



Unlocking CDM Projects for Buyers and Sellers in Africa



Ash Sharma
Head of Carbon Finance and Funds
Nordic Environment Finance Corporation (NEFCO)

Carbon Markets Africa 2009 Conference, Cape Town
10-11 November 2009

Nordic Environment Finance Corporation



NEFCO and Carbon Finance

- Nordic Environment Finance Corporation (NEFCO) is a risk capital institution and specialist fund manager, established in 1990 under international treaty by the five Nordic governments
- NEFCO Carbon Fund launched in early 2008, focusing on CDM in China, India, developing Asia, southern and east Africa.
- Carbon funds resources up to €135 million (AUM €121 million)
- Represent governments and investment grade companies
- Bulk of carbon finance investments include renewable energy & energy efficiency components


Nordic Environment Finance Corporation



NEFCO's CDM Procurement Strategy

- The acquisition strategy driven by judicious project selection and application of risk management techniques, focussing on
 - Ensuring compliance with Kyoto Protocol & EU ETS guidelines
 - Reasonably predictable generation of emission reductions, with high delivery (issuance) rates, favours certain technologies such as energy efficiency
 - Use of proven commercial technology with manageable risk profiles, approved methodologies (Kyoto risk, registration risk)
 - Technical, economic, financial, institutional and environmental feasibility
 - Competent and creditworthy project owners
 - Long term crediting period preferable
 - Acceptable country risk ("risk is in the eye of the beholder")


Nordic Environment Finance Corporation




How To Present Bankable Projects from Africa

Carbon purchasers focus on certainty of delivery, depends on a number of factors, of which:

- Delivery risk is key – focus on supplier's financial status and technical capacity to deliver
- Ability to service debt / deliver credits, and make a profit, evidenced by
 - i.a. financial analysis, credit checks & robust business plan
- Other risks are manageable under conventional investment procedures
 - social & environmental, technology, market (sector viability), financial, construction etc



- Kyoto window of opportunity closed, need to look post 2012
- Adequately advanced project development
 - Projects with a credible financial plan
 - Most key agreements or permits in place
 - Ideally with IFI or other strong commercial institutions
 - some public sector risk sharing (grants, guarantees)
- Transparency of ownership and integrity of business conduct
- Acceptable methodology and registration risks



Nordic Environment Finance Corporation



Buyer's Perspectives

- Most buyers are willing to fund CDM preparation costs upfront (taking on some pre-registration risk) for a good concept
- Relatively smaller projects attractive due to longer crediting periods
- Many fund manager's portfolios are long on CDM "superpowers", China and India
 - looking to diversify, increasing interest in other regions
 - opportunities for newer buyers in SSA countries (non World Bank)
- For Africa, governmental buyers often have special policy mandates to fulfil (prioritised for example by the Nordic actors)
 - may consider projects deemed too risky by private sector / speculators
 - often interested in projects with higher social and sustainable development impacts, even if smaller volumes than usual

Nordic Environment Finance Corporation




Seller Considerations



- A judicious choice of buyer is also required:
 - sellers should consider buyer creditworthiness, especially in view of credit crunch and recession
 - Governmental buyers and compliance buyers can be long term, non speculative partners
- Be comfortable with the buyer, it may be a 10+ year relationship
- Selling post 2012 credits if offered by Buyers especially for smaller and less well capitalised project owners, to "lock in" a revenue line to enhance project economics, better to package Kyoto and post Kyoto
- Consider value of sustainable development impacts for which buyers may take on risk or offer premium
- Blending of public (developmental) finance usually required in Africa

Nordic Environment Finance Corporation



Conclusions

- CDM Potential in the African region remains largely untapped
- Government demands from North are strong, drivers exist (e.g. ETS access for LDCs post 2012) and technical and financial resources can be mobilised
- More case examples exist in SSA (see UNEP report*) and regions with similar operating environments in developing world
- But projects need to be well presented focussing on :
 - sound business plan / financing plan
 - advanced project development, with risk characterisation and mitigation
 - attention to methodology and registration risks (critical role of consultant to monitor policy developments)
 - most projects need some public financing or risk sharing
- Consider the role of the development banks (NEFCO, AfDB, etc), as well as locally IDC, DBSA, provincial DCs - all familiar with carbon finance

*UNEP Finance Initiative, *And Yet It Moves*

Nordic Environment Finance Corporation



For further information contact:

For additional information, please visit
www.nefco.org/cff

Ash Sharma
 Senior Investment Manager,
 Head, NEFCO Carbon Finance and Funds

Contact our team:
 NEFCO Carbon Fund
 Nordic Environment Finance Corporation (NEFCO)
 P.O. Box 249, FI-00171 Helsinki, FINLAND
 Phone: +358 10 618 003
 Fax: +358 9 630 976
 Email: carbonfinance@nefco.fi



Nordic Environment Finance Corporation