

New Climate Financing & Development Cooperation: Synergies & Potential Conflicts

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Disclaimer



The views expressed in this presentation are those of the speaker and not necessarily those of KFW.

Presentation Outline

1. Introduction
2. Climate Financing Needs
3. Public Financing and Institutions
4. Conclusions

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Profile of KfW



- Promotional bank of the Federal Republic of Germany
- Founded in 1948 for implementation of Marshall Plan

- We finance investment in Germany and Europe
- We provide international project and export finance
- We provide support for developing countries

- Total disbursements for energy efficiency and renewables:
13.4 billions (Germany, EU and international) in 2008

- International development disbursements in 2008:
1.05 billion € for energy efficiency and renewables
0.20 billion € for forest protection and reforestation
0.40 billion € for adaptation related projects in water
sector and agriculture

Comparison



2007 (partly estimates)	KFW	European Investment Bank	World Bank
Geographical Focus	domestic & international	regional	international
Balance Sheet	354 billion €	305 billion €	90 billion €
Disbursements	75 billion €	43 billion €	20 billion €
Employees	3,700	1,500	10,000

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Climate Perspective: What Needs to be Achieved?



- Leverage private sector investment for large scale deployment of climate friendly technologies
 - Provide economic framework for decades of successful operation of climate friendly technologies (e.g. CCS)
 - Getting appropriate national policies in place: pave the road towards a unified global carbon market
 - Achieve results which are monitorable, reportable and verifiable
- ⇒ Make climate friendly technologies
the „new business as usual“

Financing Needs: Spectrum of Estimates



Estimates vary strongly despite limited data base and portfolio of methodologies (UNFCCC, Catalyst, Stern, WB, Oxfam)

Financing flows: annualised capital costs and operating costs (make net present value of abatement projects neutral) – external funding

Incremental capital investment: solely private in many countries

Typical Values for Period 2010 and 2020:

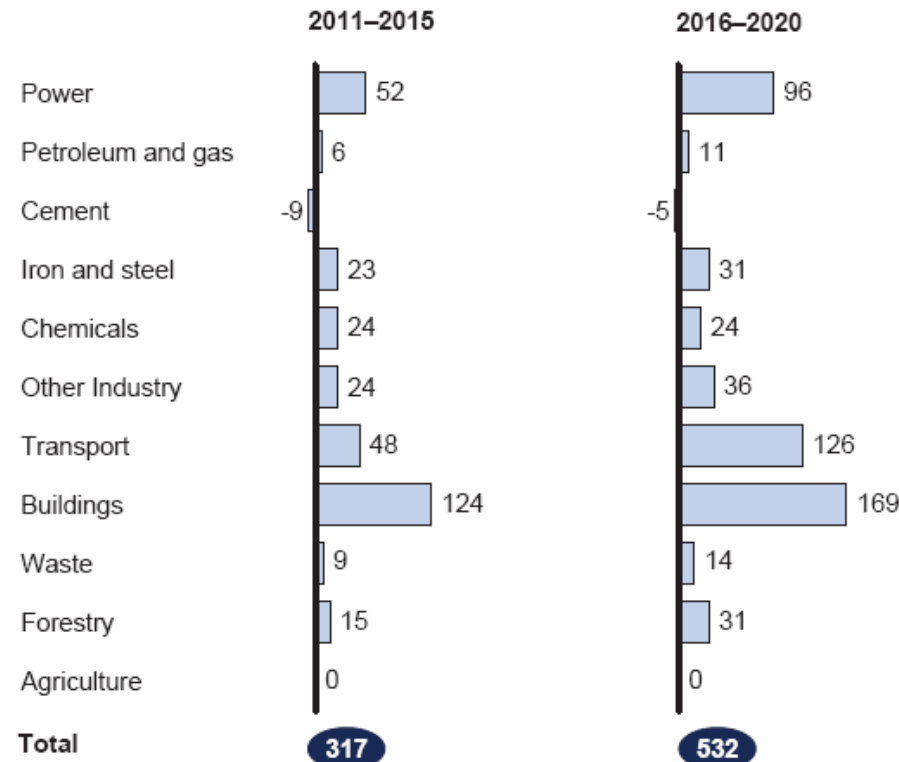
- Adaptation: 6 – 70 billion Euro annually for developing countries
- Mitigation: roughly 75 billion Euro (financing flows) and roughly 350 billion Euro (additional investment) annually and globally

McKinsey 2.0 Additional Investment: By Sector



Capital investment by sector incremental to business-as-usual for the abatement potential identified

€ billions per year; annual value in period



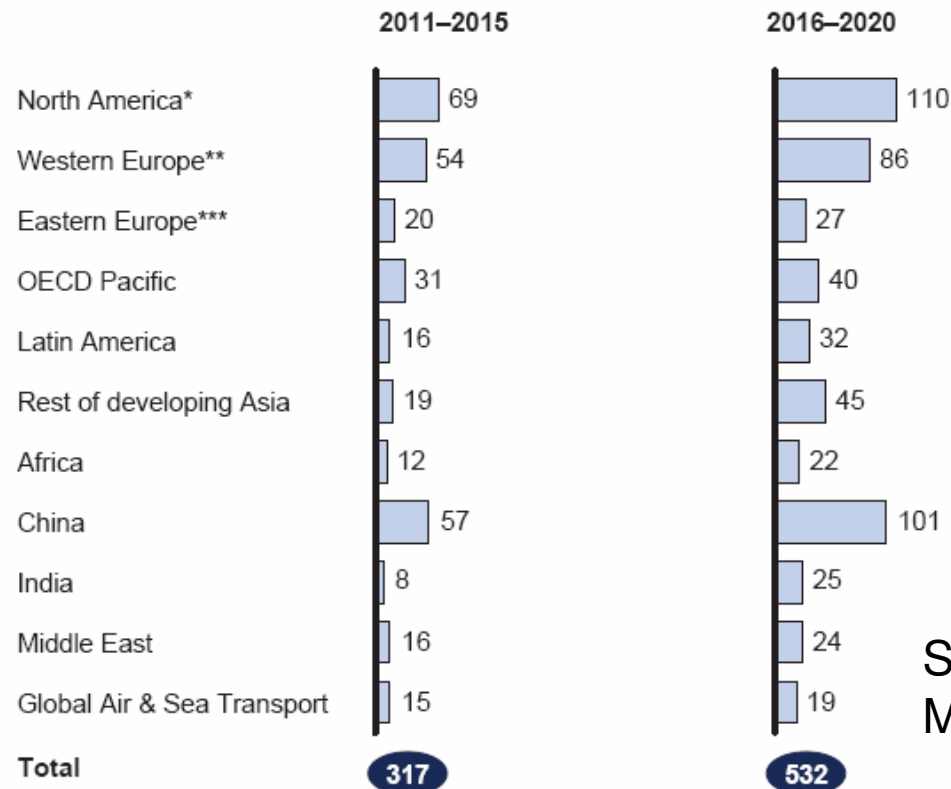
Source:
McKinsey, 2009

McKinsey 2.0 Additional Investment: By Region



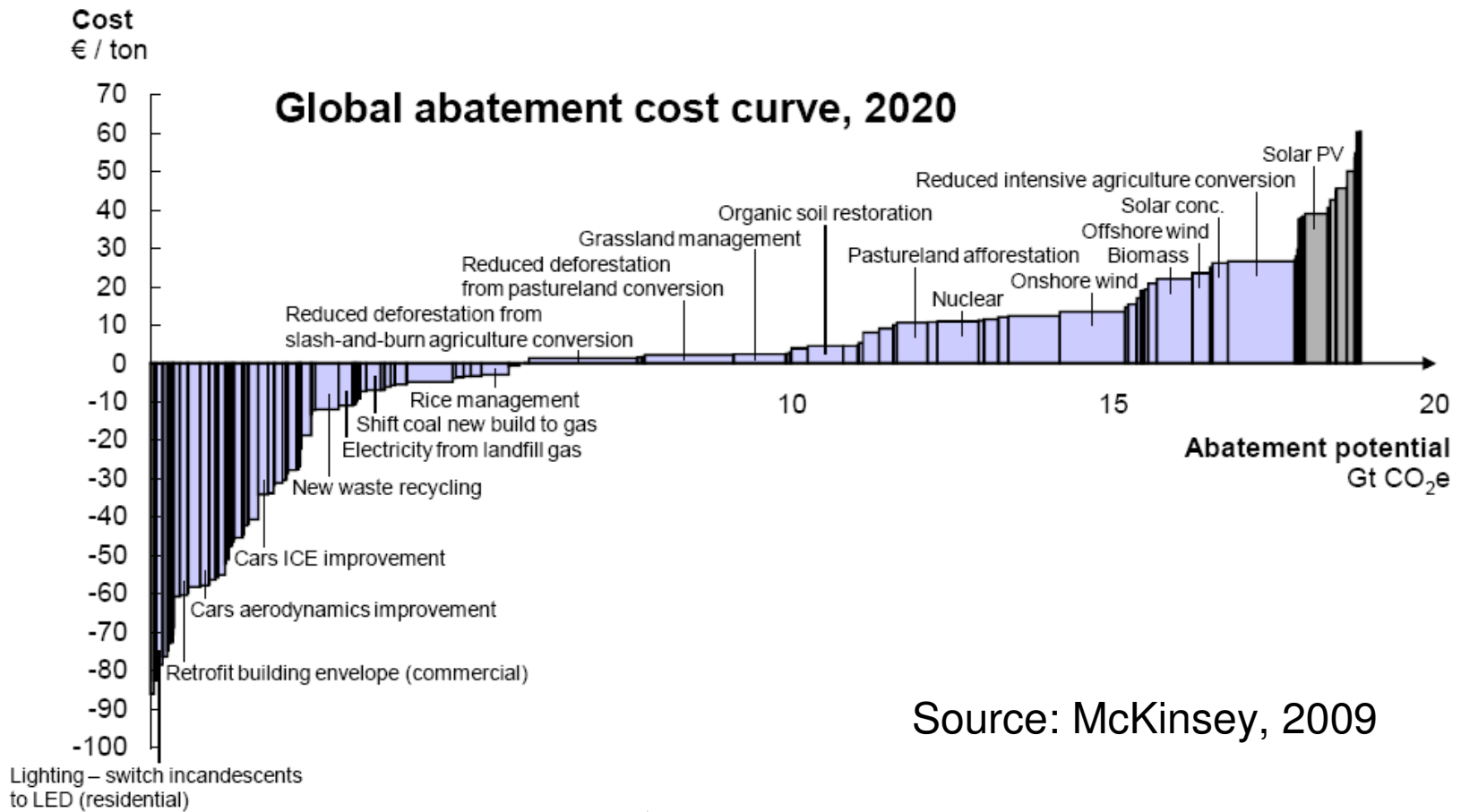
Capital investment by region incremental to business-as-usual for the abatement potential identified

€ billions per year; annual value in period



Source:
McKinsey, 2009

Global Abatement Cost Curves: Conceptual Guidance



Efficiency: An Unloved Constraint



- All available cost estimates assume optimum efficiency
- Efficiency in selecting, implementing and running projects
- Optimum efficiency is not a realistic assumption
- Nevertheless, without near optimum efficiency the political case is lost
- Embedding in policies helpful – but sometimes policies also lead to very inefficient solutions
- Important role for markets to seek low cost solutions

National Appropriate Mitigation Actions (NAMAs)

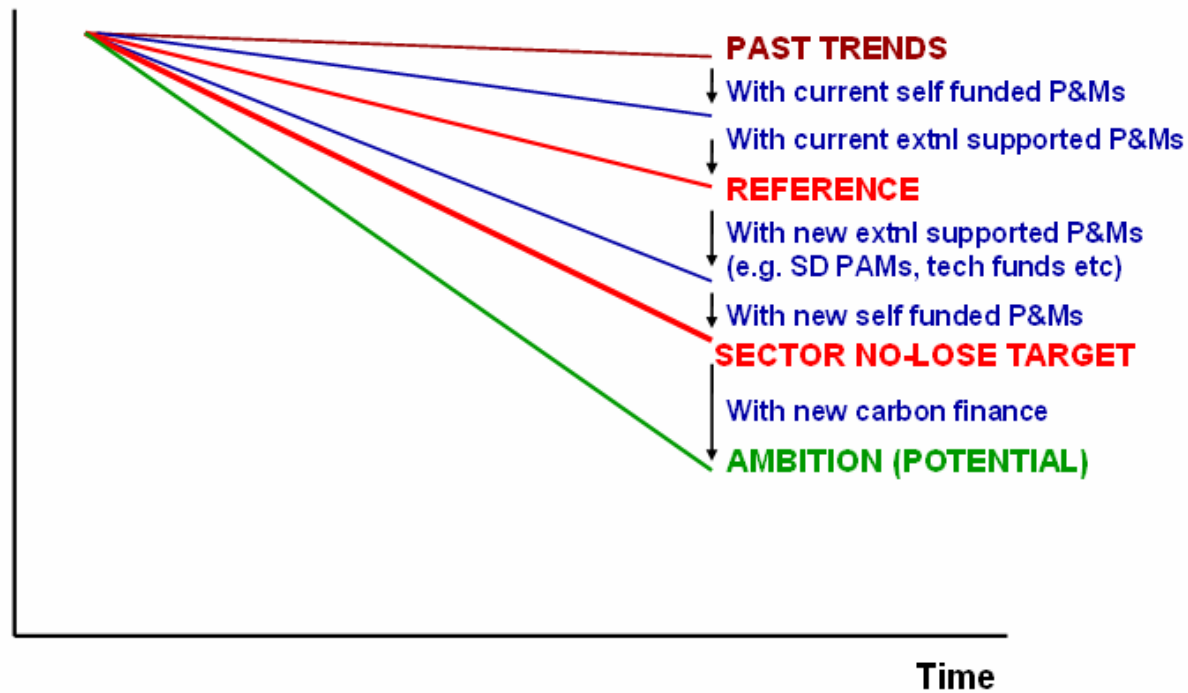


- International registry of national voluntary actions.
- Provides income from “carbon credits” for registered NAMAs
- Mitigation without finance & technology from developed countries
- Mitigation actions can be driven by market dynamism/private sector
- Global Carbon Market is finance & technology transfer mechanism
- Examples:
 - National REDD programmes
 - regulated sector-wide technology standards
 - cap-and-trade schemes
 - building insulation codes
 - congestion charges
 - renewable energy quota

Sectoral No-Lose Targets

DEVELOPMENT OF SECTOR NO-LOSE TARGETS

GHG Intensity



Source: Murray Ward, 2008

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Examples From Wish List for Mitigation and Technology Transfer



Concessional loans for:

- national renewable energy investment plans
- rehabilitation of fossil fuel power plants
- incremental costs of super-efficient coal fired power plants
- waste incineration projects
- power T&D infrastructure
- LNG infrastructure and NG pipelines

Equity and mezzanine finance for project finance and technology development

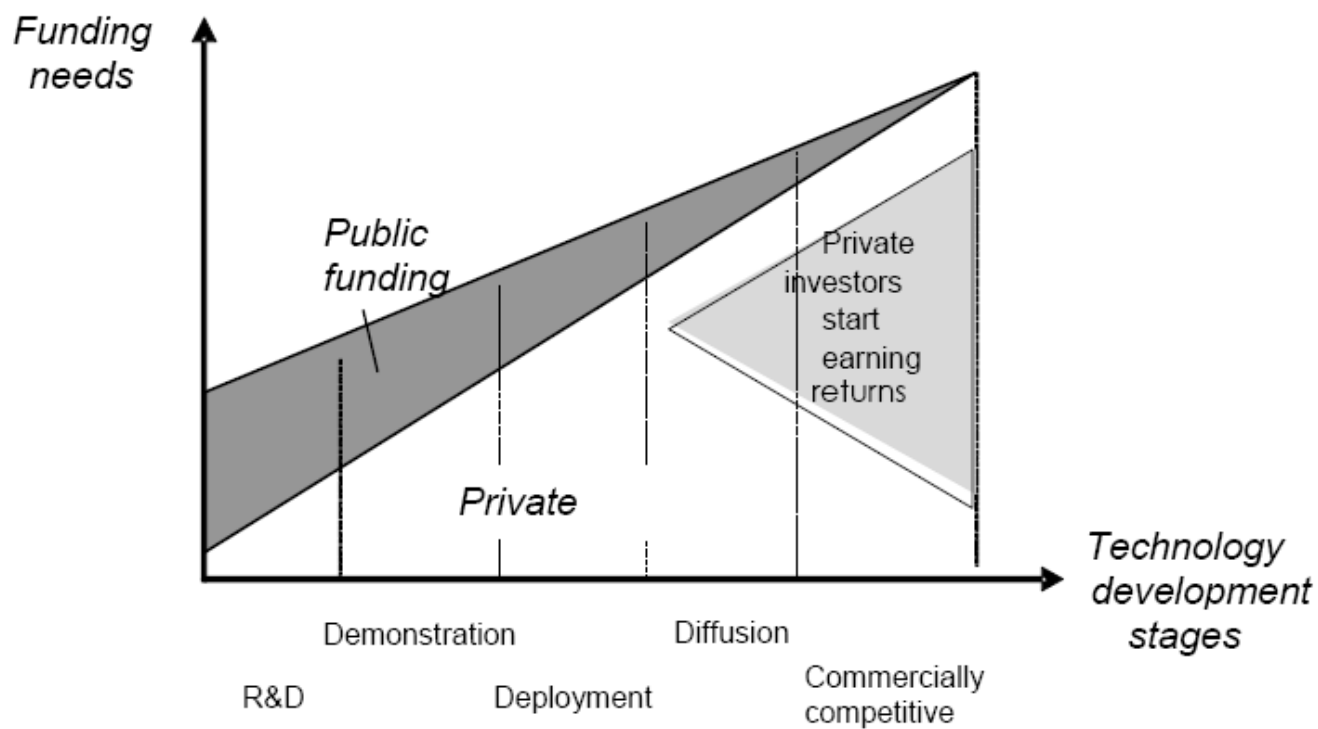
Grant money for:

- CCS technology deployment
- purchase and retirement of CERs or ERUs
- national and regional tenders for renewable electricity generation
- information and capacity building campaigns
- forest protection or reforestation trust funds
- public R & D in developing countries
- purchase of IPR and license agreements

Insurance for geothermal exploration risks or windparks

Guarantees for commercial loans

Roles of the Public & Private Sectors in Financing Technology Development



Source: UNFCCC, 2008

Leverage of Private Capital by Public Funding



Ratio of Induced Investment over Exogenous Economic Incentive:

- UNFCCC FF & I Study (2007): 4 for CDM in 2006
- UNEP SEFI Public Finance Mechanisms (PFMs): 3...15
- KfW Energy Efficient Housing in Germany (2008): 5 (3-12)
- Analogy to energy savings pay back times in industry: 0,5...5
- No automatic positive leverage factor of public finance: can be ≤ 0
- Removal of non-economic implementation barriers can be crucial: potentially very high leverage factors

⇒ Leverage factor depends on sector, country and program design

MRV of Impacts of Adaptation Projects



- Impacts of adaptation projects are multi-dimensional but can be measured, reported and verified
 - As a start, compliance with new financing obligations can be demonstrated by monitoring finance flows
 - In the longer run MRV of sources and financial flows is clearly insufficient
- ⇒ Clear concepts of desired impacts and appropriate MRV is crucial to implement climate adaptation

Adaptation MRV can Take Place at Different Places

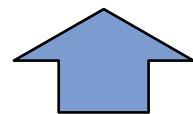


Potential Sources

CDM/AAU share of proceeds

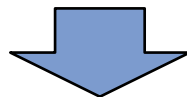
Aviation levy and other new international sources

Commitments from national budget



MRV?

MRV?



Potential Uses

UNFCCC Adaptation fund

World Bank & GEF funds

Individual Programmes & projects

Potential Impacts

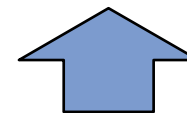
Reduced vulnerability

Access to water

Insurance coverage

100 year flood protection

Drought resistant crops



MRV?

Range of Adaptation Finance Products



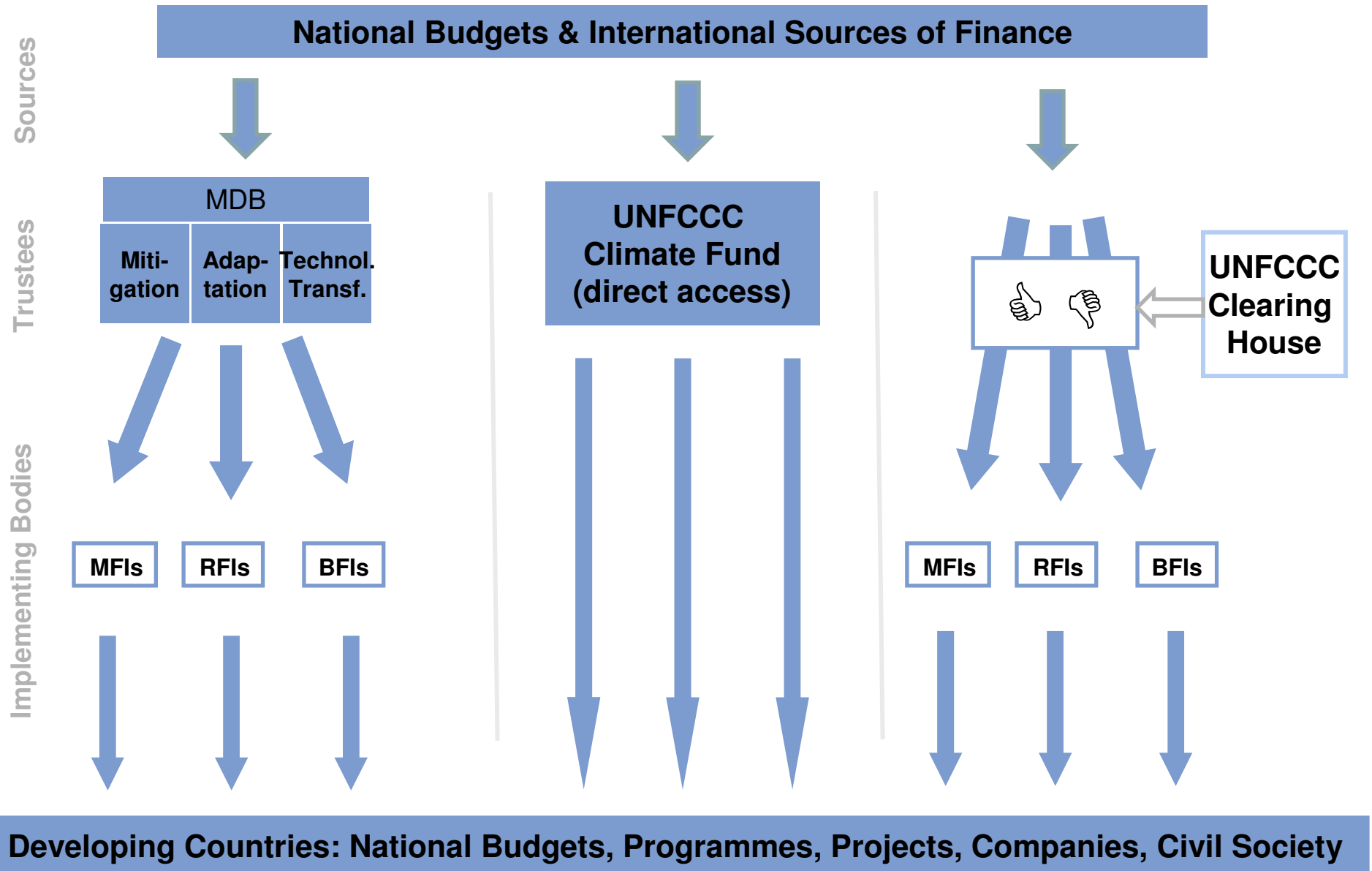
- Grants e.g. for flood protection measures or storm shelters
- Concessional loans e.g. for water supply infrastructure
- Micro-finance e.g. to diversify household income base
- Micro-insurance e.g. index-based for farmers
- Equity or mezzanine finance e.g. for agro-technology start-ups

⇒ Range of finance products relevant for adaptation

Option 1: Conventional Multilateral Funds

Option 2: Global Climate Bank

Option 3: Climate Finance Clearing House



Focus for Climate Finance System: Scale, Speed, Results



- Make full use of existing implementation capacity
- Use of bilateral, regional and other multilateral channels (Article 11 of Convention / KP)
- Start implementation asap, minimise „lock-in“
- Alignment of climate finance with ongoing development efforts
- Leveraging of private capital, avoid crowding out commercial finance products
- Differentiated portfolio of finance products in each field (mitigation, technology transfer and adaptation)

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Climate Financing: Double Dipping?



- Proposal by some stakeholders: Recognition of climate financing as ODA e.g. above present levels or above 0.7% GDP
- Pro: Powerful incentive to scale up commitments
- Con: Risk of aid diversion away from poverty alleviation
- Use local benefits as criterion?
 - no ODA recognition for efficiency-optimised mitigation commitments
 - ODA recognition for adaptation and technology transfer commitments



Summary: Climate Financing and Development



Opportunities	Risks
<ul style="list-style-type: none"> ● Additional funding for development related topics ● Congruence of adaptation and many development programmes ● Implementation of win-win strategies for mitigation & development ● Wider acceptance of budget support in project dominated sectors 	<ul style="list-style-type: none"> ● Aid diversion ● Loss of required efficiency ● Loss of development benefits in large scale mitigation projects ● Crowding out private sector ● Lack of transparency in adaptation ● Decoupling of adaptation from broader development agenda
<p>Market based mechanisms linked with public policies</p>	
<p>Development as co-benefit of climate programmes</p>	

Conclusions

- Adaptation & tech transfer need strong development links
- Efficiency will be key for the design and implementation of large scale mitigation programs – strong role for market mechanisms
- Specificity of financing for country, sector and objective is key
- Institutions: use existing implementation capacity
- Funding for adaptation, technology transfer & mitigation needs:
 - Safeguarding against aid diversion
 - Predictability of commitments
 - Strong MRV of effects in relation to defined objectives

Thank you for Your Attention!



Further information:

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