How the potential of CDM can be utilized for the new climate change regime - Barriers & Opportunities: Views of Private Sector

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Segmentation of the “private sector” (non-financial)

1) Three types for the discussion here.
   Type 1: Domestic – large
   Type 2: Domestic – SMEs
   Type 3: International

2) Importance of Type 2 cannot be overemphasized.
## Private Sector Financial Needs for GHG Mitigation Activities

<table>
<thead>
<tr>
<th>Profitability</th>
<th>Availability of financing for initial investment costs</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Available</td>
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<tr>
<td>High enough to overcome low priority of GHG mitigation projects</td>
<td>Case I: Can be implemented on a business-as-usual basis</td>
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<tr>
<td>Insufficient → needs annual supplementary income to be viable</td>
<td>Case III: Used to be filled by the CDM with its practice of payment against delivery. Can be results-based, but needs to be subsidies not loans.</td>
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Relevance of green bonds

1) Potentially very relevant to Case II.

2) But currently the market manifests significant preference for large and uncontroversial projects (e.g. large wind and solar power generation) that either do not require MRV or entails only simple MRV.

3) Bond investors are inherently risk-averse. Projects by SMEs are bypassed without special measures.
A Possible Path

1) Concept
   Public sector bridge loans to SME projects →
   Securitization after the projects are fully operational (and thus less risky), with proper MRV
   (based on the CDM and simplified as appropriate) →
   Proceeds from securitization used to replenish the bridge loan funds.

2) Additionality issue
   Strict requirement vs. practical requirement
Future Potential

1) The success of such a structure will allow the CDM to contribute to linking GHG mitigation efforts by SMEs in developing countries with international capital markets.

2) In this role, the CDM will be focused on being a reliable tool for verifying/certifying reductions, not as a mechanism for offsetting national obligations.
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