



**“Make Markets Work for Climate”**

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**Opening Session**

**Katherine Sierra**

**World Bank Vice President for Sustainable Development**

**CHECK AGAINST DELIVERY**

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Mr. Prime Minister, distinguished speakers and guests, ladies and gentlemen...

I am very pleased to be here and appreciate the opportunity to speak to you today. Thank you to all the partners involved in organizing this conference, especially to the government of The Netherlands.

Access to affordable energy access or energy security has become a critical issue in the global agenda. Some in the audience will argue that this means a safe and certain supply of oil, gas, and coal. Others may be inclined to link energy access to climate security, and therefore they will prefer other forms of energy – clean energy, such as solar, wind, biomass etc. **Let me emphasize at the outset it is not an either/or proposition. It is both.**

1.6 billion people in the developing world have no access to modern energy sources. To serve them, we need to realize that fossil fuels will still need to be part of the energy mix for the foreseeable future. Furthermore, transforming today's economy into a low carbon economy, while desirable by all is simply not a realistic short-term proposition.

So the challenge is **three-dimensional**. First, developing countries need urgent support to bridge the investment gap, now at the level of \$80 billion a year, in order to get access to energy services and generate growth. With better policies and regulation, this gap can be diminished opening the doors for more private sector engagement.

Second, developing countries shouldn't need to repeat the mistakes made by rich countries. They can use cleaner, more efficient technologies, but financial assistance is essential to pay-down the costs for this. At the World Bank, we are expanding the use of our existing financial instruments to contribute to this objective, but more resources will be needed in order to go to larger scale.

Third, poor countries will need to adapt to climate variability and change in order to sustain their development efforts. More than 20 percent of concessional lending devoted to development is under climate risk today, meaning that the new opportunities generated by these efforts can be jeopardized.

**Making markets work for climate** is a realistic and viable proposition. It wasn't ten years ago. Today, the Carbon Market has matured and is producing financial and environmental benefits. It is showing that the bottom line and climate-friendly policies and actions can go hand in hand.

The companies and private institutions present here have realized the real meaning of Corporate Social Responsibility. They have shown leadership and courage in making viable the idea that what is good for business and communities can also be good for the climate.

This engagement is also showing that developing countries can not only benefit from this innovative market through cleaner energy projects, but also through additional cash revenue, which can be used for development purposes.

The first carbon fund – the Prototype Carbon Fund – was conceived in late 1999 several years before the Kyoto Protocol eventually entered into force. The Government of the Netherlands, along with other European governments and a cross-section of European and Japanese companies, some of them represented here today, joined hands together with the Bank as pioneers in the carbon market.

Seven years later, a market with a volume that surpassed \$10 billion last year has the potential to double in 2006.

The Bank manages nine carbon funds and facilities on behalf of 13 governments and 62 private sector companies. The funds have a value of about \$1.9 billion. More than \$1.2 billion has been allocated to 57 projects for which carbon contracts have been signed.

The Bank's Carbon Finance Unit supports a very diverse portfolio of projects, from waste management and renewable energy to forestry and chemicals. For example, carbon finance is already having a major impact with projects that improve waste management practices in developing countries, avoiding the methane emissions associated with conventional solid waste landfills, waste water, and agricultural refuse. Small renewable energy and biomass cogeneration projects also figure prominently in carbon fund portfolios.

But experience tells us that carbon finance has had a limited impact in promoting larger scale renewable energy projects. Yet these are precisely the kinds of projects that will provide significant amounts of clean energy for growth and sustainable development in developing countries.

This is primarily because of the long lead times associated with these projects – it takes anywhere between three to five years to obtain financing, get the necessary licenses and clearances, and complete construction before emission reductions can be generated. With the 2012 deadline for the end of the Kyoto Protocol ahead of us, there is very little time left.

So, the carbon market needs continuity and a long-term framework in order to continue to develop.

Last month, we released a progress report on a new *Investment Framework for Clean Energy and Development*, which is intended to accelerate investments in clean energy. I will tell you more about this in a later session devoted to this theme.

In the *Investment Framework*, the Bank highlights carbon finance as a key incentive to promote a low-carbon economy. We also recognize, though, the need for market continuity to stimulate private investments in clean energy and provide predictability.

We must also consider innovative solutions. Deforestation in the tropics may account for more than 20 percent of greenhouse gas emissions. However, the Clean Development Mechanism from the Kyoto Protocol does not benefit countries protecting their forests. By reducing the present deforestation rates, forest rich countries could help to reduce climate-related emissions,

but also provide much needed funds for bio-diversity conservation. This would also generate revenues for the local communities.

In conclusion, we hope that working together as an international community, with governments, private sector, and civil society, we will generate a broad and inclusive platform. We hope that these different perspectives and approaches can complement each other in the common pursuit of a more climate-friendly path for development.

Thank you.