SUPPORT FOR ACTIVITIES ON DEVELOPMENT OF CMM PROJECTS IN CEE & CIS

Criteria for the Selection of Investment Project Proposals

This Programme is to assist experts from participating countries in the private and public sectors at the local level to identify, develop, facilitate financing and implement CMM projects, that meet environmental priorities in accordance with the goals of the Programme. The Programme will include the development of investment project proposals which meet the agreed project selection criteria identified through the activities conducted in the framework of the project.

Promising project proposals will be presented for consideration to a wide range of financing institutions and facilities. The financial mechanisms which may be employed, include but are not limited to: local banks, own finance, environmental funds, loans by international financial institutions, energy efficiency funds and financing facilities, equity funds and capital market based instruments. Each of these sources of finance have their own criteria for the size of project, type of financing, geographical location, internal rate of return or other ratios among their principal requirements. Nevertheless, all sources of finance have certain basic criteria that any investment project and its sponsor must meet to qualify for financing.

In order to provide potential developers with the widest opportunity for financing, the following criteria for project selection are deemed as broadly applicable and essential qualities required by a financing institution or facility in the energy and renewable energy fields. They are very similar to the criteria applied to the granting of credits or equity investments by the European Bank (EBRD) directly[1]. Some of the principal requirements for smaller projects to qualify for funding are set out below:

1. The project sponsor (person or entity which initiates, owns and promotes the project and has decision making power on borrowing or equity distribution) must have a proven track record in their line of business, must demonstrate that is able to implement the project and ability to carry any required administrative or management changes.
2. The project owner is able to develop and implement a proper management plan to ensure sustainable operation of the proposed project.
3. The project must demonstrate that there is a strong ownership and commitment by the project partners and should be funded with a significant contribution from the project sponsor, normally at least 25 per cent. In cases including special industrial projects where special technical and management skills are needed the project sponsors are expected to have a majority shareholding or adequate operational control.
4. Projects should be based on significant equity contributions, usually from more than one investor and have sufficiently developed financing plan.
5. The project sponsor must have the legal entitlement to borrow; clear ownership, legal title or property rights, including licenses and rights to use the methane, necessary to implement the investment.

[1] See **Sources of Funds,** RFi Renaissance Finance International Ltd., Farnborough, United Kingdom, 1999 and **Sources of Financing Energy Efficiency Projects in Central and Eastern Europe**, United Nations Economic Commission for Europe, New York and Geneva, 1998.

6. The project sponsor must be certifiably creditworthy and have identified suitable commercial, municipal or national government guarantees or guarantee mechanisms for the proposed investment.
7. A project should demonstrate sufficient cash-flows and positive Net Present Value and Internal Rate of Return above the opportunity cost of capital.
8. The project sponsor should demonstrate that there is a legal and administrative framework allowing an appropriate level of tariffs to be applied, maintained and collected.
9. Funds could be available either in local or hard currency depending on the financial intermediary. If funding is provided in hard currency, the project must demonstrate the ability to generate hard currency or the ability to absorb increases in local currency financing costs should there be any depreciation during the loan period.
10. Projects should demonstrate to have a significant potential for the reduction of greenhouse gas emissions. Identification, credit analysis and supervision of loans or investments will be carried out with special regard and analyse the baseline emission and the potential reduction of carbon emissions and related environmental benefits.