



Financing with Carbon Assets in the CDM context

*The Perspective of the Economic Development
Agency of Chile*

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■ Is there a CDM market?

- Regulation driven market. Hence, the stricter the better. Porter's Hypothesis. With a cloudy scenario...2012.
- **For a proper market we need:**
 - **Demand:** buyers are governments and/or international financial institutions, and large scale CO₂ producers (utilities, cement plants, and so on). Quiet a special mix!, and a few in a global context!!
 - Volume matters!
 - More buyers would be very healthy. Voluntary market a very interesting phenomenon, but less predictable.
 - Services on the demand side: financial, legal.



■ For a proper market we need:



■ Supply:

- **Projects:** Low-hanging fruit is generally gone → related to large scale companies, internationally oriented. But what about potential medium size suppliers (**Priority 1**).
- **Services:** engineering (project design), carbon experts (PDD and project development), financial and legal advisors (carbon contracting), DOEs (the more the better), and so on.

■ On market competition: perfect competition? (Priority 2):

- **Information asymmetries:** Very specialized niche, complex technicalities, not open to everyone; regulatory uncertainty; market volatility at the European level. On S&M size projects: David against Goliath
- **Transaction costs:** Decision making concentration. Accreditation – certification concentration/centralization brings transaction costs to the high due to lack of competition (How many DOEs?).
- **Regulations:** Stability of rules of the game?...post 2012?? Very slow decision making-process at a global level. Goods signals from the EU.

■ CONCLUSION: Evolving market but definitely not fully developed





- Going back to the main question? Financing with carbon assets?



- CORFO's answer: "**Symbiotic approach**" in the cross-road between the energy and the carbon market.

- NCRE in Chile national priority.
- Incremental impact on IRR (1-3%) not a panacea but the incentives are there. A non-feasible project won't become feasible with Carbon assets. Methane or Nitrogen-based projects may be another story.
- Carbon market adds value to NCRE in terms of technical development and risk reduction. CDM system looking at both deliverability and predictability.





Programs in Action



- 1. Investment Portfolio:** NCRE...call for tenders. 2007 will be US\$4 MM allocation for feasibility studies. Over 100 projects.
 - **FOCUS:** To take advantage of the excellent country CDM rating...predictability and the delivery of CERs key priorities.
- 2. Capacity building:** Letting/helping the market to evolve. Creation of 1 or 2 “**Carbon Market Facilitator(s)**” (1 million US\$ budget for a three years period each):
 - Study sectoral potential;
 - Methodology development;
 - Awareness creation (potential buyers and sellers);
 - Coaching to developers;
 - Project screening.





Programs in Action



3. **Project finance:**

- Soft loans both for ERNC and CDM projects: US\$100 MM;
- Incentive for Venture Capital Funds: ratio 1:3

4. **Investment Attraction:**

- Carbon Matchmaking (November 14-16 International Seminar);
- Bringing foreign investors to the local market;
- Promoting internationally Chilean portfolio/activities/conditions;
- Project bundling





GRACIAS!!

*And...Don't forget the November
Investment Seminar ☺!!*

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