

**Environment for Europe Proposed Intervention:
Environmental Finance and Partnerships to Support the Implementation of
Environmental Policies and Programs**

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Meeting the environmental investment needs in the countries of Europe and Central Asia will, as has been noted, require access to a range of new sources of funding. I would like to focus on one area where creative approaches have the potential to generate significant positive results.

Within the context of Article 17 of the Kyoto Protocol, a number of countries in the Europe and Central Asia region are the sole repositories of surplus tradable assigned amount units (AAUs). Various countries are considering different strategies to take advantage of the associated trading opportunities. The one common thread associated with AAU trading is the indication, to date, from buyers that they will only acquire AAUs if the providing countries use equivalent revenues to finance environmental projects and programs.

Within this context, the World Bank is helping certain governments establish the institutional and regulatory frameworks to support AAU trading transactions, while also helping these governments put in place green investment schemes. We anticipate that this will lead to a number of pilot transactions to trade AAUs that will initiate the third segment of the global carbon finance market (after JI and CDM). This market has the potential to generate over 10 billion Euros in additional revenues to support emission reducing investments in the region through 2012.

While surplus AAUs can be sold outright, projections of future emission levels and potential targets suggest that some countries should not seek to sell their AAUs outright. With this in mind, the World Bank has been working, initially with Bulgaria, but potentially with other countries to develop the concept of a "green bond" that is backed by AAUs and is a mechanism to raise money in the capital markets while still preserving the opportunity to retain the AAUs once the bonds have been redeemed.

Coupling trading opportunities associated with surplus AAUs with JI opportunities will offer extensive scope to a number of the Annex B countries in this region to raise funds to support the environmental agenda.

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