



Exposure cum Study Tour on Natural Resource Management and Rural Development

A team of Senior Executives of NABARD headed by MD Dr. K.G. Karmakar, comprising EDs Shri S.K. Mitra and Dr. Prakash Bakshi, CGMs S/Shri V. Ramakrishna Rao, C.K. Gopalakrishna, (Dr.) V Tagat, P. Mohanaiah, K.K. Gupta, M.V. Ashok and GMs S/Shri SNA Jinnah, K.R. Nair and Dr. M.S. Haque as its members visited the KfW and other institutions in Germany between May 25-30, 2009. It was an Exposure cum Study Tour on Natural Resource Management and Rural Development. Here is an account of their learnings from the visit.

The official programme commenced in the KfW Head Quarters at Frankfurt on 25 May 2009. Initially the NABARD team was led by Shri S.K.Mitra, ED on 25 May and afterwards

it was led by Dr. K.G.Karmakar, MD. Welcoming the delegation, Mr. Uwe Ohls, Senior vice President, Asia, KfW Development Bank highlighted the Umbrella Programme on Natural Resources Management (UPNRM) as a future of green business for NABARD in this context. He requested NABARD Management to consider yearly signing of FC agreement under UPNRM. Mr. Ohls also indicated that the insight developed by KfW during its restructuring exercise would be shared with the delegation which may be useful in the recently initiated repositioning exercise of NABARD.

Shri S.K. Mitra, Executive Director, NABARD recalled the fruitful and long partnership with KfW for 29 years and highlighted the learnings of IGWDP, ADP(WADI) which were successful participatory NRM based livelihood programmes involving communities and which made good impact on the lives of millions of people. He also expressed his happiness on the KfW decision to upgrade our institution partnership from project to programme basis and launch the Umbrella Programme Natural Resources Management. Shri Mitra also added that the future collaboration between KfW and German Development Corporation would be on climate change initiatives and adaptation, biomass based power plant, solar and wind energy etc. Mr. Mitra while concluding his remarks thanked KfW for the innovative study tour programme designed by KfW. Later on Dr. P. Bakshi, ED, NABARD also spoke about the initiatives and collaboration of NABARD with KfW and mentioned that NABARD will like to have

association with KfW in Co-operative sector particularly in the revival and reform of cooperative banks.

This was followed by presentations on overview of business and legal framework of KfW by Mr. Eric Van Moeseke, Principal Project Manager. Introducing the KfW Development Bank, Mr. Moeseke indicated that KfW was founded in 1948 in Frankfurt and owned by Federal Government (80%) and Federal States (20%). The Bank has a balance sheet size of 395 Billion Euros employing 4228 employees with AAA rating which helps KfW raise finance from international markets easily. The mission of the KfW is to give impulses to economy and society and politics. Some of the learning points/key information brought out during the presentation are as follows:

- No tax liability for KfW Development Bank
- No dividend paid to Government and surplus is ploughed back
- Central Government safeguards KfW's economic basis which is guaranteed by statute (no institutional liability)
- The KfW banking group consists of four subsidiaries namely, KfW Federal Bank, KfW SME Bank, KfW IPEX Bank and KfW Development Bank
- All these institutions are product differentiated within the KfW brand, IPEX Bank is essentially a commercial bank without Government institution guarantee with the following features:

Stand Alone rating

No Government guarantee

Banking licence

Subject to Banking Act of Germany

Liable to tax

Competitive market activities

Promotional business as trustee for KfW

KfW Development Bank

On behalf of the German Federal Government, KfW Development Bank finances investment and provides advisory services in developing countries. Its goals are to sustainably improve the economic and social situation of the people in developing countries to reduce poverty, to protect natural resources and to secure peace all over.

KfW SME Bank

This subsidiary looks after the promotional activities of KfW banking group to foster economic growth. Within these KfW SME promotion:

- Improves financing conditions for SMEs and innovative companies

- Is making a major contribution for establishing new financial market segments and financing instruments for SMEs and innovative companies
- Enhances structural changes in the overall economy and the financial sector

KfW Federal Bank

It is mainly for promotional activities viz. Promotion of housing environment and climate protection, education, infrastructure and social activities.

Ms Tatjana Bruns Principal Project Manager made a presentation on the basic principles of a promotional bank and mentioned the following points:

- 1 SMEs are the backbone of the economy
- 2 Funds are guaranteed by Government
- 3 There is no distribution of profits
- 4 Exempt from most German Tax laws
- 5 Important promotional activities such as housing etc
- 6 Provides education loan to students; in fact every student can get loan from KfW without collateral from parents.

Some of the learning points from her presentation are as follows:

A promotional bank should have the following principles

1. It should support Government in its economic and structural policies (innovation, infrastructure, housing, climate change and education)
2. It should offer wide range of financial instruments (Mezzanine financing, securitization, equity participation, guarantees)
3. Promotional bank should bundle its financial services with cost free advisory services. In other words, KfW acts as a Bank, carrying out bankable promotion programmes using market instruments without Government interference.

KfW Carbon Fund

A presentation on KfW Carbon Fund was made by Dr. Bernhard Zander, First Vice President on KfW Carbon Fund. KfW started the Fund in 2004 and offered the following activities :

1. Purchase programmes for carbon credits (JI/CDM):

KfW concludes purchase contracts for forward or issued carbon credits with sellers, only CDM-CER is considered

- Payment on delivery
- Up to 2012 with option to extend

- Up to 2017 possible
- fixed or variable pricing

KfW acts as a trustee for European Programme Participants. Till 31 December 2007, its volume of business was Euro 84 million.

Programmatic CDM- Programme itself is CDM project and CDM revenues refinance the programme i.e. pCDM uses revenues to finance promotional/ policy implementation schemes in developing countries. In fact these are incentive schemes or policy implementation schemes as CDM projects.

The NABARD delegation interacted with Dr. Zander and the following areas of possible collaboration between NABARD and KfW Carbon Fund were identified-

- a. Accelerated replacement of inefficient water pumps through a grant programme
- b. Selling CDM Revenue through CFL for rural energy
- c. NABARD KfW Carbon Fund could also collaborate with proposed NABARD Carbon Fund in the following areas :
 - i. Programmatic CDM for bringing watershed development projects, TDF projects etc. which might be eligible for carbon credit.
 - ii. It was decided that a workshop will be held in India by KfW on Climate Change Initiatives and Biocarbon Fund. For this, NABARD has to identify the suitable officers. In fact a new Climate Change cell may be established in NABARD where a group of identified officers will work exclusively in the area.

KfW financial sector team-Asia headed by Division Chief Mr. Haje Schutte suggested that a **joint action research on micro insurance / micro pension may be taken up by KfW and NABARD.**

The 2nd day's proceedings started with the programmes on environment, small and medium enterprises and business start-ups by Mr. Birgit Krumpelbeck, Division Chief, MBb2. KfW has established the KfW Special Fund for providing stimulus to SME sector with a corpus of about Euro 40 billion. Both capital and interest subsidy is provided to the units. The pricing of SME loan products is designed in such a way that the higher the risk of financing a particular SME, higher is the margin for banks.

Besides, the fund also extends loans to Municipalities.

Under the environment and climate protection portfolio, KfW has been playing a leadership role in ensuring energy efficiency in housing, SME, Municipality, etc. It also funds renewable energy projects, wind energy projects and solar power projects, though there are no agricultural based energy projects. However, KfW has also funded bio-gas production projects through use of biomass. No nuclear energy project is funded. KfW does energy audit through consultants appointed by them.

Innovation Technology and Venture capital

Ms. Claudia Konrad, Principal Project Manager highlighted KfW's various financial products such as equity stake, venture capital and grant based innovation. There was a separate presentation on the programmes on energy efficiency in private and communal buildings and reconstructions by Dr. Rudolf Hennes who indicated that European union has targeted to reduce the CO2 emission by 20% by 2020, increase renewable energy and reduce energy consumption by 20% by 2020. In this context, KfW has taken proactive steps of bringing energy efficiency measures in housing which has become a huge success.

Each new building has to have a passport i.e. Energy efficiency certificate for clearance by the Municipal authorities. It is noteworthy that the Govt. Of Germany also supported through public policy by enacting German Energy Saving Ordinance (EnSO) for energy efficient requirements in new and existing buildings. For this, the KfW subsidised interest loans upto Euro 75000. In India also the Govt. can think of formulating Policy by promoting energy efficiency particularly in housing.

The last session in KfW was taken by Dr. Jens Mackensen, Division Chief, NRM sector. He reiterated that though there was no formal presentation from their side, they would like to emphasize the early execution of UPNRM agreement and ED Shri Mitra indicated that NABARD will follow up the concerned Ministries for early execution of FC and identify 5-6 ROs for focussing on UPNRM projects. There was also an unanimous view that there should be a small group in NABARD under climate change and a workshop will be held on climate change adaptation issues.

27 May 2009

The team visited GTZ office in Frankfurt and was welcomed by Dr. Beier. Later on, presentations were made and discussions held. The first presentation was on Climate Change Adaptation and Climate Proofing : (adapting to climate change projects and processes) by Dr. Lorenz Petersen, Programme Director, Environment and Climate. Dr. Petersen indicated that India is in need for formulating regional climatic models for India. Dr. Petersen added that we should approach adaptation issues through clear understanding of impacts and vulnerabilities and prioritise adaptation measures for implementation. He quoted an example of Indonesia, where there are recurrent floods and droughts due to climate change and currently it has very low adaptive capacity. He also added that GTZ has introduced "climate check" instruments. Dr. K G Karmakar MD indicated that NABARD has launched Natural Resource Management Centre at Kolkata as a centre of excellence in natural resource management including climate change issues and requested technical assistance from climate change unit of the GTZ. Shri Mitra, ED indicated that the thematic workshop on climate change can be jointly conducted in India by GTZ and NRMC.

Financial System Development

Mr. Olfgang Bucker, Financial System Development, Head of Section. T touched upon various TC assistance officer by GTZ in various developing countries. MD and ED indicated that GTZ assistance would be required in micro pension and remittance facilities as also in weather insurance products.

The third presentation was on public-private partnership by Dr. Hartman, Head of Division, Cooperation Unit with the private sector. Dr. Hartman, during his presentation indicated that institutionalisation of PPP is essential for rapid development and GTZ is assigning lot of priorities. MD indicated that NABARD has established PPP type relationship in watershed and wadi projects and with corporate CSR bodies. It was decided that NABARD and GTZ would pursue the idea of PPP based rural development and NRM development with the sanction of PPP - TC of Euro 5 million under UPNRM. In the afternoon, the study team visited BMZ in Bonn where presentation on BMZ in general and Indo-German collaboration was made by Mr. Ralf Wynwinski. Mr. Ralf indicated that BMZ is a very lean organisation with 600 employees, 80% based on Bonn, 20% in Berlin. During the presentation, he indicated that the Indo German Development Corporation has transcended from an industrial technology transfer to poverty reduction as the focus of development cooperation. The priority areas of German collaboration are -

- energy efficiency - renewable and sector reforms
- environment protection and natural resource management
- sustainable economic development and rural financing
- climate change

During the NABARD presentation made by Shri Mitra,ED the highlights of the Indo-German Collaboration particularly the IGWDP, Wadi and its socio-economic and structural impact were highlighted. The presentation also highlighted that UPNRM could be a major innovation in development banking which could be nurtured and upscaled.

28 May 2009

The Study Team accompanied by Senior KfW officials had a breakfast with the Hon'ble Parliamentarians of FRG, select Senior Officials of FRG Ministries and the representative from Indian Embassy. Mr. Henke, Vice President, KfW introduced the team to the Parliamentarians and added that the team would like to have the benefit of the views of the Parliamentarians on public policy in Development Bank particularly in financial services for poverty reduction and climate change. Dr. Prakash Bakshi , ED made a brief presentation on the Indo German collaboration and the development banking role played by NABARD in India particularly for NRM based livelihood and for poverty reduction. Dr. K.G. Karmakar, Managing Director in his introductory remarks said that India continues to cherish the German legacies such as Marxism, Forestry planning and Homeopathy pioneered by German thinkers and Scientists, which were highly appreciated by the august gathering. The German Parliamentarians appreciated the presentation of the NABARD team and complimented the efforts of the Bank on the impact of development programmes under Indo German co-operation and assured the support of the political system of Germany for continued cooperation in meeting challenges posed in development of rural areas.

Visit to wind power company

In the afternoon, the team visited a wind power company named, ENERTRAG AG. This is one of the world's leading wind power producer company and operating more than 440 erected turbines with a capacity of 720 MW installed capacity. It has investments of Euro 1000 million, it has 1000 serviced turbines with production of 1.5 billion kilowatt hours per year. It employs 370 employees and annual turnover is 250 million Euro. The team also visited the Wind Mill and studied the systems adapted by the Company.

The team also visited Public Utility Neustrelitz - Biomass CPH Plant. The plant is fuelled by corn waste and the plant is operated by the Public Works Department of the City of Neustrelitz and the plant is in operation since January 1988 and producing about 7.5 MW of electricity.

29 May 2009

The team visited Biosphere Reserve Schorfheide Chorin which is identified as the UNESCO Biosphere Reserve established in 1990 over an area of approx. 1300 sq.kms. Ms. Blahy of the Biosphere reserve made a brief presentation on the biosphere indicating the location and explained that the main Biosphere Reserve is for consideration of studies of human impact on the land and is meant to encourage producers to work in a sustainable manner. Organic agriculture, forestry, fishery and extensive pasture economy are encouraged. The team was also apprised of the three levels of protection zones, namely Development Zone, Care Zone and the Core Zone. The team was thrilled to see the excellent condition of the Biosphere Reserve and appreciated the efforts of the authorities for this.

The team visited the Core Zone of protected forest where human trespass is totally prohibited. It was observed that some Spruce plantations raised earlier by erstwhile East Germany did not do well. The Biosphere authority is waiting for death and decay of the plantation. The team also visited the eco farming for sustainable cattle milk production. Later on the team visited the marketing outlet of the organic farm products of the farm. The study team also visited an interesting project named, the Biorama project which uses an old abandoned water tower for environment based tourist activities.

The team also visited the Railway Station Chorin where the former railway station is being used for sustainable eco-tourism activities.

On 30th May 2009 the team visited several places of interest specially on heritage buildings, environment and culture to have better understanding of the bilateral cultural cooperation aspects.

B. The learning points and the way forward: NABARD can learn from the experience of KfW in restructuring, branding and spawning specific institutions within the overall institutional umbrella.

NABARD could consider its financial products for promotional development with greater flexibility ranging from equity to venture capital.

NABARD can negotiate with Govt. of India on aspects such as institutional guarantees and tax exemption as given by FRG for KfW.

Like KfW, NABARD should have its own products at concessional rate of interest in important areas like Minor Irrigation, Horticulture, Forestry, Rural Housing etc. NABARD's Watershed Development Project, TDF projects, etc. may be brought under programmatic CDM for which further study may be initiated by GTZ through approved consultant Zenith Energy or any other consultant. Accelerated replacement of inefficient water pumps may be initiated by NABARD through grant assistance by GTZ.

A workshop on climate change adaptation may be conducted jointly by GTZ and NABARD/ NRMC for NABARD officials.

KfW Carbon Fund can closely work with NABARD on programmatic CDM and on NABARD Carbon Fund proposed to be set up by NABARD.

For this NABARD has to award Zenith Energy to take up second phase of feasibility studies on CDM opportunities in relation to NABARD Carbon Fund under GTZ assistance. The first phase of study report by GTZ/ Zenith Energy has been submitted to NABARD, which recommended to take up further study in second phase.

NABARD can take a leadership position in energy efficient rural housing based on the successful experience of KfW. Special emphasis should be on larger biomass based energy plants. Continuous collaboration with GTZ is necessary in improving climate change proofing tools and subsequent adaptive measures as agreed with GTZ in Germany.