Climate & Environment Protection – KfW Promotional Loan

Guoliang Zhai
Senior Coordinator for Climate and Environment

November 2018
## Content

1. KfW in Brief
2. Sino-German Financial Cooperation Focus on Climate & Environment
3. KfW’s Practice in Air Quality Improvement in greater BTH Region
70 years of KfW
Financing with a public mission

› Promotional bank of the Federal Republic of Germany
› Established in 1948
› Shareholders: 80% Federal Republic, 20% federal states
› Headquarters: Frankfurt am Main
  Branches: Berlin, Bonn and Cologne
› Representative offices: about 80 offices and representations worldwide (among others in Beijing)
› Balance sheet total 2017: EUR 472.3 billion
› Financing volume 2017: EUR 76.5 billion
› 6,113 employees (2017)
› Best long-term rating: Aaa/AAA/AAA
KfW Development Bank as part of the KfW Group

Domestic promotion

- We promote Germany
  - SMEs
  - Private clients
  - Municipalities

International financing

- We support internationalisation
  - Export & project finance

- We promote development
  - Developing countries & emerging economies

Support for climate and environmental protection

KfW

- Financing volume (FV): 51.8 billion (2017, EUR)

KfW IPEX-Bank

- FV: 13.8 billion

KfW DEG

- FV: 8.2 billion and 1.6 billion
## Promoting development at the KfW Group

### Public Sector and Private Sector

<table>
<thead>
<tr>
<th></th>
<th>KfW</th>
<th>KfW DEG</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Promoting</strong></td>
<td>Financial</td>
<td>Entrepreneurial</td>
</tr>
<tr>
<td><strong>development</strong></td>
<td>Cooperation</td>
<td>Cooperation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Governments and public companies</th>
<th>Partners/clients</th>
<th>Private enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiduciary funds</strong></td>
<td>(German Federal budget)</td>
<td>Funds</td>
<td>Mainly own funds</td>
</tr>
<tr>
<td>and own funds</td>
<td>and own funds (capital market)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grants and loans</strong></td>
<td>as well as advisory services</td>
<td>Instruments</td>
<td>Participations and loans as well as advisory services</td>
</tr>
<tr>
<td>and support</td>
<td>for project preparation and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR 8.2 billion</td>
<td>Volume of commitments 2017</td>
<td>EUR 1.6 billion</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>In China since 1985</td>
<td>1985</td>
<td></td>
</tr>
</tbody>
</table>
Worldwide presence
About 80 representative offices

Number of KfW employees


6.113
## Content

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>KfW in Brief</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Sino-German Financial Cooperation Focus on Climate &amp; Environment</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>KfW’s Practice in Air Quality Improvement in greater BTH Region</td>
</tr>
</tbody>
</table>
Sino-German Financial Cooperation
Cooperation for the benefit of both countries

“The successful cooperation with KfW Development Bank in the area of Promotional Loans shall be continued to the benefit of both countries…”

Prime Minister Li Keqiang and Chancellor Dr. Angela Merkel at the Sino-German Government Consultations Berlin, 9 July 2018
Sino-German Financial Cooperation
Memorandum of Understanding (signed by MoF & KfW in June 2018)

Annual Commitment EUR 500 – 800 million for 5-8 projects (target), equals EUR 2 billion 2018-2020

Focus on environmental protection & climate change (in particular advanced and pioneering technologies)

Expand co-financing initiatives and RBL / PBL (e.g. with ADB, World Bank, AFD)

Close coordination between MoF and KfW (and NDRC) during project preparation and listing process

Study Funds (TA) for project preparation available, in particular related to environmental & social safeguards

Framework for pricing, procurement (ICB) and other terms and conditions as guidance for (potential) PEAs

Dialogue Fora and Knowledge Sharing Activities remain integral part of Sino-German Financial Cooperation
Sino-German Financial Cooperation
Portfolio Snapshot: Climate & Environment as Focus Area going forward

Total outstanding FC portfolio: EUR 3.3 bn
Ongoing FC portfolio: EUR 2.6 bn

30% Climate & Environment
40% TVET
30% Health

FC-funded projects (almost) all over China

Ongoing portfolio: 106 projects
New 2018/2019 projects: ~20 projects
Additional pipeline: 15 projects
Total: ~140 projects

Climate & Environment:
• Our key sector going forward
• Its share in total portfolio therefore to grow even further
Sino-German Financial Cooperation
Focus on climate and environmental protection

- Clean Energy & Energy Efficiency
- Natural Resource Management
- Green Transport
- Waste Water & Waste Management
### Content

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KfW in Brief</td>
</tr>
<tr>
<td>2</td>
<td>Sino-German Financial Cooperation Focus on Climate &amp; Environment</td>
</tr>
<tr>
<td>3</td>
<td>KfW’s Practice in Air Quality Improvement in greater BTH Region</td>
</tr>
</tbody>
</table>
Building Knowledge Sharing Platforms
Sino-German Dialogue Forums

- KfW/MoF-coorganized Dialogue Forums on Clean Air (Sep. 2016), Environment and Climate Change (Jun. 2018)
- Forum opening by BMZ and MoF
- 200 participants -> outreach and visibility
- Exchange of knowledge and technology

- MoU signed by BMZ Minister Müller and Chinese Minister of Finance (July 2018)
- Strong political basis for Sino-German Financial Cooperation
- Emphasizes financing of climate & environmental projects (Promotional Loans) and knowledge sharing

- Training Seminars for MoF/BoF in KfW
- Knowledge sharing about e.g. environmental & social safeguards, procurement procedures, compliance standards, transparent utilization of funds, disbursement procedures, etc.
Promoting Policy Reforms with Innovative Loan Modalities
Air Quality Improvement in the Greater BTH Region

Challenge
› Imbalanced socioeconomic structure in the BTH region has made Hebei the main source of air pollution
› Cities in the greater BTH region rank the highest in the country for PM 2.5.

Approach
› PBL oriented towards achieving three comprehensive results.
  - policies to reduce air pollution from key sectors.
  - strengthening the environmental policy and institutional framework for implementation
  - policies to promote employment for inclusive industrial transformation

Impact
A first indicative impact assessment (July 2018) assumes that the envisaged results led to
› significant annual reduction in coal consumption
› significant annual reduction in pollutant emissions
› improved access to cleaner energy and heat sources
› facilitated reemployment and redeployment opportunities for affected workers

Information
› 1st Policy Based Lending and 1st Co-Financing by ADB and KfW in China

Volume of financing: 150 million Euro
Financial Instrument: Promotional Loan as Co-Financing with ADB
Building Environment Friendly Waste Treatment Facilities
Beijing Nangong Waste Incineration Plant

Challenge
› Rapid extension of urban development in southern part of Beijing and general high generation of municipal waste per capita;
› High demand on waste reduction and hygienization

Approach
› Construction of 2*500t/d waste incineration lines in southern part of Beijing, Emission EU 2000 is reached;
› Promotional loan covers main equipment (i.a. from Germany) and international consulting service;
› Wastewater, flue gas and fly ash are treated properly.

Impact
› 1000t/d waste is treated environmentally friendly and volume is significantly reduced;
› The goal of environmental and resource protection is achieved;
› Integrated SWM is applied for project conception. Pre-Sorting Station separates fractions below and above 80mm. Organic waste is treated separately;
› Great contribution to CO₂-reduction (650.000t equiv.)

Information
› Nangong Waste incineration plant serves for Xicheng, Dongcheng and Daxing with more than 2.4 Mio population;
› Energy generation is 15-25MW;
› In operation since 2017 with excellent performance
› Site visits by several high-level delegations from Germany

Volume of financing: 55 million Euro
Financial Instrument: Governmental Loan
Establishing Modern Centralized Heating Systems
Fuel switch from coal to clean energy, demolishing scattered coal boilers Shandong and Shanxi

<table>
<thead>
<tr>
<th>Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>› Rapid urbanization</td>
</tr>
<tr>
<td>› Percentage of the population living in cities increased</td>
</tr>
<tr>
<td>› High demand for energy in urban areas</td>
</tr>
<tr>
<td>› Increased expectations in terms of mobility and comfort</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>› District heating networks (components for heating plants, pipes and heat exchanger stations) were upgraded and extended</td>
</tr>
<tr>
<td>› Old and decentralized heating boilers were replaced with new centralized and more efficient district heating systems</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>› Increased efficiency of heat supply due to centralized district heating network</td>
</tr>
<tr>
<td>› Increased energy efficiency in new buildings</td>
</tr>
<tr>
<td>› Significant savings and CO₂ emissions</td>
</tr>
<tr>
<td>› Direct positive impact on public health as waste material is filtered more effectively</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>› Overall rating of the ex-post evaluation in 2016: good</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Volume of financing:</th>
<th>Financial Instrument:</th>
</tr>
</thead>
<tbody>
<tr>
<td>49.5 million Euro</td>
<td>Composite financing</td>
</tr>
</tbody>
</table>
**Eligible Activities:**
- Technical studies & advisory services during the preparation of investment projects.
- Environmental and Social Impact Assessments and management plans & further related studies.
- Advisory services and technical assistance during implementation.
- Knowledge dissemination, e.g. conferences, etc.
- Communication /visibility activities linked to CGCDF.
- CGCDF funded activities have to be clearly linked to the preparation or implementation of investment projects which are intended to be financed/co-financed by KfW.
Thanks for your attention!
Back Up
Sino-German Financial Cooperation

Procedures for (bilateral) Promotional Loans (Overview)

1. Prepare project proposal
2. NDRC & MoF review proposals, and projects listing
3. FSR
4. MoF Project Submission
5. Review FSR and issue questionnaire
6. Onsite appraisal and signing of MoM
7. FSR Approval, and submission of FAR
8. Internal and German Govt. approval, then draft LA
9. NDRC approval of FAR
10. LA signing
11. OLA signing, LO, and authorized signatures
12. CPs fulfilled and LA effectiveness

Support through TA Funds available (in particular related to environment & social safeguards)
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Amount</strong></td>
<td>Generally in a range between EUR 50 – 200 million</td>
</tr>
<tr>
<td><strong>Maturity / Grace Period</strong></td>
<td>Up to 15 years (incl. up to 5 years grace period)</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td><strong>Floating interest rate</strong>: 6-months EURIBOR plus different margins:</td>
</tr>
<tr>
<td></td>
<td>0.75% Loan less than EUR 50 million</td>
</tr>
<tr>
<td></td>
<td>0.55% Loan less than EUR 100 million and more or equal to EUR 50 million</td>
</tr>
<tr>
<td></td>
<td>0.50% Loan of EUR 100 million or more.</td>
</tr>
<tr>
<td></td>
<td>upon request changeable to a fixed interest rate after full disbursement</td>
</tr>
<tr>
<td></td>
<td><strong>Fixed interest rate</strong>: KfW refinancing cost plus different margins:</td>
</tr>
<tr>
<td></td>
<td>0.65% Loan less than EUR 50 million</td>
</tr>
<tr>
<td></td>
<td>0.45% Loan less than EUR 100 million and more or equal to EUR 50 million</td>
</tr>
<tr>
<td></td>
<td>0.40% Loan of EUR 100 million or more.</td>
</tr>
<tr>
<td><strong>Commitment Fee</strong></td>
<td>0.25% p.a. on the undisbursed loan amount</td>
</tr>
<tr>
<td><strong>Management Fee</strong></td>
<td>0.25% to 0.45% depending on the loan size</td>
</tr>
</tbody>
</table>