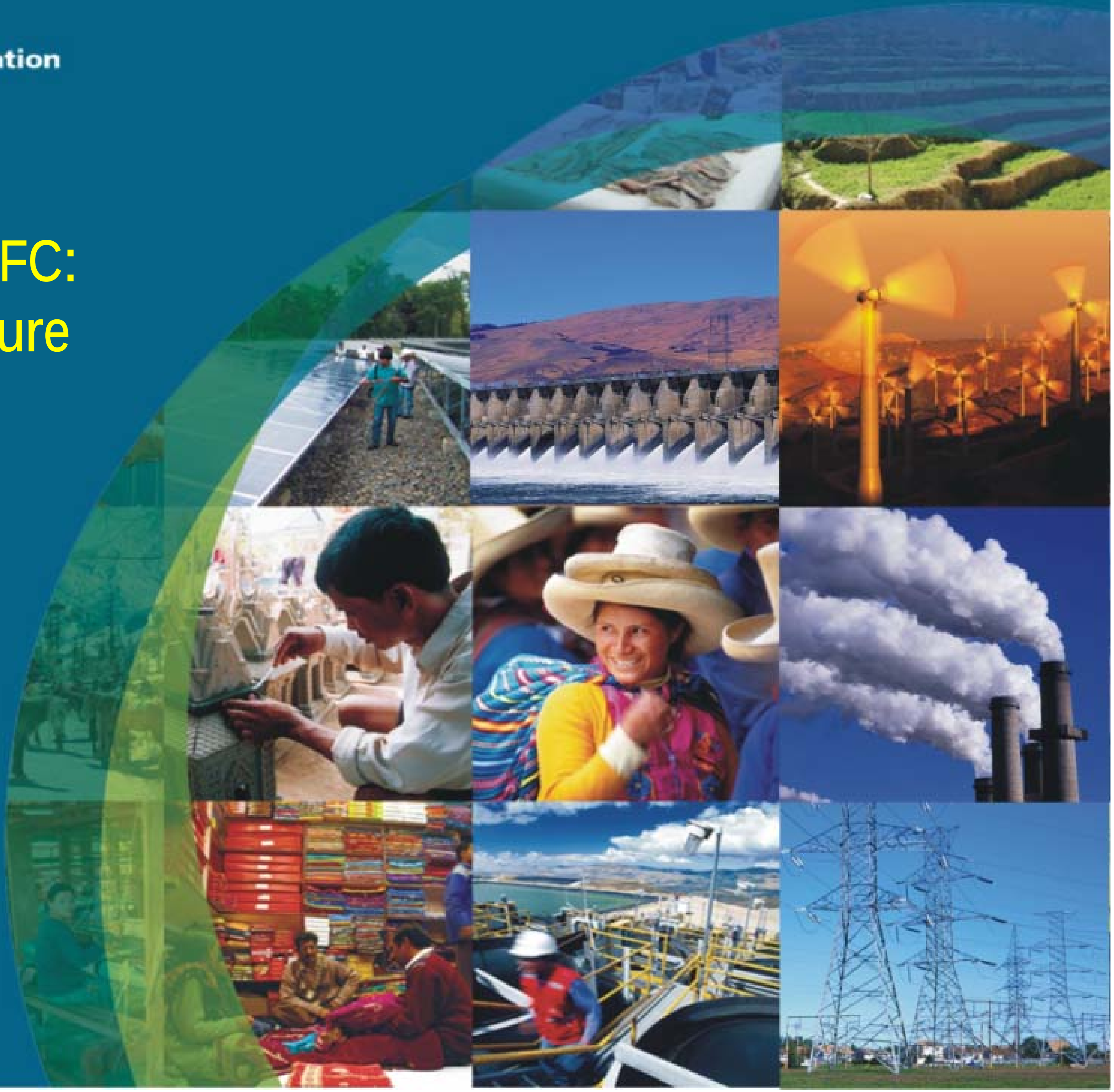
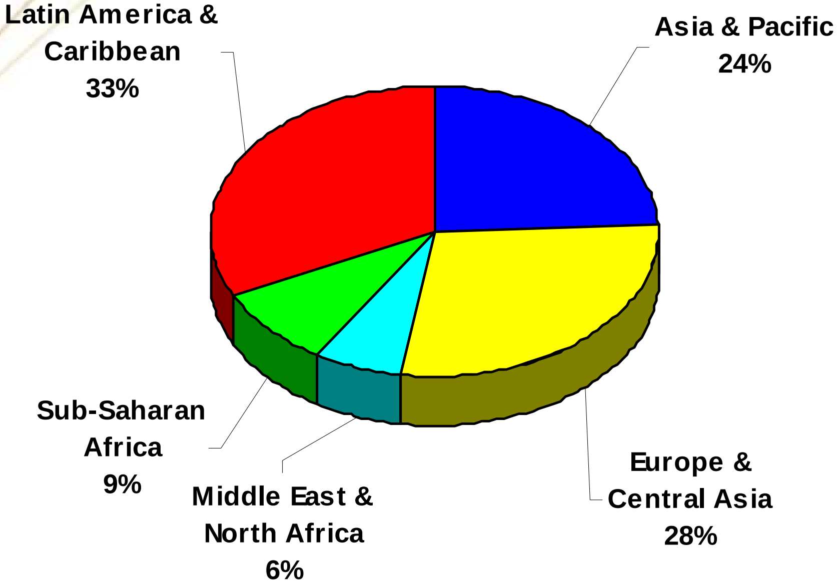
Carbon Finance at IFC: Building for the Future



Alan Miller,
SB 24
Bonn, Germany
May 2006

As the private sector arm of the World Bank Group, IFC has been successfully assessing and assuming risks in emerging markets for the last 50 years



As of June 2005, IFC had investment commitments of $19.3 billion in 1,300+ companies in 115+ countries

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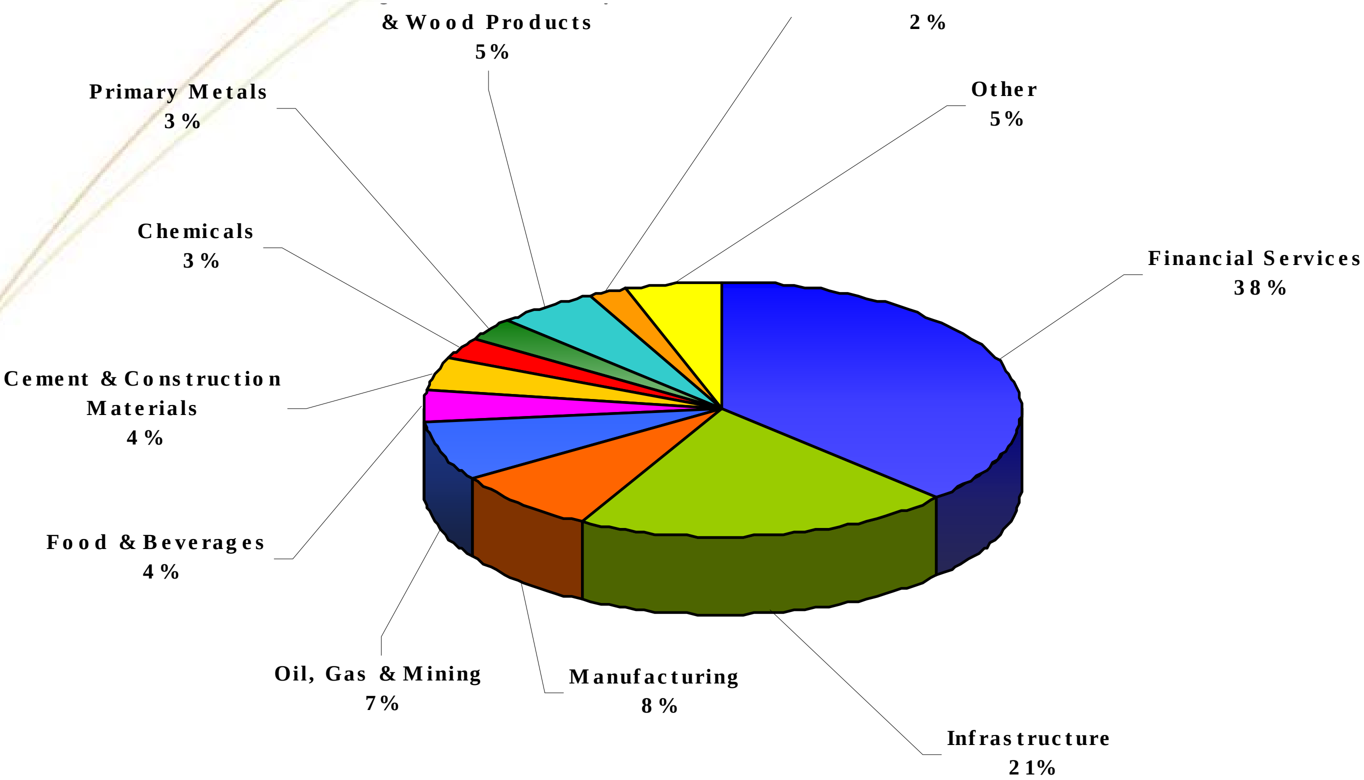
IFC's investment portfolio provides clues…



(as of 30 June 2005)

…to why IFC is interested in emissions trading

- Carbon will be key value driver in IFC's operations going forward
  - Energy (power generation, oil & gas, mining)
  - Infrastructure (utilities, transport, logistics)
  - Industry (manufacturing, chemicals, agribusiness)
  - Financial Intermediaries (channels for new products)

- Private sector is key
  - Most significant seller of project-based credits; will soon be most significant buyer
  - Will be primary conduit for trading and risk management

- Huge potential for investment in carbon market-related businesses and products
  - Traditional project finance products
  - New financing and risk mitigation products

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IFC’s Carbon Finance Activities

- Carbon Finance Unit
  - In-house resource for all carbon finance-related issues
  - Manages $150+ M in two carbon finance facilities – INCaF & NECaF
    - on behalf of the Government of the Netherlands
  - Takes lead in development of new products for the carbon market

- Provide flexible financing to carbon-rich projects incl. equity
  - Leverage in-house carbon market-related expertise
  - $10 M equity invested in AgCert pre-IPO in April 2005
  - Targeted debt facilities being considered with several local banks

- Strategy going forward
  - Move beyond intermediation: IFC to take risk in the carbon market for its own account
  - Several new structured finance products ready

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IFC's Carbon Finance Facilities

- Two facilities to purchase carbon credits established in cooperation with the Dutch Government
- INCaF (IFC-Netherlands Carbon Facility)
  - recently expanded
  - $120 M to buy credits from CDM projects in Latin America, Asia, Africa
- NECaF (Netherlands European Carbon Facility)
  - $35 M to buy credits from JI projects in Central & Eastern Europe
- Current Status
  - $25 M committed in 3 CDM projects
  - $60 M to be committed in 4-6 more CDM & JI projects by June 2006

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Pipeline of Carbon Projects

Current CDM Pipeline

- Bagasse cogen – India, Brazil, Central America
- (Bundles of) Small hydro – Brazil, India, Sri Lanka
- Landfill gas capture and use – Argentina, Brazil, China
- Waste mgt/biogas-based power gen – Thailand, Mexico, China
- Wind – India, China, Middle East
- MSW-to-energy – India
- Suppression of coal seam fires - India
- Avoided industrial emissions – Brazil
- Geothermal – Indonesia

Current JI Pipeline

- Waste natural gas collection and utilization – Hungary
- Cogeneration – Bulgaria, Romania, Ukraine
- Landfill gas capture and use – multiple countries in CEE
- Wind farms – Hungary
- Avoided gas flaring - Russia
- Avoided industrial emissions - Russia

Delivering New Financial Products

- Leverage IFC's ability to manage and take long term project and credit risk in emerging markets
  - Move beyond intermediation
- Carbon Delivery Guarantee (CDG)
  - Guarantee delivery of (EU ETS quality) CERs
  - Provide buyers with comfort; qualifying sellers get a premium
  - Forward pricing can be indexed or fixed
- Monetize future cashflows from sales of carbon credits
  - Mezzanine finance structure
  - Complementary with CDG

Carbon Delivery Guarantee

- Delivery of credits depends on risks that are par for the course
  - Generation of credits (project performance risk)
  - Compensation for underperformance (project credit risk)
  - Other (regulatory, political, etc.)

- IFC will pool credits and provide AAA-rated delivery guarantee to buyers
  - Compliance buyers unwilling to take emerging market risks for forward contracts
  - FIs want to manage portfolio risk and certainty for hedging purposes
  - Buyers treated akin to counterparties for derivative products
  - IFC as counterparty offers more than financial comfort

- Qualifying sellers will get 1.5-2x current market prices for their credits
  - Premium possible as credits get market-based pricing for AAA counterparty
  - Creditworthy companies provides guarantee to IFC for now
  - Seniority, volume considerations

What is in it for IFC?

- Ties in with IFC’s mandate to promote sustainable development
  - Leverages IFC’s balance sheet to promote environment-friendly projects in emerging markets
- Financial innovation helps unlock value for emerging market projects
  - Collaborate with the private sector to design and launch products and services for the carbon market
- Helps developed country partners meet their obligations under the Kyoto Protocol
  - Private sector or shareholder governments

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What is in it for Project Companies?

- Allows for improved risk-reward choices in the carbon market
  - Higher carbon revenues could provide competitive advantage

- Opens up alternative financing options
  - CERPA with IFC can be monetized to raise FX debt

- Optimizes shareholder returns
  - Not all projects are created equal

What is in it for the Buyers?

- Counterparty is only AAA-rated institution focused entirely on financing projects in developing countries
  - Core competency offers advantages in this business
  - Track record of profitability spanning 50 years
- Counterparty is the leader in environment & social development issues
  - "Equator Principles" – 30+ banks from ~15 countries have signed up
  - Sustainable development by adding value
- Counterparty has ability to deliver
  - Significant experience with carbon markets
  - Access to deals: IFC projects & extensive field presence

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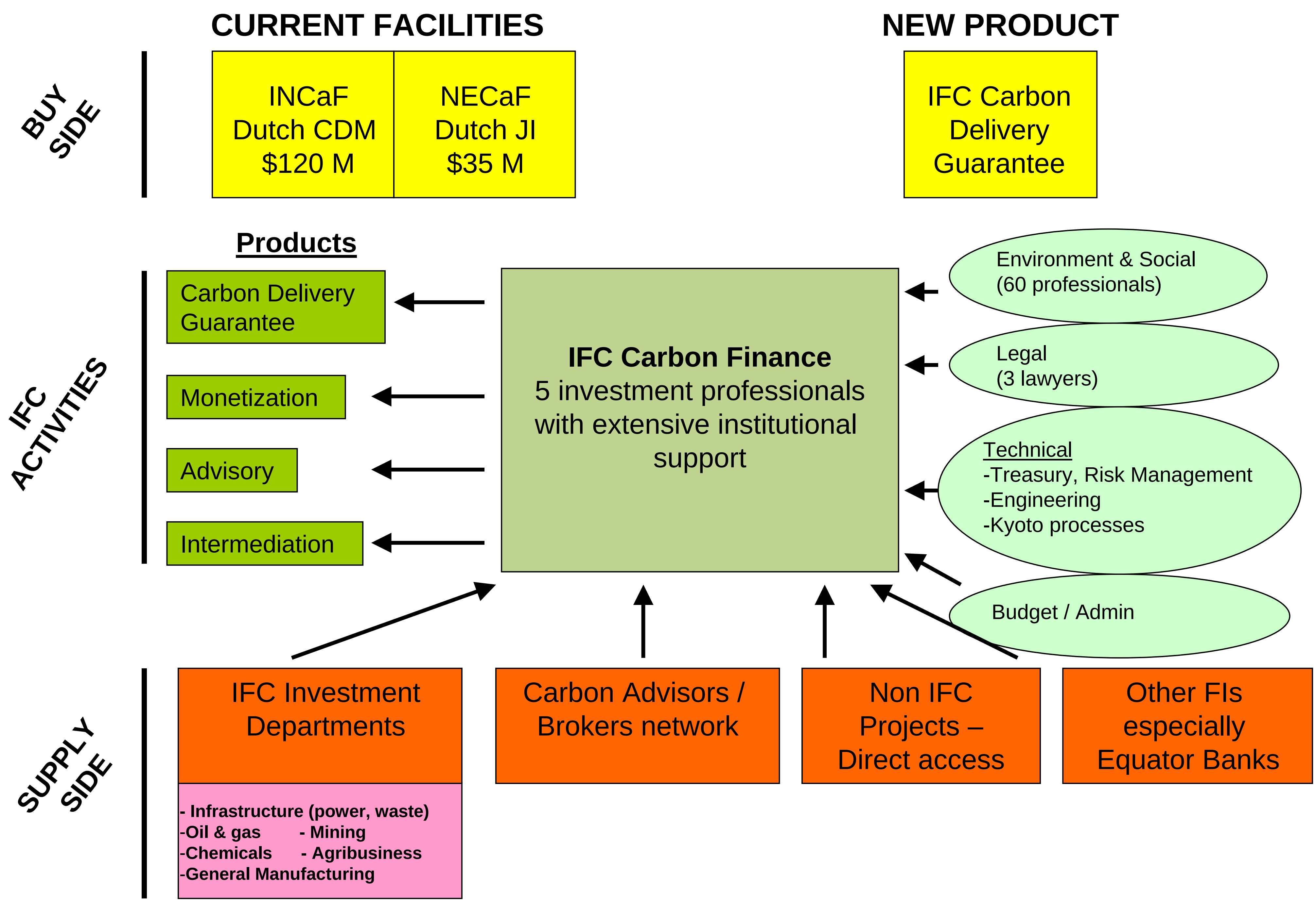
CURRENT FACILITIES
NEW PRODUCT
BUY SIDE
INCaF
Dutch CDM
$120 M
NECaF
Dutch JI
$35 M
IFC Carbon Delivery Guarantee
Products
IFC ACTIVITIES
Carbon Delivery Guarantee
Monetization
Advisory
Intermediation
IFC Carbon Finance
5 investment professionals with extensive institutional support
Environment & Social
(60 professionals)
Legal
(3 lawyers)
Technical
-Treasury, Risk Management
-Engineering
-Kyoto processes
Budget / Admin
SUPPLY SIDE
IFC Investment Departments
- Infrastructure (power, waste)
-Oil & gas
- Mining
-Chemicals
- Agribusiness
-General Manufacturing
Carbon Advisors / Brokers network
Non IFC Projects – Direct access
Other FIs especially Equator Banks

For additional information on IFC's carbon finance activities, please contact:

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