



CARBON FINANCE OPERATIONS AT THE WORLD BANK

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The Kyoto Protocol



- Compliance with their Kyoto commitments implies a total reduction of about 5.0-5.5 billion tonnes of CO₂e over the 2008-2012 period.
- Kyoto targets may be achieved by:
 - Industrialized countries reducing domestic emissions
 - Trading emission permits (“allowances”) among companies and Assigned Amounts Units (“AAUs”) among governments
 - Purchasing emission reductions credits from projects:
 - Developing countries (Clean Development Mechanism – CDM)
 - Economies in transition (Joint Implementation – JI)
- Market created mainly as a result of regulatory commitments
- The Bank is a pioneer in the CDM/JI segment of the carbon market with 10 years of experience.

Carbon Funds

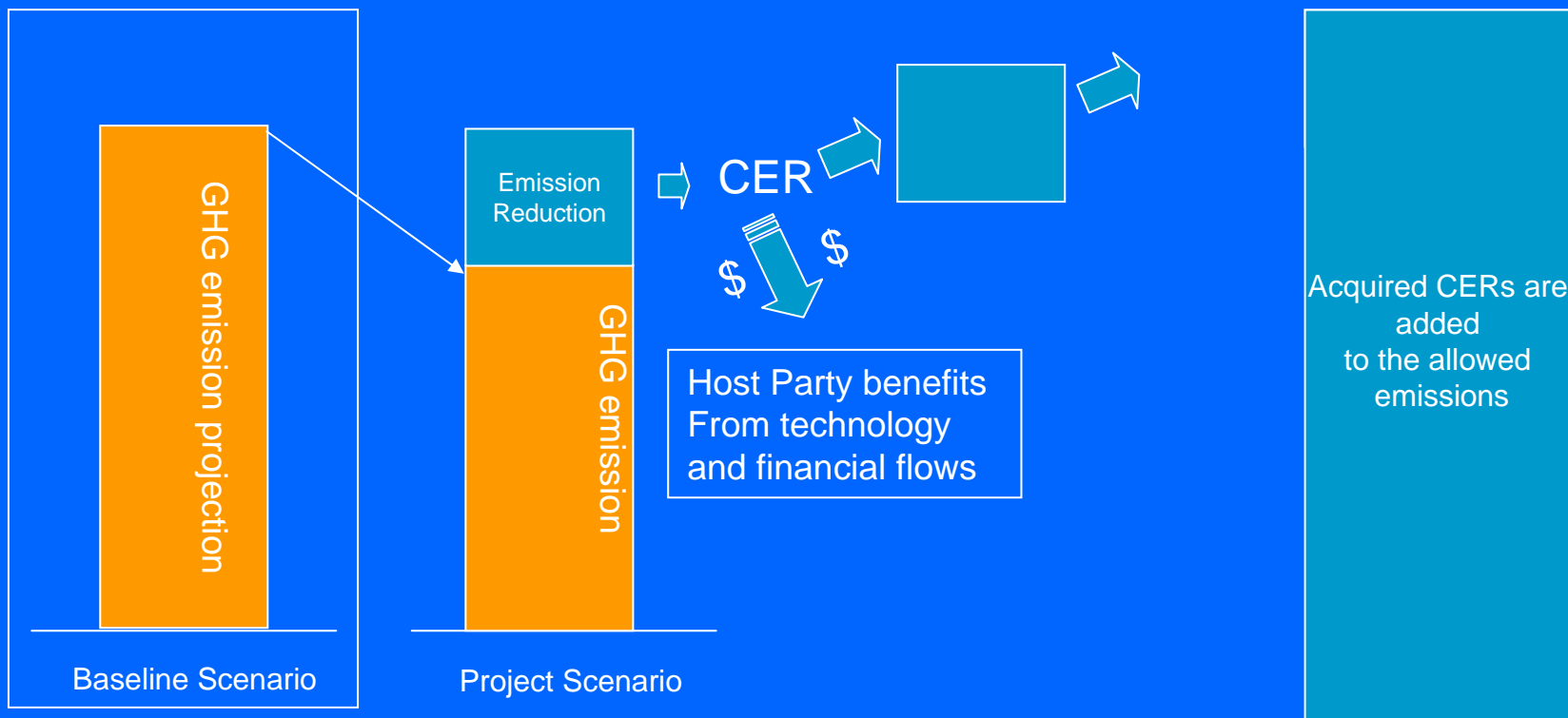
A yellow oval containing the text 'Carbon Funds' has two yellow arrows pointing downwards and to the left. One arrow points to the text 'Developing countries (Clean Development Mechanism – CDM)' and the other points to 'Economies in transition (Joint Implementation – JI)'. This diagram illustrates that carbon funds are used to finance projects in these categories.



Emissions Trading under the Kyoto Protocol

Seller

Buyer





Ensure that carbon finance contributes to sustainable development, beyond its contribution to global environmental efforts

- **Supporting developing countries in enabling them to receive the maximum capital transfers for sustainable development from carbon finance**
- **Ensuring all carbon projects promoted by the Bank have additional sustainable development benefits beyond the reduction of carbon emissions by applying the Bank's environmental and social safeguards and adding sustainable development value**



Assist in building, sustaining and expanding the market for GHG emission reductions

- **Supporting the regulatory framework – developing new tools, collaboration with the UN regulator**
- **Expanding the capacity of other financial and development institutions through cooperation with other development banks**
- **Participating with the private sector in international associations and providing opportunities for purchases by the private sector**
- **Increasing market liquidity by creating projects with large volumes with a portion available to the private sector**

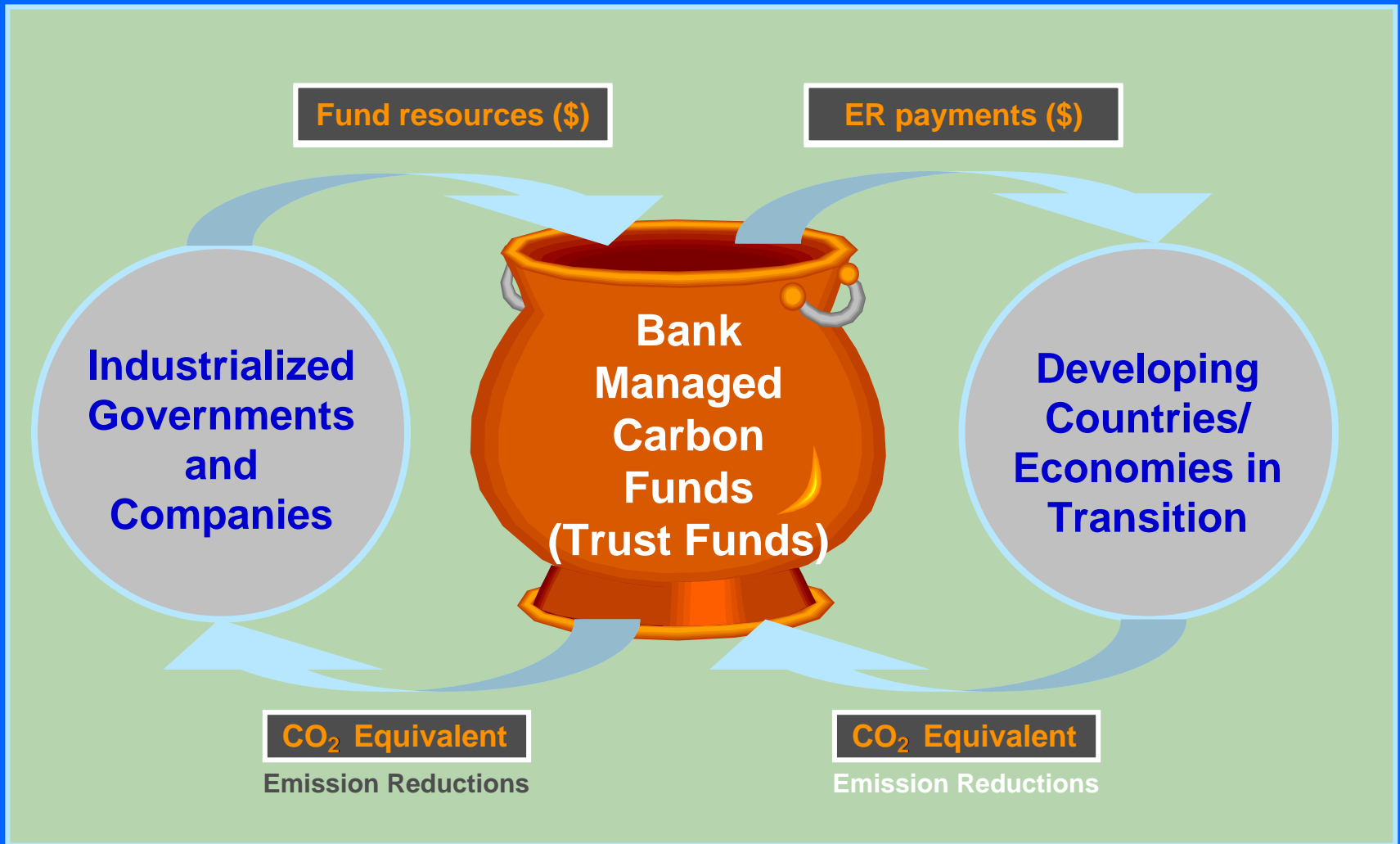


Strengthen the capacity of developing countries to benefit from the market for GHG emission reductions

“Carbon Finance-Assist” (CF-Assist)

- **+ \$20 million Bank-administered trust fund for capacity building and technical assistance established in FY05**
- **Assists nearly 50 developing countries and economies in transition in developing CDM / JI projects**
- **3 to 5 year program to develop sound structures, where local institutions gain the capacity to prepare and review projects for approval**
- **\$8 million from existing resources (Climate change PHRD Grants from Japan)**

How Carbon Funds Work





WB Carbon Funds and Facilities

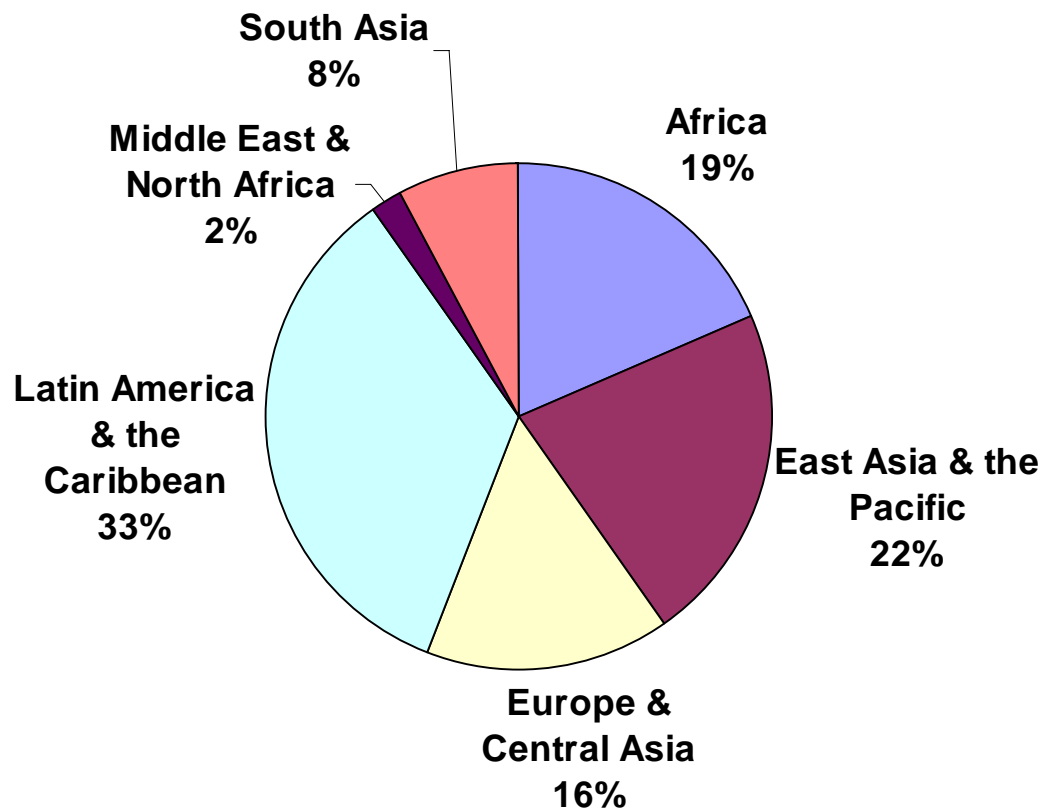
Total funds pledged ~ US\$ 2.1 bill. (16 governments, 66 firms)

Fund	Size (\$million)	Participant(s)	Focus
Pioneering Fund			
Prototype Carbon Fund	180	Multi-shareholder	Multi-purpose
Specialized Funds			
Community Development Carbon Fund	128.6	Multi-shareholder	Small-scale projects that generate social benefits
BioCarbon Fund Tranche 1	53.8	Multi-shareholder	Land Use, Land-Use Change, and Forestry (LULUCF) projects
BioCarbon Fund Tranche 2	36.1		
Country Funds			
Netherlands Clean Development Mechanism Facility	n.a.	Netherlands Ministry of Environment	CDM projects
Netherlands European Carbon Facility <i>(Jointly managed with IFC)</i>	n.a.	Netherlands Ministry of Economic affairs	Jl projects
Spanish Carbon Fund	308	Multi-shareholder (Spain)	Multi-purpose
Italian Carbon Fund	156	Multi-shareholder (Italy)	Multi-purpose
Danish Carbon Fund	81	Multi-shareholder (Denmark)	Multi-purpose
Carbon Fund for Europe <i>(Jointly managed with EIB)</i>	70	Multi-shareholder	Multi-purpose
Umbrella Fund			
Umbrella Carbon Facility	737.6	Multi-shareholder	Tranche 1: Two HFC-23 projects in China

Regional distribution of CF portfolio



Regional Distribution
(By # Projects)

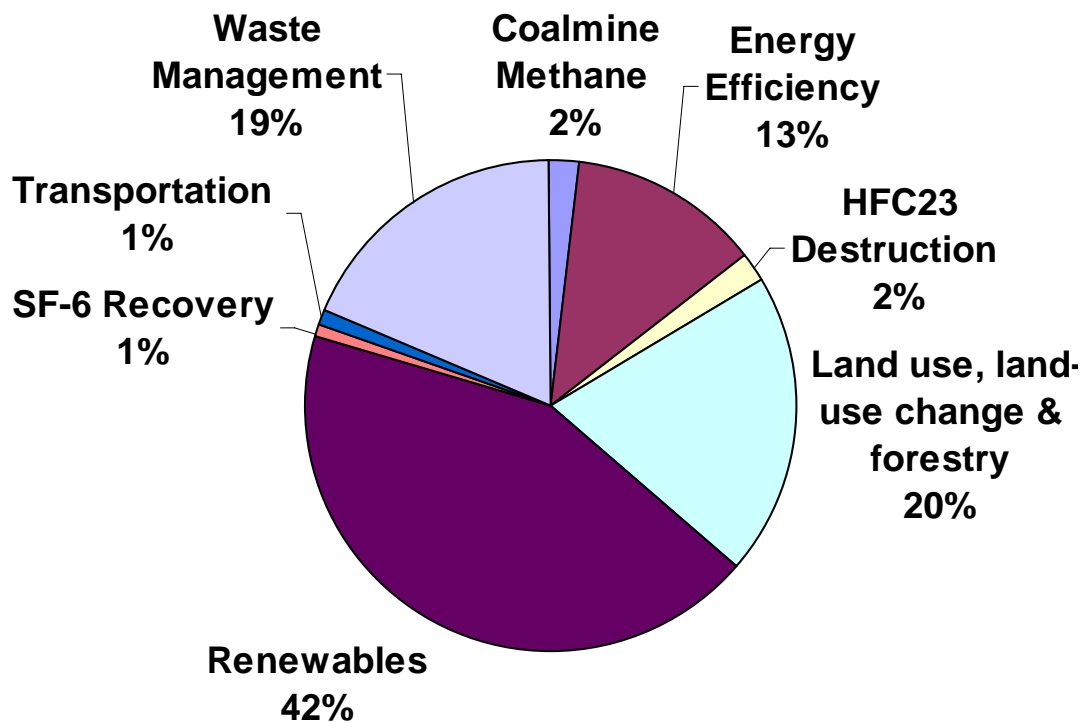


Technology distribution of CF portfolio



Technology Distribution

(By # Projects)



Challenges Going Forward



- **Supporting long-term investments to support transition to low-carbon economy**
- **Shifting away from a project-by-project approach to programs of investments**
- **Designing and providing incentives for development of low carbon technology**
- **Systematically integrating carbon finance into public and private investment decisions**

- **→ In sum, achieving greater impact on climate change mitigation and poverty alleviation through scaling up**



Carbon Partnership Facility

- Objectives
 - Target long-term emissions
 - Scaling up
 - Strategic, transformational interventions in sectors
- Features
 - Programs, away from individual projects
 - Partnership between buyers and sellers
 - Fostering both demand and supply in uncertain market

CPF - Buyers and Sellers in a Partnership



BUYERS

(governments, companies)

Minimum financial contributions

Willingness to purchase emission reductions when generated over the long term

Supported by
Carbon Asset
Development
Fund (CADF)

SELLERS

(governments, companies)

Minimum ER contribution

Willingness to develop and implement specified emission reduction programs and sell ERs

Carbon Fund



- To purchase ERs generated by programs proposed by the Seller Participants
- To be funded by:
 - Contributions from the Buyer Participants
- Target size:
 - €5 billion over 5 years
 - First tranche: €350 million

Forest Carbon Partnership Facility



- Loss of forest accounts for 20% of greenhouse gas emissions - can it be 20% of the solution?
- Carbon finance can contribute a new source of recurrent revenues for forest protection and sustainable forest management



Two Mechanisms

Readiness

**READINESS
FUND**

*Capacity
building*



Carbon
Finance

**CARBON
FUND**

*Purchase of
Emission
Reductions*

Readiness Mechanism



- Build the capacity of countries to access a future system of incentives
- Components:
 - Reference scenario
 - Historical emissions
 - + Future emissions?
 - Emission reduction strategy
 - Monitoring system
- Indicative Size: \$100 million (target reached)
- ~ 20 developing countries

Carbon Finance Mechanism



- Pilot carbon finance transactions for “ready” countries before post-2012 regime is in place
- Carbon Fund Participants to select the transactions
- Indicative Size: \$200 million
- ~ 5 developing countries