Banks and Finance Options for CDM Projects

DNA Forum

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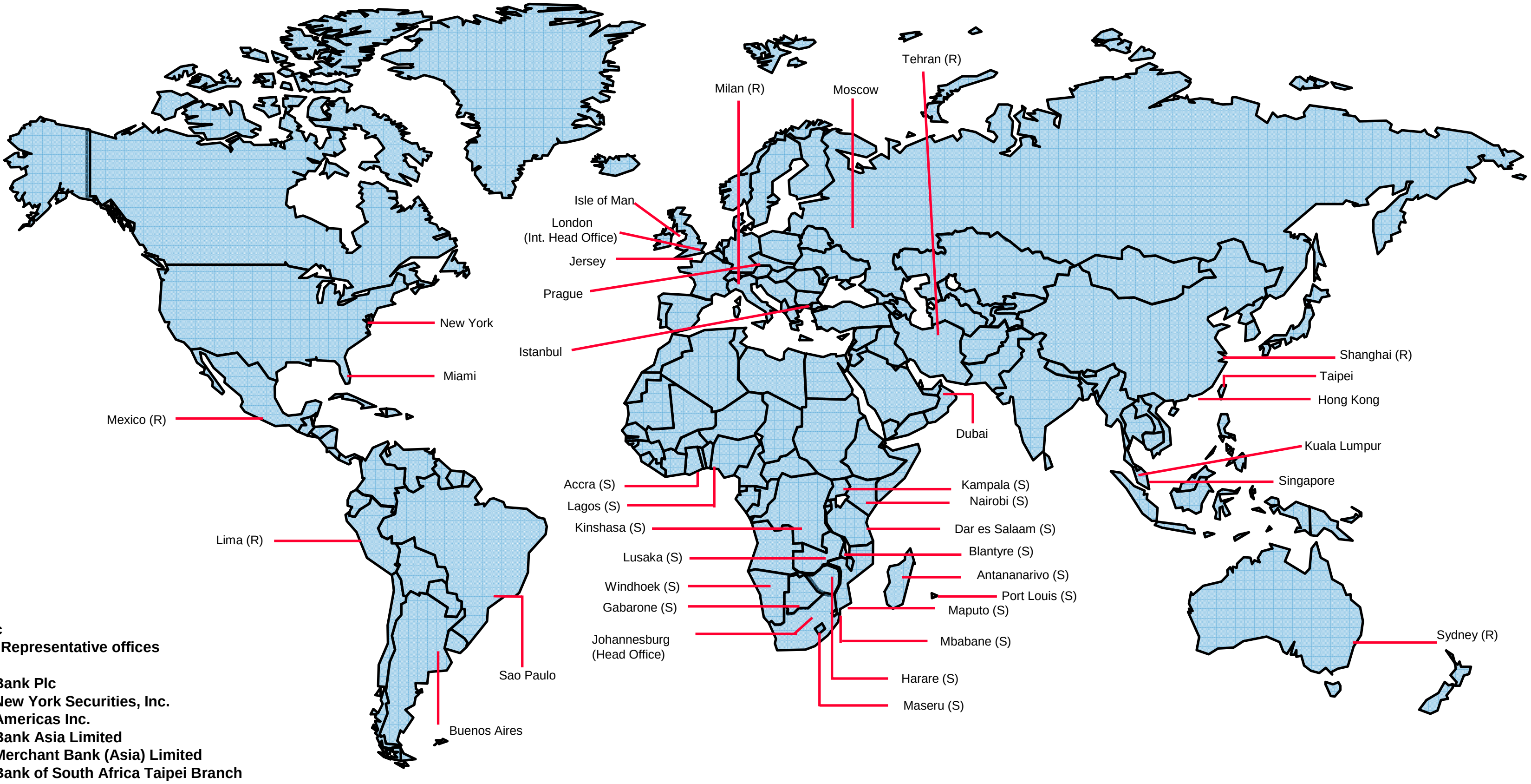

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Number of consultancy arrangements exist in other countries of the world

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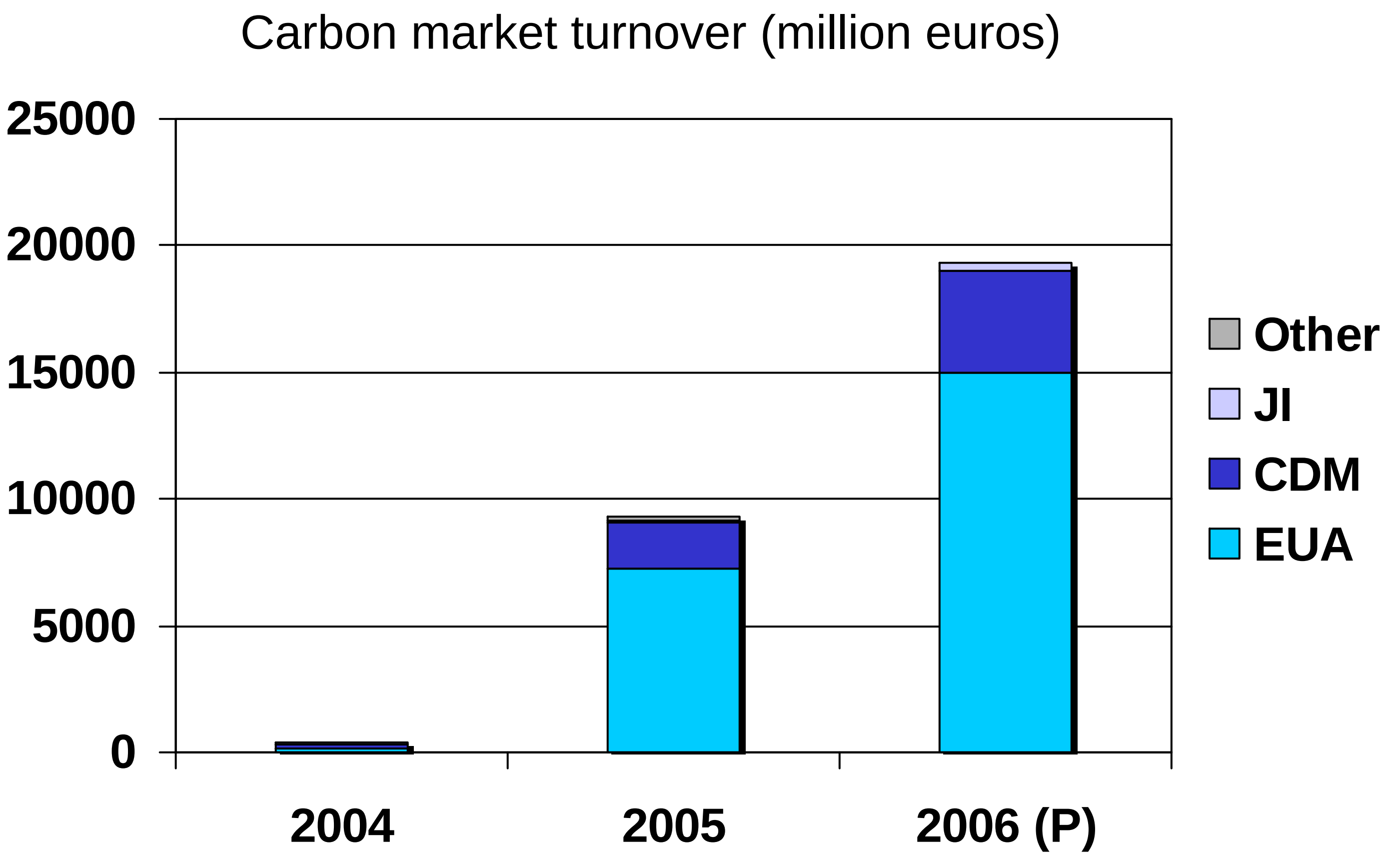
Our Carbon Markets Activity

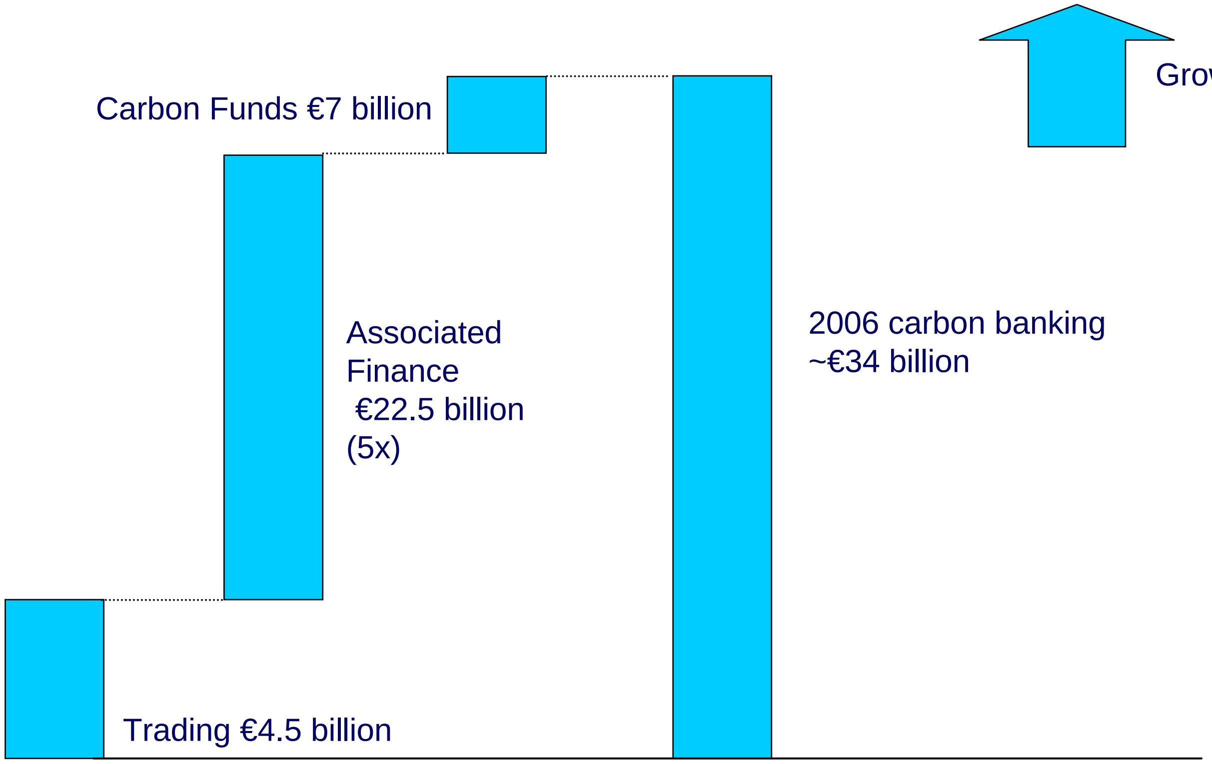
- Since 2003
- Strength in emerging (CDM/JI) markets
- Key carbon markets business areas:
  - Financing CDM and JI projects
  - Trading CERs and ERUs
  - Financing carbon market participants

Strong market growth



Source: PointCarbon, World Bank

Banking opportunity CDM/JI (2006 – global estimates)



Estimates only
Sources: Point Carbon, World Bank and Standard Bank analysis

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Some Financial Products in the Projects Market

- Offtake Agreements (ERPAs)
- Pre-payments
  - 20-50% depending on project
  - Banks can pay more for good quality projects
- Corporate equity
- Corporate debt
  - Senior
  - Mezzanine
- Project (non-recourse) finance
- Structured commodity finance & securitisation

Characteristics of a Bankable Project

Reliable supply
Predictable price

Experienced, successful developer
Appropriate permits/approvals
Good EPC contracts
Good equipment
Appropriate debt/equity ratio
Adequate financial performance

Reliable output
Predictable price
Reliable and credit-worthy offtake

Financial Jargon

- Senior Debt: A loan with first claim on agreed assets, cash flows and/or contracts. Senior debt tends to be 'cheapest' but the lender can force sale of assets or take over the business/project
- Junior Debt: A loan with lower claim than senior debt on assets, cash flows and/or contracts. A bit more 'expensive'
- Mezzanine: A very junior form of debt, relatively expensive
- Equity: Ownership of part or all of the project or company. Equity holders get residual profits *after* all debt service obligations. Equity is therefore higher risk but investors expect higher returns
- Project (non-recourse) finance: Debt secured against the project, its assets, cash flows and contracts rather than the company that owns the project
- Structured commodity finance: Financing of trade/commodity flows eg. purchase of receivables, letters of credit
- Securitisation: Conversion of a future series of cash flows into an upfront payment. The issuer of the securitisation pays the upfront payment and then receives the cash flows

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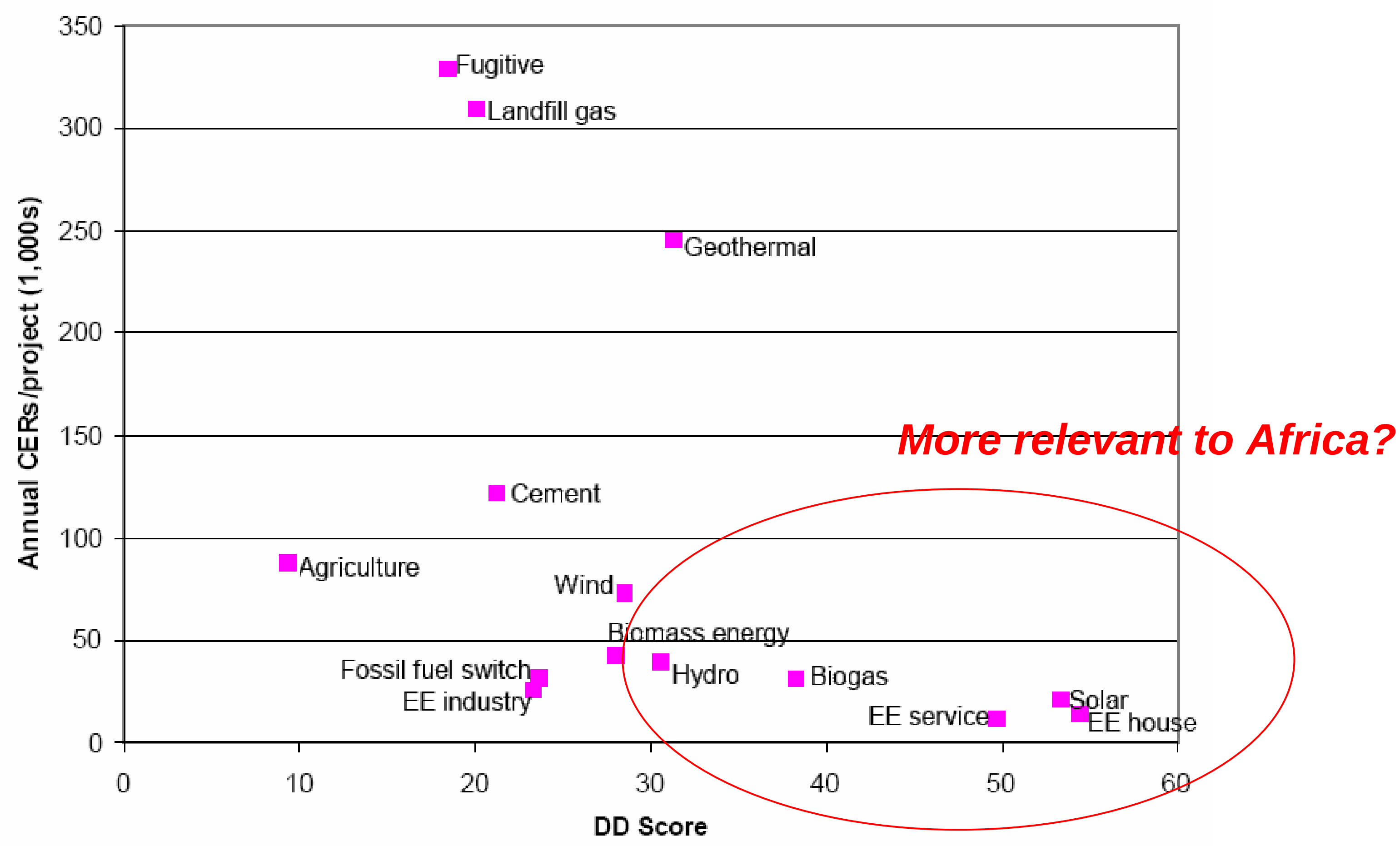
Project Types and Current Ease of Finance

	Typical finance type/difficulty	Reason
HFCs. PFCs, N2O	Equity - easy	Highly profitable, not capital intensive
Landfill gas	Equity/debt - moderate	Profitable but gas output unpredictable
CMM/CBM/VAM	Debt/equity - easy	Profitable and predictable
Cement-based	Debt/equity - easy	Profitable, asset-based
CHP/Cogen	Debt/equity - easy	Profitable, asset based
Renewables	Debt/equity - moderate	Like 'normal' energy
LULUCF-based	Equity - difficult	Methodologies and acceptability uncertain
Energy efficiency	Equity - difficult	Lack of assets to secure, meth uncertainty

Higher sustainability – harder to finance?



Source: International Institute for Sustainable Development

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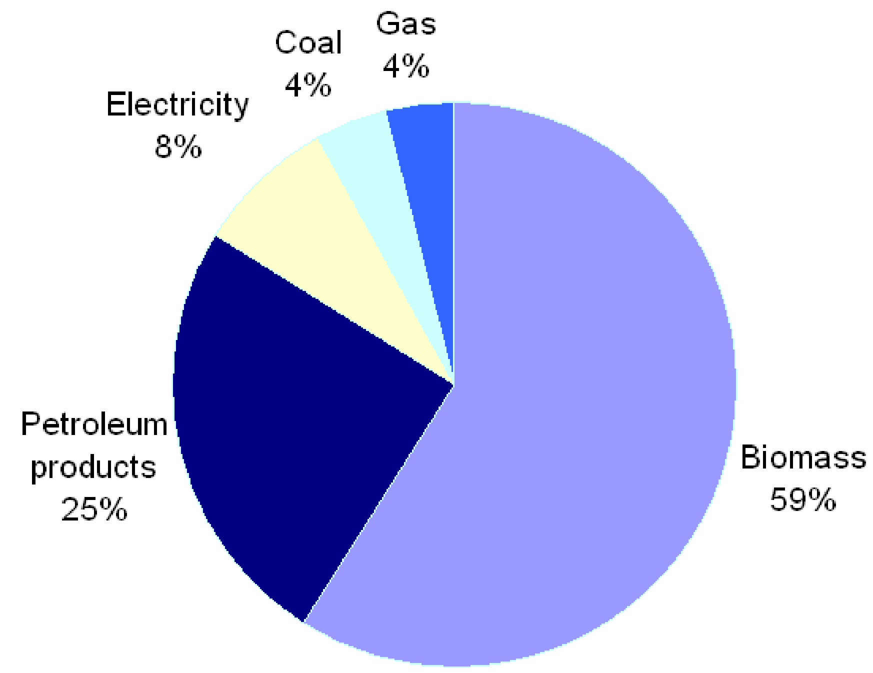
Other Issues in Financing CDM Projects

- Size
- Creditworthiness
- Strength of Developers
- Financial Knowledge of Developers

African CDM Potential: More 'unconventional' for financiers but more potential for CDM

- More difficult for financiers
- More potential for CDM
- BUT need to address meth issues around LULUCF
  - including some projects whose key benefit is avoided deforestation

Energy Consumption in Africa



Biomass refers to combustible renewables (mainly fuel wood, charcoal and agro-residues) and waste

Source: IEA, 2005

Joint City/Government Initiative

- What is the problem in Africa? A lack of projects!
  - Industrial composition is different to China: meths
  - Projects breed projects: learning by doing, demonstration effect
- Projects are done by Project Developers
  - There is a lack of local project developers in Africa
- Financial Institutions and UK Government are looking to launch the “Africa CDM Springboard”
- Raising funds now

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Africa CDM Springboard: current concept

- A broad carbon market initiative (not just Standard)
  - A local project developer
  - Focusing on countries with few Projects and/or no DNA
  - Starting in a few countries on a non-profit basis
  - Allocating projects out in transparent and unbiased way
  - Eventually, spin off as a profitable business