Impact of a DNA's role on registering a CDM project in Africa

Lex de Jonge

Netherlands' Ministry of Environment

Some basic information

- Project is an energy project in African country, which has established Host Country (HC) DNA
- Project investor X is from a developed country
- Additional finance from bank Y from developed country is under negotiation
- Nairobi Framework: a developed country Z decided to support project through the CDM
- Country Z offered to pay for development of PDD and other transaction costs

The first steps / actions

- HC DNA and country Z discussed procedure to obtain LoA
- HC DNA asked for capacity building →
  - o Country Z organized workshop in HC, using draft PDD as major input
  - o HC DNA organized meeting between all HC ministries and country Z to clarify the process
  - o So far, so good, but… HC DNA also suggested a fee for issuance LoA as a fixed percentage of the CER's value
    - Why a fixed percentage?
    - How would DNA know CER's value?

In the meantime....

- Investor X and HC Ministry of Energy negotiated tariff in PPA → necessary to finalise financing
- Then CDM became involved and HC felt a lower tariff would have been possible
- HC claimed 50% of revenues CDM for SD and investor X finally gave in
- Issuance of LoA was delayed almost 2 years, finally resulting in LoA + side letter on 50% revenues

Problems

- DOE is (correctly!) not prepared to send LoA to EB without side letter
- Side letter undermines claim of additionality
- Investor X hit hard by credit crisis and now claims 100%
- EB would not accept lowering tariff because of involvement of the CDM
- Investor X, bank Y and country Z all very much concerned on HC expenditure of 50% revenues

Conclusions

- It remains to be seen how this will be resolved
- Think twice before interfering in a process of CDM registration
- Delay of 2 years has resulted in less CERs (there are only losers here)
- If reputational risk issue is not resolved parties may withdraw project (again there would be only losers here)