

Risk Management of Investments in Joint Implementation and Clean Development Mechanism Projects through Insurance and Diversification

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Economic analyses indicate that the Kyoto Mechanisms “Joint Implementation” (JI), “Clean Development Mechanism” (CDM), and “International Emissions Trading” (IET) contribute to cost-efficient implementation of the Kyoto targets. In this context, the relevance of risks associated with international investments in JI and CDM projects has been discussed rarely. However, to realise the potential efficiency gains, effective and efficient risk management tools are essential.

This paper analyses risk management of JI/CDM investment risks through commercial insurance and risk diversification. Concerning insurance, the paper explores the insurability of JI/CDM specific risks, and the design of insurance schemes. Regarding risk diversification, the paper qualitatively analyses risk correlations between distinct JI/CDM projects. This information is needed to identify efficiently diversified portfolios of JI/CDM investment funds.