

Clean Development Mechanism and the Catalytic Role for DFIs

Session IV, “Measuring up to Responsible Investment
Principles: Social and Environmental Dimensions”

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Outline of Presentation

1. Introduction: What is a carbon credit?
2. CDM: Unlocking Economic Value
3. Challenges in Unlocking CDM Potential
4. Current DFI Activities in Carbon Finance
5. Possible Future Directions for ADFIAP members

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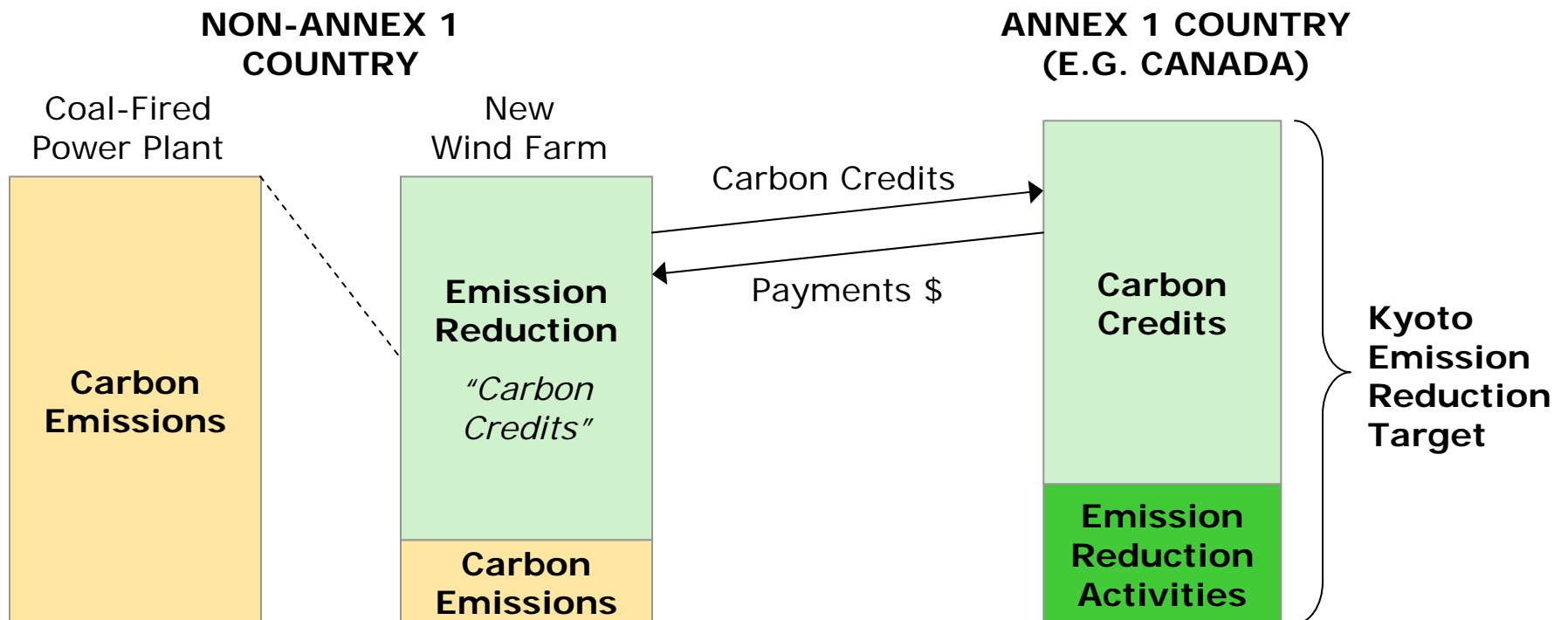
Introduction:

What is a Carbon Credit?

- ❑ One of Kyoto's major innovations is the notion of carbon emission permits (so-called "carbon credits") as an internationally tradable commodity.
- ❑ A carbon credit is created when a new "green" project displaces a conventional, less-green energy source, or when the energy efficiency of an existing project is enhanced.
- ❑ The greener the project, the less carbon emitted, and thus the more carbon credits generated.
- ❑ These carbon credits can be measured, packaged, and sold to a carbon emitter to help meet an emission target.

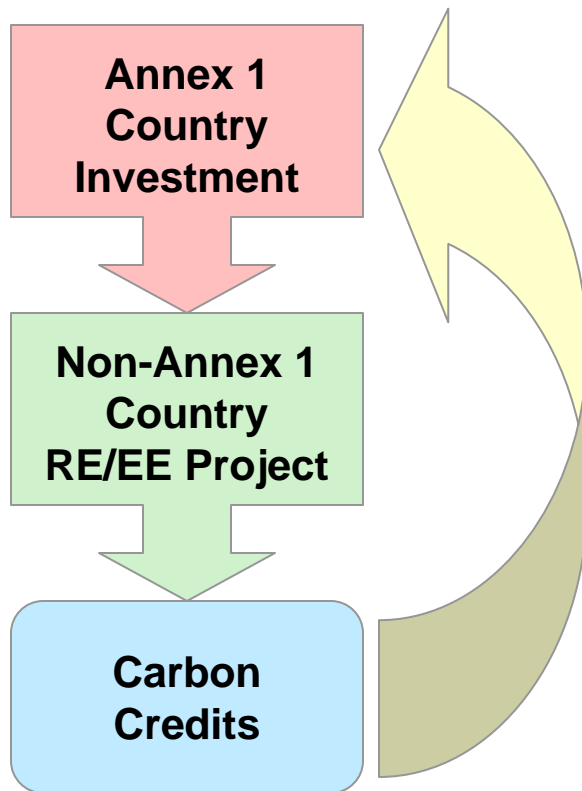
Introduction:

What is a Carbon Credit?



CDM:

Unlocking Economic Value

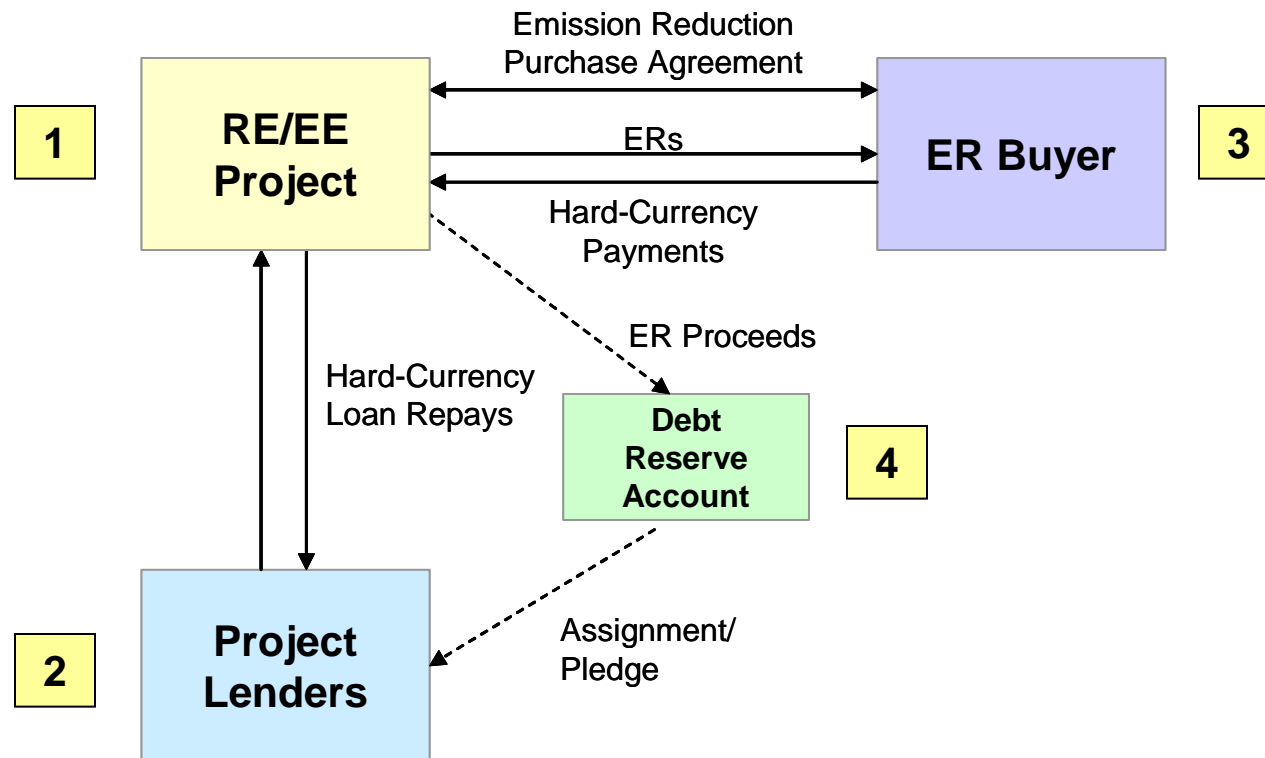


- ❑ The financing of carbon credits (i.e., “carbon finance”) can unlock new and significant sources of economic value from RE/EE projects.
- ❑ In Non-Annex 1 countries, this value is realized via Kyoto’s Clean Development Mechanism (CDM).
- ❑ CDM seeks to spur project-based partnerships between Annex 1 and Non-Annex 1 countries, by facilitating cross-border financing and investment.

CDM:

Unlocking Economic Value

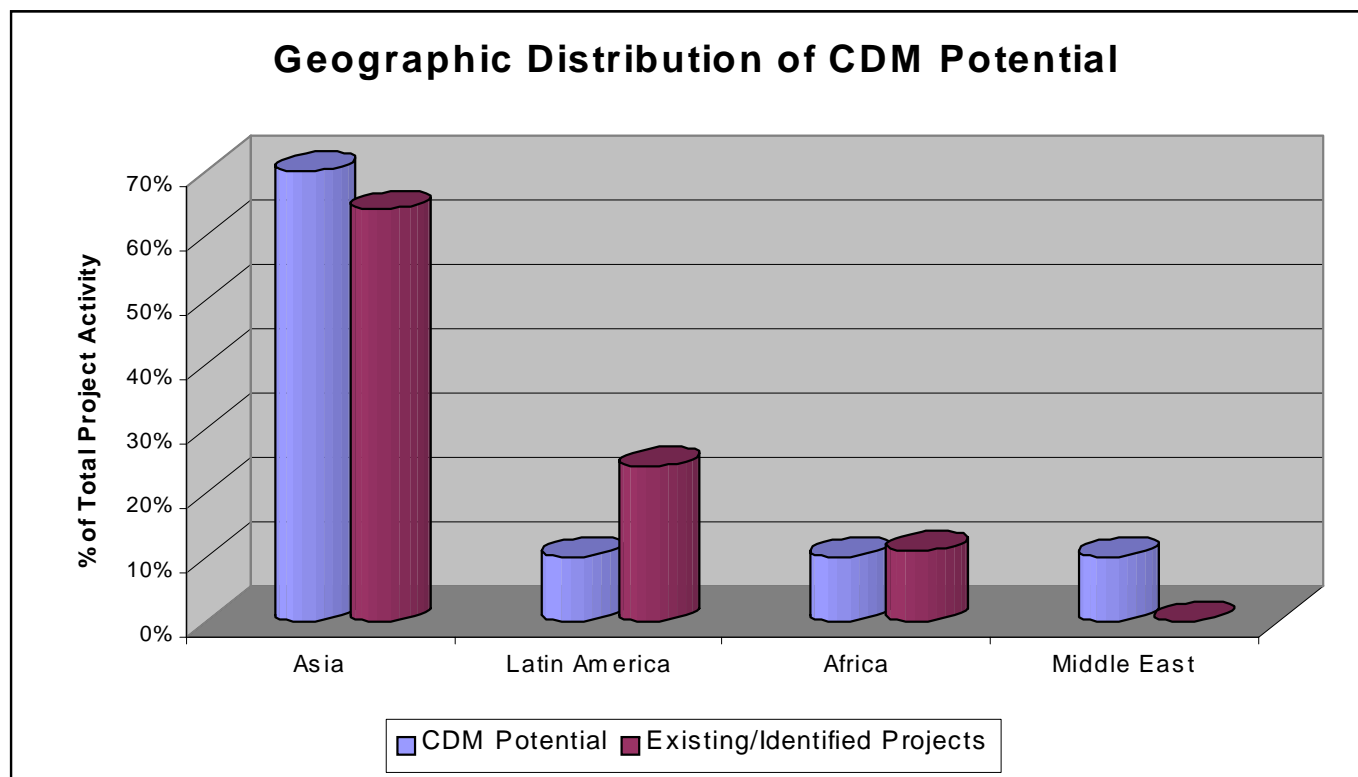
A typical carbon finance structure is depicted below.



CDM:

Unlocking Economic Value

Asia dominates potential sources of CDM market supply, with a forecasted market share of 70%.



Source: World Bank Carbon Finance Business

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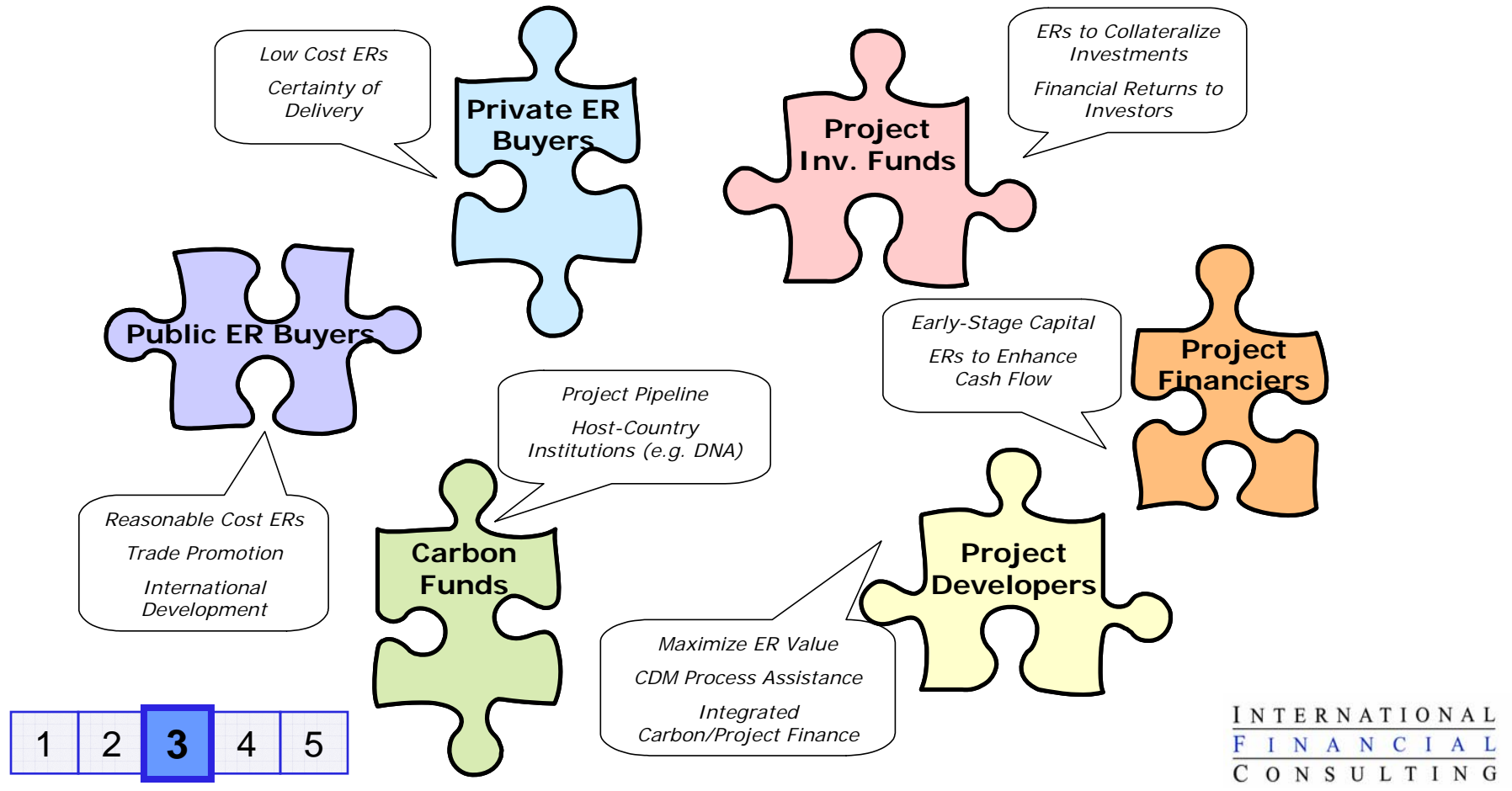
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Challenges in Unlocking CDM Potential

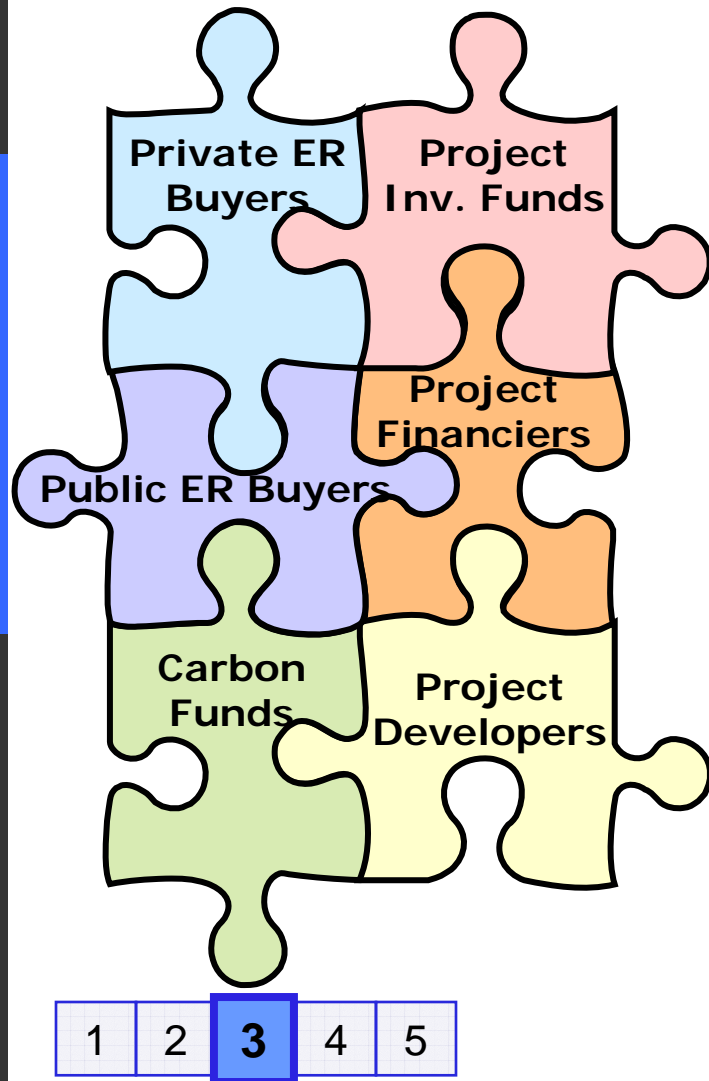
- ❑ Many CDM projects are small, which makes it relatively more costly to monetize the associated carbon credits.
- ❑ Many host countries still have limited CDM institutional capacity.
- ❑ Long project lead times.
- ❑ Uncertainty regarding CDM market potential post-Kyoto (i.e., post-2012), but current signs are positive.
- ❑ Bottlenecks in CDM approval process, but these are being addressed.

Challenges in Unlocking CDM Potential

Further, the needs and motivations of key market players differ, and sometimes conflict



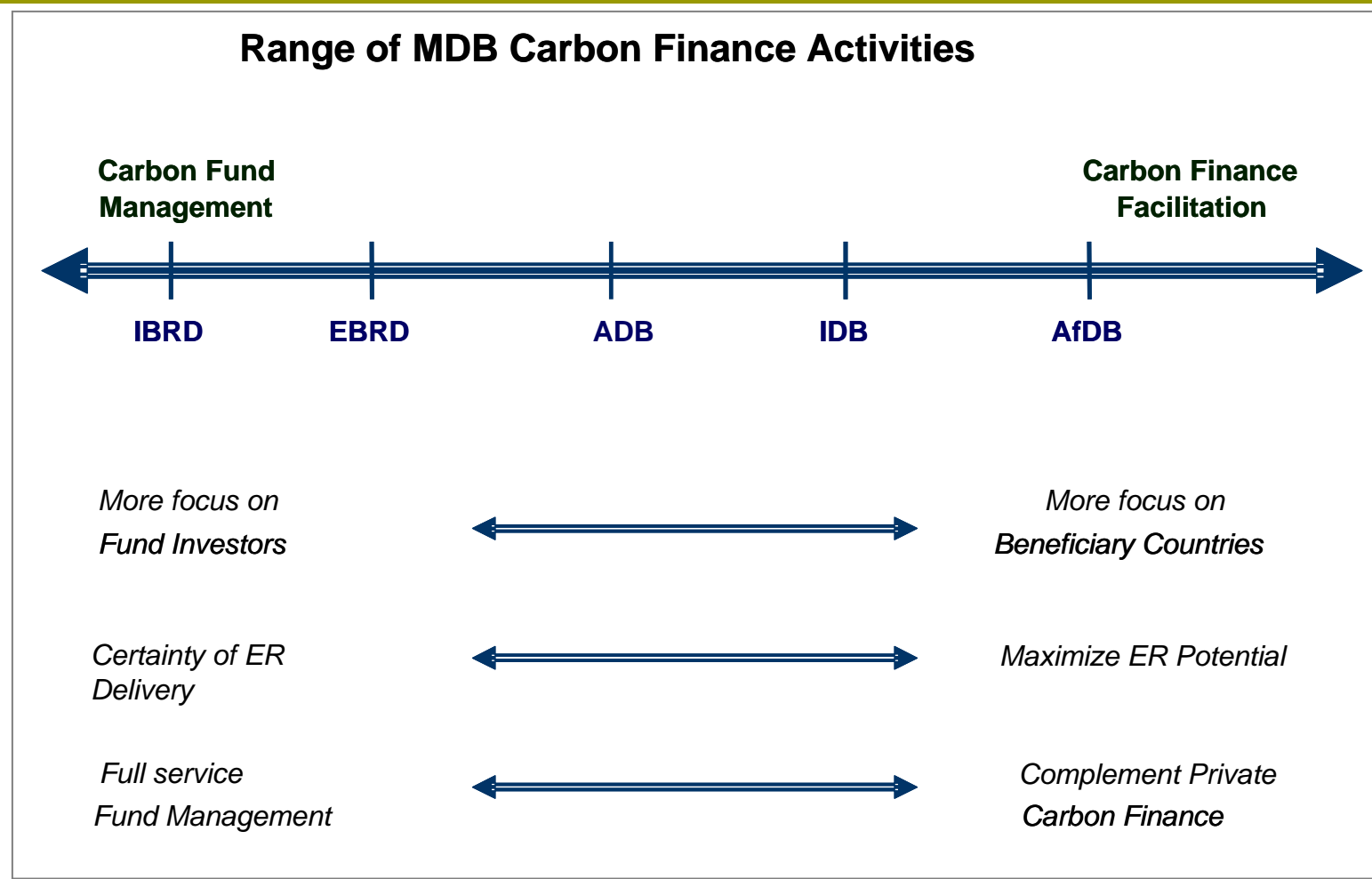
Challenges in Unlocking CDM Potential



Thus, the main challenge is to help catalyze carbon finance activity by aligning market needs and motivations via:

- ❑ Financial and non-financial mechanisms
- ❑ Near, medium, and long-term strategies

DFI Activities in Carbon Finance: *Multilateral Entities*



DFI Activities in Carbon Finance:

Multilateral Entities

- ❑ World Bank
 - Manages numerous buyer funds with a variety of investors
 - Community Development Carbon Fund
 - Umbrella Carbon Facility

- ❑ Asian Development Bank:
 - Energy Efficiency Initiative
 - Carbon Market Initiative
 1. Asia Pacific Carbon Fund
 2. Technical Support Facility

DFI Activities in Carbon Finance:

National Development Banks

❑ Development Bank of Japan:

- Established the Japan GHG Reduction Fund (JGRF) and Japan Carbon Finance Ltd. (JCF) with the Japan Bank for International Cooperation (JBIC)
- First GHG reduction fund in Asia; uses the Kyoto Mechanism to purchase CERs for distribution among the fund's investors (JCF buys the credits and sells them to JGRF)

❑ DFCC Bank, Sri Lanka:

- Renewable Energy for Rural Economic Development (RERED) Project with International Development Association of the World Bank and Global Environment Facility and the Government of Sri Lanka

DFI Activities in Carbon Finance:

Overall Trends

- ❑ General shift away from fund sponsorship/management models and toward more facilitative roles to fill niches between beneficiary countries and existing market players.
- ❑ Private sector is stepping up to fill former MDB/DFI roles of carbon fund manager and ER arranger/advisor, even in some developing and transition countries.
- ❑ DFIs have limited time left before the Kyoto compliance period in 2008 to define roles which preserve their market leadership function while complementing existing market expertise and capacity.

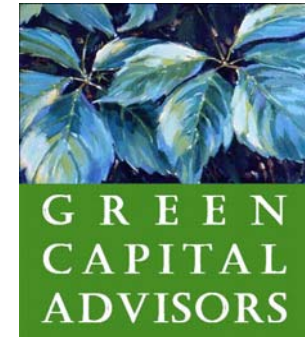
Possible Future Directions for ADFIAP Members

- ❑ Help mitigate risks associated with ER creation and delivery to end buyers.
- ❑ Develop mechanisms to promote or facilitate CDM projects with high socio-economic value
- ❑ Explore opportunities for national or regional “clearing house” project assessment and prioritization to promote private sector involvement
- ❑ Expand role and risk capacity of rural and community development banks to leverage financing sources
- ❑ Pursue more creative roles for bilateral or multilateral ODA to help catalyze worthy CDM projects or initiatives

Our Experience

☐ Affiliate Firm: Green Capital Advisors Ltd.

- Focus in climate-related investment and development
- Strategic, public policy and project development
- www.g-capitaladvisors.com



☐ Recent Achievements:

- Advising the Government of Malta on a medium-term climate change strategy
- Advising the Government of Canada on investment options in various carbon funds
- Advising World Bank Carbon Finance Business on the development of an insurance project for advance payment for carbon purchases.
- Advising the World Energy Council on new and traditional sources of finance for renewable energy projects in developing markets.
- Advising Environment Canada on the innovative financing structures of the Green Municipal Funds.
- Participating in the International Institute for Sustainable Development task force on the Development Dividend from CDM Projects.
- Worked with United Nations Environment Programme on Renewable Energy Finance and the Role of Export Credit Agencies and developed case studies for training.

QUESTIONS?

Thank You