Project Structuring for CDM and JI Projects

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Charles Cormier, World Bank

World Bank Carbon Finance Business

PCF

Community Development Carbon Fund

Netherlands JI Facility

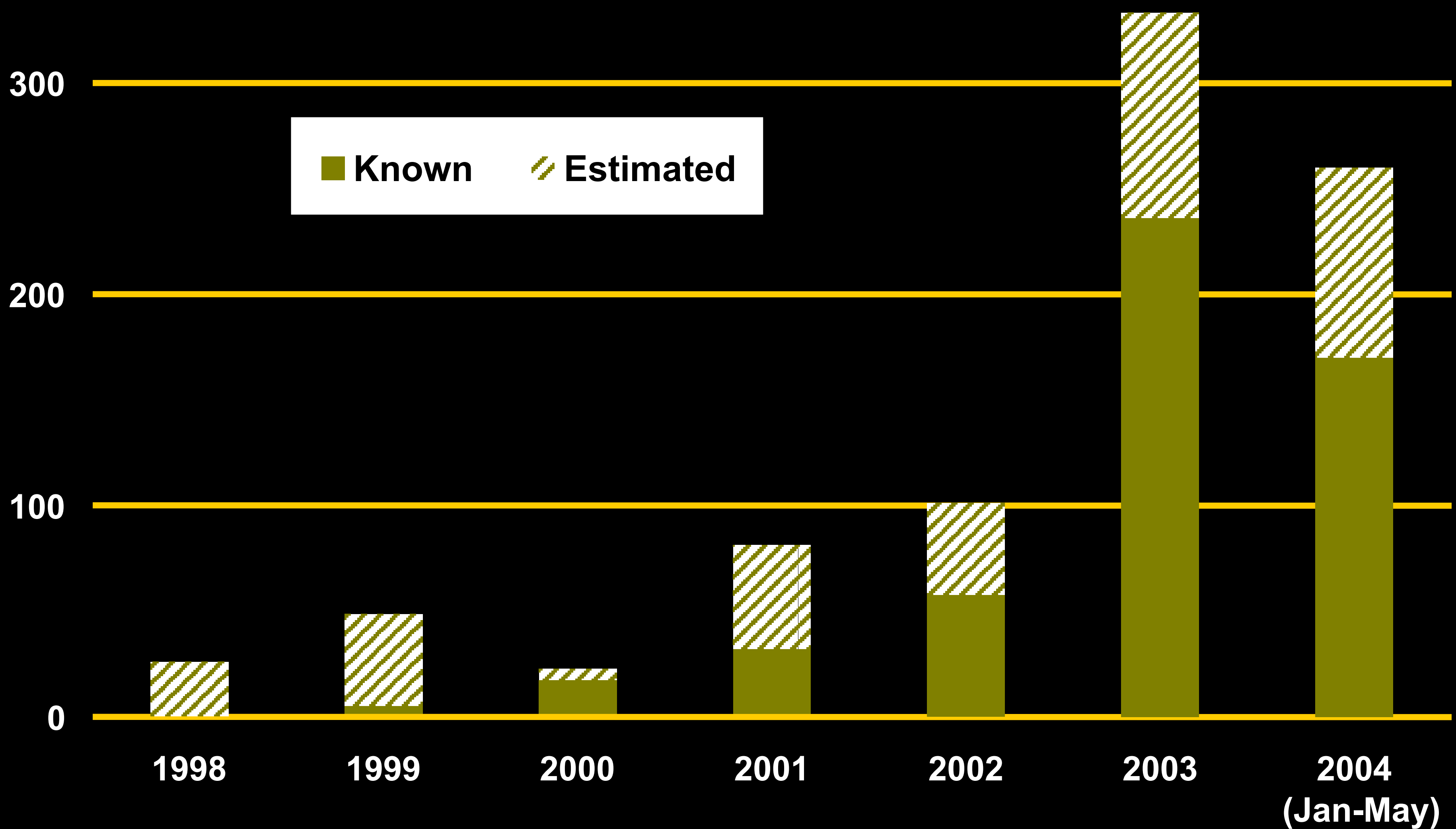
Bio CF

Italian Carbon Fund

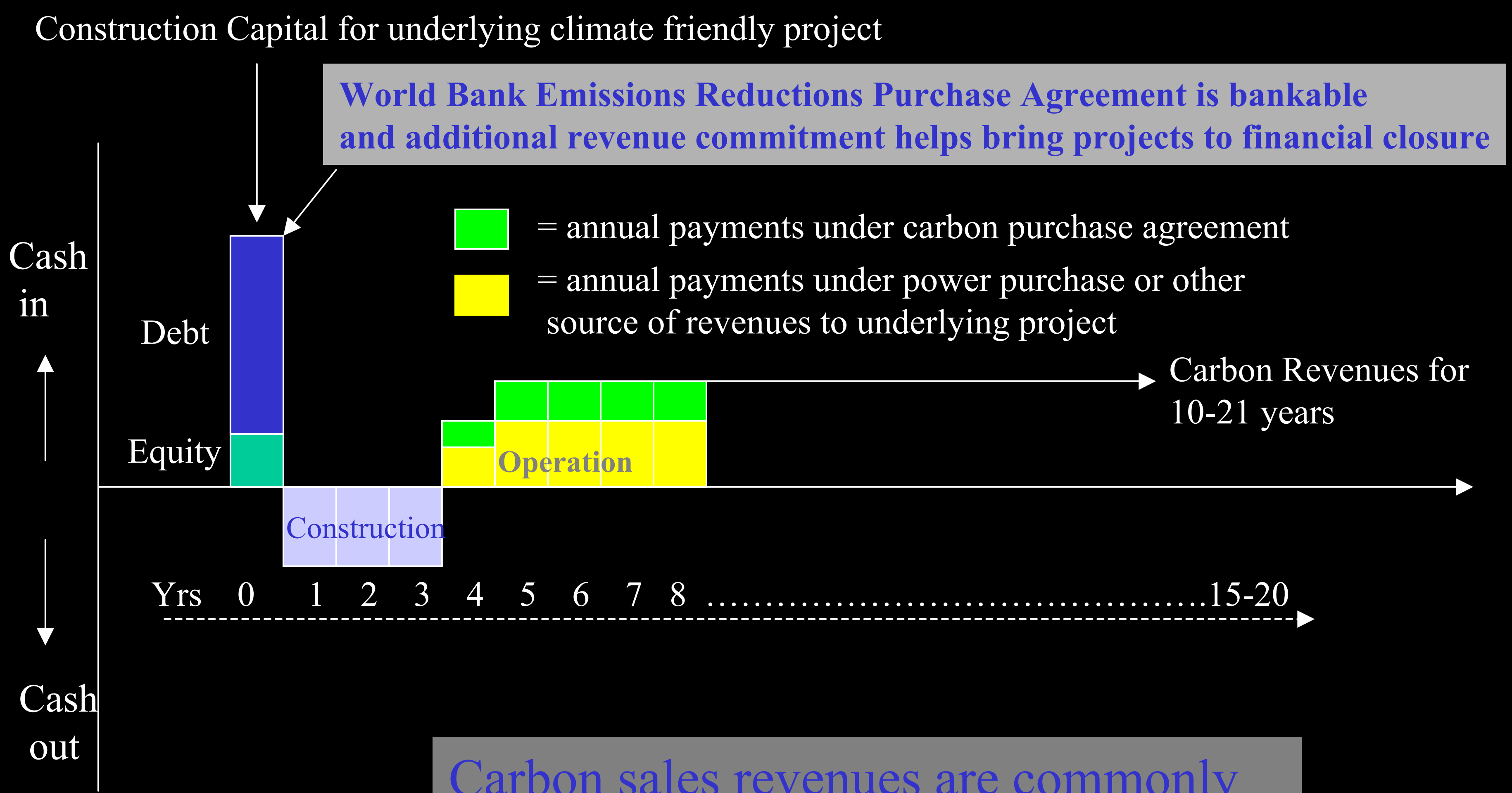
$450 million in carbon finance under management

$760 million including written commitments

Total Value of Carbon Projects (in million U.S.$, nominal)



Understanding the impact of carbon finance on project financing and financial sustainability



Carbon sales revenues are commonly in the range from 10-50% of total revenues for power and waste management projects

5Y of ERPAs – The Main Challenges

- Environment of Regulatory Uncertainty
- Complex Procedures and High Transaction Costs
- Political Regulator
- Additional Sovereign Risks
- SECURING UNDERLYING FINANCE FOR A PROJECT- in era where foreign direct investments to developing countries and economies in transition are decreasing

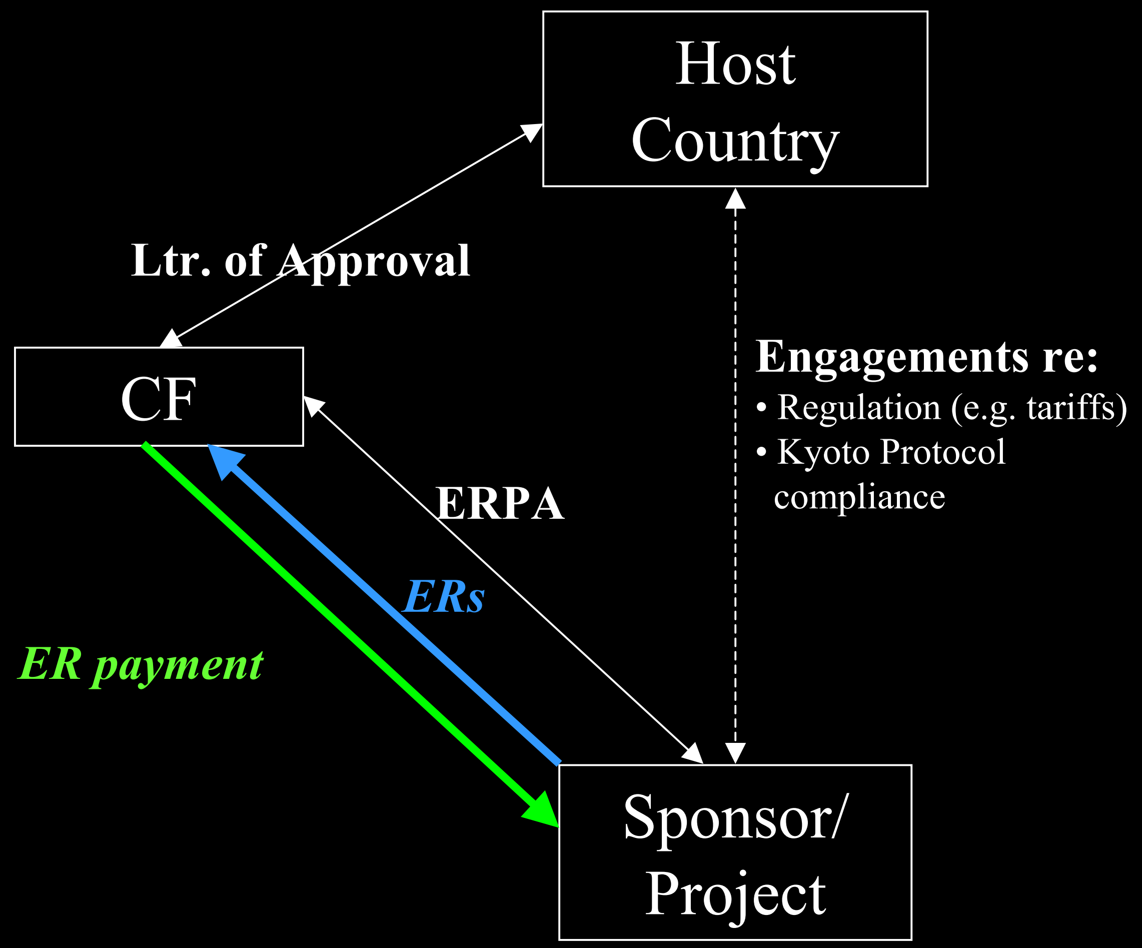
5Y of ERPAs – What is it worth?

- Additional Revenues to the project – An ERPA increases cash flow and boosts internal rate of return
- 0.5- 2.0 in renewable energy projects/ energy efficiency; between 5-15 % for methane mitigation
- Additional high quality income stream - in $ or € from investment grade payer from OECD country
- Additional Due Diligence – An ERPA leads to additional scrutiny and risks assessments of the project
- Forming Additional Partnerships – An ERPA broadens the stakeholder basis and the support for a project
- Additional Knowledge Generation – Developing an ERPA provides a learning experience to all parties

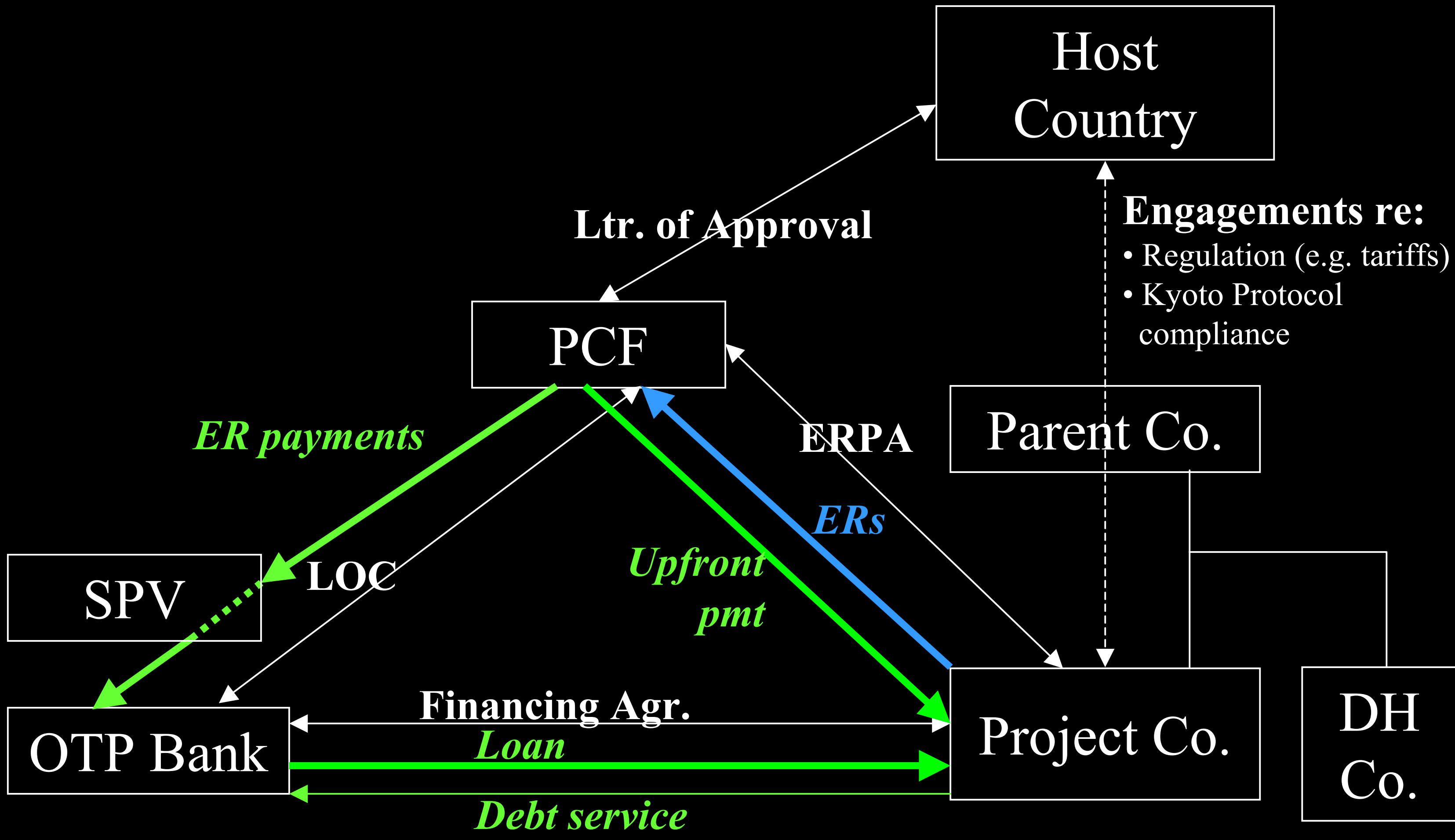
Risk Management to Improve Access to Capital Markets

- Improve bankability, ie. Maximize the value of the Emission Reduction Purchase Agreement through the elimination of (perceived or real) risk by:
- Managing Regulatory Risk
  - Kyoto and CDM/JI risk
  - Providing value to Emission Reductions beyond 2012
- Managing Financial Risk
  - Maximizing ERPA values through structured finance
  - Credit enhancement for underlying projects supported by ERPAs

Basic Deal Structure



Hungary Pannonpower Biomass



Conclusions

- Carbon revenues can:
  - ⇨Improve returns, esp. in CH4 mitigation
  - ⇨Provide a bankable revenue stream
  - ⇨Soften financing terms by reducing risk
- Carbon *plus* risk mitigation = sustainable energy finance