CDM SUSAC INVESTORS WORKSHOP
21 MARCH 2002, LE MERIDIEN PARK HOTEL,
FRANKFURT AM MAIN

SUMMARY NOTES

The objective of the workshop was to improve understanding of what makes a good CDM project and how to attract finance for these projects. This was to be achieved by reviewing the real pilot projects developed within the EU funded CDM Susac project. The projects presented included:

- Peanut Shell Processing Project, NOVASEN, Senegal
- Integrated waste management project, Dakar, Senegal
- TAZAMA Pipeline Pumping Stations conversion to hydro electricity, Zambia
- Replacement of diesels with mini-hydro (2 MW +), Lwakela Investments, Mwinilunga, North-western province Zambia
- Rural electrification through PV, Solar Energy Uganda Ltd, Uganda
- Kamapala Traffic Mnagement Project, Uganda

Four expert presentations were made and the following key conclusions made:

The main CDM project opportunities in Africa are fuel switching projects, renewable energy projects and energy efficiency projects. Projects which reduce methane are generally more attractive than those that reduce carbon dioxide because of the general tendency of these projects to result in greater reductions of CO2 equivalent.

The key to successful CDM is good projects. The CDM can not turn a bad project into a good project

Good projects make good investments and are distinguished by having a good market profile, clear ownership rights, and effective management They have a clear business plan along with a well-structured finance plan.
The project partners (their track record and reputation) are as important as the project content.

It is key that the host nations define clear sustainability criteria for their countries in order that projects can be screened transparently. However, such processes should be kept as simple as possible to avoid increasing transaction costs. It is important to get local support and involvement at an early stage. This means both the involvement of local players in the project development and the support of the local CDM institution to facilitate project approval.

Registering a project as a CDM project and working towards approval has an impact on what are considered "normal" project risks associated with most investments: CDM registration can improve the credibility of the project (benefit); it can provide some hedging against foreign exchange risk, as carbon revenue will most likely be in dollars or Euro (benefit); the carbon revenue will improve the IRR (benefit); there is an increase in the development risks – time and costs (negative impact).

Much is being done in Africa to mitigate risks. Political risk the stability of nation states is increasing. Commercial risk: economic strength is increasing; African economies are liberalising and moving toward privatisation of markets; improvements are being made to infrastructure such as for electricity, telecommunications, etc; there is liberalisation of the banking and financing environment. Construction and operating risks: labour is available, trainable, educated and productive. All these things provide incentives for investing in Africa.

Discussions took place to review the projects and expert input:

There was some discussion on the specification of transaction costs, such as those quoted by the PCF. Some felt that these do not incorporate all transaction costs, such as finding the right Ministry for approvals, etc. Therefore, quoted transaction cost figures can actually be inaccurate and quite

meaningless, unless talking about specific individual projects. Others felt that indication of transaction costs would be helpful for investors and developers. In reality, more experience is required to provide realistic figures for transaction cost.
As an indicator of what the minimum size for a project could be, the limit used by SENTER (Netherlands) of a minimum of 100,000 t CO2 reductions over the lifetime of the project was considered a good guide.

It was recommended that consideration should be given to developing streamlined procedures to reduce transaction costs. It was acknowledged that once the UNFCCC have clarified rules for accreditation some transaction costs would automatically be reduced.
It was agreed that the small renewable CDM projects in ACP are likely to be supported under the CDM since the national focal point could streamline processes in line with the fast CDM track approved in Marrakech by the UNFCCC.

The Marrakech Accords implemented a voluntary CDM where participants can get started and then register their projects and thus sell the CERs in the future. However all projects must be registered two years after they have started.

Project developers were encouraged to be cautious about taking advantage of the voluntary CDM route, since it might be difficult to prove additionality of the project. Therefore it is, recommended that project developers seek Annex I endorsement and host government endorsement that a specific project only went ahead on the presumption that the project would be approved and validated (and awarded CERs). This will help build the case for additionality necessary to secure future approval.

There was disagreement about whether prices for CERs will be differentiated. Some participants felt that a bond market provides a good analogy. The prices for CERs will vary between projects and countries. Prices will depend on demand and purchasers will have their own preferences for project types and locations.

Some participants disagreed about the differentiated market, noting that the importance of the project will be less significant than the quantity of the CERs that a project generates. As a result there is unlikely to be much differentiation in the CER market price. It is regulation that will drive the CER market.

A key risk is whether the Kyoto process will go ahead or not. A number of African states and European states want to go forward. Provided a number of countries sign up to the same rules and procedures, then CDM and carbon trading will go ahead. The EU has invested so much in the process that, even if Kyoto is not fully ratified, something will be developed that looks pretty similar to the Kyoto system.

Project developers in the African countries should think ahead about risk and consider the risks likely to impact on their project. They should try to find answers to these issues of risks, so that when the project is presented to investors, the project developer will have answers to the investors questions.

More work is needed to be done amongst the private sector in Africa. It is essential that there is a one stop shop for CDM in African countries. The six projects presented face the following barriers:

- The transaction costs are very high. There is thus a need to evaluate how to reduce these transaction costs since we are small size projects.
- Project finance is an issue. Local investors do not have 3 million US$, which is small sum of money for international investors. International investors presume local investors can cover these small project costs, however the funds do not exist locally. There is a need to identify a means to resolve this issue.
- Risks are also an important issue. There is a need to change perceptions of risk in Africa and to ensure that governments in Annex I present Africa more positively. It is important to recognise that things have improved in Africa reducing the level of risk.

AGENDA:

9:30	Introduction to workshop – ESD
9:45	Outline of CDM Susac project –IER
10:00	Presentation of 6 projects by project proponents/project team
11:40	Investment opportunities & removing investment barriers –ESD
12:00	Risk and risk mitigating institutions – Greenstream Networks
12:20	Experience so far and future prospects - SENTER
12:40	Investor welcome in Africa – Ugandan Investment Authority
	Open discussion session
14:10	Session One: Projects and financing
15:50	Session Two: Risk & Risk Mitigation
17:10	Plenary
17:30	Close