

Nexus, Carbon for Development

Ethical financial solutions for pro-poor carbon projects

A global alliance of social ventures (nonprofits, nongovernmental organizations and ecobusinesses) initiated by French NGO GERES in 2007, Nexus' central mission is to **scale-up best practices which contribute to climate change mitigation, environment management and poverty alleviation**, in a sustainable manner.

In November 2007, the European Federation of Ethical and Alternative Banks, led by Crédit Cooperatif, committed to take part in creating a financial mechanism dedicated to access to energy in developing and least developed country. FEBEA has decided to work closely with Nexus and GERES to implement this project.

ACCESS TO SUSTAINABLE ENERGY, A KEY TO DEVELOPMENT

1.6 billion people in the developing world do not have access to electricity, and 2.4 billion people lack modern fuels for cooking and heating¹ 1.6 million premature deaths, mostly of women and children, are caused each year by inefficient biomass use for energy².

Access to energy is an essential component of poverty reduction and climate change mitigation strategies. Low-cost clean technologies use less fuel, thus reducing households' energy expenses and emit fewer or no GHG (Greenhouse Gases), thus improving people's health. They also contribute to improving environment sustainability. **Yet projects involving technologies such as biogas, improved cooking stoves, water filters, or solar lighting often lack appropriate funding mechanisms for scaling up and mass dissemination.**

The carbon market has considerable **untapped potential to contribute to the financing of these projects**. However, inappropriate methodologies, high transaction costs and cultural gaps between the development world and the finance world can prevent development stakeholders from accessing carbon finance.

THE NEXUS SOLUTION: A THREE-STEP FINANCIAL APPROACH

1. Two funding mechanisms combine to ensure long-term, affordable financing of projects

- An innovation fund to provide **grant funding** at projects' early stages (feasibility studies, market studies, etc.)
- An investment fund providing **loans** to enable mass dissemination of eligible, successful projects

2. Leverage traditional finance through risk reduction

- Nexus oversees carbon asset management, and uses expected **carbon credits** generated by the projects as **collateral for the loans**, protecting investors against the risk of default
- Nexus deposits a percentage of credits generated each year into a reserve account in order to **build a safety net against delivery failure**
- The innovation fund will also **reduce risk in investing in different project types** in different countries

3. Fair trade approach to maximize the value of carbon for development

- Nexus' direct access to the carbon market allows it to cut down middle men, **thus reducing transaction costs and increasing value** for Nexus members
- Simultaneously, Nexus aims to improve the recognition of **ethical or "fair trade" carbon credits** on the carbon market

¹ (UNDP, 2005) ² (WHO, 2006)

CREATING INNOVATIVE RESPONSES FOR A NEW DEAL

Nexus, an innovation

Nexus is the first-ever non-profit alliance of pro-poor carbon project developers to enter a carbon market dominated by high profile financial institutions seeking to maximize profits.

Using existing financial instruments in a creative way

Under current market practices, developers are offered expensive pre-finance conditions, and are left with very little carbon revenue – the lion's share going to investors.

Moving away from existing pre-finance deals, Nexus innovates by combining 2 funds in a creative financing package, providing long-term sustainability and tailored to developers' needs.

The Nexus investment fund is the first-ever initiative using carbon credits as collateral for loans.

The Nexus investment fund is expected to bring in €20m additional funding in the initial phase, and over €100m after maturity. It will contribute to strengthen local private sectors, creating employment opportunities, south - south technology transfers and capacity building.



Bridging worlds

Combining strengths

Inspiring changes

www.nexus-c4d.org



Nexus was first envisioned by French non-profit GERES (Groupe Energies Renouvelables Environnement et solidarités), which was created in 1976 after the first Oil Shock, and greatly benefits from GERES' expertise. Environmental conservation, climate change mitigation and adaptation, improving access to energy, and improving the livelihoods of the poor are the main focus areas for GERES. Its team is particularly involved in the implementation of **engineering solutions for development** and providing **specific technical expertise** to other interested organizations, community groups and governments.

www.geres.eu