



## The EIB and Carbon Finance

### Glossary of Carbon Finance Terms

**Additionality:** principle that carbon credits should only be issued for projects that would not have happened without the financial incentive of carbon credits

**Afforestation:** The process of establishing and growing forests on bare or cultivated land, which has not been forested in recent history.

**Annex 1 country:** A country listed in Annex I of the United Nations Framework Convention on Climate Change (for the entire list of countries see:

[http://unfccc.int/essential\\_background/convention/background/items/1346.php](http://unfccc.int/essential_background/convention/background/items/1346.php)), virtually the same list as Annex B projects under the Kyoto Protocol, being countries that have adopted emissions targets (Belarus and Turkey are the only exceptions).

**Assigned Amount:** The quantity of greenhouse gases that an Annex I country can release in accordance with the Kyoto Protocol, during the first commitment period of that protocol (2008-12).

**Baseline:** The emission of greenhouse gases that would occur without the contemplated policy intervention or project activity.

**Biomass Fuel:** Combustible fuel composed of a biological material, for example, wood or wood by-products, rice husks, or cow dung.

**Carbon Asset:** The potential of greenhouse gas emission reductions that a project is able to generate and sell.

**Carbon credits:** tradeable notional credits resulting from the reduction of greenhouse gases. Measured in tonnes of carbon dioxide

**Carbon offset:** the production or purchase of a carbon credit intended to cancel out the effect of the purchaser's emissions

**CFU:** The World Banks Carbon Finance Unit.

**Carbon Finance:** Resources provided to projects generating (or expected to generate) greenhouse gas (or carbon) emission reductions in the form of the purchase of such emission reductions.

**Carbon Dioxide Equivalent (CO<sub>2</sub>e):** The universal unit of measurement used to indicate the global warming potential of each of the six greenhouse gases. Carbon dioxide— a naturally occurring gas that is a byproduct of burning fossil fuels and biomass, land-use changes, and other industrial processes— is the reference gas against which the other greenhouse gases are measured.

**Certified Emission Reductions (CERs):** A unit of greenhouse gas emission reductions issued pursuant to the Clean Development Mechanism of the Kyoto Protocol, and measured in metric tons of carbon dioxide equivalent.

**Clean Development Mechanism (CDM):** The mechanism provided by Article 12 of the Kyoto Protocol, designed to assist developing countries in achieving sustainable development by permitting industrialized

countries to finance projects for reducing greenhouse gas emission in developing countries and receive credit for doing so.

**Conference of Parties (COP):** The meeting of parties to the United Nations Framework Convention on Climate Change.

**Compliance Buyer:** A buyer of carbon credits in order to meet statutory obligations e.g. under the EU ETS.

**Emission Reductions (ERs):** The measurable reduction of release of greenhouse gases into the atmosphere from a specified activity or over a specified area, and a specified period of time.

**Emission Reductions Purchase Agreement (ERPA):** Agreement which governs the purchase and sale of emission reductions.

**Emission Reduction Units (ERUs):** A unit of emission reductions issued pursuant to Joint Implementation. This unit is equal to one metric ton of carbon dioxide equivalent.

**EU ETS:** the European Union emissions trading scheme, which began on January 1 2005. Its first phase ends on December 31 2007; the second runs from 2008-2012

**EUA:** EU allowance, a permit to emit one tonne of carbon under the EU ETS

**Fund Management Unit (FMU):** Unit headed by the Fund Manager and responsible for the day-to-day operations of the Fund.

**Greenhouse gases (GHGs):** These are the gases released by human activity that are responsible for climate change and global warming. The six gases listed in Annex A of the Kyoto Protocol are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), and nitrous oxide (N<sub>2</sub>O), as well as hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>).

**Host Country:** The country where an emission reduction project is physically located. Internal rate of return: The annual return that would make the present value of future cash flows from an investment (including its residual market value) equal the current market price of the investment. In other words, the discount rate at which an investment has zero net present value.

**ITL: international transaction log,** the registry system aimed at ensuring all carbon credits issued under Kyoto are valid

**Joint Implementation (JI):** Mechanism provided by Article 6 of the Kyoto Protocol, whereby a country included in Annex I of the UNFCCC and the Kyoto Protocol may acquire Emission Reduction Units when it helps to finance projects that reduce net emissions in another industrialized country (including countries with economies in transition).

**Kyoto Protocol (KP):** international treaty, drawn up in 1997 and which came into effect in 2005. Required developed countries to reduce emissions by 5 per cent, compared with 1990 levels, by 2012. Administered by the secretariat of the UN Framework Convention on Climate Change. <http://unfccc.int>

**Millennium Development Goals (MDGs):** Commit the international community to an expanded vision of development, one that vigorously promotes human development as the key to sustaining social and economic progress in all countries, and recognizes the importance of creating a global partnership for development. The goals have been commonly accepted as a framework for measuring development progress.

**Monitoring Plan (MP):** A set of requirements for monitoring and verification of emission reductions achieved by a project.

**Operational Entity (OE):** An independent entity, accredited by the CDM Executive Board, which validates CDM project activities, and verifies and certifies emission reductions generated by such projects.

**Project-Based Emission Reductions:** Emission reductions that occur from projects pursuant to JI or CDM (as opposed to "emissions trading" or transfer of assigned amount units under Article 17 of the Kyoto Protocol).

**Reforestation:** This process increases the capacity of the land to sequester carbon by replanting forest biomass in areas where forests have been previously harvested. **Registration:** The formal acceptance by the CDM Executive Board of a validated project as a CDM project activity.

**Registration:** A CDM project can be registered with the CDM Executive Board once it has been validated by an independent party.

**Sequestration:** Sequestration refers to capture of carbon dioxide in a manner that prevents it from being released into the atmosphere for a specified period of time.

**United Nations Framework Convention on Climate Change (UNFCCC):** The international legal framework adopted in June 1992 at the Rio Earth Summit to address climate change. It commits the Parties to the UNFCCC to stabilize human induced greenhouse gas emissions at levels that would prevent dangerous manmade interference with the climate system.

**Validation:** The assessment of a project's Project Design Document, which describes its design, including its baseline and monitoring plan, by an independent third party, before the implementation of the project against the requirements of the CDM.

**Verified Emission Reductions (VERs):** A unit of greenhouse gas emission reductions that has been verified by an independent auditor, but that has not yet undergone the procedures and may not yet have met the requirements for verification, certification and issuance of CERs (in the case of the CDM) or ERUs (in the case of JI) under the Kyoto Protocol. Buyers of VERs assume all carbon-specific policy and regulatory risks (i.e. the risk that the VERs are not ultimately registered as CERs or ERUs). Buyers therefore tend to pay a discounted price for VERs, which takes the inherent regulatory risks into account.

**Verification Report:** A report prepared by an Operational Entity, or by another independent third party, pursuant to a Verification, which reports the findings of the Verification process, including the amount of reductions in emission of greenhouse gases that have been found to have been generated.

**Voluntary market:** unregulated market for carbon credits, outside the Kyoto protocol and the EU ETS.

**Voluntary carbon standard, gold standard:** standards under which projects selling credits in the voluntary market can receive accreditation that they have met certain stringent criteria

**Vintage:** the year in which carbon credits were generated. It is possible to buy credits years in advance of when the emissions reductions will occur. Some companies will only buy credits generated in the same year as the emissions being offset.