

# **Innovative financing instruments for the ENP states**

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## **1. Introduction - our promotional philosophy**

On behalf of the German government we promote renewable energies and energy efficiency

- in order to give the people access to environmentally sound energy and enhance our partner countries' competitiveness. Energy is a pre-requisite for growth and employment and, thus, for sustainable poverty reduction.

- because reducing emissions contributes to protecting the Earth's climate and environment.

We provide our support through specific projects which, however, always involve a continuous dialogue between partners as well as support for the sector development and are embedded in the energy-policy framework, which includes private sector participation. This is particularly important to us because it is the only way to ensure that the projects are sustainable.

## **2. Available financing instruments**

We can provide the entire range of financing instruments -- from grants to financings at market conditions, structured fund financing and equity participation through our subsidiary DEG. What is important to us is that our financing instruments provide solutions that are adapted to the relevant sector, economic and financial situation. We should not and do not intend to crowd out other initiatives, particularly private sector initiatives. Some examples:

- Renewable energy technologies used to be too expensive to compete in the market, and some of them still are. But we started to finance them early nevertheless and have been able to employ a financing mix with a very high grant element to compensate for the competitive disadvantages of renewable energies, either in the form of non-repayable grants or in the form of loans at extremely favourable conditions. Many investments then proved to be promising enough to justify more market-driven financing terms for subsequent investments.

- One example of more market-driven terms and a sector-specific financing facility is our worldwide Special Facility for Renewable Energy and Energy Efficiency (4E), which was started in 2005 and under which additional reduced-interest loans for around EUR 500 million are being provided over a period of five years. We expect demand to significantly exceed the planned commitment volume next year, that is, already after four years.

- We have set up specialised funds in a number of countries to improve the demand side management and smaller, decentralised investments in the area of renewable energies. Banks that were selected under a public tender are being refinanced for

loans they extend to investors who invest in renewable energies, for instance in the rehabilitation of small hydro power plants, or in the area of energy efficiency, and who are able to realise substantial energy savings effects.

- If the project executing agency so desires, we can also purchase CO2 certificates through the KfW Carbon Fund independently from the financing and thereby make a further contribution to the profitability of renewable energy projects.

- In addition to financing, German development cooperation can also offer sector and feasibility studies as well as advisory services -- either through KfW, technical cooperation or other institutions.

### **3. Outlook**

Renewable energies and energy efficiency will continue gaining in importance -- and this is becoming very apparent from the energy-policy decisions that have been taken recently both in Germany as well as in the European Union and, in particular, in many of our neighbouring states.

Given the immense need for investment in the energy sector particularly in countries of the ENP regions, it is important for the donor institutions to cooperate even more closely and to pool their strengths. We are conducting an intensive dialogue with some of the partners represented here on the panel, for instance, to determine how we can cooperate even more efficiently in the area of demand-side energy efficiency management and stronger involvement of the private sector in energy generation through appropriate structures, such as in the framework of the country and regional fund which I mentioned before.