Experience with establishing donor-supported credit lines in selected EaP countries

Expert Meeting in June 2014 at OECD, Paris, France
Sandra Lutz
Climate- and Environment-related finance at KfW
Some figures for introduction

› KfW Group started climate and environment-related programmes in Germany in 1990, KfW Development Bank started in 2008;

› KfW Development Bank is a leading international climate and environmental bank:

› In 2013, around 50% of total new commitments of KfW Development bank for climate and environment-related finance

› 30% for energy efficiency and renewable energy projects;

› Ongoing portfolio in Eastern Europe, Caucasus and Central Asia: EUR 1,947 m;

› Outstanding EE/RE-portfolio in ENR: EUR 105.5 m, including projects not implemented through the financial sector (not including participation in the GGF).
KfW’s definition of EE/RE- credit lines through the financial sector

› Financial sector projects aimed at introducing a new product on the level of the banks in order to create additional investments of clients in energy efficient projects or renewable energy projects;
› Overcome barriers for investments: eliminate information deficits on the level of banks and end clients
Classification of EE/RE-Financing

EE/RE-projects

Projects with broad impact: many clients, small investments, financial sector as multiplier

- Economically viable (monetary and personal incentives)
- No need for subsidies
- Elimination of information deficits for banks and clients

Viable on macro-economic level, but not on individual level

Focus on single investments
Few clients, technical consulting important, rather larger investments

- Need for subsidies
- Create incentives through subsidies for standardised investments

Economically viable (monetary and personal incentives)
KfW’s approach

KfW

- Reporting of energy/CO2 savings
- Promotional loans, TA

Commercial Bank

- Marketing activities, project scouting
- Loan on market terms, Control eligibility criteria

Private households, SME

- Housing, machinery, household items, transportation, RE
KfW’s approach

- Focus on individually viable projects, no subsidies on level of end clients;
- Partner bank as information distributor;
- Eligible sub-project: causes a decrease in per unit energy consumption of at least 20%, or CO2 emission reduction of at least 20%;
- Selection of investments through positive lists, monitoring through tools;
- Credit line accompanied by consulting services for the development of loan products, positive lists and tools for calculation of savings, portfolio screening, marketing activities, training for loan officers.
Some facts

- Banks have financed mainly SME loans, however, funds often used for investments related to private homes;
- 80% of investments in the housing sector;
- Savings achieved are reported to be often more than 20%, however,
- Quality of data on savings needs to be improved:
  - Wrong data put into the tool;
  - Wrong categorisation of investments;
  - Methodological shortcomings of tools and lack of regular updates;
- Results on savings from one credit line cannot be applied to another credit line;
- No correlation between loan amount and savings achieved.
Conclusions from implemented projects

› So far, KfW has implemented EE/RE-projects through the financial sector in only few of the EaP countries;
› KfW’s approach is mainly to focus on individually viable mass projects which should not require subsidies;
› Potential for improvement on project level: monitoring, differentiation between banks’ products, training for banks in project financing
› Framework conditions in a country, strategy of the banks, approach of technical consultants and requirements from the financiers have a big influence on the implementation of a project;
› Success where banks properly included the product into their marketing strategy;
› However, the challenge remains to finance projects viable on a macro economic level
Conclusions from not implemented projects and risk considerations

What framework conditions related to potential government actions are necessary for/conducive to private investments in green projects?

<table>
<thead>
<tr>
<th>RE: Feed-in tariffs, licences, concessions</th>
<th>EE: Building codes, standards, certification schemes</th>
</tr>
</thead>
</table>
Contact

Financial System Development Eastern Europe, Caucasus, Central Asia
Sandra Lutz
Project Manager

KfW Bankengruppe
Palmengartenstrasse 5–9
60325 Frankfurt am Main
Phone +49 69 7431 - 9681
Sandra.lutz@kfw.de
Thank you for your attention!