

# Carbon Fund Investment Strategies in China: A NEFCO Perspective

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## Agenda

- Introduction to NEFCO and Carbon Finance and Funds
- NEFCO's Investment Strategy
- What is NEFCO looking for in Projects?
- Buyer's Perspectives
- Seller Considerations

## 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 offers a variety of financial products geared towards environmental enhancement, energy efficiency and cleaner production many of which have a climate protection component
- Carbon funds under management exceed €100 million

## NEFCO and Carbon Finance

- Since 2003 it has been the Fund Manager of the Baltic Sea Region Testing Ground Facility (TGF), a €35m regional carbon procurement fund vested as a public - private partnership
- NEFCO Carbon Fund launched in early 2008, focusing on CDM in China and rest of Asia. €42m raised from Nordic companies and Governments
- Bulk of carbon finance investments include renewable energy & energy efficiency components



## NEFCO Investment Strategy

- The investment 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
  - 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 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 will consider post 2012 placements regardless of entry into force of or nature a post Kyoto regime



## What is NEFCO Looking for in Projects?

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 3-9 months of financial closure, or evidence of a financing plan
  - 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)
- Many buyers, especially investment banks and speculative actors are looking for large volumes and late stage projects
  - initially low hanging fruit, but increasingly moving into other markets (renewables, waste) as the global market widens and deepens
  - can offer higher prices or attractive terms

## 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 e.g. in India, Brazil
  - project aggregation and programmatic approaches can help but have their own risks



## Buyer's Perspectives

- Governmental buyers often have policy mandates to fulfil
  - may consider projects deemed too risky by private sector / speculators
  - may be willing to participate earlier in the project cycle and fund preparation costs such as new methodology development
  - often interested in projects with higher social and sustainable development impacts

## Seller Considerations



- A judicious choice of buyer is also required:
  - sellers should consider buyer creditworthiness, especially in view of credit crunch and looming recession in US and Europe
  - Governmental buyers and investment grade companies and financial institutions are considered reliable
  - consider newer buyers to the market
- Consider value of sustainable development impacts (not relevant to all buyers) for which buyers may take on risk or offer premium

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