UNFCCC-ADB-IGES: Asia Pacific Regional Workshop

HOW MARKET MECHANISMS and CDM CAN BE USED TO CONTRIBUTE TO THE POST-2020 MITIGATION ACTIONS

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(A) ASSESSMENT (a personal view)

Goethe and the CDM

Geniuses experience a second adolescence, whereas other people are only young once.

True genius is knowing when to stop.

Advantages of the CDM

1) Vast accumulation of knowledge and expertise, covering a wide spectrum of project types.

2) Well functioning infrastructure.

3) Represents the common language in discussions about climate change projects.

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Need for International Financial Assistance for Implementation of INDCs

1) **Climate change is a global issue.**

2) **Mitigation costs tend to be lower in developing countries, most of which require international assistance for implementing their INDCs.**

3) **Thus, it is ill advised for countries with financial resources to concentrate overly on their domestic mitigation, though this is naturally important.**

Private Sector Financial Needs for GHG Mitigation Activities

		Availability of financing for initial investment costs	
		Available	Not available
Profitability	High enough to compensate for the problems	Case I: Can be implemented on a business-as-usual basis	Case II: Often the key problem for mitigation actions → need for upfront financing. Cannot be results-based.
	Insufficient → needs annual supplementary income to be viable	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.	Case IV: Difficult. Must have either high social value or involve mitigation of high GWP gas (such as methane).

Current Problems with Income/Revenue Enhancement

1) At present, the CDM has ceased to be effective as a means of offering assistance highlighted in green, except for LDCs.

2) In view of the importance of GHG mitigation activities in non-LDC developing countries, this situation demands a speedy rectification.

Current Problems with Initial Investment Funding

1) This is not entirely unavailable. Assistance is offered in response to the light blue highlighted requirement (e.g. green facilities, green bonds).

2) The problem is that funding tends to concentrate on large and simple projects (e.g. large solar and wind power generation). Assistance for more diverse activity types and sizes is sorely needed.

Current Problems with Initial Investment Funding - continued

3) Efforts have been made to extend financing assistance to SMEs by way of two-tier lending.

International banks (public or private) → Domestic banks (public or private) → Loan recipient

4) Yet, this has not seen only limited success.

- The loan from the international bank is not low-cost when the domestic bank hedged for the forex risk.
- The domestic bank is concerned about the riskiness of many GHG mitigation projects by smallish companies.

Current Problems with Initial Investment Funding - continued

5) It is crucial to devise an integrated approach that includes measures to alleviate real and perceived risk for private sector banks.

6) One possible approach is put forward on pp. 21 – 22.

Performance Measurement of GHG Mitigation Actions

1) **Providers financial assistance need reliable feedback about how much GHG reduction has been achieved with the funds they furnished.**

2) **Even NAMAs, which tended to be satisfied with the concept, now emphasize the importance of MRV.**

3) **The most precise MRV procedures are offered by the CDM, though at times they are too strict, cumbersome and inflexible .**

(B) A SUGGESTION AS A TOPIC FOR DISCUSSION

Creation of fCERs

1) Apply CDM expertise and infrastructure for the creation what is tentatively referred to as “fCERs” (with the “f” standing for finance).

2) It is of note that fCERs are not a market instrument for offsetting. They aim at facilitating financial transactions by providing a reliable certificate that a certain amount of GHG reduction has been achieved.

Creation of fCERs - continued

3) **Not being an offsetting instrument, fCERs will not require the same level of rigour about additionality assessment as regular CERs. The CDM's MRV procedures will be applied, with some simplification as appropriate.**

Creation of fCERs - continued

4) It is recognized that the creation and management of fCERs presupposes the expansion of the CDM Executive Board's charter.

5) If this turns out to be a sever hurdle, fCERs can be created conceptually, not officially.

6) How fCERs can contribute to mitigation is elaborated on in ensuing slides.

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Possible Use of fCERs for Revenue Enhancement

1) **This is the green highlighted function that the CDM traditionally provided.**

2) **Perhaps the most immediate example will be to combine fCERs with diversification of NAMA funding.**

<u>Current</u>: Use of ODA funding mostly for up-front finance

<u>Diversified</u>: Use of ODA funding to include results-based finance

Possible Use of fCERs for Revenue Enhancement - continued

3) The payment will be made against the delivery of fCERs (i.e. results-based finance).

4) The reduction will remain with the host country, without being transferred to the country providing ODA funding, in common with the current NAMA practice.

Possible Use of fCERs for Initial Investment Funding

1) Again, the combination with NAMAs is envisaged.

Initial: Public sector funding on the understanding that the project will seek acquisition of fCERs.

After a few years' successful operation: The public sector funding is replaced by a private sector bank loan.

2) After a few years' successful operation, it will be much easier for private sector banks to extend a loan to the project, which they consider too risky under usual circumstances.

Possible Use of fCERs for Initial Investment Funding - continued

3) At the same time, the arrangement will increase the efficiency of public sector funding, enabling it to be recovered after a few years.

4) The fCERs generated by the project will be given to the participating bank(s). It is recommended that bank regulars consider encouraging banks under their supervision to accumulate certain amounts of fCERs.

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