

CARBON FINANCE FACTS

The Threat of Climate Change

According to the Intergovernmental Panel on Climate Change (IPCC), the global average temperature will rise by 1.4-5.8°C over the next century; and the speed of the rise will be greater than any seen during the past 10,000 years. Climate change—and the accompanying disrupted weather patterns—caused by the so-called greenhouse effect through atmospheric loading of greenhouse gases—carbon dioxide (CO₂), methane, etc.—could significantly affect all life on Earth.

Combating Climate Change

At the international level, the Kyoto Protocol, which was adopted under the UN Framework Convention on Climate Change (UNFCCC), commits its industrialized country Parties to reduce their carbon emissions by an average of 5 percent below their 1990 levels in the period 2008-2012. Two of the flexibility mechanisms incorporated in the Protocol—Clean Development Mechanism (CDM) and Joint Implementation—enable countries to meet their Kyoto obligations through projects generating carbon emission reductions (ERs) in developing countries and transition economies. As part of a larger global effort, many cities, states, local governments, and responsible companies have also taken voluntary actions to reduce carbon emissions.

The Carbon Finance Business

Carbon finance is a means of leveraging new private and public investment into projects that reduce greenhouse gas emissions, thereby mitigating climate change and promoting sustainable development. The standard unit of measure for greenhouse gas emission reductions in the emerging carbon market is a metric ton of CO₂ equivalent. An increasing number of governments and companies are entering the market, which is projected to grow significantly. Consider the following:

- Approximately 200 million tons of CO₂ equivalents have been traded in the past five years.
- European companies like Shell and BP have sizeable internal programs to trade greenhouse gases.
- England and Denmark have launched domestic greenhouse gas trading systems as policy tools for greenhouse gas emission control.
- The ERUPT and CERUPT programs, implemented by The Netherlands, allow for carbon credits to be purchased from, among others, renewable energy and energy efficiency projects implemented in transition economies and developing countries.
- The European Union is already working on a cap-and-trade system for CO₂ that could begin as soon as 2005 and would cover almost half of its CO₂ emissions.
- 40 companies, with combined emissions almost equal to Germany's, are creating the Chicago Climate Exchange (CCX), a voluntary pilot market in the United States for all six greenhouse gases.

Carbon Finance and the World Bank

The potential benefits of carbon finance have not reached many developing countries. The World Bank's carbon finance products help grow the market by linking the private sector buyers of carbon credits with climate-friendly projects in developing countries and economies in transition that are seeking financing. The World Bank's carbon finance products include:

- The Prototype Carbon Fund, a public/private partnership that became operational in 2000, has projects with an emission reduction potential of more than US\$100 million under preparation to date.
- The Community Development Carbon Fund, launched on September 2, 2002 at the World Summit on Sustainable Development, will provide carbon finance to small-scale projects in least developed countries and poorer rural areas of the developing world.
- The Netherlands Clean Development Facility supports projects in developing countries in exchange for emission reduction credits under the CDM. The Facility's target is to place €35 million (approx. US\$33 million) in a wide range of projects (except sequestration) for each of 4 years, with a reduction of about 32 million tons of CO₂ equivalents.
- The BioCarbon Fund, which will be launched in late fall 2002, will be a prototype fund to demonstrate projects that sequester and store greenhouse gases in forest and agro-ecosystems, in developing countries and transition economies.