››› How to Attract Affordable Long-term Finance?

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Bank aus Verantwortung

››› About KfW Group

- Development bank of Germany
- Founded in 1948 for implementation of the Marshall Plan
- More than 5000 employees

- We finance investment in Germany & Europe
- We provide international project & export finance
- We provide support for developing countries

- USD 94 bn. of new commitments in 2012 (thereof 40% climate and environment)
  - USD 31.8 bn. for mitigation projects (e.g. energy, transport, waste, forestry)
  - USD 0.6 bn. for adaptation projects (e.g. water sector, agriculture)
  - USD 2.1 bn. of climate finance in developing countries

- Instrument: Grants, concessional and commercial loans, guarantees, mezzanine and equity

››› The International Development Finance Club (IDFC)

- **Network of 20 leading development finance institutions with mandates for national, sub-regional, regional and international activities around the world.**

- **Combined assets of more than USD 2,100 billion**
- **New commitments added up to approx. USD 390 billion, thereof 24% green finance**
- **Activities: Green finance mapping, private sector mobilisation and support of GCF implementation**
- **Work plan 2014: green infrastructure and sustainable cities & cooperation with institutional investors**

››› Strengthen the Pipeline of Bankable Projects

- **Huge uncovered investement needs and wealth of ideas for climate related projects exists**
- **Scarcity of bankable climate projects, resulting from e.g.**

  - weak regulatory frameworks (e.g. energy subsidies, collection of fees, lack of enforcement)

  - lack of economic viability or missing sustainabilty of business model

  - weak project implementation partner e.g.

  - insufficient implementation experience and capacíty

  - no realistic means to meet fiduciary or environmental and social standards

  - limited credit-worthiness

⇒ Involve development banks or other financiers prior to feasibility study

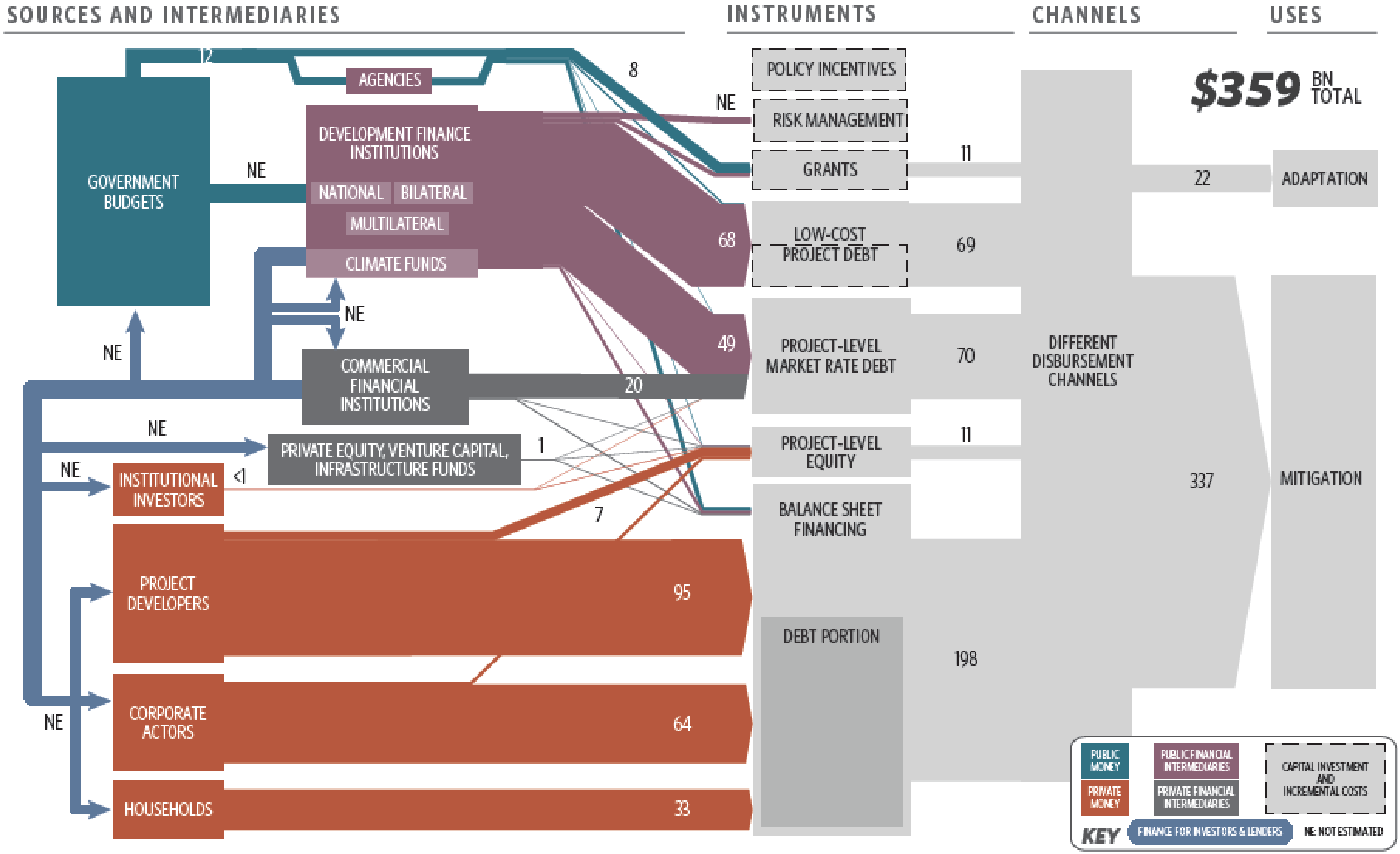
⇒ Project development and preparation activities incl. resources

⇒ Focussed capacity development of relevant institutions

THE FLOWS OF CLIMATE FINANCE 2013

The Flow of Climate Finance 2013, also known as the 'spaghetti' diagram, illustrates the landscape of climate finance flows along their life cycle for the latest year available, mostly 2012.

CLIMATE POLICY INITIATIVE



Notes: Figures are indicative estimates of annual flows for the latest year available, 2011 or 2012 (variable according to the data source). Flows are expressed in USD billions and rounded to produce whole numbers. Where ranges of estimates are available, the mid-point is presented. All data presented relates to commitments in a given year due to the limited availability of disbursement data. The diagram captures upfront capital investment costs of low carbon, climate resilient activities plus grants for e.g. capacity building and enabling environment activities. The diagram highlights with a dotted line those financial resources which contribute to paying for upfront incremental investment costs, that is the difference in investment cost between cheaper, more polluting options and costlier, climate-friendly ones. This includes some portion of low cost debt. As Landscape 2013 only tracks upfront investments and not lifetime inflows (revenues) or outflows (costs), our estimate of finance only includes policy incentives provided as grants or concessional loans, excluding the value of policy-induced revenues, such as feed-in tariffs or carbon market payments.

Souce: Climate Policy Initiative, 2013

Long-term Finance and Development Banks

- **Role: Protection of public goods and compensation of market failures**

- **Means to provide long term loans (10 years tenor and longer) - not all applicable to all dev banks:**

  - Reduced required return on equity or risk margins

  - Recycling of retained profits and use of revolving funds

  - Partial exemptions from financial regulation e.g. Basel III requirements

  - Long term credit enhancement provided by governments

  - Explicit or implicit government guarantee e.g. for issued bonds

››› Personal Recommendations

- Move towards prudent multi-dimensional regulation of financial sector including environment issues

- Full use of instruments: loans of varying degree of concessionality, grants, guarantees and equity
- Make wise use of grant finance – use loans and guarantees for climate finance where possible
- Expand the use of long-term government guarantees for project bonds and credit enhancement

- Expand the strategic role of development banks as anchor investors in co-financing arrangements

- Cut red-tape: development banks to be compatible with private sector needs and pace
- Avoid political micro-management: realistic ambition level and simple investment criteria

- Foster in-house staff with technical, sector and country know-how
- Grow a project pipeline: multi-year project preparation and development activities

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