

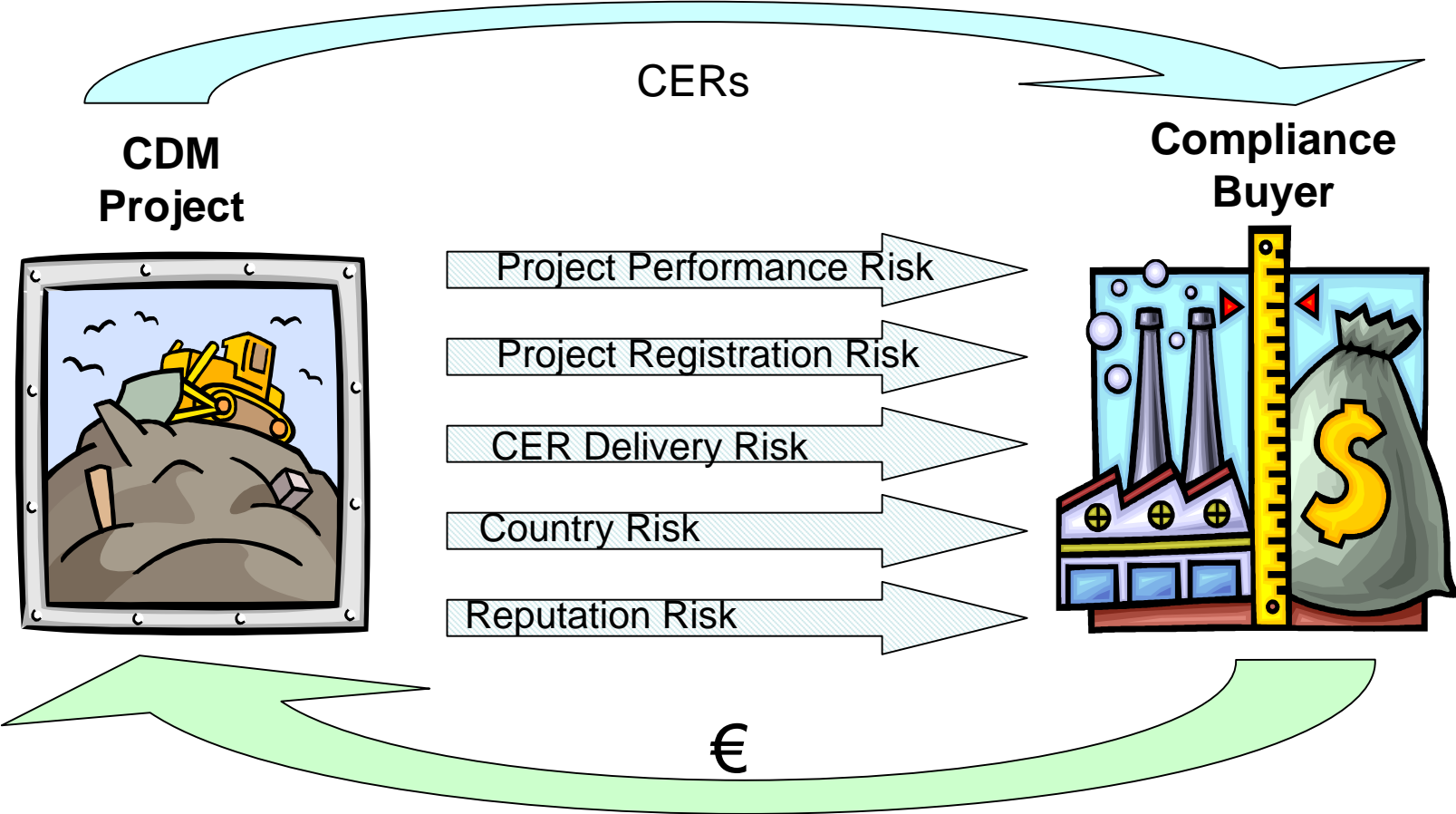
Risk Transfer Solutions for Carbon Markets

Financing for Climate:
Innovative Solutions and
New Markets

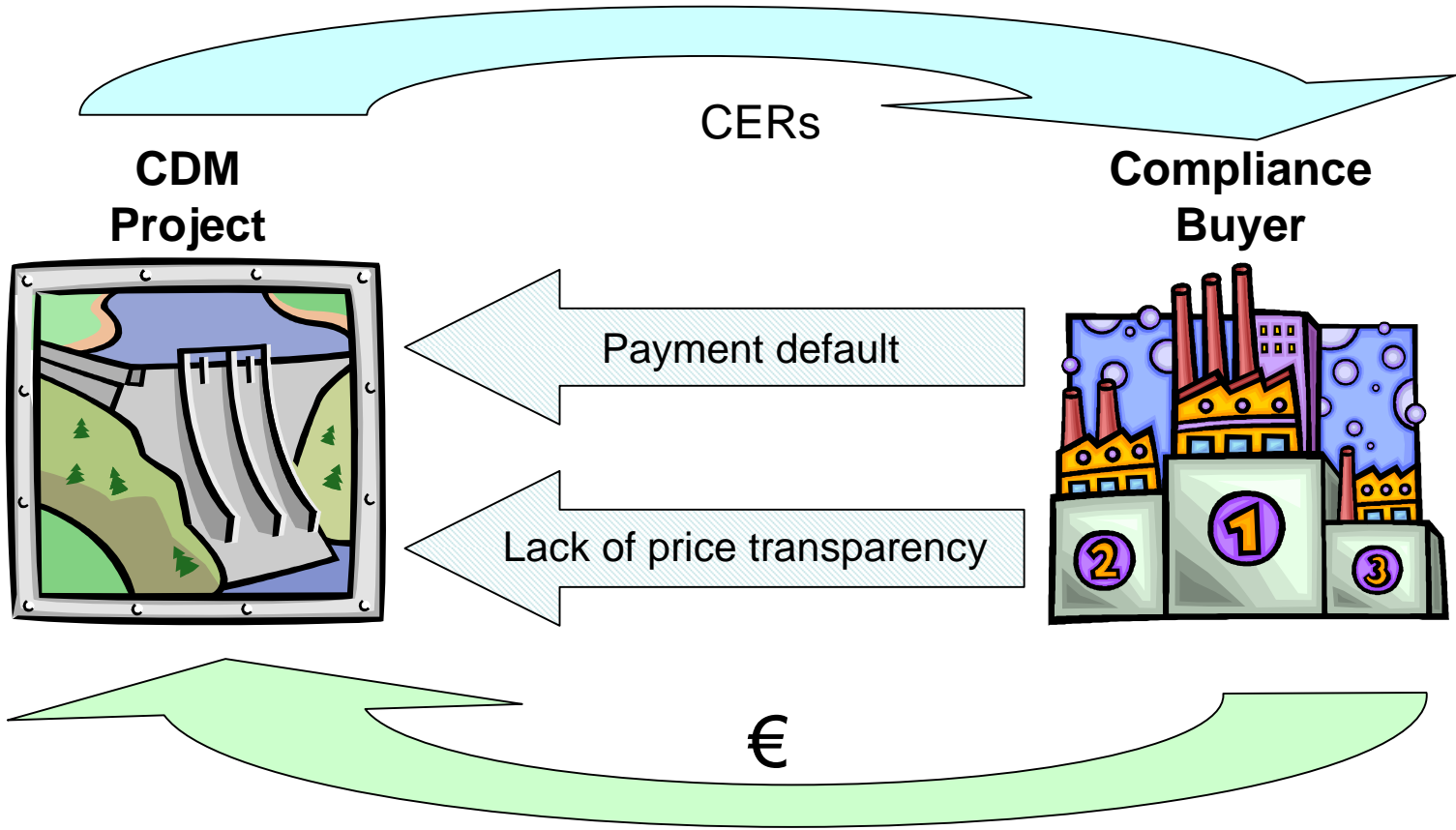
Ruschlikon, Switzerland
September 11, 2008



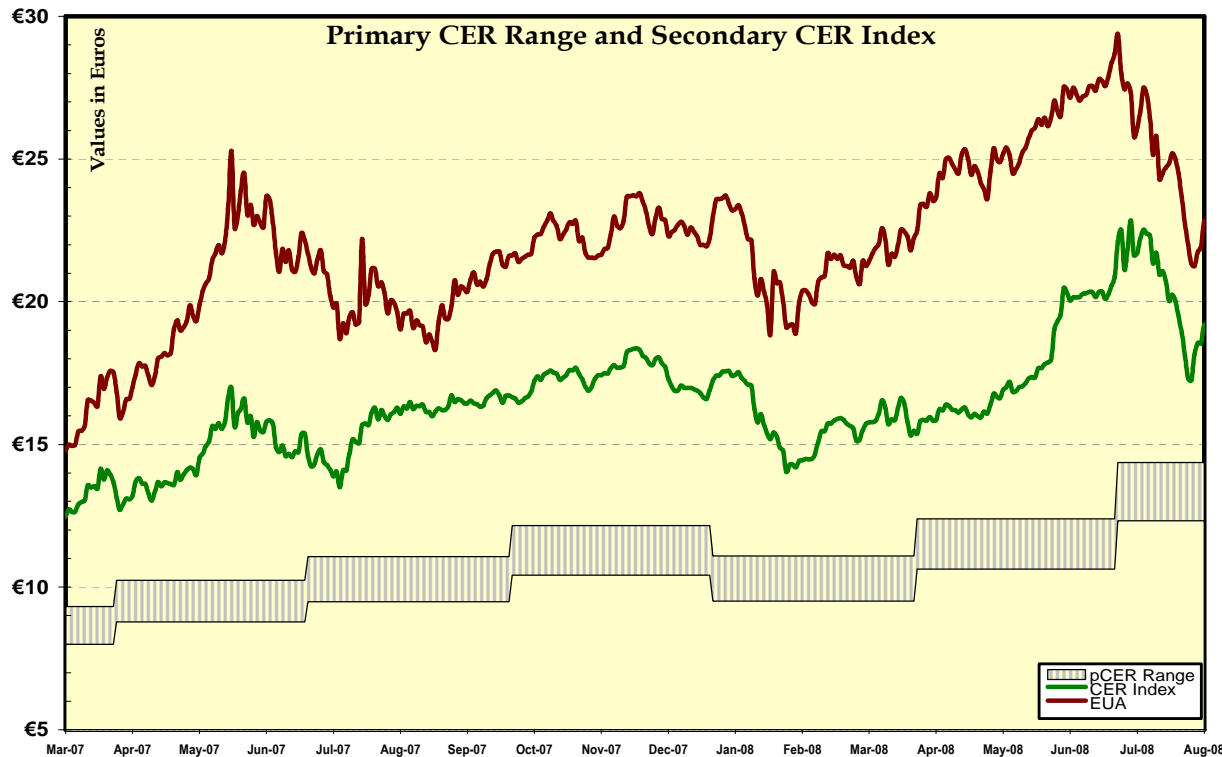
Carbon credit Buyers face project finance-type risks



Carbon credit Sellers also face risks



Sellers could realize premium value for credits

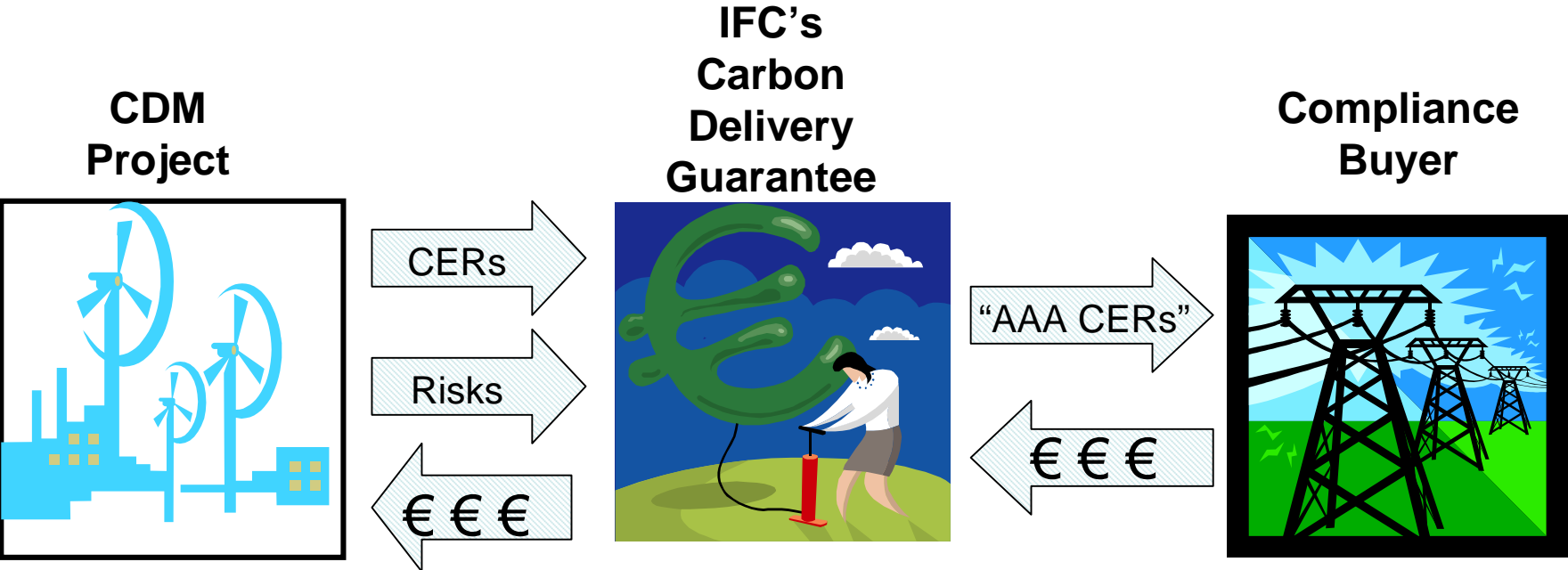


For illustrative purposes only. Estimates based on New Carbon Finance study done for IFC.

Sellers can realize a significant price premium compared to “low effort, plain vanilla” contracts if risks can be apportioned and priced better

- IFC can bridge primary and secondary CER markets to structure sale such that sellers get ~1.25x prevailing prices for primary project-based credits

Buyers and Sellers benefit from IFC's CDG product



Carbon Delivery Guarantee: helping manage risk

- Leverages IFC's ability to take project & credit risk in emerging markets
- Guarantees delivery of CERs to buyers in Europe and Japan
 - Fully mitigates project, credit, and country risks with no outs
 - Minimal reputation risks for buyers – best-of-class E&S
- Premium pricing and transparency for projects
 - IFC earns only pre-agreed credit enhancement spread; discloses all prices, does not trade CERs
 - Alignment of interest: IFC's objective is to maximize carbon revenues for projects
- AAA counterparty for buyers and sellers
- 2 deals committed for 1.7 M CERs



CDG structures span risk-return spectrum

Full-Recourse Annualized CDG

- ✓ Annually guaranteed CER deliveries
- ✓ Mark-to-market
- ✓ Forward contracts with fixed or EUA-indexed prices
- ✓ Suitable for sellers who want to maximize return
- ✓ Suitable for compliance buyers who want no risk

Non-Recourse Cumulative CDG

- ✓ Annual deliveries with bullet guarantee at end of contract
- ✓ IFC takes full project performance risk; damages to buyers capped
- ✓ Fixed price forwards only
- ✓ Suitable for sellers who want to minimize risk
- ✓ Suitable for buyers willing to take some tail risk

- Bespoke structures for project portfolios also possible

Risk transfer solutions key for carbon markets

- Post-2012 uncertainty is major hurdle
 - Fragmented markets; lack of longer term price signal
 - IFC considering a “participating forward” to facilitate post-2012 carbon flows
 - Commercial and/or donor interest in sharing risk and upside?
- CDM 2.0 needed to truly unleash financing flows
 - Significantly ease access for smaller projects via domestic FIs
 - IFIs and commercial banks could guarantee integrity of emission reductions (esp. via pCDM), subject to oversight by regulator
 - New risk management products required; donors will need to share risks

Thank you!

**Financing for Climate:
Innovative Solutions and
New Markets**

**Ruschlikon, Switzerland
September 11, 2008**



For more information on IFC's carbon finance products, please contact:



Vikram Widge
Program Manager
Carbon Finance Unit

2121 Pennsylvania Avenue NW
Washington DC, 20433, USA

carbonfinance@ifc.org
www.ifc.org/carbonfinance