Mitigating Investment Risks in Climate Finance

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However, as part of your risk management policy, it may be in your interest to enter into such derivative transactions, after having analysed (if necessary with the help of external financial, legal or otherwise advisors) the specific risks which such transactions may imply and the advantages they may provide.
A quick diagnosis - viewed from the private sector angle

- 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

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

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

…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…

ENABLING AND COMMITTING

DEPLOYING
Some existing / in progress examples

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<td>Local appeal (to investors and public)</td>
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- Carbon as a kicker to investment performance
- Stepping up and simplifying offsets
- Carbon as a side revenue
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