



# Climate Protection as a Market of the Future Making Carbon Markets work for SME

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# Making Carbon Markets work for SME

## Problem Analysis



- **Failures of the Carbon Market**

- Property rights are artificial and not yet clearly specified (eg NAPs, methodologies)
- Limited market access (eg transaction costs, asymmetric Information, risks)
- Limited perspective / time horizons (eg post Kyoto, trading vs. amortisation periods)
- Short supply of capital to cover country risks, project risks and Kyoto risks
- Market imperfections lead to slow diffusion of CO<sub>2</sub>-efficient technologies

- **SME suffer specifically from these market failures**

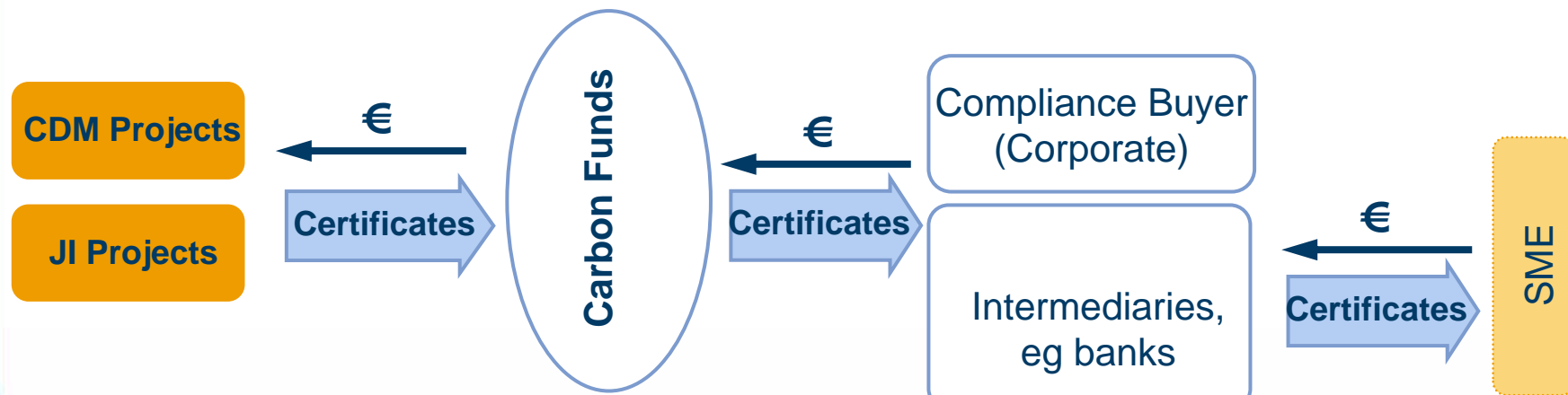
- Disadvantage of small/non-trading Companies to make use of the Project Based Flexible Mechanisms due to the above mentioned market imperfections, high fix costs and less possibilities to diversify risks
- Growing Importance of Project Based Flexible Mechanisms (CDM/JI) to comply with the obligations under the European Trading System (ETS)
- Shortage of attractive Projects to reduce Global Greenhouse Gas Emissions due to the lack of Financing

# Making Carbon Markets work for SME

## Banks as Pioneers and Intermediaries



- Banks as Pioneers: Promotional Banks
  - Develop commercially unattractive but important market segments
  - Design innovative financial products to widen and deepen Carbon Markets
- Banks as intermediaries: Commercial Banks
  - Use existing relationships to SME and bilateral trust between banks and SMEs
  - Improve access for SME to Carbon Markets by tackling size-specific market imperfections (information problems, transaction costs, risk diversification, ...)



# Making Carbon markets work for SME

## The EIB-KfW Carbon Programme



- **Key Features of the EIB-KfW Carbon Programme**
  - Volume € 100 Mio
  - Risk-sharing between EIB and KfW
- **Tailormade Product for SMEs**
  - Small and Medium Sized Companies have the option to receive a delivery guarantee from the Programme Manager (KfW)
  - Compliance risks for buyers is minimized
  - Broad and easy access by involving intermediaries from the banking sector
- **Financing Facility for Advance Payments**
  - Facilitating financing of attractive CDM and JI projects
  - Leading role of EIB as Facility Manager
  - Risk-sharing between EIB and KfW; no risk transfer to Buyers