



# What Do Buyers Want from CDM Projects in Caucasus & Central Asia?

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## Agenda

- NEFCO in Brief
- Current CDM Status in Caucasus & Central Asia (CCA)
- What are Buyers Looking For in CCA – What to Address in Developing a Bankable Project
- Carbon Market Challenges and Opportunities



## 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 focus is on former Soviet Union countries, principally Russia and Ukraine
- NEFCO Carbon Fund launched in early 2008, focusing on CDM in China, India, rest of Asia, including CCA and Africa.
- Carbon funds under management are currently €135 million
- Bulk of carbon finance investments include renewable energy & energy efficiency components

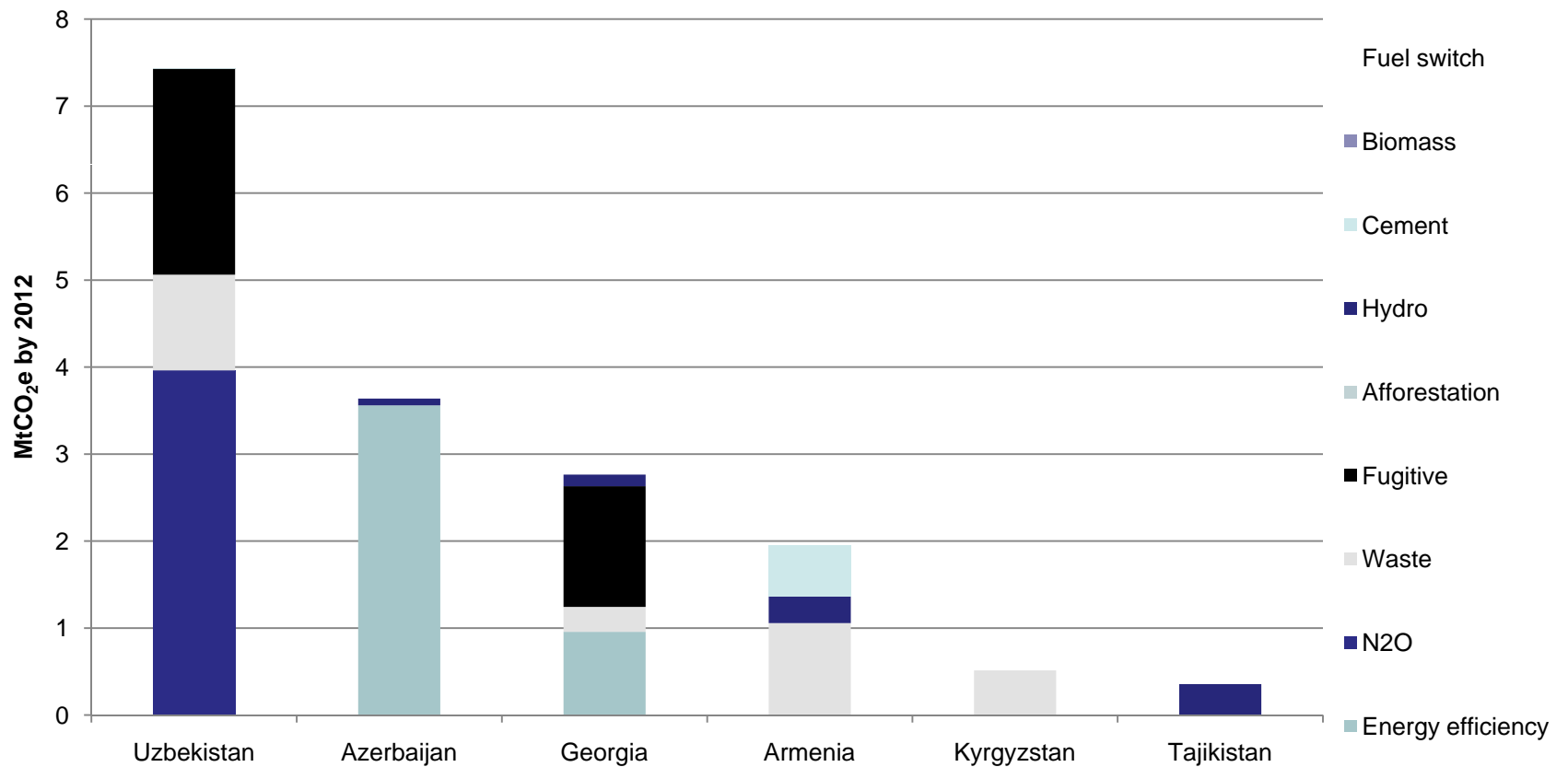


# Untapped Potential in CCA Region

Region	Country	Type	Kyoto ratification	Projects (as of 29.7.2009) registered / request for registration / at validation	National CDM/JI authority
South Caucasus	Armenia	CDM	04/03	Total: 8 (4/1/3)	DNA: Ministry of Nature Protection
	Azerbaijan	CDM	09/00	Total: 3 (0/0/3)	DNA: Ministry of Ecology and Natural Resources
	Georgia	CDM	06/99	Total: 6 (1/1/4)	DNA: Ministry of Environment Protection and Natural Resources
Central Asia	Kazakhstan	JI	06/09	0	no DFP, no JI guidelines (yet; only recently ratified) Special COP conclusion: Kazakhstan is Annex I country under Kyoto Protocol and non-Annex I country under UNFCCC
	Kyrgyzstan	CDM	05/03	Total: 1 (0/0/1, likely inactive)	DNA: National Climate Change Committee (NCCC)
	Tajikistan	CDM	01/09	1 (likely inactive)	no DNA
	Turkmenistan	CDM	01/99	0	DNA: Ministry of Nature Protection of Turkmenistan, Office of climate change
	Uzbekistan	CDM	10/99	Total: 11 (6/0/5) All registered projects are N <sub>2</sub> O	DNA: Ministry of Economy



# CDM Project Pipeline in CCA Countries





## NEFCO's CDM Investment Strategy

- The acquisition strategy driven by judicious project selection and application of risk management techniques, focussing on
  - Ensuring compliance with Kyoto Protocol and 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, and approved methodologies (Kyoto risk, registration risk)
  - Technical, economic, financial, institutional and environmental feasibility
  - Competent and creditworthy project owners



## NEFCO's CDM Investment Strategy

- For a portfolio of projects, a fund manager still needs an acceptable risk profile for each project
- To address regulatory uncertainty: the NeCF is active post 2012

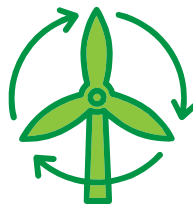




## How To Develop a Bankable Project

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, evidenced by
  - i.a. financial analysis, credit checks & business plan
- Other risks are manageable under conventional investment procedures
  - social & environmental, technology, market (sector viability), financial, construction etc



- Kyoto window of opportunity closing, requires adequately advanced project development
  - Project within months of financial closure
  - Most key agreements or permits in place
  - Ideally with IFI or other strong commercial institutions also acceptable
- Transparency of ownership and business conduct
- Acceptable methodology and registration risks





## Buyer's Perspectives

- Most buyers are willing to fund CDM preparation costs upfront (taking on some pre-registration risk) for a good concept
- Many buyers, especially investment banks and speculative actors looking for large volumes and late stage projects have exited the market
- Many fund manager's portfolios are long on CDM "superpowers", China and India
  - looking to diversify, increasing interest in other regions
  - may be opportunities for newer buyers in CCA countries
- Governmental buyers often have policy mandates to fulfil
  - may consider projects deemed too risky by private sector / speculators
  - often interested in projects with higher social and sustainable development impacts



## Buyer's Perspectives

- Often renewable energy and energy efficiency projects are of interest, but generally not if small scale
  - many developers are not well capitalised or deemed creditworthy, preference for large industrials
  - Some financial institutions willing to consider ERPAs with reliable buyers as security is a positive development
  - project aggregation and programmatic approaches can help but have their own risks





## Seller Considerations



- A judicious choice of buyer is also required:
  - sellers should consider buyer creditworthiness, especially in view of credit crunch and recession
  - many players have exited the market
  - Governmental buyers and compliance buyers are most reliable
- Headline price is not everything, often *the devil is in the detail* of ERPA contracts
- Be comfortable with the buyer, it may be a 10+ year relationship



## Seller Considerations

- Selling post 2012 credits if offered by Buyers
  - especially for smaller and less well capitalised project owners, or projects which need to "lock in" a revenue line to enhance project economics
  - better to package Kyoto and post Kyoto
- Consider value of sustainable development impacts (not relevant to all buyers) for which buyers may take on risk or offer premium



## Carbon Market Challenges & Opportunities

- Ever tightening supply curve in the CDM market
  - UNFCCC system constraint : cannot keep up with market
  - AIE/DOEs constraints : understaffed and overworked
  - Procedures are complex, slow, most projects being called for review
  - Closing window of opportunity for JI (and CDM)
- Lack of predictability in the system
  - The system is applying principles such as retroactivity of regulations or “presumptions of guilt”
  - Reforms have been proposed
- Lack of market definition post 2012
  - An opportunity for funds offering Kyoto & post Kyoto purchases
  - projects with post-2012 credits must start before the end of 2012





## Conclusions

- CDM Potential in the CCA region remains largely untapped
- Significant opportunities in the restructuring of Soviet era energy systems (power sector, district heating) and energy efficiency
- Case examples exist in CCA and regions with similar operating environments in former Soviet Union
- 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 (role of consultant to monitor policy developments)
- Consider the role of the development banks active in the region (NEFCO, WB, ADB, EBRD, IDB etc), all familiar with carbon finance



## For further information contact:

For additional information, please visit  
[www.nefco.org/cff](http://www.nefco.org/cff)

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