

# CLIMATE INVESTMENT FUNDS

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**ARGUMENTATION FOR KfW TO BE INCLUDED INTO THE CONSIDERATION FOR  
ADMISSION OF NEW IMPLEMENTING AGENCIES OF THE CLIMATE INVESTMENT FUNDS  
(SUBMITTED BY THE TRUST FUND COMMITTEE MEMBER FROM GERMANY)**

## **ARGUMENTATION FOR KfW TO BE INCLUDED INTO THE CONSIDERATION FOR ADMISSION OF NEW IMPLEMENTING AGENCIES OF THE CLIMATE INVESTMENT FUNDS**

In the context of the application by EIB to become an implementing agent of the CIF, the German Federal Government would like to advocate for KfW to be included into the consideration for admission of new Implementing Agencies of the Climate Investment Funds (CIF). Contributing substantial technical and financial expertise on investments for climate protection and climate change adaptation both in Germany and in the developing and emerging countries, KfW is very well qualified to act as a CIF Implementing Agency. Furthermore, its experience with domestic promotional programmes excellently positions KfW to transfer knowledge and experience from Germany to developing countries. With the opportunity to blend CIF funding with additional financial resources and experience from KfW the CIF impact could be leveraged, both in terms of the volume of mobilized climate-related investments in developing and emerging countries as well as the quality with respect to maximizing the transformational impact for the benefit of the people and the climate.

### ***Introduction to KfW***

KfW Bankengruppe (KfW) is the promotional bank of the Federal Republic of Germany, established in 1948 as a public law institution. KfW's shareholders are the Federal Republic of Germany (80 %) and the German federal states (20 %). With over 70 offices and representations spanning the globe, KfW is one of the leading and most experienced promotional banks in the world. KfW's mission is to give impetus to economic, social and ecological development not only within Germany but around the world. Sustainable financing and promotion to address macroeconomic challenges such as environmental and climate protection are KfW's core competencies.

KfW can fund its business in the capital market at favourable terms and pass these on to its borrowers. Today the capital market is KfW's most important funding source, where it raises more than 90% of its funds. Other sources include budget funds from the federal government. They are added to loans provided in economically or developmentally important areas, but are also given in the form of non-repayable grants. Combined with the profit generated by KfW, they help to lower the interest rates of a loan programme.

KfW initially gained experience conducting reconstruction in Germany and later became active in other countries as well. KfW Entwicklungsbank which is an integral part of KfW works on behalf of the German government, helping to achieve the goals set for German Development Cooperation: to reduce poverty, protect the climate, ensure peace and make globalisation fair to help especially those people living in poor parts of the world to benefit, too. KfW provides substantial funds of its own to supplement the promotional funds from the federal budget, thus actively supporting the German government in achieving its development and climate policy objectives.

Furthermore, DEG, a subsidiary of KfW, has been financing and structuring the investments of private companies in developing and transition countries for 50 years.

### ***Environmental and Climate Competence***

Environmental and climate protection is one of KfW's most important promotional focuses. In 2011 KfW committed a total of EUR 22.8 billion for investments in environmental and climate protection in Germany and abroad, out of which EUR 10.1 billion were dedicated to investments in energy efficiency and EUR 9.4 billion for investments in renewable energies. This corresponds to around 32 % of the overall promotional business volume of KfW.

It is the objective and mandate of KfW Entwicklungsbank to support and implement the development and climate policy objectives of the German government via Financial Cooperation with developing and emerging countries. KfW Entwicklungsbank has been cooperating closely with partners all over the world for many years. In the field of climate protection and adaptation to climate change KfW Entwicklungsbank is currently active in more than 80 countries and regional initiatives.

Protecting the environment, reducing greenhouse gas emissions and supporting developing countries in adapting to the consequences of climate change touch upon many of the promotional sectors of KfW Entwicklungsbank - from energy and water supplies, urban development and mobility to forestry and agriculture, as well as waste management and the financial sector. In planning and implementing projects and programmes on behalf of the German government, KfW Entwicklungsbank applies its promotional skills, profound knowledge of local conditions, well-founded technical expertise and

innovative approaches. Moreover, in preparing programmes and projects in developing countries, KfW Entwicklungsbank draws on many years of experience KfW Bankengruppe has acquired in its domestic promotional business.

Due to its commitment, long-standing experience and well-informed expert knowledge KfW Entwicklungsbank has become a leading environmental and climate bank of high international standing which is continuously expanding its activities on behalf of the German government. KfW Entwicklungsbank was able to consolidate its position as an international climate and environmental bank in 2011. Of the new commitments in the amount of EUR 4.5 billion, a total of EUR 2.75 billion was committed for environmental and climate-relevant projects (equal to more than 60 % of KfW Entwicklungsbank's total commitments). The projects for which KfW Entwicklungsbank committed funding in 2011 alone are expected to reduce greenhouse gas emissions in partner countries by 7.2 million tonnes per year.

### ***Contribution to Climate Protection***

In the area of climate protection, KfW Entwicklungsbank has been active particularly in the energy sector (renewable energies and energy efficiency), forest protection, waste management and eco- and climate-friendly transport. The Bank's support also involves consultancy in energy-policy matters.

KfW Entwicklungsbank is among the world's three biggest international financiers of renewable energies in developing countries. Renewable energies and energy efficiency together accounted for some 28 % of the volume of total new commitments of KfW Entwicklungsbank in 2011. Furthermore, KfW Entwicklungsbank has been active in the area of forest conservation for more than 20 years, working together with governments, experienced non-governmental organisations and local actors. The Bank's activities focus on supporting the creation and management of protected areas, particularly in tropical rain forests.

On behalf of the German government, KfW Entwicklungsbank has committed a EUR 500 million loan to the Clean Technology Fund in 2010, thereby making an important contribution to the climate policy of the German government and to the achievement of international climate protection objectives.

Indicative examples of KfW Entwicklungsbank's activities and investment projects in climate protection in developing and developed countries include:

- Promotion of one of the world's largest concentrated solar power (PV) plants in India;
- Co-financing of Africa's largest geothermal power plant in Kenya;
- Wind farm financing in Morocco;
- Credit line for energy efficiency in Ukraine;
- Credit lines for renewable energies and energy efficiency in South Africa;
- Promotion of forest protection in Peru;
- Forestation programme in Vietnam through a "green savings book" model;
- Competence Center on Carbon Finance (e.g. CDM-"Programmes of Activities").

### ***KfW's Support to Adaptation to Climate Change***

In terms of adapting to climate change, KfW Entwicklungsbank is able to take advantage of its extensive experience in the financing of public infrastructures and in the management of natural resources, among them in the water sector.

Important areas of activities in this area, for example, are the stabilisation of agricultural production systems through the introduction of efficient irrigation methods or agro forestry management techniques and measures aimed at the protection and adapted management of ecosystems whose functioning is threatened by climate change. KfW Entwicklungsbank is also active in establishing early warning systems for coastal protection and financing infrastructure that meets the challenges imposed by climate change. Furthermore, as climate change threatens water resources in particular, the Bank contributes to the improved use of water resources by supporting the introduction of integrated resource management. Securing the supply of drinking water, the treatment of sewage and the recycling of effluent has particular priority in this effort.

Examples of KfW Entwicklungsbank's activities and investment projects for adaptation to climate change include:

- Support of climate change adaptation in the Jordanian water sector;
- Promotion of cyclone protection in India;

- Support the adaptation to climate change in the Sahel region in cooperation with the West African Development Bank (BOAD);
- Credit lines for water supply and sanitation in Mexico.

### ***Financing Instruments***

KfW Entwicklungsbank applies a wide range of instruments in the promotion and financing of environment and climate-relevant investments in developing and emerging countries which are unrivalled by other bilateral development institutions. Projects for emission reductions, climate change adaptation and technology transfer in developing and industrialising countries are financed with a differentiated mix of grants, low-interest loans with long maturities (for instance as development loans, promotional loans and credit lines) or equity participations.

A variety of special facilities and programmes are available specifically for environmental and climate protection. Innovative approaches such as establishing funds that also attract private sector investment are further options. Current examples of funds for climate finance are the Global Climate Partnership Fund (GCPF) and the Green Growth Fund, Southeast Europe (GGF). These funds mobilize private investment and thus contribute to the development of the market for energy finance and thus a more sustainable development path in the region.

In addition, the sale of carbon credits generates additional income for climate protection projects. KfW Carbon Fund has been promoting climate protection projects all over the world since 2004. In order to support innovative programmatic approaches in a targeted manner, the Carbon Fund has been operating the PoA (Programme of Activities) Support Centre Germany since 2008.

DEG also promotes private enterprise initiatives for environmental and resource protection in developing and transition countries. In 2011 DEG granted a loan volume of EUR 712 million for investments in environmental and climate protection.

### ***Environmental Soundness and Sustainability***

Its promotional mission and its values make responsibility in society an integral part of KfW Bankengruppe's business operations. Accordingly, KfW has defined its fundamental position in the set of principles called 'Responsibility in Society - the Environmental and Social Principles of KfW Bankengruppe'. The environmental and social principles and safeguards of KfW correspond to the highest standards comparable to those of WB/IFC which oblige all those involved to act in a sustainable fashion. KfW would obviously comply with any standard defined by the CIFs in program implementation. KfW's sustainability management system governs the organisational structures and procedures for delivering sustainable products and business processes.

The principles of environmental soundness and sustainability are also key guiding standards to the promotional activities of KfW Entwicklungsbank. All projects are subjected to a binding assessment to ensure that they comply with acceptable environmental and social standards. Against the background of the increasing importance of climate change risks and greenhouse gas reduction potential KfW has correspondingly expanded its sustainability guidelines with a systematic climate assessment (guideline for conducting business in an environmentally, socially and climate friendly manner). The objective is to identify risks, potentials, and scopes of action for climate protection and adaptation to climate change, as well as develop measures to minimize risks and utilise opportunities. Thus, all projects supported by KfW are analysed in a systematic climate assessment for their contribution to climate protection and climate change adaptation.

### ***Cooperation with other Development Institutions***

For many years KfW Entwicklungsbank has been carrying out numerous projects in collaboration with other development institutions.

KfW cooperates closely with the institutions of the European Union (EU) and the other European development financial institutions. As important European partners, the EIB, the French Development Agency AfD and KfW Entwicklungsbank jointly launched the "Mutual Reliance Initiative – MRI" which strengthens the ability of co-financing projects by sharing and simplifying procedures and contributes to the efforts of Aid Effectiveness. KfW cooperates as well with the development organisations and development banks of other EU member states.

KfW Entwicklungsbank also maintains close cooperative relations with numerous institutions concerned with international development and climate issues. Besides non-European bilateral

development institutions, such as JICA, these also include above all multilateral organisations, such as the World Bank, the UN or the regional development financiers, such as AfDB, ADB and IDB. Cooperation ranges from consultations in strategic dialogue with the partner organizations to provide joint support and finance for specific programmes and projects.

Other major partners are national development banks in the emerging countries that support national development programmes for climate and environmental protection or for the promotion of small and medium-sized enterprises.

KfW Entwicklungsbank has active country programmes, i.e. a lending programme and / or an on-going policy dialogue, in almost all of the countries financed by the CIFs. Furthermore, some projects and programmes of KfW Entwicklungsbank already receive funding from the CIFs or closely cooperate with the CIFs. Examples are:

- Solar thermal power (CSP) plant in Kom Ombo in Southern Egypt;
- Ouarzazate solar power plant in Morocco;
- Upington concentrating solar thermal power (CSP) plant project, Northern Cape, South Africa;
- Programme with Bancoldex to promote energy efficiency and renewable energies in Colombia.

In participating as an Implementing Agency of the CIF KfW will effectively combine its expertise and core competencies with the activities of the CIF and will further supplement the above work with other development institutions.

### ***Background of Germany's interest in KfW being included as an implementing agency of the CIFs***

Recipient countries in the CIFs should have more choice with which implementing agency they want to pursue low carbon climate resilient development.

On behalf of the German government KfW Entwicklungsbank has - as a contributor to the Clean Technology Fund - been actively involved in the CIFs from the very beginning and is engaged extensively in CIFs programmes and projects through substantive cofinancing in a broad field of CIF and in particular CTF actions.

As existing CIF investment plans are being updated and new country investment plans are under preparation Germany considers that KfW should become an Implementing Agency of the CIF.. Thereby, KfW, in coordination with other multilateral agencies, contributes to ensure that funds for climate protection finance are specifically deployed for the maximum benefit of the people in developing and emerging countries.

In summary, KfW becoming an Implementing Agency of the CIFs would complement existing activities and cooperation in promoting investments for environmental and climate protection. It would help to facilitate the transition towards a low-carbon-economy by overcoming investment barriers, in particular those that are faced by the private sector.