

IRIS KYOTO

Innovative risk coverage and financing in CDM projects in India and Morocco



INVITATION

Workshop April 19 2004, Brussels

The European project IRIS Kyoto “**Innovative Risk Coverage and Financing of Projects related to the implementation of the CDM focussing on India and Morocco**“ started in April 2003 with a duration of 2 years. Its goal is to address important project development and financing barriers to the successful implementation of the Clean Development Mechanism (CDM) of the Kyoto Protocol, based on a hands on approach to projects. With this objective in mind, project developers, at various stages of project CDM project cycle, in the sectors of Renewable Energies, Energy Efficiency and Transportation have been approached in two countries, India and Morocco.

In this context several workshops have been held with the objective of identifying the inherent risks and particular bottlenecks to project development, making an explicit difference between the issues related to the underlying project and those related to becoming a CDM project and as the obvious following step, identify avenues for mitigating those risks. Three workshops have already been held in Morocco (Casablanca), India (Bangalore) and France (Paris), which helped in identifying projects, project developers and potential partners from the financial community, confronting their perspectives and bringing forward current issues and bottlenecks.

The workshop to be held in Brussels on the 22nd of April 2004, aims at bringing together developers, financial institutions and representatives of the public authorities from India and Morocco as well as bilateral (public and private) and multilateral, particularly European potential financial partners. The exchange of views between partners will be held with the following objectives:

The main objectives of the present workshop are as follows :

- To clearly understand the main bottlenecks to CDM project closure, and collect a set of suggestions from the audience regarding risk management instruments for Renewable Energy, Energy Efficiency projects from the Moroccan and Indian project portfolio,
- Identification of means to encourage the financing of clean technologies,
- Capacity building and exchange of information,
- To provide information on current trends in carbon finance including the emerging relationship between the CDM and the European Emissions Trading Scheme

Conventional Project Risk

- Political (e.g. unstable regime)
- Country Commercial (e.g. currency exchange rate fluctuations)
- Legal (e.g. change to national legislation)
- Development risks (e.g. not getting approval for projects)
- Construction (e.g. delays in construction completion)
- Operating (e.g. insecure fuel supply)

When dealing with any project there are a number of conventional project risks inherent. Clean technologies are not considered as conventional technologies and as such are considered more risky. In addition the energy source for clean projects can be insecure, the regulations are less favourable to investment and import, energy and conventional pricing is uncertain energy prices are low.

CDM Risk

Policy and Sovereignty Risks

- Kyoto Protocol ratification and excess emissions.
- Acceptability of CERs into domestic trading systems
- Uncertainty about requirements regarding excess allowances, sink projects
- Uncertainty regarding eligibility of projects (e.g. unclear guidance on investment/financial additionality, baseline and monitoring protocols leakage etc

Market Risks

- The immaturity and lack of volume and liquidity in the carbon market
- Capacity within host countries
- Excess allowances in Market
- Transaction costs
- Emissions growth rates
- Banking of CERs

In addition to normal project development risks, CDM projects face further risks, ultimately reflected in the prices offered by investors for CERs. The current value for a CER ranges from 1 EUR to 5 EUR. To successfully develop a CDM project and secure the best price for CERs, it is important for project developers to understand the risks that investors are likely to associate with a CDM project and how such risks differ to conventional project risks.

In this context, the perspectives offered by the European Trading Scheme, with regard to the opening to CERs within the scheme up to a limit of 6% of the volume, may be an opportunity for increasing significantly both the volume of transactions and the price.



Certified Emission Reduction
(CER) PRICE
\$/tonne CO₂

AGENDA

13:00- 14:20 Presentation of the workshop and country situations

Chair: José FLUXA GARCIA, EC, DG TREN

- 13:00 – 13:10 Introduction
José Fluxa Garcia, EC, DG TREN
- 13:10 – 13:30 IRIS Kyoto project : achievements to date and future objectives
Summary of risk analysis of a selection of projects
Mrs Anjali Shanker – IED, Project Co-ordinator
- 13:30 – 13:45 CDM context in India (national procedures and organisation, pipeline status, perspectives and issues)
Mr RK Sethi - Indian DNA - MOEF
- 13:45 – 14:00 CDM context in Morocco (national procedures and organisation, pipeline status, perspectives and issues)
Mr Yahyaoui - Moroccan DNA –
- 14:00 – 14:20 Discussion

14:20- 15:20 Case studies: detailed analysis of project and carbon related risks

Chair: Anjali SHANKER, IED

- 14:20 – 14:40 From Morocco
10 MW captive wind farm for the Tetouan cement plant
Mr. Rachid AMOR - Lafarge Cement, Morocco

Cluster of community SHW systems (100,000m²)
Dr Mohamed BERDAI, Director, CDER, Morocco
- 14:40 – 15:00 From India
Power Distribution loss reduction & irrigation pumpset efficiency improvement on a concession model for Gubi district
Mr. Govinda RAO - EEEEC, India
- 15:00 – 15:20 Discussion

15.20-15.45 Coffee break

15.45-18.00 PANEL DISCUSSION

**Opportunities and difficulties: perspectives from the financial community:
Issues related to the closing of clean energy projects and opportunities for
carbon finance**

Chair: Michel HAMELIN, ADEME

- 15:45 – 16:30 Perspectives from investors and the financial community in Industrialised Countries
 - Approaches to risk analysis and mitigation: the Prototype Carbon Fund
Mrs. Streck – the World Bank.
 - Austrian Communal Credit – *Mr. Zapfel*
 - The ETS and the linking directive -
Thomas Verhaye, DG Environment
 - European Investment Bank instruments to support carbon projects in
developing countries – *to be confirmed*

- 16:30 – 17:00 Perspectives from financial intermediaries in India and Morocco
 - India: Rabo Bank –
Dr. Sumit Gupta

 - Morocco: BMCE (Banque Marocaine du Commerce Extérieur) –
M. Said Mouline

- 17:00 – 18:00 Discussion with the floor
Chair: Mike BESS, ESD
 - Specific experience in terms of financial, baseline, country, and contractual risks,
 - Comments on the identified particular problems of the selected projects
 - Inter-institutional and inter-sectoral dialogue, exchange of experiences from different points of
view (investor, insurer, developer)
 - Solutions for identified problems?

18:00 CLOSING OF THE MEETING

José Fluxa Garcia, EC, DG TREN