

# Making public funding go further, maximising the leverage of private funding – KfW's experience

Brussels, March 3, 2011

Die Zukunftsförderer



# 60 years of KfW

## Financing with a public mission



- Promotional bank of the Federal Republic of Germany
- Founded in 1948 as Kreditanstalt für Wiederaufbau
- Shareholders: 80% Federal Republic, 20% federal states
- Headquarters: Frankfurt am Main  
Branches: Berlin and Bonn
- Representative offices: around 60 offices and representations worldwide
- Balance sheet total at end-2009: EUR 400 billion
- Around 4,200 employees (2009)
- Best rating: AAA/Aaa/AAA



- Founded 1948 as Promotional bank of the Federal Republic of Germany, Shareholders: 80% Federal Republic, 20% federal states
- Balance sheet total at end-2009: EUR 400 billion
- Total Commitments in 2010 EUR 81 billion
- KfW has a wide array of functions
- Environmental and climate protection is a major promotional priority
- Focus: investments in renewable energies and energy efficiency in housing and SMEs
- Commitments in this sector in 2010 EUR 25 billion

**KfW Bankengruppe is one of the world's biggest financing institution for energy efficiency and renewable energy**

# A bank with a wide array of functions



## Domestic promotion

## International business

### We promote Germany

### We ensure internationalisation

### We promote development

#### Business Area Mittelstandsbank

Promotion SMEs, business founders, start-ups

#### Business Area Privatkundenbank

Promotion construction of new housing and modernisation as well as education

#### Business Area Kommunalbank

Financing municipal infrastructure projects and global loans Germany/Europe agency business for Federal Government

#### Business Area Export and Project Finance

International project and export finance

#### Business Area Promotion of Developing and Transition Countries

Promotion of developing and transition countries

### Promotion of environmental and climate protection



# Challenges of Promoting Energy Efficiency



| Sector                                  | Target   | Challenge  |
|---|--|--|
| <p><b>Housing</b></p>                   | <ul style="list-style-type: none"> <li>- single family homes</li> <li>- apartment buildings</li> </ul>                       | <ul style="list-style-type: none"> <li>- high initial investment costs</li> <li>- lack of knowledge and awareness</li> <li>- credit risks</li> <li>- heterogeneous ownership structures</li> </ul>                                 |
| <p><b>SMEs</b></p>                      | <ul style="list-style-type: none"> <li>- buildings (office and manufacturing)</li> <li>- manufacturing facilities</li> </ul> | <ul style="list-style-type: none"> <li>- lack of financial resources</li> <li>- lack of information and knowledge</li> <li>- energy as minor portion of overall costs</li> <li>- short amortisation periods anticipated</li> </ul> |
| <p><b>Municipal Infrastructure</b></p>  | <ul style="list-style-type: none"> <li>- public buildings</li> <li>- public transport</li> </ul>                             | <ul style="list-style-type: none"> <li>- high initial investment costs</li> <li>- cost effectiveness</li> <li>- budget constraints</li> <li>- lack of knowledge and awareness</li> </ul>   |
| <p><b>Character of the projects</b></p> |  | <ul style="list-style-type: none"> <li>✓ retail business</li> <li>✓ broad scale impacts</li> <li>✓ private and municipal investors</li> </ul>  |

## Basic Facts

### Capability of energetic renovation in Germany

- 39 m housing units
- 75% built before 1979
- potential of renovation 20 m housing units

### Programme started in 2001

- More than 630.000 loans
- Commitment volume of 40 billion euros
- 1,8 m housing units

### Macroeconomic Evaluation since 2006

- Sustained CO2 reduction of 7,7 m tons p.a.
- Investments of 70 bn euros
- On average 200.000 jobs per year safeguarded or created
- Accumulated Savings in heating costs of 1.5 m euros





## Factors of success

### All groups of investors can apply

- eligibility criteria are linked to the type of building

### Focus on interest subsidised loans

- provides capital and incentives
- Higher energy efficiency means higher promotion

### KfW-Efficiency House as a brand for energy efficiency

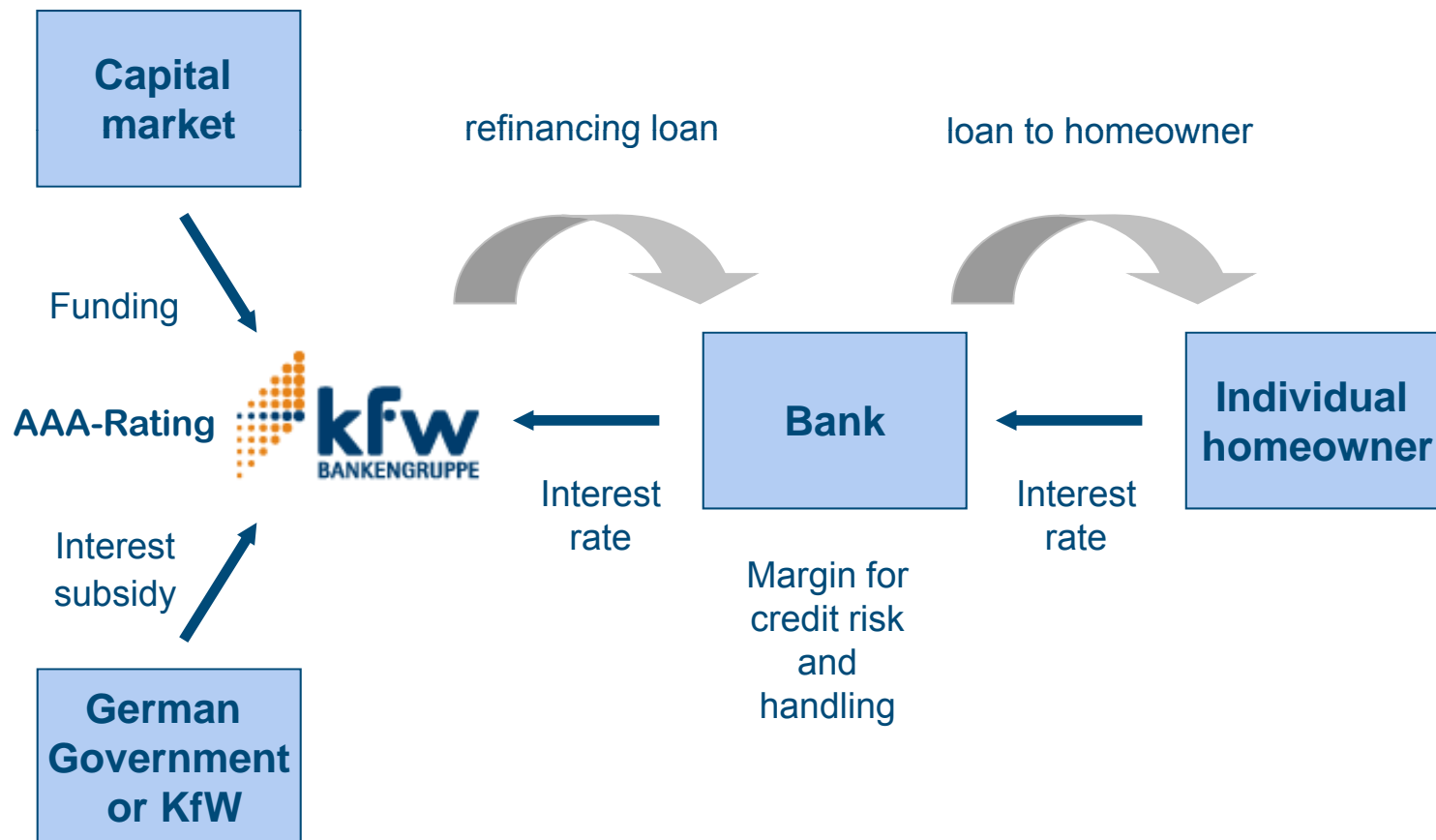
- creates visibility and transparency

### On-lending principle

- broad distributional network through home banks
- local risk assessment



## Refinancing through KfW and On-lending through private Banks





## Energy efficiency for small and mediums sized municipalities

### Technical assistance

- support in development and implementation of promotional programmes
- definition of promotional criteria and energy efficiency standards
- development of carbon crediting schemes as a supplementary source of financing

and

### Global loans

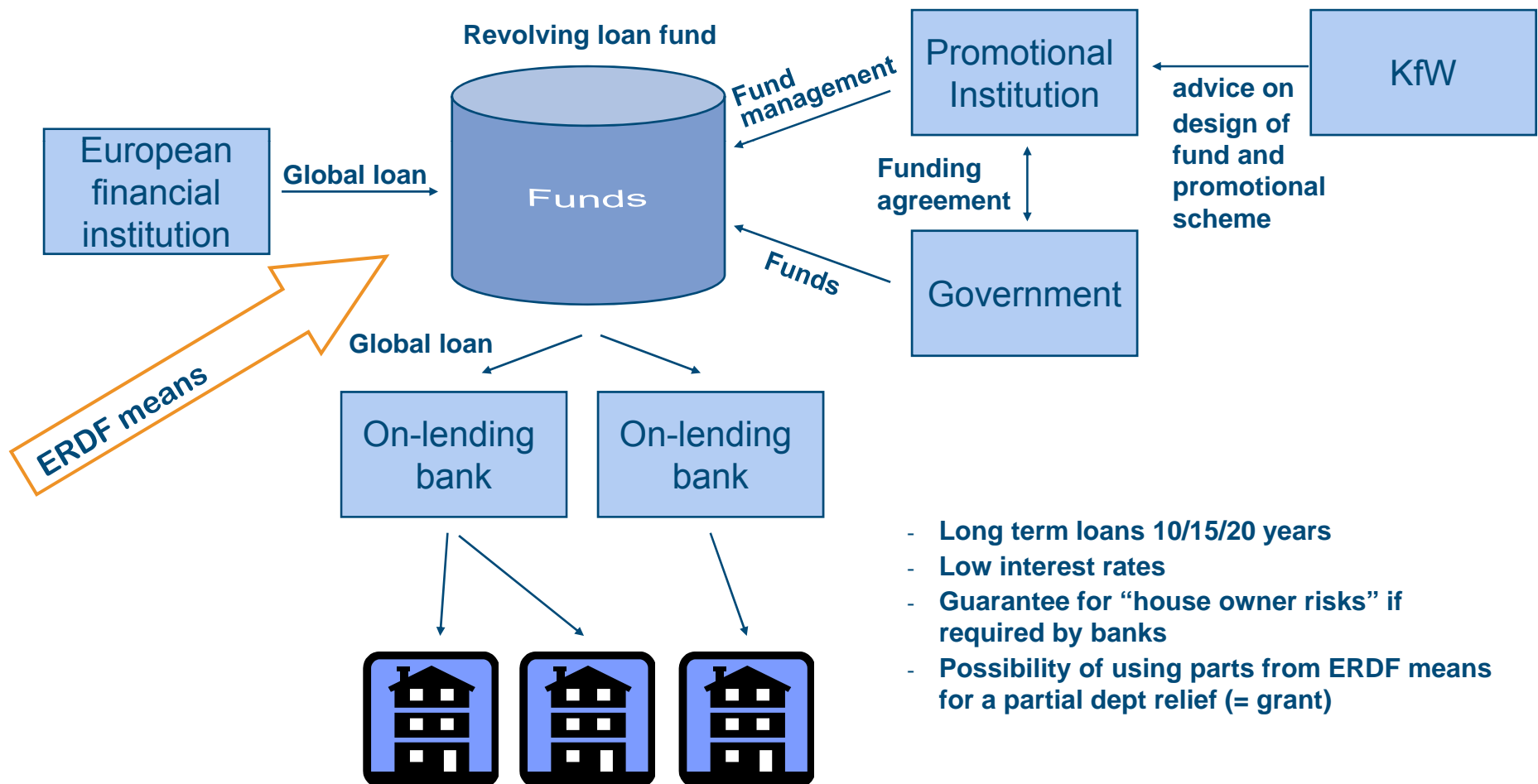
- Source of financing energy efficiency programmes
- efficient channel of distribution
- enable know how transfer

**A way to mobilize sustainable investments of small and medium sized municipalities and ESCOs.**



# Leverage of funds - a model for Europe

## Revolving loan fund with ERDF means



## Standardised, modular solutions with high leverage

### Funds

- EU means as source for refinancing, incentives and risk coverage leveraged by financial institutions
- advantages: high visibility, bundling of sources, broad scale effects
- examples: EFSE Fund, Green for Growth Fund, KfW's-Estonian Model

### Global Loans

- Refinancing of intermediaries with additional incentives
- advantages: Lean handling, cooperation with local banks, small investment volumes, high flexibility
- examples: Finance Facilities of DG ECFIN (KfW-ELENA)

### Supplementing Instruments

- carbon certificates as additional financing source
- guarantee and risk mitigation schemes (similar to CIP-Guarantee or Risk Sharing Finance Facility)
- grants for consulting activities to build up energy efficiency financing expertise

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Die Zukunftsförderer



# Annex

Die Zukunftsförderer



## ERPs Energy Efficiency Programme

### Interest subsidised promotional loans

- raise awareness
- improve cost effectiveness
- provide financial resources
- reduce dependence on energy prices

### Grants for information and consulting

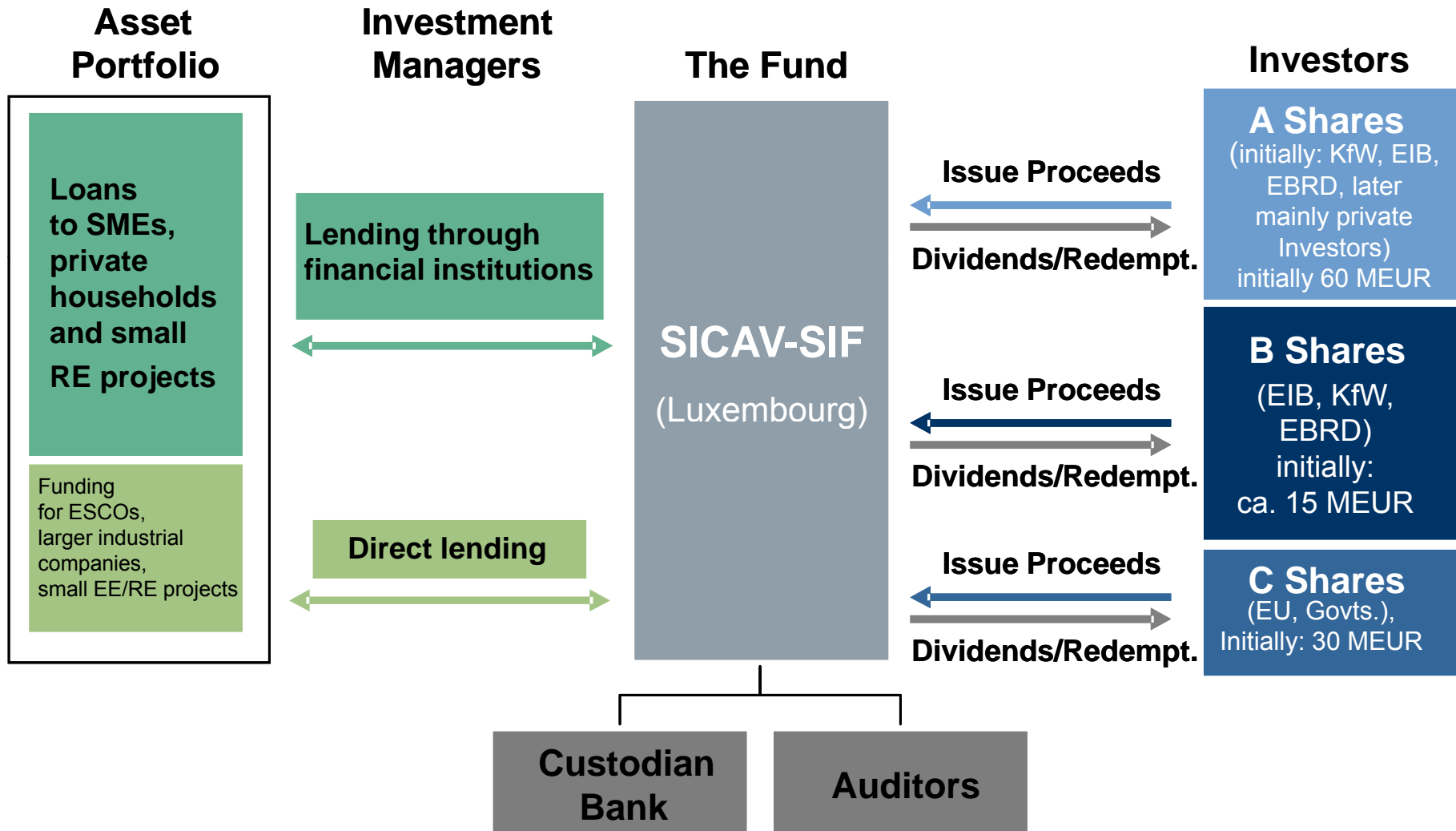
- promotes the engagement of experts

### KfWs offers an experts platform

- provides easy access to expertise



# Green for Growth Fund Southeast Europe



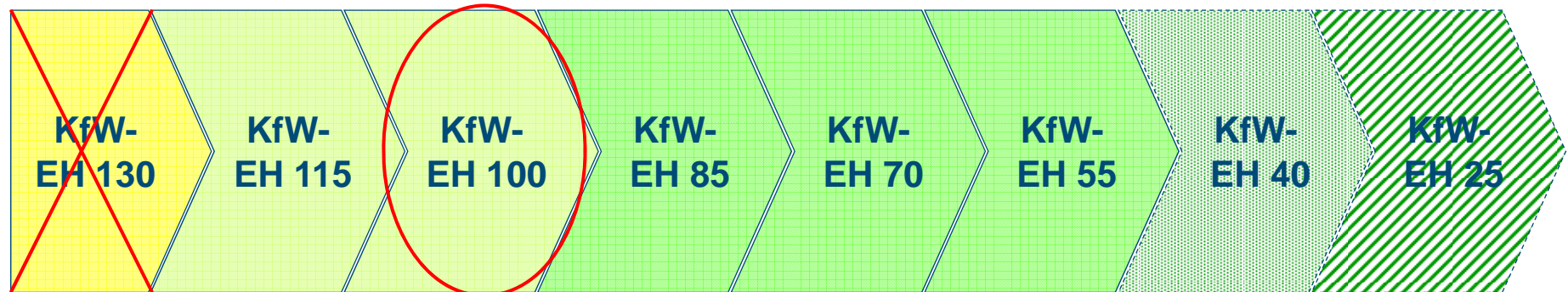


# Promoting Energy Efficiency in Housing in Germany

## KfW-Efficiency House Standard



### New Buildings



### Building Stock

# Energy Efficiency (EE) & Renewable Energies (RE)

## Best Practice - European Global Loans



**EE Housing Modern.,  
Czech Rep. 2010 -  
Global Loan to  
Volksbank, 40 mil. €**

- Volksbank finances standardised EE hous. modernisation packages (approx. 12,000 € per apartment)
- Final beneficiaries receive subsidy from govt. after approval of the “standard modernisation package”

**RE, Czech Rep. 2010 -  
Global Loan to  
CMZRB, 30 mil. €**

- CMZRB finances greenfield renewable energy projects (solar, wind)

**EE & Generation of  
ERUs, Poland 2009 -  
Global Loan to BOS  
Bank, 30 mil. €**

- BOS financing small, standardised EE measures in SME and housing sector, qualifying for ERUs on a programme basis
- BOS sells ERUs to KfW, and employs earnings for interest reduction in EE lending programme

**EE SMEs, Bulg. 2009 -  
Global Loans to  
Raiffeisen and  
ProCredit, 30 mil. €**

- Banks financing EE investments of SME fulfilling EU criteria
- EU TA Funds (Energy Efficiency Finance Facility, EEFF) for Project Prep. and Energy Audits / Verification (up to 7.2 million €)