



Briefing Note on the EIB and Carbon Funds

Protection and improvement of the environment, including tackling climate change, is a key EIB priority. The EIB's strategy is to support the European Union's evolving environmental policy through its environmental lending framework. EU Kyoto Protocol target is to cut greenhouse gas emissions by 8% over 1990 levels by 2008-12. At its meeting on 8-9 March, the European Council committed the EU to achieve at least a 20% reduction of greenhouse gas emissions by 2020 compared to 1990.

As part of its strategy, the EIB is working closely with its sister international financing institutions to establish market mechanisms that will help encourage Kyoto carbon trading schemes.

So far the EIB has been involved in the setting up of four "Carbon Fund" schemes:

- to encourage the trading of carbon rights and make it possible for companies and institutions to meet their carbon emissions obligations,
- to support the ongoing development of project based mechanisms such as the Kyoto Protocol's Clean Development Mechanism (CDM) and Joint Implementation (JI), and thereby improving the financing and implementation of environmentally beneficial projects,
- to help to develop the EU's Emission Trading Scheme (EU ETS).

The following operational Funds, set up with the participation of the EIB, are focused on the acquisition of project based carbon credits for the benefit of compliance purchasers to meet their Kyoto period obligations. They are not trading vehicles, but are to promote as far as possible the use of private capital in supporting projects and to meet the compliance obligations of the private sector:

- **The EBRD¹-EIB Multilateral Carbon Credit Fund (MCCF)** with a commitment of EUR 165 million from six countries and six companies. The Fund will expand the supply of carbon credits in Central European and Central Asia. Countries and companies that become members of the Fund can buy carbon credits from emission reduction projects financed by the EIB or EBRD. Country participants can also participate via the MCCF in Green Investment Schemes to facilitate trade in carbon credits between governments. Typical MCCF eligible projects include: industrial energy efficiency, power plant and district heating renovation, renewable energy (biomass, wind and mini-hydro) and landfill gas extraction.
- **The Carbon Fund for Europe (CFE)** set up with the World Bank to help European countries meet their Kyoto Commitments. The Fund will purchase greenhouse gas emission reductions through the Kyoto Protocol's Clean Development Mechanism (CDM) and Joint Initiative (JI) from climate friendly

¹ The European Bank for Reconstruction and Development, London

investment projects from the EIB's or World Bank's portfolios, as well as self-standing projects. The CFE will purchase verified emission rights that are compatible with the EU ETS (Emission Trading Scheme) to assist companies interested in meeting EU allowance allocation obligations. Four governments and one company are participating in the EUR 50 million Fund.

- **EIB/KfW² Carbon Purchase Programme** for up to EUR 100 million to be signed on 3 May. The programme will support the development of environmentally beneficial projects, including renewable energy, energy efficiency, forestry and methane capture through the acquisition of carbon credits the projects generate through mitigation, prevention, reduction or sequestration of green house gases (GHG) between 2008-12. The programme, through the sale of carbon credits will reinforce the stage two of the EU ETS. It is focused on small and medium-sized enterprises.

In addition the EIB is working on a fund for the post 2012 Kyoto period:

- **The Post 2012 Carbon Fund for an amount of EUR of 150-200 m** is being prepared in collaboration with a number of IFIs and other national institutions. It will underpin the market value from current and future projects that will produce Carbon Emission Rights after the expiry of the current Kyoto Protocol in 2012. The purpose of this fund is to encourage and facilitate investment in projects, which will give rise to carbon credits by investing "patient and catalytic public sector funds".

In its approach to support in climate change projects the EIB ensures that the investments it finances are compliant with EU environmental principles and standards, enshrined in the European Principles for the Environment (EPE) (see www.eib.org/epe). These are endorsed by the EIB, EBRD, NIB, NEFCO and CEB, with the support of the European Commission and its Directorate-General for Environment (DG ENV).

The EIB has also established its own more general Climate Change Financing Facility (CCFF) which provides long-term loan finance to EU companies participating in the Emissions Trading Scheme, and to companies operating outside the EU developing Joint Implementation and Clean Development Mechanism projects. The Facility finances all or parts of projects that lead to emission reductions or contribute to climate change adaptation and face difficulties in reaching financial closure.

Under the CCFF, the EIB has put in place a simplified and accelerated process, i.e. the Global Authorisation (GA) Mechanism, for the financing of small and medium scale project (public or private) aimed at promoting climate change mitigation and adaptation investments, with special emphasis on carbon credit generating projects, outside the EU

It also has a Climate Change Technical Assistance Facility (CCTAF) to provide upfront funding for activities associated with the development of project-based carbon assets under the project-based mechanisms, Clean Development Mechanism (CDM) and Joint Implementation (JI) of the Kyoto Protocol.

In 2006, the European Investment Bank signed loan agreements for 96 environmental projects, amounting to EUR 10.9bn, which represents 23.7% of its total lending.

² Kreditanstalt für Wiederaufbau, Frankfurt

