

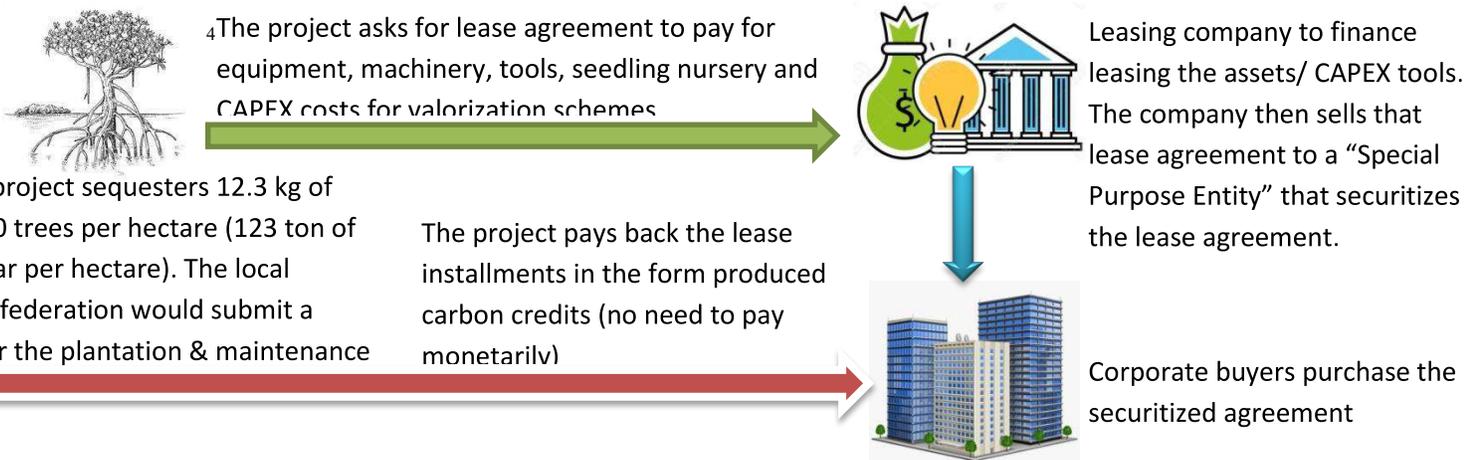
Investment Thesis: The market size for carbon credits is estimated at 300 billion USD with projections to double in size¹. There is a major fluctuation in carbon credit prices, depending on the market (regulated; hence requiring obligatory offsets, or voluntary): Statista scenarios show a progressively increasing prices per ton of CO2 emissions, showing continuous upward trend².

It is estimated that mitigating 0.6-6.0 Giga Ton of CO2 equivalent per year via natural means (mainly photosynthesis via plants) would cost Average cost between 2 and 393 billion USD per year (with the great standard deviation between the two ends due to economics of scale; different methodologies

used to estimate carbon sequestration and different operational costs per region where offsetting projects are held). Companies in markets like the European Union are allowed to emit a single EU-unified cap limit of greenhouse gases with allowances (EUAs) being traded with each allowance equivalent to one tonne of CO2. The European Commission proposal to reduce current emissions by 55% by 2030 shall increase the prices of those tradable carbon allowances / credits as could be speculated from the 2021 “Fit for 55” Policy Report³.

Hence, companies with significant carbon emissions would need to 1) hedge against expected carbon credit hikes 2) try to have their own carbon offsetting operations / partnerships with NGOs/ startups/ initiatives that captures carbon 3) Or purchase contracts like “Global Emissions Offset” Futures.

What we propose: Utilize the power of securitized “leasing” agreements to get as many carbon offsetting projects operational and using the resultant carbon credits as a means to pay back the lease installments.



Fund Size: Given our interest to be able to help offset at least 100,000 tons of CO2 per year and at the estimated average of 50 USD per ton of CO2, the fund shall cover at least 5,000,000 USD with additional 1 million USD to

¹ <https://www.financialexpress.com/industry/market-size-for-carbon-credits-trading-around-300-bn-year/2405323/>
² <https://www.statista.com/statistics/1284060/forecast-carbon-offset-prices-by-scenario/>
³ <https://www.cleanenergywire.org/factsheets/understanding-european-unions-emissions-trading-system>
⁴ <https://rosian.org/documents/mangrove-carbon-offset-eden.pdf>

cover for administrative, due diligence, risk, and applicable insurances and fees (total 6 million USD). **Asset class:** Asset Based Security. **Capital Structure:** since the solution is based on leasing, it would be listed on the lessees records as “debt”. When it comes to the selected projects optimal capital structure; the ratio of debt to equity shall be 3:1 where the lease capital shouldn’t exceed three times the raised equity/donor funding/gifts/allowances/endowments the project enjoys at the time of application. **Target Geography/Market :** While the model could be applicable globally; we would like to start with the MENA region (Middle East and North Africa) due to the following: 1) lots of hydrocarbon projects and an emerging renewable energy sector in need for expansion (with a chance of carbon offsets traded from one sector to another) 2) Few carbon offset projects exist in the MENA region at a time countries like the UAE and KSA are beginning to witness the emergence of carbon trading markets; allowing for possibilities of green projects with carbon offsetting potential to benefit from Gulf Cooperation Council liquidity and appetite for investment.

How profits are made for the original holder of the lease : Assuming Project X for mangrove plantation at the Red Sea applies for financial lease support worth a total of 200,000 USD, there would be a leasing fee of 7%. As the lease agreement gets securitized, it is sold with a discounted interest of 5% (the buyer still anticipates payment by lessee at 7%, but pays the “Special Purpose Entity” securitizing the lease agreement the overhead discounted interest of 5%) + the additional lump sum of due diligence administrative and operational fees. Profits for the buyer: The buyer’s profits stem from the savings realized on the carbon offset credits realized on the project, pegged to the carbon credit price at the day the lease agreement came into effect. That means that the buyer of the securitized lease would reap an average EMI (Equated Monthly Installment) of 3960 USD (47520 USD annually) in the form of exchanged carbon credits. Assuming pegging the lease payment to an initial carbon credit equivalent to an initial valuation of 50 USD per ton; the lease holder would get 950.4 carbon credits yearly. over 5 years, the lease holder would get 4752 tons of CO2 equivalent credits. Given that the current Carbon Emissions Futures is traded at 92.68 USD on the 11th of February 2022; the buyer would have made achievable savings of 42.68 USD per ton (**202,815.36 USD**).

What is in it for the lessee: 1) financing initial CAPEX asset expenditure 2) paying the lease amounts (installment and fees “**since it is a lease ending with ownership**” not in liquid cash, but with realized carbon fixation targets, freeing up cash flows to pay for operations, pay dividends, or retain them for further expansion) 3) The lease financial house handling the contract would help provide preferential fees / rates / packages for the appraisal of carbon credits of the project, attestation and carbon compliance registry listings 4) Since the lease agreement would be sold from a predominantly “financial” institution to a likely corporate buyer with emissions targets (mostly an industrial customer), there could be a potential for using the garnered relationship to market their project to the company for future equity investment, or benefiting from the customer’s environmental sustainability technology as part of the customer’s Corporate Social Responsibility (CSR). Since such assets (the securitized lease agreement) would have the Sustainability Department as the primary Account Holders, we expect that the green projects / startups could benefit from the company’s sustainability engineering expertise. In case the lease securitization was fragmented among different buyers, then the project / startup would have broader connection to more than one potential investor / partner; allowing more environmental sustainability tech transfer.

Size of desirable market: According to WAMDA and the MENA Digital Digest, total funds raised by startups in MENA (used exchangeably as the Arab World) amount to 2.695 billion USD in 2021 with fintech amounting to **502.2 million USD in 2021**. **Estimate of Scalability:** 2021 witnessed the emergence of another voluntary carbon exchange market in MENA (KSA) via Saudi PIF, Tadawul that would trade in carbon credits produced in the MENA region. The instrument we are creating could be scaled up via being registered to trade on that emerging carbon exchange; Egypt’s emissions alone amount to 250 million tons of CO2, so if only 5% of those emissions was planned for offsetting under pressure of Egypt hosting COP27, then the instrument could expand to cover 12.5 million tons worth of credits (**125 million USD** at the bare minimum price appraisal of 10 USD per 1 ton of CO2 offset).