

## *Adaptation Financing: An Introduction*

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## The UNFCCC Bali Roadmap (2007): on Adaptation (I)

- 1(c) **Enhanced action on adaptation**, including, inter alia, ...:
- i) International cooperation to support urgent implementation actions, including through
- **Vulnerability assessments,**
  - **Prioritisation of actions,**
  - **Financial needs assessments,**
  - **Capacity building and response strategies**
  - **Integration of adaptation actions into sectoral and national planning, ...**
  - **And other ways to enable climate resilient development and reduce vulnerability of all Parties,**

## The UNFCCC Bali Roadmap (2007): on Adaptation (II)



- 1(c) ... taking into account the **urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change**, especially LDCs and SIDs, ...
- (ii) **Risk management and risk reduction strategies**, including risk sharing and risk transfer mechanisms such as insurance
- (iii) **Disaster reduction strategies** and means to address loss and damage associated with climate change impacts in developing countries that are particularly vulnerable to the adverse effects of climate change
- (iv) **Economic diversification to build resilience**, ...

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## Range of Adaptation Financing Products (Examples)



- Grants e.g. for capacity building
  - Grants 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
  - Commercial private sector investment for water-stress resistant crops or desalination technology
- ⇒ Range of finance products relevant for adaptation

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## Financing Needs in Developing Countries: Average 2013-2020



Adaptation [billion EUR p.a.]	Mitigation [billion EUR p.a.]	Thereof Forests [billion EUR p.a.]	Annual global R & D [billion EUR p.a.]
5 – 87	55 – 80	15 – 25	5 – 30
low share of private sector	medium share of private sector	low share of private sector	medium to high share of private sector

Source: EU COM, McKinsey, World Bank, UNFCCC

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## Main Potential Sources of Adaption Funding



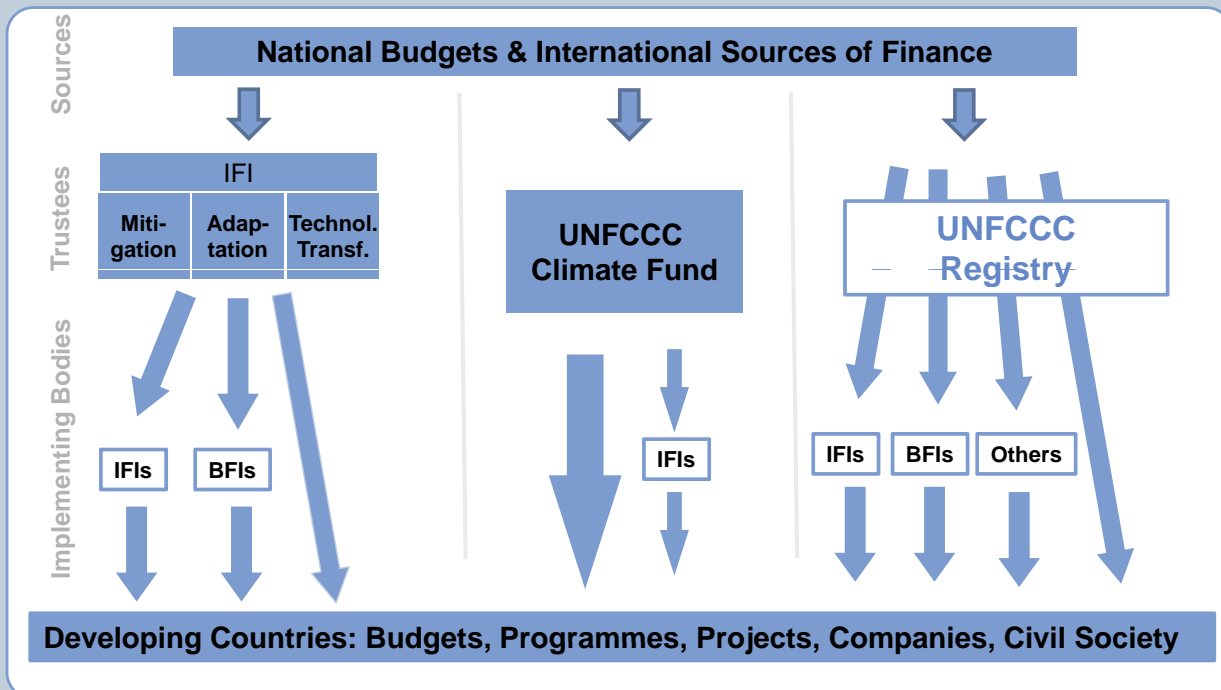
- Any “residual“ costs have to be born by public and private sector in developing countries including households
  - Mandatory or voluntary contributions from national budgets of developed countries (bilateral, existing or new multilateral)
  - Auctioning of international emission allowances (AAUs)
  - International taxation of air tickets or navigation fuels
  - Share of proceeds on CDM CERs issued („Adaptation Fund“)
- ⇒ Direct competition with funding of emission mitigation
- ⇒ Public funding of all adaptation needs unlikely
- ⇒ Leveraging of private sector investment is essential

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# The Bauhaus Principle: Form Follows Function



# Three Basic Options for the Design of the Climate Finance Architecture



## Focus for Climate Finance System: Scale, Speed, Results & Additionality



- Make full use of existing implementation capacity, multilateral, regional and bilateral (Art 11 UNFCCC)
- Start implementation asap, minimise „lock-in“
- New, additional, predictable funding
- 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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## Conclusions



- Focus on particularly vulnerable developing countries
- Range of financial instruments needed to finance adaptation from capacity building to implementation
- Integrate adaptation financing into existing planning and investment, including private sector & ODA flows
- Unclear source of incremental & new investments
  
- Climate financing - ideally: form follows function  
In reality: source of money determines governance  
⇒ Most likely: hybrid system based on UNFCCC registry

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**Thank you for your attention!**



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