CDM Project Finance and Risk

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Risk Matrix

Risk Type	Examples	Risk mitigation
Technical risk	Delay in implementation due to lack of availability of raw materials or spare parts	Performance of Bonds and completion guarantees by suppliers and contractors
Market risk	Global economic growth is slower than expected – thus reducing the market values of CER's	Hedging of future CER prices through finances incentives notwithstanding the fact that a fixed contracted price could be lower than future market values
Liability risk	(a) Host country non-compliance With UNFCCC/Kyoto Protocol regulations	Government to enact national legislation outlining liability of independent certifiers
Political/ country risk	1.Host country revokes CDM on flimsy grounds 2.Host country joins Annex I of the UNFCCC – rendering CDM projects invalid	1.MOU with host country government 2. International political assurance
Environmental, health and safety risk	Contamination discovered on project site prior to implementation	Good understanding of the legal framework and legislation governing environmental liability that pertains to the project
Force majeure	Natural disasters such as floods	Specialised insurance
Qualification risk	"Discounting" of CERs due to methodological uncertainties	Lobbying of policy-makers and environmental negotiators

Managing risk (three options)

1. Change the project: Once a risk has been identified especially in the early stages, it is prudent to change the project so as to minimise the risk.
2. Allocate the risk to the most appropriate party: i.e. entities most closely associated with the risk and which can bear it at minimum cost.
3. Transfer the risk to a third party: using financial instruments to transfer risks to third parties for example through hedging, third party guarantees or insurance.

Remark: Risk assessment can and should be updated during the course of the project as the risk profile of a project changes over time.