



Understanding carbon credits for MSMEs

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4 May, 2022

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Overview

I. Understanding carbon credits

- A. Concept and examples
- B. Stakeholders
- C. Quality of carbon credits
- D. Markets and regulation

II. How to develop and finance a carbon credit project

- A. Financing structures
- B. Investor due diligence
- C. Vetting counsel

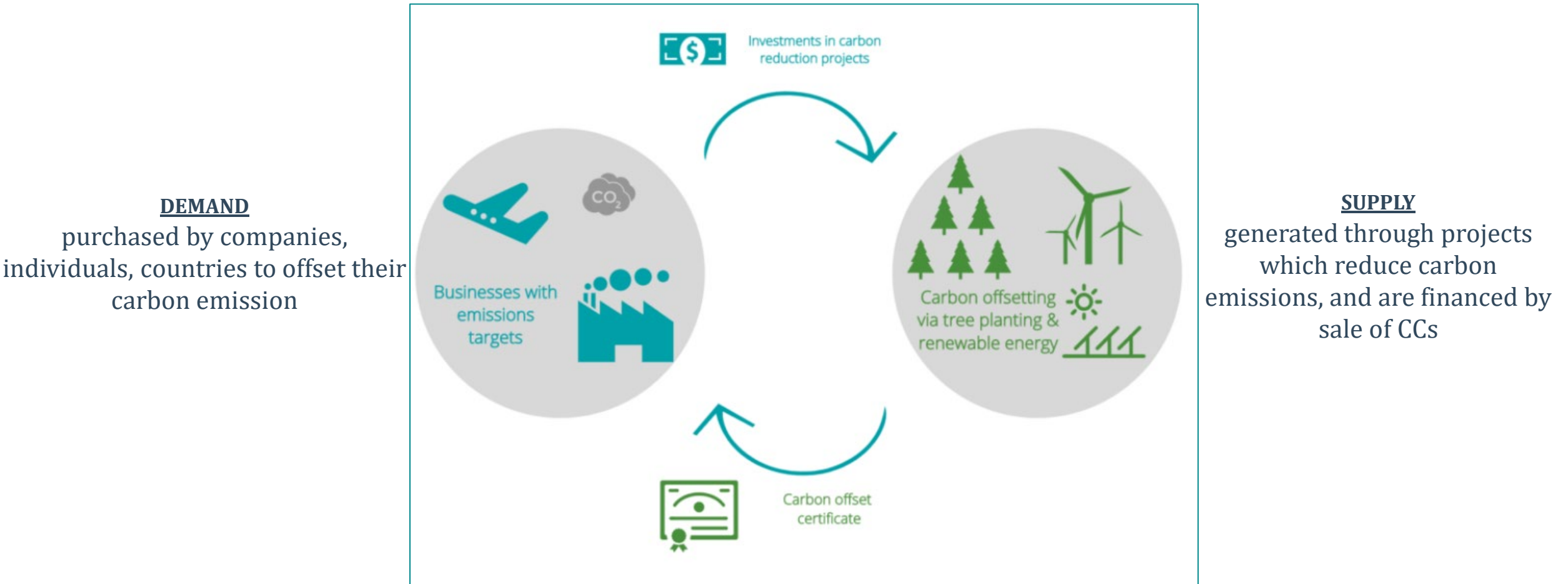
III. Conclusion – Checklist for MSMEs

I. Introducing carbon credits

A. Concept and examples (i)

Carbon Credit (CC)

a tradable certificate giving its owner the right to emit one tonne of carbon dioxide



Source: savemoneycutcarbon

A. Concept and examples (ii)

Projects generating carbon credits

- Reducing GHG (*e.g.*, energy efficiency and renewable energy)
- Removing GHG (*e.g.*, forestation or carbon capture)
- Avoiding GHG (*e.g.*, avoid deforestation)

A. Concept and examples (iii)



Rwanda: Improved Kitchen Regimes



Carbon offsetting project – India (Rajasthan): Bundled Wind Power.

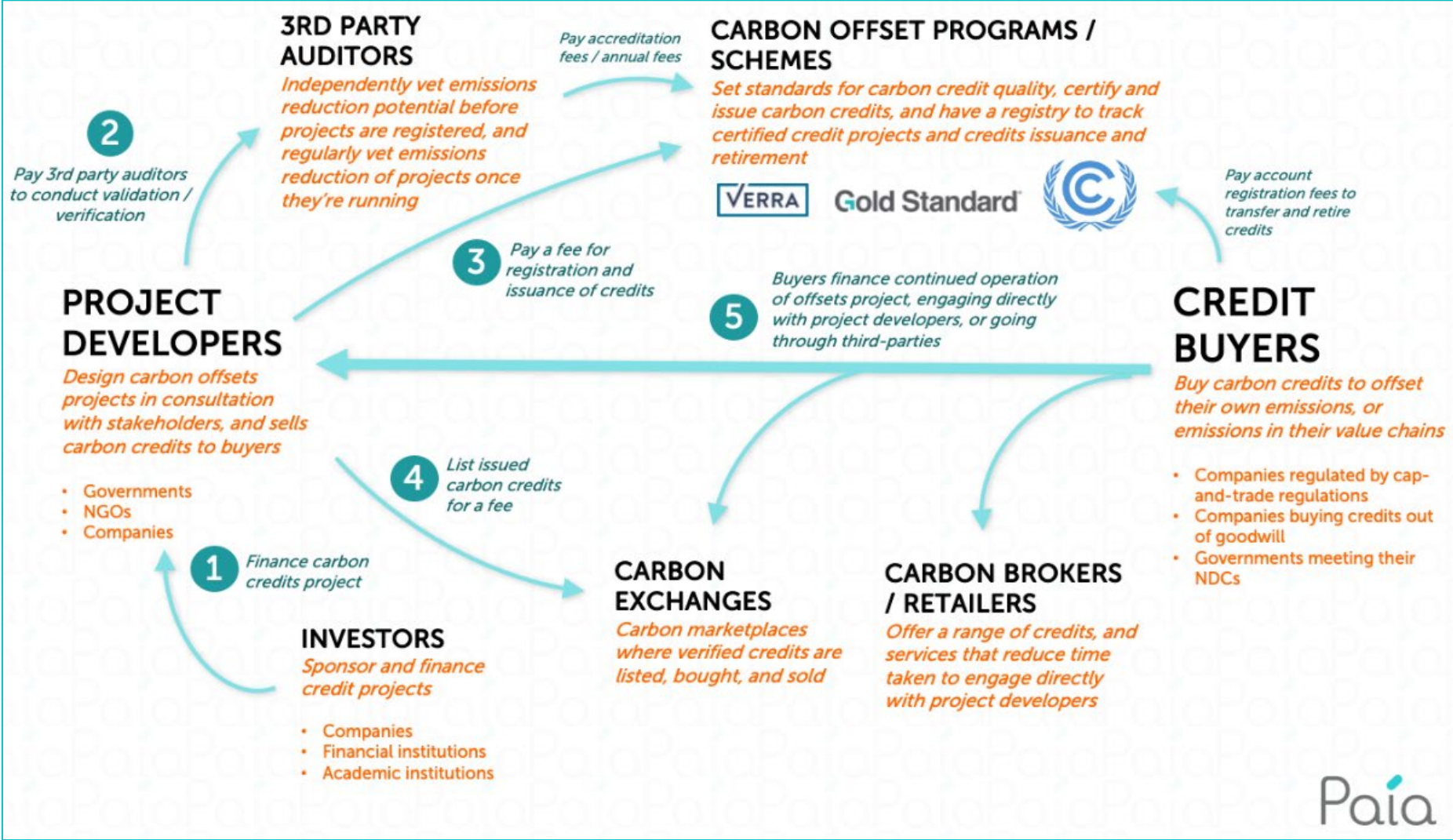


Carbon offsetting project – Kenya: Kasigau Corridor REDD+ Project.



Vietnam: Rice Husk Thermal Energy

B. Stakeholders



C. Quality of carbon credits

- Cost-efficient way to reduce emissions, meet climate goals, and foster sustainable development
- *If and only if* carbon credits have **high integrity** ⇒ core principles:
- *If not*: risk of greenwashing, lower climate ambition, and negative sustainable development impact

1. *Additionality*
2. *Robust quantification of emission reductions* → approved or new methodologies
3. *No double counting* → adjusted carbon credits (Paris Rulebook)
4. *Permanence*
5. *Positive impact on sustainable development*
6. *Transparency: monitoring, reporting, and verification (MRV)*

⇒ **Divergence** on core principles among carbon crediting programs

- Private: *e.g.*, Gold Standard, Verra, ...
- Supranational: Clean Development Mechanism (CDM) ⇒ replaced by Sustainable Development Mechanism (SDM) (Art 6.4) (Paris Rulebook)

D. Markets & regulation (i)

How used (demand)?

Compliance markets

- a. Country: Nationally determined contribution (NDC) under Paris Agreement
- b. Company:
 - i. International schemes: CORSIA ([here](#))
 - ii. Domestic schemes: ETS (*e.g.*, Korea), carbon tax (*e.g.*, South Africa, Colombia), offset fuel emissions (Switzerland): counted toward NDC or not

Voluntary carbon markets (VCM)

- a. Company (offset claim or impact claim)
- b. Individual

How regulated?

Eligibility criteria set by each national or international regulator

Carbon crediting programs

So far no regulation or guidelines

Paris Rulebook (Glasgow 2021)

carbon markets
quality concerns & fragmentation

D. Markets & regulations (ii)

Dynamics?

- Increased **integrity** carbon credits
 - Increased quality private certification programs
 - (Some) already adapting to Paris Rulebook standards
 - International private guidelines underway
 - Government regulation over time?
 - Increased quality UN certification: SDM Approach v. CDM
- Increased **demand** for carbon credits, with higher integrity
 - *e.g.*, net-zero pledges, NDC, compliance markets, maritime
- Market expects **price premium** for adjusted carbon credits meeting Paris Rulebook rules

→ Over time, maybe less fragmentation and less volatility, with more clearly defined types of carbon credits and transparency?

II. How to develop and finance a carbon credit project?

II. How to develop and finance a carbon credit project

- A. Financing structures
- B. Investor due diligence
- C. Vetting counsel

A. Financing structures

Balance Sheet Financing

**Equity
Investment**

Debt Investment

Project Governance

**Project
Development
Contract**

**Framework
Agreement**

Commodity Sale

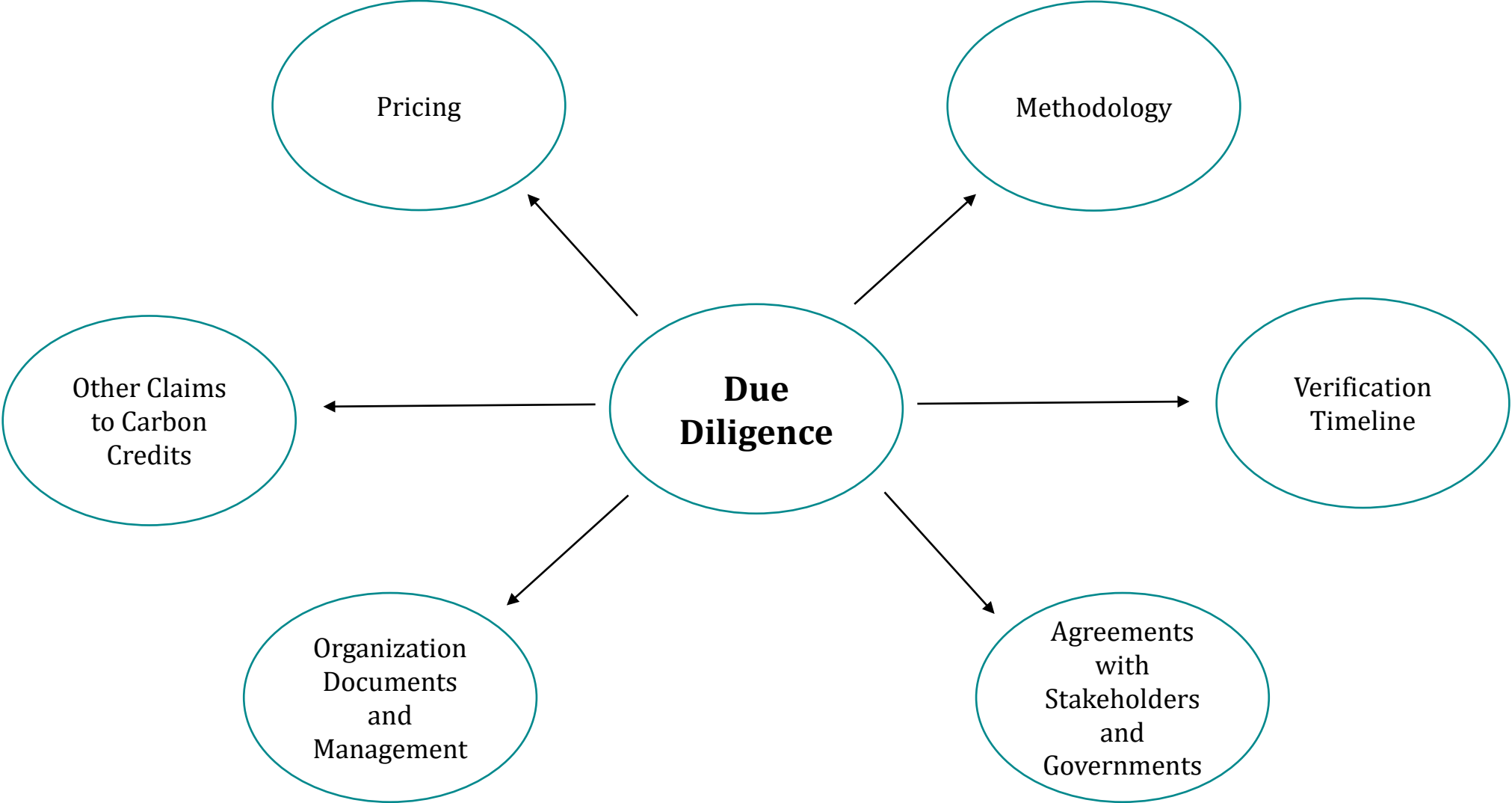
**Spot Purchase
Agreement**

**Forward
Contract**

Financeable Deliverables:

- Project Idea Notes (PINs)
 - Feasibility Study
- Project Design Document

B. Investor due diligence



C. Vetting counsel

- Familiarity with carbon credit market dynamics (methodologies, registries, pricing)
- Expertise in NY Law (especially for commodity contract structures)
- Project finance, debt finance and/or commodities trading experience

III. Conclusion – Checklist for MSMEs

Identifying MSMEs opportunities for carbon projects

- ✓ Access to stakeholders looking for projects (project developer, consultant, investors, host country, acquiring countries/companies)?
- ✓ Assess project eligibility?
- ✓ Quality standards of certification program?
- ✓ Host country's track record, including implementation of the Paris Rulebook?
- ✓ Anticipate potential changes in compliance markets and VCM?