

Indian CDM Finance and Investment Opportunities: A Buyer's Perspective

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Agenda

- Introduction to NEFCO and Carbon Finance and Funds
- Context: India as Two Tiered CDM Market
- 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 are currently €77 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. Target capitalisation €50m, of which already €42m raised from Nordic companies and Governments
- Bulk of carbon finance investments include renewable energy & energy efficiency components



Indian CDM as a Two Tiered Market

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| Tier 1 Projects | <ul style="list-style-type: none"> • Unilateral projects • Well capitalised project owner /developers (often part of industrial holdings) • Larger renewables, industrial EE, industrial gases • Large climate change benefits • Investment project typically fully financed • CER income offers additional risk mitigation, debt cover • If selling forward, would consider indexed/variable pricing • Financially motivated to bring sCERs to market to maximise prices on spot markets | Tier 2 Projects | <ul style="list-style-type: none"> • Bilateral projects • Smaller companies, generally not well capitalised, less access to finance • Smaller scale renewables, biogas, waste etc • Often with social, SD factors • Investment project requires financial closure • CER income essential for the project to proceed • Prefer fixed projects on a forward basis (primary CERs) • Prefer to contract for forward delivery, in exchange for risk transfer and revenue certainty |
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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
- In India, NEFCO will focus on Tier 2 projects notwithstanding the above



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 financing, but other strong commercial institutions also acceptable
- Transparency of ownership and business conduct
- Acceptable methodology risk

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
 - Indian 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



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
- Many fund manager's portfolios are long on CDM "superpowers", China and India
 - looking to diversify, increasing interest in SE Asia for example
 - may be opportunities for newer buyers in India

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 most reliable
 - consider newer buyers to the market
- Headline price is not everything, often *the devil is in the detail* of ERPA contracts

Seller Considerations

- Consider selling post 2012 credits if offered by Buyers
 - especially for smaller and less well capitalised project owners, or project 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

Concluding Remarks

- Buyers differ significantly in their purchase motivations (i.a. speculation, compliance, market development)
- Projects should be well prepared with risks characterised and mitigated - CDM is not the panacea to all ills
- For Tier 2 projects:
 - selling CERs forward can significantly improve project economics, and reduce risks
 - push for a good deal on pre-registration cost coverage
 - consider selling post 2012: for the full first crediting period to lock-in a buyer regardless of outcome of the international negotiations

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