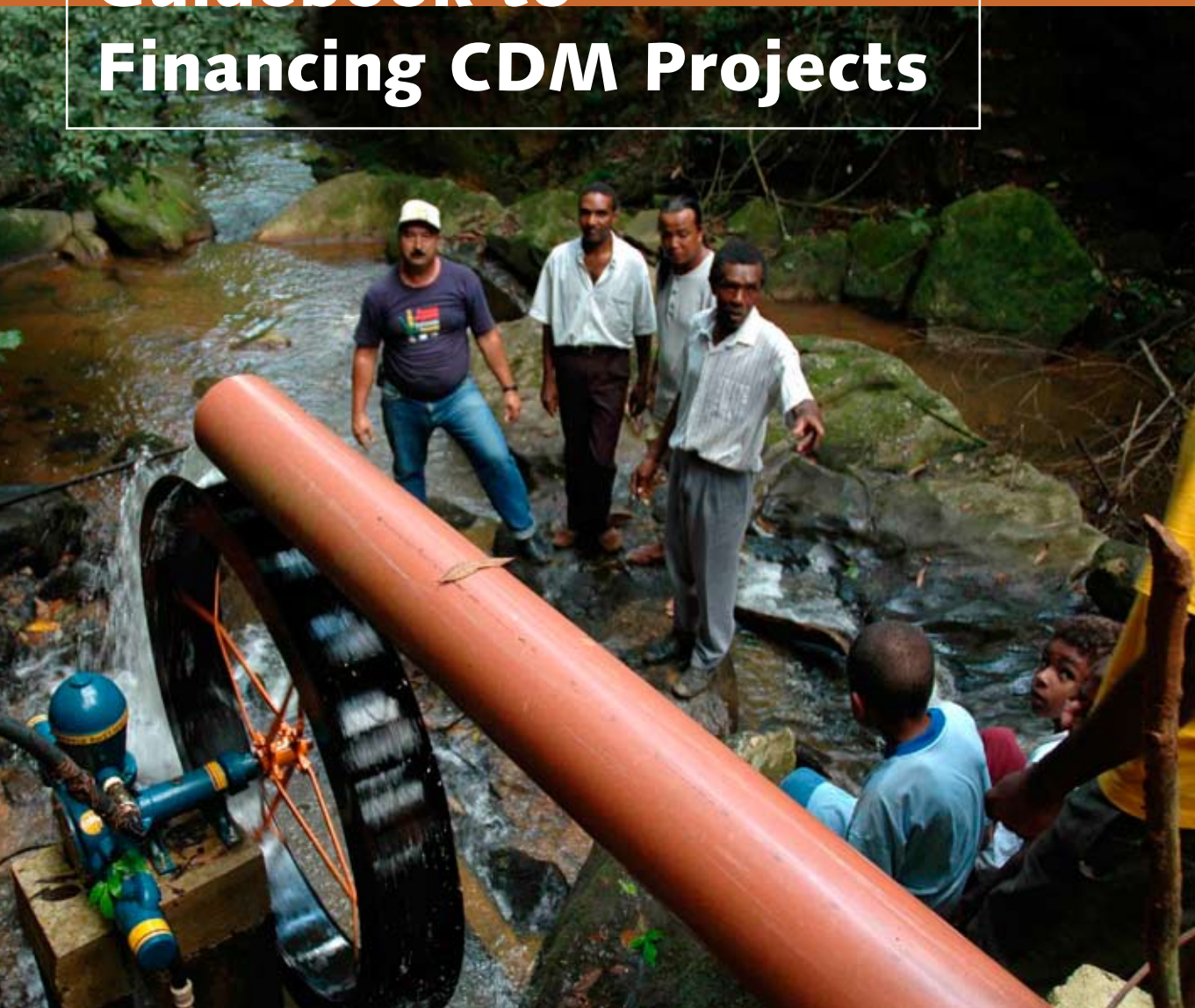


The UNEP project CD4CDM

Guidebook to Financing CDM Projects



ECO SECURITIES

Guidebook to Financing CDM Projects

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ISBN 978-87-550-3594-2

The findings, interpretations and conclusions expressed in this report are entirely those of the author(s) and should not be attributed in any manner to the Government of the Netherlands.

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Preface

The CDM market has witnessed dramatic progress in the past few months, with more than 1,700 projects in the pipeline by March 2007. However, CDM project development still faces barriers that prevent a much larger potential expansion in the number of CDM projects worldwide. Many project developers identify lack of access to financing as one of the key reasons why numerous CDM project concepts never materialise. This has been the case especially for Africa and for other parts of the developing world. At the same time, local financial intermediaries in developing countries continue to play a limited role in financing CDM projects. Lack of knowledge about CDM modalities and procedures and about approaches for financial appraisal of CDM projects are among the reasons for this lack of participation in the CDM by local banks in host countries.

UNEP's Capacity Development for CDM (CD4CDM) Project has collaborated with EcoSecurities, a CDM project development and consultancy firm, to produce this Guidebook with the objective of closing the communication gap between financial intermediaries in host countries and project developers. The Guidebook attempts to demystify the CDM for the banking community in host countries while also aiming to build the capacity of host country project developers in understanding financial and economic factors related to CDM project structuring. We hope the Guidebook will contribute to financial intermediaries in host countries playing an increased role in the CDM.

The CD4CDM Project would like to express appreciation to the primary authors of this document from EcoSecurities: Francisco Ascui, Marius Kaiser, Miles Austin and Vincent Helfferich, with inputs from Marc Stuart, Melinda Van Nimwegen, Jan-Willem Martens, David Antonioli, Souheil Abboud, Jose Castro, Eron Bloomgarden, Sonia Medina and Pieter-Johannes Steenbergen, as well as Prem Sagar Subedi from Winrock International Nepal and Fernando Alvarado from E+Co Capital.

Special thanks to Veronique Bishop, the World Bank Group, who reviewed and commented on earlier drafts. I would also like to thank Glenn Hodes, Joergen Fenhann and Julia Schmid, UNEP RISOE Centre, for their insightful comments and suggestions.

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1. Introduction

One of the challenges facing Clean Development Mechanism (CDM) projects today is their limited ability to secure financing for the underlying greenhouse gas emission reduction activities, particularly in the least developed countries. Among the key reasons for this is the fact that most financial intermediaries in the CDM host countries have limited or no knowledge of the CDM Modalities and Procedures. Moreover, approaches, tools and skills for CDM project appraisal are lacking or are asymmetrical to the skills in comparable institutions in developed countries. Consequently, developing country financial institutions are unable to properly evaluate the risks and rewards associated with investing or lending to developers undertaking CDM projects, and therefore have, by-and-large, refrained from financing these projects. In addition, some potential project proponents lack experience in structuring arrangements for financing a project.

This Guidebook – commissioned by the UNEP Risoe Centre as part of the activities of the Capacity Development for CDM (CD4CDM) project (<http://www.cd4cdm.org>) – addresses these barriers by providing information aimed at both developing country financial institutions and at CDM project proponents.

It should be noted that while the Guidebook was developed particularly with the CDM in mind, most sections will also be relevant for Joint Implementation (JI) project activities. For more detailed information on JI modalities and procedures please consult: <http://ji.unfccc.int>

The purpose of this Guidebook is two-fold:

1. To guide project developers on obtaining financing for the implementation of activities eligible under the CDM; and
2. To demonstrate to developing country financial institutions typical approaches and methods for appraising the viability of CDM projects and for optimally integrating carbon revenue into overall project financing.

The target audiences for the Guidebook are therefore, primarily:

1. CDM project proponents in developing countries, including but not limited to utilities, private and public sector entities, municipalities, and other specialised consultancies and intermediaries; and
2. Credit officers and other decision-makers within banking institutions and financial intermediaries in developing countries.

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