Renewable Energy and Energy Efficiency- Innovative policies and financing instruments for the EU's southern and eastern neighbours

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- The Kyoto Protocol commits industrialized country signatories to reduce their "carbon" emissions by an average of 5.2% compared with 1990 emissions in the period 2008 – 2012. In order to meet their commitments under the Kyoto Protocol, industrialized countries are expected to purchase up to 1.6 billion tons of carbon dioxide equivalent emissions reductions from projects in developing economies or economies in transition that reduce greenhouse gas emissions, or enhance carbon sequestration. A further 0.4 to 2 billion tons of emission reductions are expected to be traded on the international market between industrialized economies and economies in transition.
- Signatory countries whose current emissions fall below the Kyoto target levels are deemed to have tradable headroom defined in terms of Assigned Amount Units (AAUs) or so-called hot air that can be traded to industrialized countries. The entire availability of AAUs is spread among the countries of Eastern Europe and the former Soviet Union.
- Up to this point, potential purchasers of AAUs in EU countries and Japan have expressed interest in "AAUs" only if they are "greened – in other words if the sale of "AAUs" is linked to investments and activities that actually reduce greenhouse gas emissions or provide other environmental benefits. In contrast with emissions reductions associated with Joint Implementation projects, there is no requirement for formal greening or verification of "greened AAUs" under the Protocol. This would be a voluntary step taken by sellers to increase the market value of their AAUs.
- The World Bank has been active in assisting a number of countries to develop Greening Investment Schemes so as to be able to take advantage of the opportunity to trade "greened AAUs". Analysis undertaken to date suggest that in these countries the energy sector accounts for the bulk of the emissions (in Bulgaria's case, for example. the estimate is nearly 70% of total emissions). The sector, therefore, offers the opportunity for early and significant emissions reduction potential. The challenge is to put in place the financing mechanisms to support the required investments.
- The fact that there is a market for "greened AAUs" means that there is the potential to use prospective "greened AAUs" as collateral to finance investments to support emissions reductions.
- The concept of "greened bonds" still needs to be developed but has the potential to play a significant role in financing investments to reduce emissions including investments in renewable energy and energy efficiency. However, in order to maximize the impact of green bonds we believe there would be merit in linking them with other sources of financing including IFI funding and private sector participation. Consequently we have started work on developing the concept of a Green Investment Vehicle that can attract financing from various public and private sources.

- Such a vehicle has the potential not only to support investments in emission reducing projects in the EU's southern and eastern neighbors but also in certain of the member states that have tradable headroom.
- The Kyoto Protocol focuses on emissions reductions during the period 2008 – 2012. In order to maintain an emphasis on greenhouse gas reductions beyond 2012 incentive mechanisms will be required over the longer term. The World Bank, therefore, is currently exploring new financial instruments, such as a fund or a facility, to provide longer term support to the carbon market.