



Market-based Mechanisms for *SME Low-Carbon Development*

Austrian Climate Change Workshop

18 February 2016, Vienna, Martin Gauss



Context

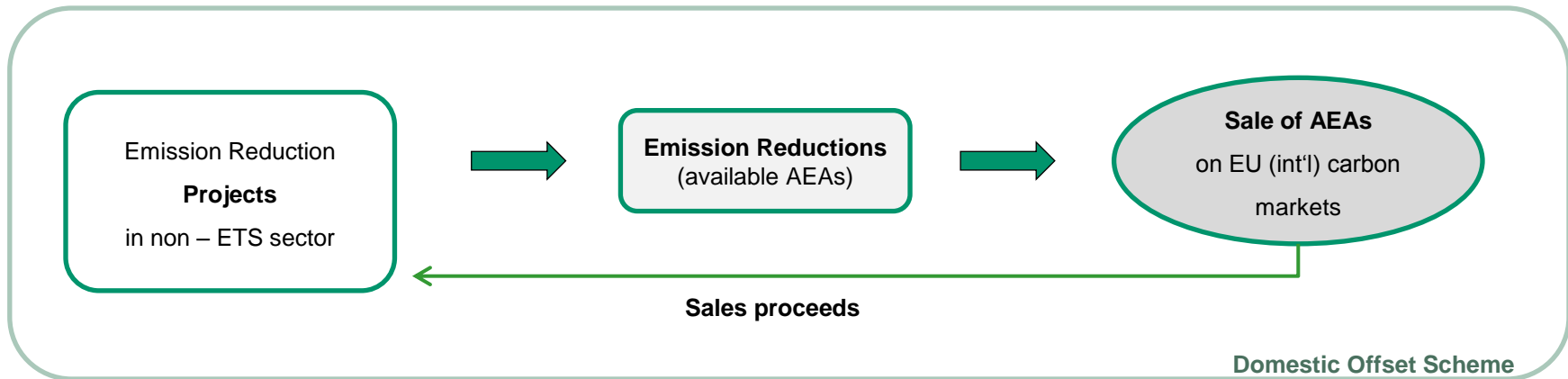
- **EBRD-led assignment on market-based mechanisms in Poland**
 - EU-funded technical assistance, PoSEFF context, 2014 - 2015
- **Objective:** attract additional revenues for sustainable energy projects through the mechanisms
 - Focus on SMEs
 - Embedded in financing framework: EBRD credit line to SMEs (PoSEFF); NFOSiGW programme
 - Prepare mechanisms for piloting in a potential next project phase
- **Approach:**
 - *Comparative Analysis* of 10 market-based mechanism in the Polish context:
related to: carbon market, energy policy and green procurement
 - Detailed analysis of two selected mechanisms (*Options Plan*)
 - How can mechanism work in Poland? Business Case? Potential Piloting?



- Polish stakeholders
- Policy Workshop with new EU Member States

Mechanism 1: Domestic Carbon Credits

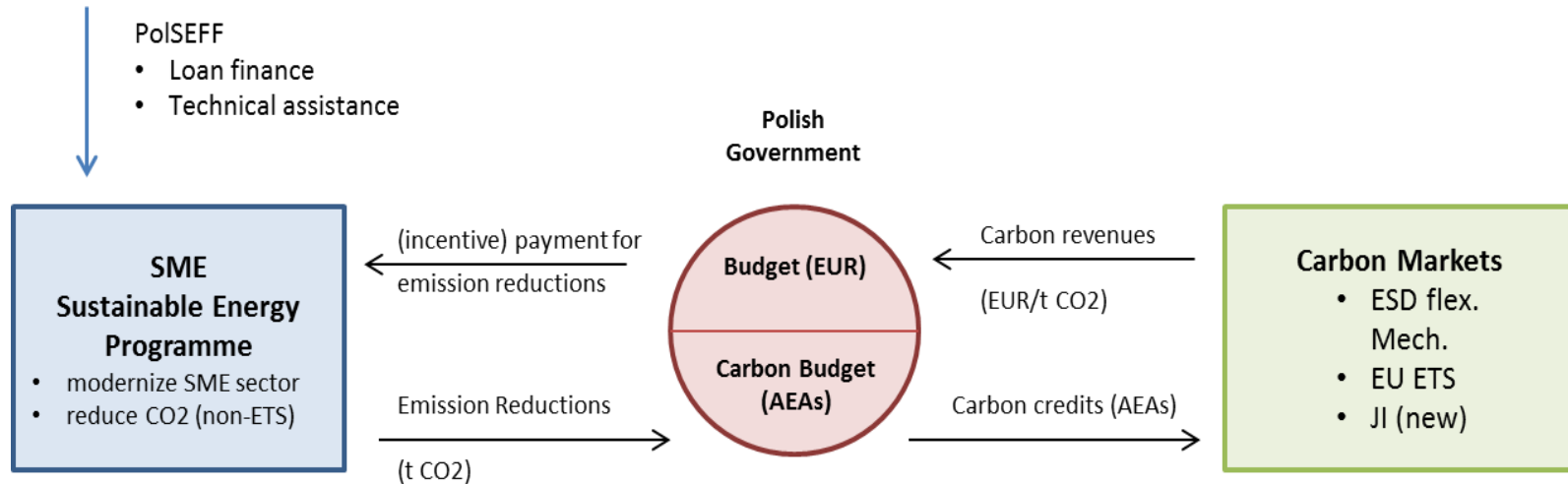
Intra-EU Sale of AEs backed by Emission Reductions in non-ETS Sector



Recent relevant Developments (EU and Poland)

- **Consultation in the EU** on the preparation of a legislative proposal ... on the efforts of MS to reduce GHG to meet the EU's commitments in a 2030 perspective (AEA transfers between MS based on project-based mechanisms, attract investments in ESD sectors, ensure availability of AEs; environmental integrity and validity of credits must be ensured)
- Amendment of the **Polish Act on GHG Management** (17.7.2009) last September foreseeing the potential implementation of projects or programmes to reduce or avoid emissions particularly through measures outside the ETS – providing the **legal basis** for the use of the mechanism.

Domestic Carbon Credits in the SME Sector



Basic “work streams”:

1. Designing the SME sustainable energy programme
2. Managing the carbon side
3. Managing the revenue side

Domestic Carbon Credits: the Business Case



SME sustainable energy programme

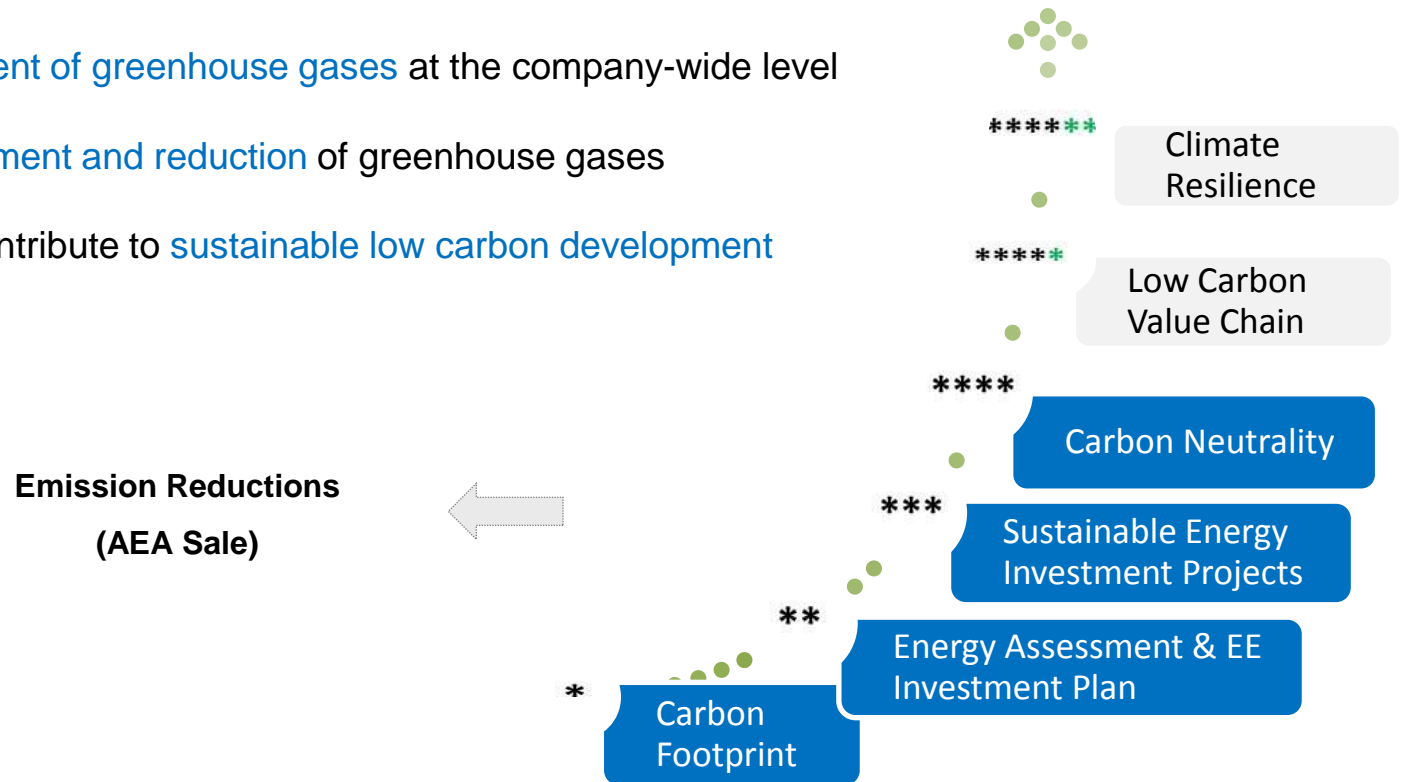
- **Project categories:** EE in buildings and manufact., RE
- **Incentive payments:** EUR 15m (loan volume: EUR 200 m)
- **Estimated yearly ER (t CO₂/y):** 100,000

Parameter	SME sustainable energy programme
No. of participating SMEs	2010
No. of investment projects	2000 EE projects, 15 RE projects
Total investment	EUR 300 million
Total emission reductions (5 years)	525,000 t CO₂
Total costs (admin, fees, carbon transaction costs and incentive payments)	EUR 16.7 million

Carbon price (EUR /t)	% of incentive payments
3.3	0%
8.0	16%
18	50%
32	100%

Mechanism 2: Climate Stars Programme (CSP)

- **Certification programme**, guiding companies through a **process of four main levels (+2)**,
- promotes **sustainable energy and climate practices** in Polish companies
- **holistic management of greenhouse gases** at the company-wide level
- involves **measurement and reduction** of greenhouse gases
- long term goal: contribute to **sustainable low carbon development**



CSP: suggested Incentive Structure for SME Engagement

Level	Period of validity	Requirement for extension	Incentive payment
*	1 year	Renewal of carbon footprint or reaching next level	Direct incentive payment: at least 50% of costs of carbon footprint (max. € 5,000)
**	3 years	annual reporting on progress with the implementation of the energy efficiency investment plan	Direct incentive payment: at least 50% of costs of energy assessment & EE investment plan (max. € 7,500)
***	4 years	Annual reporting on continued progress with the implementation and respective energy savings and emissions reduced	(In)direct incentive (annually) upon reaching and during time of maintaining Level 3 (at least € 4,000, max. 4 years)
****	4 years	Annual reporting on status of carbon neutrality	(In)direct incentive (annually) upon reaching and during time of maintaining Level 4 (at least € 6,000, renewable)

Phase-out after piloting

Continued incentives

- **direct incentive payments (NFOS)** (sales proceeds, structural funds)
- **Tax relief** (indirect)
- **Green Procurement** (indirect)

CSP Business Case

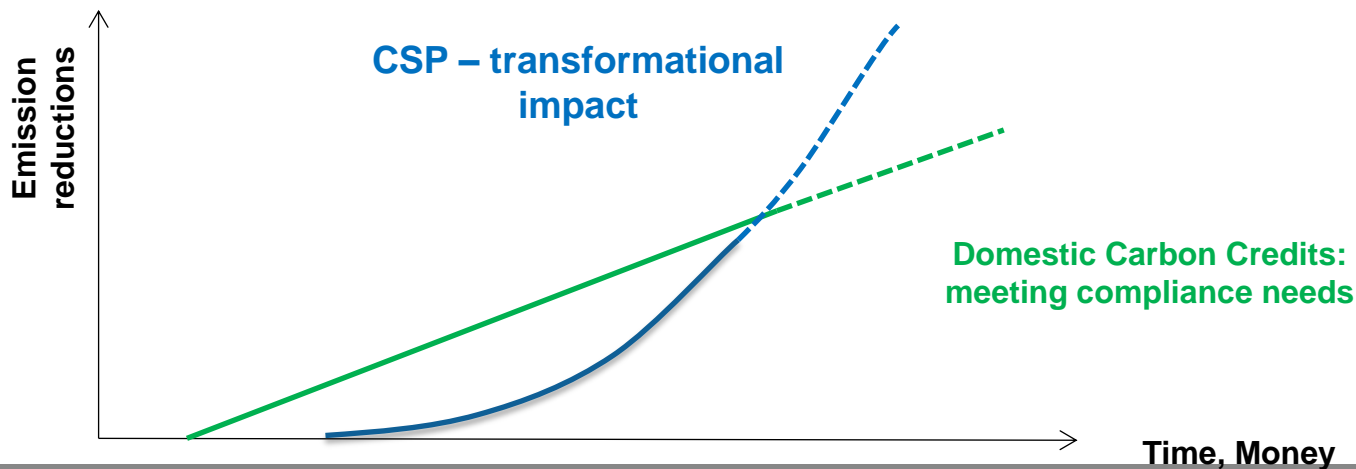
At a total cost of **EUR 16.7 million**, the CSP programme is expected to achieve after 6 years:

Parameter	Pilot (start up and pilot operation)	Total programme (pilot and roll out)
No. of participating SMEs	1350	2010
No. of investment projects	300	430
Total investment	EUR 39 million	EUR 56 million
Total emission reductions	16,800	48,000
Total cost (admin and incentives)	EUR 12.7 million	EUR 16.7 million

- ✓ Reputational benefits through an nationally and internationally recognized innovative climate programme,
- ✓ Emission reductions could optionally be monetised (Domestic Carbon Credits)

3. Key Messages

- Both mechanisms would bring **key benefits** for SMEs and the Polish Government, they seem **feasible** in terms of processes, institutional arrangements and (existing) legal / regulatory framework, and would help leveraging private finance for climate change mitigation,
- for piloting, further discussions / decisions need to be taken on **key issues** (Polish AEA budget, incentive payments, MRV stringency, registry issues, double counting issues, etc.)
- **Climate Stars Programme** (CSP) has the potential for **transformational impact** in terms of low-carbon development
 - right incentives will be important to attract SMEs to the scheme
 - mitigation efforts could be combined with adaptation efforts for even more comprehensive tool
- Mechanisms could equally be interesting for **other countries** (DOP: EU-wide; CSP – globally)





Thank you !

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