

Questions and Answers

1. Why has climate change become a development issue?

Climate change threatens to disrupt the weakest economies and disadvantage the poorest people in developing countries. Those with the least resources and the least capacity to cope—the poor of the developing world will be hardest hit. The United Nations Intergovernmental Panel on Climate Change (IPCC) estimates that the steady warming of the earth's surface temperature will lead to:

- Decrease in the quantity and quality of water in many arid and semi-arid areas, and decrease in the likelihood of making clean water available to the more than one billion people that already experience severe water shortages;
- Decrease in the reliability of hydropower and plantation biomass, where energy supplies are already unreliable;
- Increase in the incidence of vector-borne diseases (e.g., malaria and dengue), water-borne diseases (e.g., cholera), and malnutrition throughout the tropics and sub-tropics, where millions of lives are lost every year;
- Decrease in agricultural productivity in the tropics and sub-tropics. In particular, parts of Africa would be under additional stress, where an estimated loss of 10-30% of cereal production during the next several decades would make it even more difficult to attain the Millennium Development Goals (MDGs) of halving hunger by 2015;
- Increase in the loss of species and degradation of key ecosystems such as coral reefs, which play a critical role in the economy of some developing countries;
- Displacement of tens of millions of people in low-lying areas;
- Increased threat in national and regional security because of the loss of natural resources and the potential flow of environmental refugees;
- For low-lying areas in the world, the threat of climate change is a matter of survival. In the absence of concerted global action on climate change, the IPCC estimates that the sea level could rise by one meter over the next century, which would have the following consequences:
 - In countries with significant low-lying areas, coastal communities would be severely threatened. For example, 17% of the land area of Bangladesh would be lost and tens of millions of people displaced.
 - The survival of low-lying small island states would be in doubt, in particular for the many island states in the Indian and Pacific Ocean and Caribbean that are only a few meters above sea level.

2. Which countries are engaged in the Kyoto Protocol?

With the entry into force of the Kyoto Protocol on February 16, 2005, more than 157 countries agree to work together to fight global climate change. The thirty six industrialized countries that ratified the Protocol agree to put in place policies and measures to collectively reduce 5.2 percent of their emissions in 2008-2012 as measured against 1990 levels. To meet this binding commitment, industrialized countries have the option to reduce part of their emissions domestically, and they can also purchase emission reductions from developing countries (through the Clean Development Mechanism (CDM), or from countries with economies in transition (EITs) (through Joint Implementation or International Emissions Trading).

The Kyoto Protocol fulfills the commitment made by one hundred and eighty six countries under the UN Framework Convention on Climate Change (UNFCCC) that industrialized countries – who are responsible for the vast majority of emissions that cause climate change – should take the first steps towards sustainable energy consumption, use of clean technologies and sustainable land management practices, which are needed to mitigate the impacts of climate change.

3. Is the CDM letting the North off the hook for their carbon reduction obligations and what's in it for the South?

Industrialized countries have to implement domestic policies and measures to reduce Green House Gas (GHG) emissions. These domestic measures have to generate the most significant part of the emission reductions used by an industrialized country to achieve its compliance targets according to the Kyoto Protocol, and emissions reductions earned through CDM and other market mechanisms can only be supplementary to these domestic actions.

It is estimated that the cost to meet emission reduction commitments made under the Kyoto Protocol is in the order of billions of dollars. Given that they reduce cost of compliance, market mechanisms such as the CDM are relevant to the long-term engagement of the global community to combat global climate change.

For developing countries, the CDM represents an opportunity to attract investments from the public and private sectors in climate-friendly technologies, and to contribute to the global combat on climate change. In order to be eligible, CDM projects have to be above and beyond business-as-usual, and must contribute to sustainable development as defined by the host country (developing country). Participation in the CDM is entirely voluntary.

4. What is carbon finance?

Carbon finance is the general term applied to resources provided to a project to purchase greenhouse gas (GHG) emission reductions (“carbon” for short). Commitments of carbon finance for the purchase of carbon have grown rapidly since the first carbon purchases began less than 10 years ago. 2005 saw the global market for greenhouse gas emission reductions grow to more than \$10 billion. Volumes are expected to continue to grow as countries that have already ratified the Kyoto Protocol work to meet their commitments, and as national and regional markets for emission reductions are put into place, notably in Canada, Japan. The European Union’s Emissions Trading Scheme started in January 2005.

5. Why do greenhouse gas emission reductions have value?

Meeting the Kyoto targets will require public and private investments. Many industrialized governments that have ratified the Protocol have already begun implementing domestic policies and regulations that will require emitters to reduce greenhouse gas emissions, according to the established targets. So far, experience has shown that the cost of reducing one ton of carbon dioxide (a greenhouse gas) can cost from \$15 up to \$100 in industrialized countries.

By contrast, there are many opportunities to reduce greenhouse gases in developing countries at a fraction of those costs per ton of carbon dioxide. Hence, an emission reduction that was achieved at a lower cost has value to a public or private entity in an industrialized country that is required by regulation to reduce its emissions.

6. What is the Carbon Fund for Europe (CFE)

On December 17, 2004, the European Investment Bank and the World Bank announced their intention to collaborate with a view to creating a Carbon Fund for Europe (CFE). The CFE was launched in March 2007, when the target capitalization of Euro 50 million was reached. The following five Participants are part of the CFE: Ireland, Luxembourg, Portugal, Flemish Region and Statkraft Carbon Invest S.A. (Norway). The CFE is thus fully funded and no additional Participant is envisaged. The CFE is established as a trust fund administered by the World Bank, in cooperation with the EIB.

7. How does the CFE work?

The Fund will purchase greenhouse gas emission reductions through the Kyoto Protocol's CDM and JI from climate-friendly investment projects from either bank's portfolio, as well as from stand-alone projects. Through the CFE, the two institutions will help developing countries achieve sustainable development by fostering investment in clean technology projects, complement private sector development in the emerging carbon market, and, seek ways to support essential private carbon market development.

The Fund acquires greenhouse gas reductions on behalf of the participants and helps project sponsors develop projects intended to reduce greenhouse gas emissions. The CFE is directed towards the EU Member States and the European private sector. Carbon credits will be purchased from projects eligible under the Kyoto Protocol's CDM and JI and will be compatible with the EU ETS in order to facilitate the participation of private companies with EU emission reduction requirements.

The CFE will purchase greenhouse gas emission reductions from projects in the developing world or in countries with economies in transition for the account of the fund participants, and pay on delivery of those emission reductions. The emission reductions can be used against obligations under the Kyoto Protocol or for other regulated or voluntary greenhouse gas emission reduction regimes.

8. What is the role of the World Bank and the European Investment Bank in the CFE?

The Fund is co-directed by the World Bank and the EIB. The carbon asset management is handled by the World Bank as trustee. While the World Bank brings its expertise and experience of the carbon market to the CFE, the EIB brings its intimate knowledge of the European economy and a large project pipeline in developing countries. The CFE may access the banks' project portfolios, many of which are potentially eligible under the Kyoto Protocol mechanism. Projects are prepared, appraised and financed either by the World Bank or the EIB directly or through implementing entities. Implementing entities will include private sector companies which will be selected by public procurement processes. European banks and financial institutions will also be invited to collaborate with the Fund.

9. What kinds of project will the CFE do?

The Fund will give preference to projects with relatively short lead times in order to maximize the generation of credits that could be used for the second phase of the EU ETS. Up to a limit of 40%, the fund may purchase carbon credits generated by a project beyond 2012. The Fund is interested in projects that already have clear implementation plans and that have a defined operational start date. It will consider all types of emission reduction or removal projects. Anyone can submit projects to the Fund, as long as projects are credible and financially sound. Projects should be able to offer a minimum annual emission reductions volume of 100,000 tons.