

Preface

This book is part of a publication series initiated by KfW on selected topics in the field of financial systems development, which is one of the core competencies of KfW Development Bank. This edition will focus on environmental finance. It will cover a broad range of issues including programmes to promote energy efficiency and renewable energies as well as innovative approaches such as weather insurance.

Why is this topic important? Given the manifold deficits of financial sectors in developing and transition countries, one might be tempted to believe that embarking on “green” finance is not a priority for financial systems development.

However, I don’t share this view. Environmental finance can and should serve as an interface to other sub-sectors of financial sector promotion such as microfinance, housing finance or agricultural finance. For example, existing clients of financial institutions include small and medium-sized enterprises and households, and these are often suffering from high energy prices or have no access to sustainable energy supply. At the same time, these clients are vulnerable to extreme weather events, and often hit hardest by the impact of climate change. There are many other examples which show that the financial sector has an enormous potential to support “green” investments.

However, in order to tap this potential on a sustainable basis, it is important to have a sound understanding which role financial institutions can and should play. Likewise, financial institutions need to understand the demand side of environmental finance markets and the framework conditions in order to be able to design adequate financial products.

For many years, KfW has been financing “green” investments in Germany. In particular, KfW started its promotion of energy efficiency in housing in the early 1990’s. KfW has significantly contributed to set the standards for “Low Energy Houses” in Germany. Support is provided if the refurbished or new home meets KfW Efficiency House standards, which set limits based on the energy consumption and heat loss values. Higher energy efficiency is rewarded by better conditions.

Likewise, KfW Entwicklungsbank has embarked on financing energy efficiency and renewable energy investments through the financial sector in developing and transition countries. The total active portfolio in environmental finance sums up to EUR 789 million (as of end 2010), of which EUR 651 million have been committed in 17 countries and EUR 138 million in regional and global funds devoted to environmental finance.

But finance is not enough! We continuously encourage our partner governments to ensure conducive framework conditions for environmental investments such as cost-covering energy tariffs, appropriate legal terms and law enforcement.

Without such a sound environment, neither financial institutions nor their potential clients are likely to get involved in these promising markets.

So I think we are well placed – and this is our clear objective – to share our competence as an environment bank as part of our long-standing co-operation with our partners in developing and transition countries.

I am happy that a number of internationally renowned experts have contributed to this book, besides two contributions from KfW. May this book contribute to share knowledge and provide new insights for the different stakeholders.

As this publication is also available online, my special wish is that it contributes to a fruitful learning process around the globe and to familiarize financial institutions in KfW's partner countries with the financing potential for "green" investments. Banks need to be convinced that this product is a profitable business line in order to get involved in a sustainable way. My sincere hope is that this book can contribute to this vision.

I would like to thank the authors for their efforts in preparing and revising the papers and not least my colleagues who made this publication possible, especially Matthias Adler and Beate Königsberger.

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