

**IRIS KYOTO**

**INNOVATIVE APPROACHES TO  
RISK COVERAGE AND PROJECT FINANCING  
OF CDM PROJECTS  
IN INDIA AND MOROCCO**

October 2003



Innovation Energie Développement

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**IRIS KYOTO**

- Funding: SYNERGY programme of the EC
- Period : April 2003 – 2005
- Coordinator :
  - IED – Innovation Energie Développement, France
- Partners :
  - EEEC – India
  - CIEDE – Morocco
  - ADEME – France
  - ESD – UK
  - Projekt Consult - Germany



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## PROJECT OBJECTIVES

- Suggest innovative mechanisms for
  - Coverage of project related and carbon transaction related risks
  - Project financing
  - Based on actual case studies and work with developers in India and Morocco
  - Linking with the European Trading Scheme –ETS
  - Looking at « innovative projects »
- Output:
  - To the European Commission – suggestion to the ETS
  - To European financial intermediaries



## PROPOSED APPROACH

1. State of the art of JI and carbon finance transactions to date – draft report
2. Through actual analysis of a portfolio of projects
3. Working closely to develop a few projects in India and Morocco
4. Sector priorities
  - Energy efficiency
  - Mass urban transportation
  - Renewable energy



## FRAMING THE RISK ANALYSIS ISSUES

CONVENTIONAL RISKS RELATED TO THE UNDERLYING PROJECT

RISKS RELATED TO THE CARBON TRANSACTION

Political and sovereign

Methodological

Market related

Cost of the tonne of CO<sup>2</sup>



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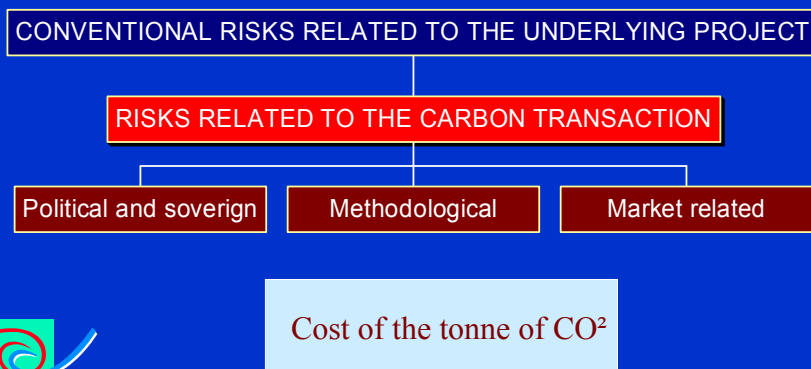


## CONVENTIONAL RISKS RELATED TO THE UNDERLYING PROJECT

- Political risk – instability, ...
  - Sovereign – currency, legal (legislation, ...)
  - Related to project development – authorisations, ...
  - Project construction and operation – incl. Resource, ...
  - Project operation
- Can additional revenue / IRR generated by carbon transactions generate enough incentive to take more risk on the project?
- But no Bad project can be made good by a transaction



## FRAMING THE RISK ANALYSIS ISSUES



## Risks related to the carbon transaction

### Political risks

- KP ratification
- Acceptance by the DNA

### Methodologies

- Baselines
- Additionality
- Monitoring
- Complexity and doc development cost
- *Value on local benefits?*

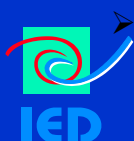
### Market

- Volume and liquidity eg:
  - Sinks
  - fungibility
- Transaction costs
- Emission increases
- **European Trading Scheme?**



## First phase of the project – to march 04

- Status of ongoing transactions and existing funds
- Development of a methodological framework
- Current "opportunities": new funds, ETS, KP risk?
- Initial workshops in India and Morocco
- Contacts with selected financial intermediaries
- Formulation of major "gaps" to be covered
- Selection of projects to be further developed



***Draft first phase report available***

## Phase 2 : Specific work based on actual projects

January 2004 to April 2005

### COLLABORATION WITH A FEW PROJECTS

- As a follow up to country workshops:
  - "innovative" feature of the proposed project
  - "motivation" of the project sponsors and promoters
- Support in:
  - developing PIN, PDDs
  - Approaching funders

### DRAW CONCLUSIONS

- Analysis of gaps in existing instruments
- Risk mitigation proposals
- Discussions and presentation to the EC and EU financial institutions



## Objectives of the Workshop

- Through project presentations and discussions highlight the specific risks faced by:
  - Sponsors
  - Financial intermediaries
  - Suppliers
  - Developers
- Engage in a discussion on how to mitigate key risks and bring projects forward
- Identification of participant needs to pursue
- Presentation of perspectives offered by the ETS and new European funds



Thank you

