UNFCCC-ADB-IGES: Asia and Pacific Region Workshop

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

		Availability of financing for initial investment costs	
		Available	Not available
Profitability	High enough to overcome low priority of GHG mitigation projects	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 resultsbased.
	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 a high GWP gas (such as methane).

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 measuresCARBON PARTNERS ASIATICA

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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