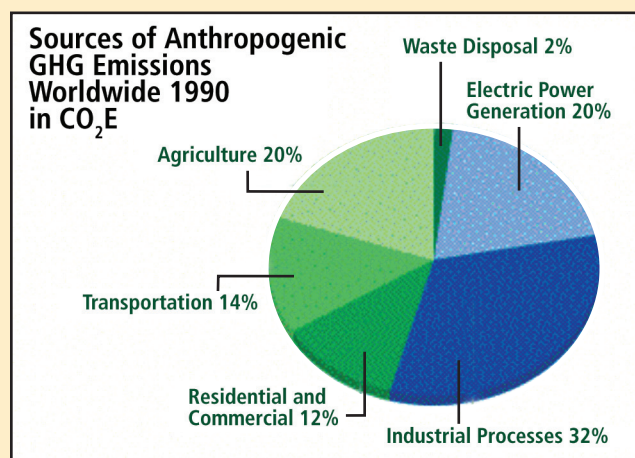


Carbon finance at IFC: Building for the future

The Kyoto Protocol to the United Nations Framework Convention on Climate Change entered into force on February 16, 2005. The Clean Development Mechanism (CDM) and Joint Implementation (JI) are the project-based mechanisms to help developed countries meet their emissions reduction obligations. The CDM allows companies or governments in developed countries to purchase certified emission reductions (CERs) from eligible projects in developing countries and use these so-called carbon credits toward their own targets. CERs must be independently verified and are issued by the CDM's regulatory body, the CDM Executive Board, located in Bonn, Germany. In an effort to ensure collective compliance by all EU member states, the EU created its own cap-and-trade emission reduction system with links to CDM and JI projects. This EU emission trading scheme commenced operations in January 2005 and is currently the largest GHG trading system.

IFC's engagement with the carbon markets since 2002 helped it to evaluate and ultimately invest in AgCert. IFC currently has about \$175 million under management in partnership with the government of the Netherlands, through which it purchases CERs and emission reduction units, which are credits from CDM and JI projects, respectively. As of June 30, 2006, INCaF has signed emission reduction purchase agreements with five clients: Brascan Energetica, which builds and operates run-of-river hydropower facilities in Brazil; Balrampur Chini Mills, a major Indian sugar producer and IFC client who has developed bagasse-based cogeneration projects; EcoPower, which operates small run-of-river hydroplants in Sri Lanka; Van der Wiel Stortgas, which recovers and flares methane gas from the Villa Dominico landfill outside Buenos Aires, Argentina; and Enercon India, which owns and operates wind farms across India.



©2005 AgCert International

It is estimated that the carbon market will be worth more than \$10 billion in less than 10 years.

However, the perceived risk associated with projects in developing countries remains one of the many barriers companies face in obtaining full value from developed country buyers for their carbon credits. Capitalizing on IFC's ability to assess and manage long-term project and credit risk in emerging markets, we have developed new products that will allow projects to attract a higher premium for their carbon credits in the global carbon market.

In particular, IFC's new Carbon Delivery Guarantee will allow IFC to use its AAA-rating to guarantee delivery of carbon credits from high-quality projects in developing countries to companies and financial institutions in developed countries. Through such enhancement, IFC will thus be able to help projects get a much higher value for their credits, while eliminating the risk of underdelivery of carbon credits for compliance buyers in developed countries, especially in Europe.