IFC’s Carbon Finance Products

Climate Financial Products
Climate Business Group
Defining Characteristics of IFC

• Owned by 183 member countries

• Provides loans, equity, and guarantees for private sector projects

• Does not accept government guarantees
  - Shares same risks as other investors

• Commercially oriented
  - Driven by risk-reward considerations

• Market leader in environmental & social performance standards
  - Equator Principles

• Rated AAA (S&P) and Aaa (Moody’s)
IFC has offices in over 100+ countries offering investment and advisory services.
# IFC’s Products and Services

## Senior Debt
- On-lending
- Liquidity management
- Acquisition financing
- Warehousing facilities
- Syndicated loans

## Structured Finance
- Partial credit guarantees
- Securitization
- Bond underwriting
- Global Trade Finance Program

## Mezzannine Finance
- Convertible debt
- Subordinated debt
- Other Tier II instruments

## Private Equity
- Common shares
- Preferred shares

## Advisory Services
- Corporate governance
- Risk management
- Small and medium business banking
- Housing finance
- Energy efficiency finance

## Sustainable Finance
- Carbon finance
- Renewable energy
- Risk sharing with local banks
- Supply chain financing
IFC has been successfully assessing and assuming risks in emerging markets for the last 50+ years...

As of June 2011, IFC had a portfolio of ~$43 billion in 1,700+ companies in 80+ countries.
...spread across several sectors

(As of 30 June 2011)
Why is IFC interested in the carbon market?

- In spite of post-2012 uncertainty, leveraging the carbon market is fundamental to IFC’s ability to deliver on its climate change strategy

- Carbon market increased from €86 bn in 2008 to €107 bn in 2010*
  - “Political” commodity, but private sector is key to making it work
  - Credits from emerging markets: ~15% by value in 2010 (about half of 2008)
  - Although market size relatively flat since 2009 (€103 bn), there continues to be significant potential for investment in carbon-related businesses & products

- Carbon will be a value driver in key sectors going forward
  - Infrastructure, Manufacturing, Financial Intermediaries

* Source: State and Trends of the Carbon Market 2011, World Bank
Significant experience from managing funds*

Villa Dominico
Argentina
€5,500,000
2006
Landfill gas capture

Brascan Energetica
Brazil
€8,500,000
2005
Run-of-river hydros

Deqingyuan
China
€3,500,000
2008
Bigoas to power

Phascon Technologies
Phascon
China
€16,000,000
2008
Landfill gas to power

Xinglong
China
€3,100,000
2008
Run-of-river hydros

Enercon
India
€6,600,000
2006
Wind farms

IHDC
India
€4,800,000
2006
Run-of-river hydros

Ecopower
Sri Lanka
€3,600,000
2005
Run-of-river hydros

ING Bank
Ukraine
550,000 ERUs
2007
Coal mine methane

* for the Government of the Netherlands
IFC Post-2012 Carbon Facility

- €150M Facility to forward purchase carbon credits up to 2020
  - CERs produced 2013-20 by projects financed by IFC or via IFC’s client banks*
  - Capitalizes on IFC’s due diligence as financier to projects

- IFC will be counterparty to CER purchase agreement (ERPA)
  - Credit risk of investors in the Facility is managed by IFC

- Price indexed to relevant market price at delivery with floor and cap
  - Project transfers post-2012 price risk to Facility

- Floor price guaranteed irrespective of eligibility at delivery
  - Longer term AAA-rated revenue stream increases financing options by enabling projects to use carbon revenues to service debt

- Facility managed by IFC
  - Operational since May 2011
  - First deal signed in July 2011

* Client banks should contact IFC team for additional information

Shalivahana
India
$15 million equity
Offtake of 1.5M Post-2012 CERs
Biomass to power
Post-2012 Carbon Facility
Post-2012 Carbon Facility - Key terms

- Price indexed to relevant market price at time of delivery
  - Payment on delivery in Euros from IFC on delivery of CERs

- Floor price guaranteed irrespective of eligibility at delivery
  - Lower the floor price, higher the % of market price
  - Floor subject to market conditions at time of commitment

- Projects can sign ERPAs prior to registration
  - Eligibility determined at registration
  - Preferred contract size of at least 400,000 CERs through 2020

- No liquidated damages for project under-performance
  - Facility will purchase CERs up to lender’s base case for capacity utilization

- Facility unable to purchase CERs from following project types:
  - HFC, N₂O from adipic acid, supercritical coal, forestry
  - Large hydro (> 20 MW for CDM) OK for now, but with lower floors
IFC can also “monetize” future CER revenues

- IFC can lend against CERPAs
  - IFC can monetize CERPAs signed with IFC or third parties
  - Third party buyers are required to meet a minimum credit quality threshold
  - Tenor and repayment profile are matched with CER revenue streams

- IFC can provide equity and mezzanine financing to projects that generate carbon credits
  - Returns can be linked to future carbon revenues

- IFC has invested in businesses with carbon revenues

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AgCert International Plc
Mexico/Brazil
€7.7 million equity
2005
Animal waste management

Estre Ambiental S.A.
Brazil
$20 million senior loan
$4.5 million sub debt
2009
Solid waste management

Green Resources
Tanzania
$10 million senior loan
$8 million income participating loan
2009
Forestry, saw mill and CHP
IFC’s Carbon Delivery Guarantee (CDG)

- Leverages IFC’s ability to take project & credit risk in emerging markets

- Guarantees delivery of CERs to buyers
  - Fully mitigates emerging market project, credit, and country risks
  - Minimal reputation risks for buyers (best-of-class environmental, social and governance performance standards)

- 3 deals committed for 2.2 million CERs

- Rain CII Carbon (India) Ltd.
  - India
  - 850,000 CERs
  - 2007
  - Waste heat recovery

- Omnia Fertilizer
  - South Africa
  - 900,000 CERs
  - 2008
  - N₂O destruction

- Himadri Chemicals & Industries
  - India
  - 460,000 CERs
  - 2009
  - Waste heat recovery
Buyers and Sellers benefit from IFC’s CDG

- **CDM Project**
  - CERs
  - Risks
  - € € €

- **IFC’s Carbon Delivery Guarantee**
  - “AAA CERs”
  - € € €

- **Compliance Buyer**
Other carbon finance initiatives

- Wholesaling of carbon finance products via domestic FIs
  - Build capacity to integrate carbon revenues into credit appraisal

- Risk sharing facilities via FIs to finance CDM projects
  - Expanding access, esp. for SMEs, will be key for mitigation

- Advisory services
  - Facilitate access to markets for under-represented sectors / participants

- Carbon-linked products for new sectors
  - Forestry, green bonds, alternative asset classes (RECs, EE certificates)
For additional information, please contact:

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