

INNOVATIVE RISK COVERAGE AND FINANCING OF PROJECTS RELATED TO THE IMPLEMENTATION OF THE CDM FOCUSING ON INDIA AND MOROCCO (IRIS)

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In the framework of the SYNERGY Program of the European Commission PROJEKT-CONSULT GMBH executes, as a member of a consortium with French, British, Moroccan and Indian partners, the project “Innovative Risk Coverage and Financing of Projects related to the implementation of the CDM focussing on India and Morocco“. The GOAL is to address important project development and financing barriers to the successful implementation of the Clean Development Mechanism (CDM) as presently proposed by the Kyoto Protocol, building a practical methodology for bringing forward and implementing real CDM projects.

The actual development of projects under the CDM face major bottlenecks particularly in relation to the level of risk that would need to be assumed by all involved players.

In response to these bottlenecks the Project Team identified tools and opportunities, through real case studies, to work out appropriate risk allocation and mitigation instrument and therefore ease the financing of CDM projects in the following sectors:

- Mass Urban Transport
- Energy efficiency in industry and agriculture
- Large Renewable energy schemes



The project, drawing from a network of experts and case studies in the field, has the following OBJECTIVES:

- to better define and quantify specific risk management and financial limitations
- to define the added opportunities brought by the CDM through the sale of Carbon Emission Reductions (CERs) and the involvement of new players
- to identify areas where existing private and public financial mechanisms do not apply or suffice
- to identify the needs of the private sector in terms of risk coverage
- to identify the potential for developing private structures for example ESCos,
- To apply findings to practical case studies in India and Morocco where the project team has extensive experience and on-going projects.
- to view the present mechanisms in the perspective of a spectrum of players involved: developers, commercial banks, insurance companies, investment funds (some dedicated ethical or environmental) and provide best practice case studies.
- to provide clear, comprehensive and concise sets of recommendations on how to use public funds (grants, soft loans and commercial loans) to minimise risk.

Specific recommendations will be drafted to multilateral agencies, such as the European Union, with its different Directorate Generals, and bilateral. The specific recommendations will be made on risk mitigation and financial instruments which would maximise the impact of CDM.

- to disseminate the project recommendations via a series of workshops, web-site, CD-ROM and publications.



The whole APPROACH of the CDM must be understood in the context of the project development and infrastructure investment paradigm which has drastically evolved over the past few years, calling for the much stronger involvement of private players (be it as service providers, managers, investors, financiers, developers, etc.) in infrastructure in general and clean technology projects in particular. There is also, due particularly but not exclusively to technology development, a trend towards smaller scale distributed investments, particularly in the clean energy sector (Renewables - RE, and Energy Efficiency - EE). This implies a completely new spread of risk, taking into account risk perception and aversion of private players and their related requirements in terms of returns.

On the other hand, Mass Urban Transit projects will still rely heavily on public financing and risk coverage instruments, with long term return requirements, benefiting from a sovereign guarantee and of a rather large size, where the private sector is invited to participate via Private-Public Partnership. This type of massive infrastructure development projects will need as well a particularly proper institutional setting.



The OUTPUT of this project aims at making a contribution to the evolution of financing and risk coverage instruments

to adapt them to this changing context. The project results will provide recommendations and best practice case studies for the financing of clean technology and energy efficiency and are expected to be widely replicable given a good setting.

The Project Team represents a consortium of European, Moroccan and Indian experts who will:

- ensure that the issues identified and suggested solutions are based on actual “real life” problems that projects face *in situ*, be it at the development or execution stage;
- integrate the role of whole spectrum national financing partners in Developing Countries from national programmes to private companies via commercial banks or investment funds;
- build capacity in these countries for CDM project formulation and in risk management techniques.

Consultations, discussions and brainstorming sessions will address the viewpoints of the various players described above, both in Europe and in developing countries. Four workshops will be held: two in Brussels, one targeted to financial partners and on instruments, the other one to disseminate the project results; in Morocco and India, sector specific and with strong involvement of local players, particularly aiming at national capacity building.

The project duration is 24 months and is organised in 3 phases:

- Work Package 1 : Analysis of Current Approaches to Risk Management
- Work Package 2 : Innovative Coverage of Risk Through a Project Approach
- Work Package 3 : Synthesis and dissemination