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Mitigating Investment Risks In Climate Finance

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A quick diagnosis - viewed from the private sector angle

Climate finance has up to now failed to reach the necessary scale since...

Always appeared too risky to mainstream investors

- High perceived regulatory risk (post-12 uncertainty, « changing » CDM rules, court challenges)
- « Too new, too exotic », « the next bubble » - markets evil now
- Fraud- and loopholes-ridden
- « Too-long-term » issue (decisions gestation time not compatible with daily revenue generation)

Internal logic too complex to be seized quickly

- Esoteric market mechanisms, alien jargon (« LOI from the DNA for my ERUs »)
- Too many rules to be mastered (Phase II / Phase III of EU ETS)
- No proper communication / education of corporates and public opinion (EC, IPCC)

Powerful economic interests at work against it, recession helped them

- Intense lobbying (jobs blackmail): carbon prices too low as constraint lax, action postponed
- Devastating disinformation
- « Don't believe, don't want to know, cannot pay for that »: cultural resistance

The first two issues can hopefully be addressed

Could a blend of private and public make carbon mainstream?

From « taxes to grants » logics…

Public sector will not be able to mobilize sufficient resource (taxes go to budget) but can provide…

- Stable, simple, market-friendly regulatory framework (demand)
- Long-term equity commitment channeled through market mechanisms
- Seed money where no market yet and high early risks
- Guarantees

ENABLING AND COMMITTING

…to the leveraging of private capital

- Vast capital resource
- Innovation
- Efficiency
- Generalization of carbon economics

Private sector will require short-term results and good risk-returns but can provide…

DEPLOYING

Some existing / in progress examples

Carbon bonds

- Copenhagen Climate Green Fund based on IMF SDRs, floated to private investors
- Project-linked (World Bank experiments)
- NAMA-linked
  - Programs
  - State guarantees (Green NAMA Bonds)

Carbon as a kicker to investment performance

New offset types

- Japanese standard (public bank investment)
  - J-MRV
  - Technology-linked
  - No additionality
- Domestic projects (State asset transfer)
  - Local appeal (to investors and public)
  - Removing hot-air
- REDD (MRV infrastructure needed)
- Sectoral?

Stepping up and simplifying offsets

Public-private partnerships on carbon structures

- Innovative risk-sharing formulas on post-2012 carbon projects
  - Pre- and post-2012 volumes sharing
  - Floor + upside-sharing price formulas
- Forestry funds
  - Multilateral agencies invest some equity upfront (e.g., 20% of total)
  - They get paid on non-carbon revenues also (timber, land)

Carbon as a side revenue

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