Financial Performance

2006 has been another year of progress for carbon finance at the World Bank. Overall funds and facilities committed by 13 governments and 62 private organizations were $1,895* million by August 31, 2006. This is expected to increase to $1,945 million by December 31, 2006, with a new $50 million fund in partnership with the European Investment Bank—the Carbon Fund for Europe, which is expected to start operations in 2007. The value of emission reductions purchase agreements signed by August 31, 2006 is $1,226 million, with 177 million tons of carbon dioxide equivalent—in both certified and verified emission reductions—under contract for delivery.

While the growth of the market for Clean Development Mechanism projects is most encouraging, it has resulted in upward pressure on the price per ton of carbon dioxide equivalent. Constraints imposed by pricing agreements for a number of funds has made it difficult to offer competitive pricing on some transactions. The World Bank has responded by establishing a new approach to pricing, which is designed to give more consistency across the portfolio.

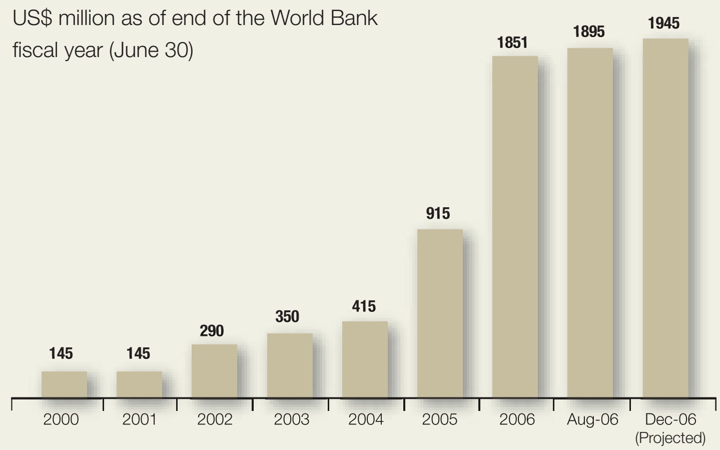
The rapid growth in funding for the Bank's carbon finance operations presents many challenges to the World Bank, not least delivering sufficient emission reductions purchase agreements within the time frame set out in the first Kyoto commitment period. Mainstreaming carbon transactions within the World Bank and leveraging its regional presence has been a priority. As a result the number of carbon finance transactions associated with Bank lending projects has grown from 10% in 2004 to around 23% in 2006. In the last year the Carbon Finance Unit moved some of its most experienced staff into the regions to coordinate and lead carbon finance operations. Staff and resources are shared across many funds rather than being dedicated to a single fund. This approach allows the Carbon Finance Unit to optimize processes and ultimately operate more effectively and efficiently.

With several funds nearing the end of the allocation phase, the Carbon Finance Unit has been developing back office processes for timely emission reductions purchase agreement payments to project entities and ensuring that certified emission reductions and verified emission reductions are registered in accordance with the regulations and the fund participants' requirements.

The next two years will be important in establishing carbon finance as a valuable financing product in the World Bank's portfolio. A significant delivery challenge lies ahead, coupled with the need to continue championing carbon finance both internally and externally.

Funds Under Management

US$ million as of end of the World Bank fiscal year (June 30)



* A number of funds are Euro-denominated, an exchange rate of 1.25 dollar/euro has been used.