon manager: ICF International, [cmsoutheast@ebrd.com](mailto:cmsoutheast@ebrd.com)

## EBRD contacts

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