

CDM Investors Workshop (CDM-Susac Project)

Experience and future prospects

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Key Points

- Summary ESD CC Experience
- ‘Ordinary’ vs. CDM investment
- CDM additionality - attraction or distraction?
- Cost of CDM project preparation
- Risks of various sorts
- Mitigating risk
- CDM Scope for projects
- Attracting investors
- How CDM can ‘take off’ in ACP countries?



ESD Summary Experience



- **Adviser to EC ECCP on CDM/JI Project Preparation Facility**
- **CDM Susac - CDM capacity building in ACPs**
- **CDM projects in Kenya & Uganda**
- **PCF baseline & MVP in several countries**
- **UK Foreign & Commonwealth CDM projects in Kenya, Uganda, Zambia & Senegal**
- **UK DFID CDM project in Ghana, Sri Lanka, Bangladesh, Colombia**
- **JOINT project - JI in 14 European countries**
- **BASE project - JI baselines in 5 Central & Eastern European Countries**
- **JI projects in process of approval in Poland, Romania, Bulgaria**



CDM Overview Current Status



ESD

- **Surprising level of interest from & in Africa, but slow in starting**
- **Major opportunities in:**
 - **Fuel switching (e.g., renewables for fossil)**
 - **Renewable energy**
 - **Energy efficiency**
- **Considerable work underway to help prepare governments & businesses (capacity building)**
- **But, in general, CDM, whilst early crediting under Kyoto, proving much more difficult than JI**



What makes CDM different? (1)

- **CDM projects must satisfy ALL ‘ordinary’ requirements for ‘good’ projects:**
 - **good investment**
 - **good market profile**
 - **good management**
 - **good business plan**
 - **well-structured finance plan**
 - **Additionally, must meet CDM requirements of:**
 - **environmental additionality**
 - **sustainable development**
 - **Environmental ‘integrity’ of CDM projects absolutely key - EC Member States looking very hard at this**
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What makes CDM different? (2)

Number of actors required to ‘make the deal’ happen:

- **Project sponsors**
- **Local authorities**
- **Host Country UNFCCC focal point**
- **CDM Executive Board (EB)**
- **Annex 1 country UNFCCC focal point**
- **CER buyers, traders, brokers, etc.**
- **Getting approvals, permissions, participation from all these is NOT EASY! It is expensive!**

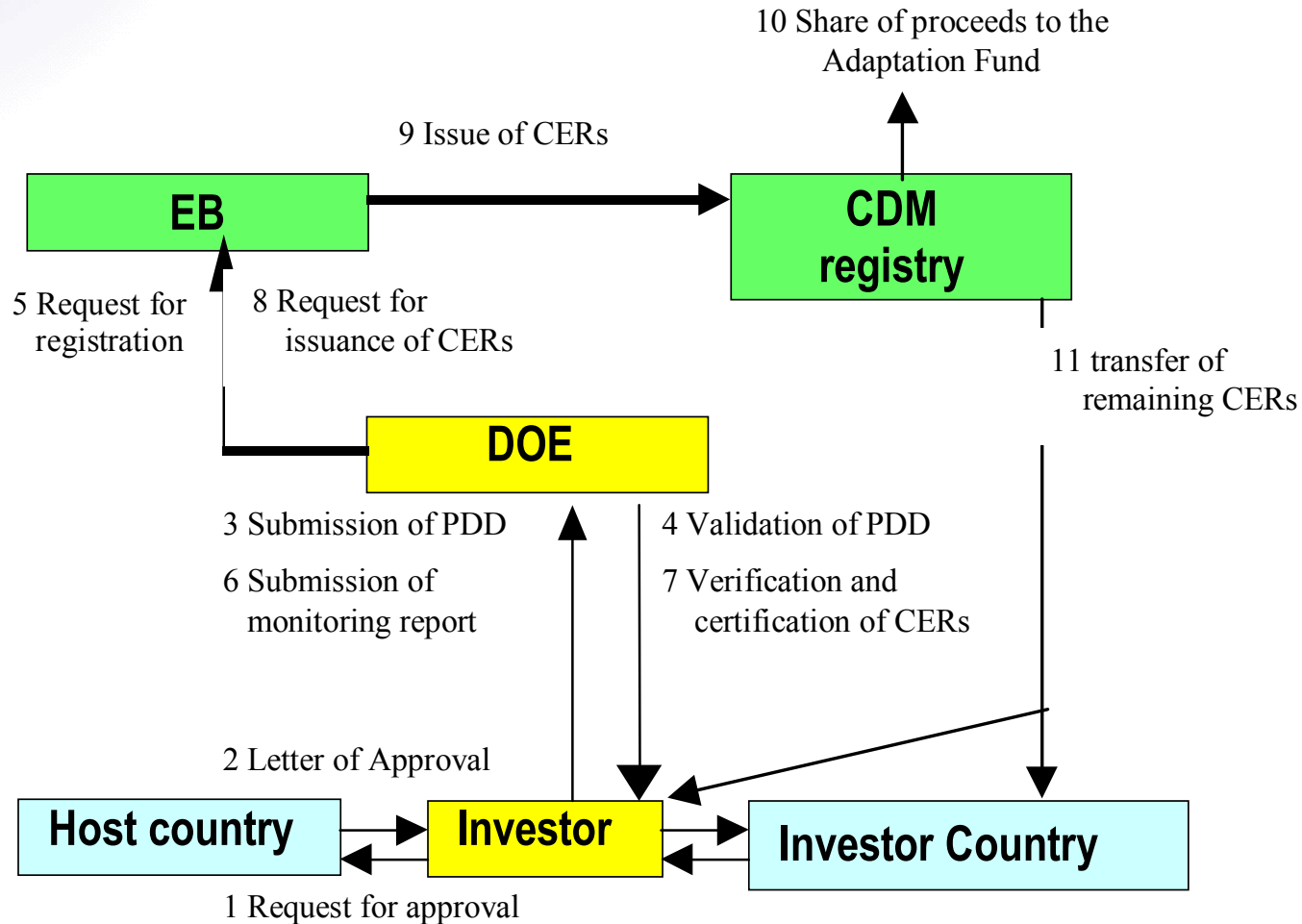


CDM national level implementation requirements

- **Compliance with eligibility requirements (donor and host country)**
- **Designation of national CDM authority**
- **Demonstration of voluntary participation on the basis of written approval**
- **Project achieves sustainable development criteria**



CDM project cycle (post-Marrakech)



Why go the CDM investment route?

- **Investor assesses project might yield enough credits**
- **Assessment of government interest in the project**
- **Presentation of project to focal points (host and investor country)**
- **Host country letter of endorsement/approval**
- **Nature of ownership and value of credits**
- **Baseline and MVP development; validation by Designated operational entity (DOE)**



Why go the CDM investment route? (cont'd)

- **DOE makes request for registration to CDM Executive Board**
- **Preparation of monitoring report and verification by DOE**
- **Issue of CERs by CDM Executive Board into CDM registry**
- **Deduction of CERs for Adaptation Fund**
- **Determination of CERs to be transferred**
- **Transfer of remaining CERs to investor/investor country**
- **Monitoring and verification**



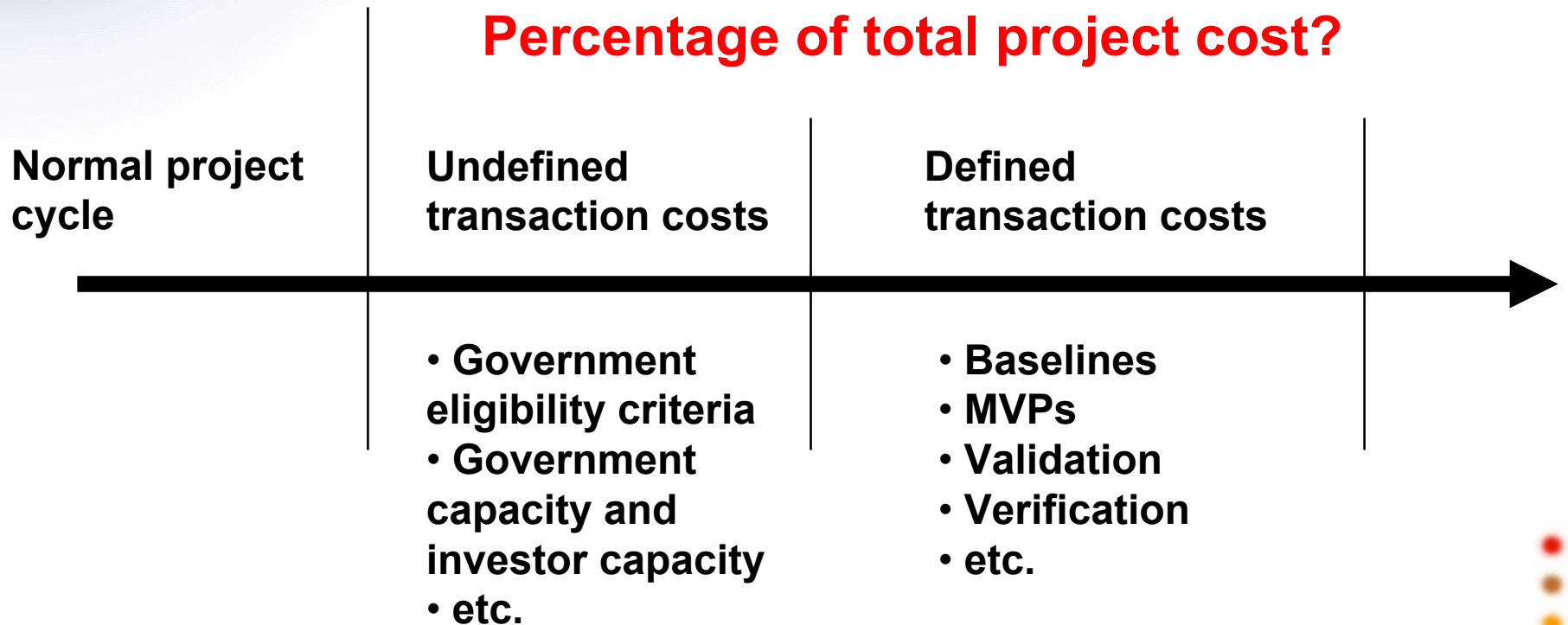
CDM additionality: Investment attraction of distraction?



- **Given CDM additionality requirements - is CDM attractive to investors?**
 - **It depends...**
 - **Ability to use credits to meet other obligations**
 - **Market price for credits**
 - **Other obligations, incentives, drivers**
- **But, it is clear that satisfying the CDM requirements is a cost**
- **It is clear that there must be more than financial benefits to attract CDM**



CDM transaction costs



Cost of CDM project preparation



- **Ordinary project preparation requirements PLUS**
 - **Project preparation to satisfy sustainability requirements (e.g., civil society participation)**
 - **Baseline**
 - **MVP**
 - **Validation**
 - **Certification of reductions**
 - **On-going monitoring, verification**
 - **etc.....**
- **Market is new for credits, lots of unknowns, difficulty 'selling' project on basis of potential credit revenues**



Risks



Typical risks in developing world which are mirrored in historical DFI

- **New risks associated with:**
 - **project preparation**
 - **project approval**
 - **baseline & MVP validation**
 - **monitoring & verification of certified emissions**

Additional risks

- **lack of firm market, price, sales & trade mechanisms/history for CERs**
- **unfamiliarity of CDM by financiers who would need to count CERs as part of finance plan**



ESD experience of CDM projects in ACP(1)



- **Sugar - bagasse cogeneration:**
 - **East and Southern Africa**
- **Tea - conversion of oil fired boilers to sustainably grown wood:**
 - **East Africa**
- **Small hydro to replace diesel for rural electrification, rural agro-processing:**
 - **Ethiopia, Uganda, Zambia, Swaziland**



ESD experience of CDM projects in ACP(2)



- **Agro-processing residues for electricity generation:**
 - Senegal, Uganda, Kenya, Tanzania
- **Wood waste heat & electricity generation**
 - Kenya, Zimbabwe, South Africa
- **Natural gas decentralised/distributed rural electrification**
 - Mozambique, South Africa, Tanzania, West Africa Gas Initiative (Ghana, etc.)



Attracting Investors



Prerequisites:

- **Good projects!!!**
- **Environmental additionality**
- **Meet sustainable development requirements**
- **Local support (local government, civil society, etc.)**
- **UNFCCC focal point support**
- **National government support (Min of Finance, Min of Agriculture, etc.)**
- **Good local banking, other infrastructure**
- **Investment security**
- **Demand, market for CERs!**



Lessons Learned – Experience to Date (1)



Prerequisites:

Same essential drivers as all investments

- **Environmental ‘additionality’ must be 100% clear**
- **Same general trends in investment as direct foreign investment anywhere**
- **With few exceptions (e.g., methane), ‘carbon finance’ element of project marginal, perhaps 10% of project cost**



Lessons Learned – Experience to Date (2)



- **Must be very good project – no such thing as a bad project made ‘good’ by carbon financing**
- **If going JI or CDM project route insufficient to cover costs & risks of this addition, then no projects**
- **‘Transaction costs’ (baseline, validation, etc.) still high**
- **Begin with credit placement/sales strategy**



Requirements for CDM 'Take off' in ACP countries



- **Clarity from CoP, UNFCCC on rules, requirements, procedures**
- **Focal points & host government agencies familiar with, & supportive of, CDM**
- **Annex 1 focal points aware, supportive**
- **Trading, obligation regime in Annex 1 countries in place to accept CERs**
- **Multilateral & bilateral agencies willing to help 'draw down' preparation costs**
- **Regional banks familiar & supportive**
- **Annex 1 credit, credit guarantee, etc. agencies familiar, supportive**