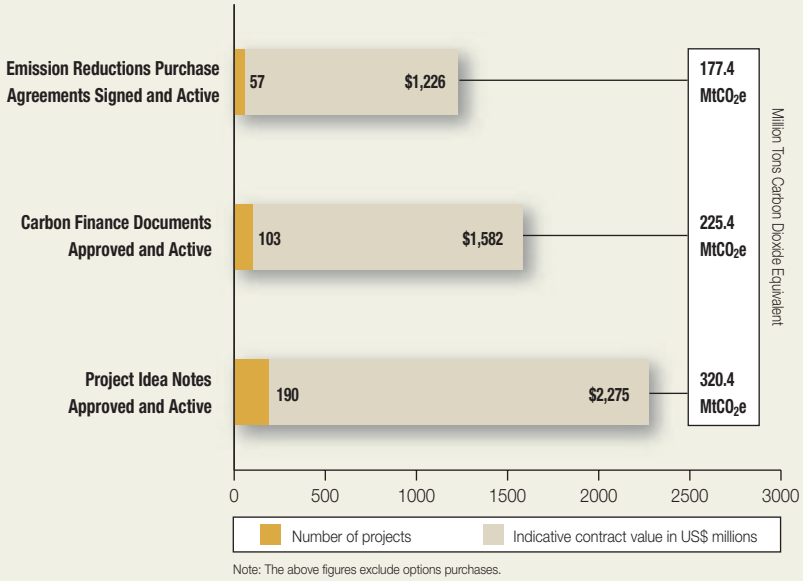
Report on Carbon Finance Operations

World Bank Carbon Finance Portfolio Development

The pipeline for the World Bank managed carbon funds includes 190 projects with an estimated carbon asset value of more than $2.2 billion as of August 31, 2006. Of these, 103 projects have advanced to the carbon finance document (CFD) stage and have been approved by the participants of the relevant funds for inclusion in the portfolio. Fifty-seven projects[1] have signed emission reductions purchase agreements (ERPAs) totaling $1.2 billion, of which 27 were signed over the last year with a total value of $1.1 billion.

Status of Project Development
(cumulative)

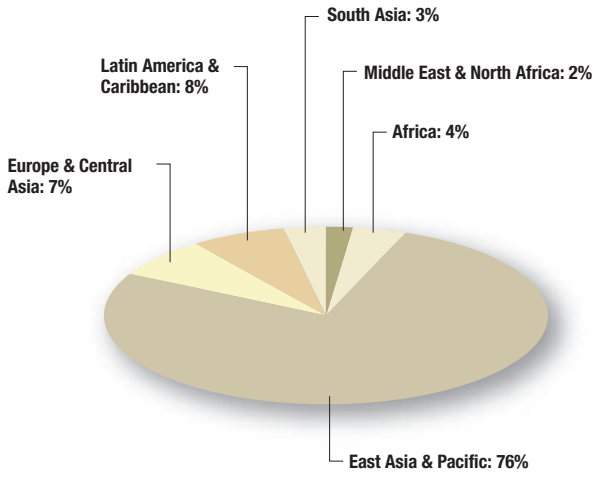


Note: The above figures exclude options purchases.

Active World Bank Carbon Finance Portfolio—Total $1.582 Billion

Geographic Distribution

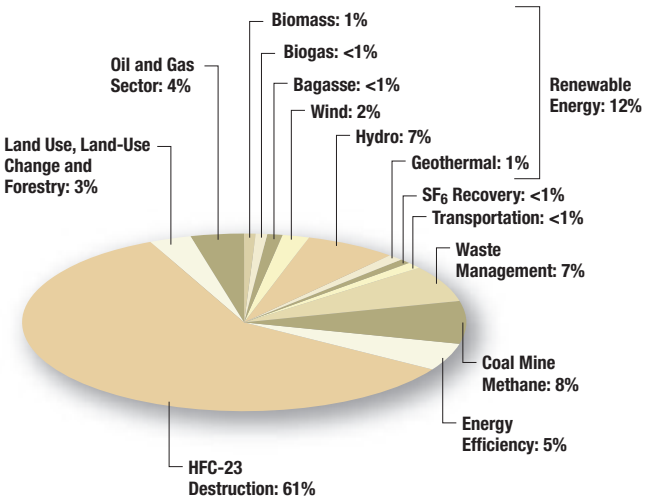
Looking at the geographic distribution of the portfolio, East Asia, particularly China, remains the host country region with the largest share, accounting for a total value of over $1 billion. This is primarily due to the two HFC-23 contracts. Europe and Central Asia increased the value of its portfolio with the addition of several oil and gas sector projects. Europe and Central Asia and Latin America now have an almost equal share of the World Bank's carbon finance portfolio with 7% and 8% respectively or more than $110 million in expected contract value each. The first emission reductions purchase agreements for the Middle East and North Africa and South Asia regions were signed in the past year for the Italian Carbon Fund and the Community Development Carbon Fund. In addition, three purchase agreements have been signed in Sub-Saharan Africa in the past year.



[1] The World Bank's carbon funds have signed 58 emission reduction purchase agreements. One agreement has been terminated.

Technological Distribution

The World Bank's carbon funds strive for technological diversity. In the last year, HFC-23 destruction accounted for the largest share (61%) of the portfolio. Renewable energy projects represent the next largest share with $188 million in carbon finance revenues expected. The last year has seen the entrance of projects in the oil and gas sector into the project portfolio. Progress was also made in securing assets in the land use, land-use change and forestry (LULUCF) category through the signing of the first purchase agreements for the BioCarbon Fund. The Spanish Carbon Fund was the first World Bank managed fund to sign an emission reductions purchase agreement in the transportation sector. Finally, strides were made to develop energy efficiency projects, a sector that typically is under-represented in the overall CDM pipeline.



BioCarbon fund signs first two emission reductions purchase agreements

Precious Woods in Nicaragua and FONAFIFO-Coopeagri Forestry in Costa Rica were the first two projects in the BioCF portfolio to have signed emission reductions purchase agreements. The signing ceremony took place on May 10, 2006 at Carbon Expo in Cologne, Germany.

The Precious Woods project consists of the reforestation of degraded pasture land of two former cattle ranches in southwestern Nicaragua with teak and valuable native wood species. In addition, the project activities will also focus on conserving the existing secondary forest in the project area consisting of ornamental and fruit-bearing native species. Most of these species are either threatened or protected under the Convention on International Trade in Endangered Species of Wild Fauna and Flora. The Precious Woods project is expected to sequester around half a million tons of carbon dioxide equivalent by 2012.

The Coopeagri Forestry project will help expand the scope of an already existing Program of Payments for Environmental Services, implemented in Costa Rica by a government agency—FONAFIFO. The project activities are integrated into the production activities of the farmers, who voluntarily will dedicate part of their farms to reforestation or agroforestry, in that way likely improving sustainability and permanence. The newly established forests will provide raw material for the local forest industry while relieving pressures on natural forests and providing new habitat for biodiversity. The new forests will provide other environmental benefits, such as protecting the hydrologic regime and reducing land erosion.

At top: Jorge Mario Rodrigues from FONAFIFO (left) and James Warren Evans from the World Bank.
At bottom: Ted Scheidegger from Precious Woods (right) and Alexandre Kossoy from the Carbon Finance Unit at the World Bank.