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**„Renewable Energy and Energy Efficiency. Innovative policies and financing instruments for the EU's southern and eastern neighbours“**

**Berlin, 19 April 2007**

Mrs Minister, Ministers, ladies and gentlemen,

It gives me great pleasure to welcome you here at KfW's Berlin Branch. I am very glad that our invitation has been accepted by so many representatives from neighbouring countries of the EU in which KfW has been operating for years. Your contributions will be of great value to our discussion.

Although renewable energies and energy efficiency have been the subject of debate for years, we must acknowledge that this issue has not always been taken very seriously everywhere. The most recent UN climate report and its forecasts, however, have made it clear that staying the course in energy policy would be irresponsible. A change is more urgent than ever.

So it is also quite logical that renewable energies and energy efficiency are the main focus of Germany's EU Council presidency. The aim of our conference is to discuss with you what we can do to promote renewable energies and efficiency along the value creation chain even while including conventional energy sources.

What we would also like to discuss with you, in particular, is the financing instruments which large financial institutions like KfW can make available for this purpose and in what ways these instruments can be employed.

In 2006 KfW provided a total of EUR 16 billion for environmental and climate protection measures alone. This was 29% of all loan commitments. With a lending volume of more than EUR 3.5 billion KfW was one of the world's leading financiers for projects in the area of renewable energies last year. So it fills us with some pride to bear the title of "the environmental bank of the Federal Republic".

As KfW Bankengruppe we therefore do not restrict ourselves to financing investments in the promotion of renewable energies and greater energy efficiency. We also attach great importance to giving pertinent advice, both within Europe and in the developing and transition countries.

In Germany KfW committed promotional loans totalling EUR 12.5 billion to private households, businesses and municipalities for environmental protection projects last year alone. More than one quarter of the promotional loans (around EUR 3.5 billion)

was approved for renewable energy projects. The use of wind power and photovoltaics plays an important role here. The windfarms we promoted last year alone generate more than 2.6 million mWh of electricity each year. This corresponds to the annual electricity consumption of around 3 million private individuals in Germany.

Since 2006 KfW has been making a significant contribution to reducing CO<sub>2</sub> emissions on behalf of and with funds from the German federal government and with its own funds under the initiative "Housing, Environment, Growth". This initiative is directed at the energy modernisation of buildings and homes. Since the beginning of this year we have been offering reduced-interest loans or even grants for energy conservation investments in older residential buildings not only to private investors but also to municipalities and non-profit organisations. Here we follow the motto that the more energy the measure saves and the more CO<sub>2</sub> it reduces, the lower the interest rate will be. Last year we committed around 260,000 loans with a volume of more than EUR 17 billion. This sum triggered investments of around EUR 28 billion. At the same time, around 400,000 jobs have been safeguarded each year, not least in the small and medium-sized enterprise sector.

In order to meet its climate protection objectives in accordance with the Kyoto Protocol, the German federal government intends to reduce CO<sub>2</sub> emissions in the private and municipal sector, that is, in private households, transport, industry, trade and services, by 7 million tonnes per year over a period of eight years. The "Housing, Environment, Growth" initiative was able to durably achieve one fifth of this reduction, or more than 1.5 million tonnes of CO<sub>2</sub>, in the year 2006 alone. In the real estate sector, the Housing, Environment, Growth initiative is thus the most effective and durable climate protection measure in Germany if not worldwide. It has a triple effect -- more housing quality, more climate protection, more jobs.

Environmental and climate protection is an important priority within German financial cooperation, or FC in short, at the international level. In the last five years KfW Entwicklungsbank's commitments in the energy sector amounted to more than EUR 1.5 billion. During this period more than half of all commitments by KfW Entwicklungsbank to the energy sector on average were for energy efficiency. Besides, KfW Entwicklungsbank is one of the leading official financing agencies for renewable energies in developing and transition countries.

The energy needs of developing and transition countries are growing fast and this is having its impact on the environment. KfW Entwicklungsbank aims to support these countries in providing their populations and industry with energy at a favourable cost while ensuring that the energy supply systems are ecologically acceptable.

I would like to take the opportunity to briefly present to you some of the measures with which KfW is already supporting and advising the European Union's **southern and eastern neighbouring countries** in the energy sector.

Our promotion of **renewable energies** in the EU's neighbouring countries to the south and east differs according to their natural conditions:

In Egypt and Morocco, where wind conditions are extraordinarily good, we are financing wind farms on behalf of the German Ministry for Economic Cooperation and Development. The first wind farm in Tangier, Morocco, was completed in 2000 and the "Essaouira" windfarm was inaugurated just last week. Not only will Essaouira supply 50,000 households with electricity -- the windfarms also make a significant contribution to protecting the climate. In Egypt KfW is supporting the construction and connection of 180 wind turbines with a total capacity of 160 MW in the Zafarana on the Gulf of Suez.

We are also promoting hydropower in both countries. We are supporting the rehabilitation of the Aswan Dam generators in Egypt and the construction of new small hydropower plants in the Nile River dams. In Morocco we have provided a reduced-interest loan for the rehabilitation of small hydropower plants.

Morocco is using solar energy for electricity in remote regions. We started supporting Morocco's ambitious programme with a grant for 16,000 *solar home systems*, but now we are planning a reduced-interest loan to spread these systems to other parts of the country.

In the Caucasus as we are currently focusing on hydropower, but in Armenia we are also exploring the possibility of using wind power.

We are promoting measures to improve **energy efficiency** in the three Caucasus republics and in Ukraine, among other countries, by addressing different aspects such as generation, transmission, distribution and consumption.

In Georgia KfW is supporting the improvement of distribution and transmission, for instance by financing the installation of 120,000 electricity meters in private households and enterprises. This has greatly increased the collection rate and

therefore has a positive impact on the sustainable operation of the infrastructure in the entire energy sector.

We are also working to improve efficiency through modernisation measures in Armenia. Here KfW is setting up a fund for the rehabilitation of small hydropower plants. Armenian banks will offer private operators of such power plants loans to rehabilitate or build new plants as well as advice on how to use the funds efficiently. We ourselves are also advising the banks on the implementation of the programme.

In the Caucasus region we attach particular importance to cross-border projects. These include the rehabilitation of transformer stations to ensure transmission between Georgia and Armenia. In addition to stabilising the supply, the project also aims to promote a regional integrated power network and electricity trade. We are also financing studies to advance this objective.

In southeastern Europe we have already reached a more advanced stage in the promotion of cross-border energy projects. Here we are financing a study on managing bottlenecks in electricity networks in the region and a regional study on natural gas as an energy source. We intend to apply the experience we are gathering there to our cooperation with your countries.

Efficiency improvement is also the objective in Ukraine. Ukraine's economy is marked by an extremely high energy intensity that is roughly 5 times higher than the EU average, leading to considerable environmental problems and difficulties in meeting energy demand. An obsolete supply infrastructure and low plant efficiency result in enormous system losses. We are currently preparing to cooperate with Ukraine in rehabilitating old power plants and reducing losses in the transmission system.

One example which shows that KfW's development loans can be used very effectively is KfW's special facility for renewable energies and energy efficiency, known as the "4E" facility in short. With this facility Germany has taken on a pioneer role in the efforts to achieve a global turnaround in the energy sector in development cooperation as well. KfW combines funds from the German federal government with capital market funds and thereby, through its function as a bank, achieves a leverage of around one to four, meaning one part from the federal budget to every four parts in promotional funds.

Through the "4E" facility we will be providing additional funds of EUR 500 million for reduced-interest loans in developing and transition countries on behalf of the German federal government between 2005 and 2009. Demand from the partner countries is

high - 300 million of the planned 500 million euros was already committed in 2005 and 2006. These funds are also being used to finance projects in some of your countries, such as Morocco, Azerbaijan and Ukraine.

Finally, allow me to comment briefly on KfW's Carbon Fund. With this fund we have created an entirely new, innovative instrument for the environment in coordination with the federal government. KfW offers interested enterprises its service as a trustee for the purchase of emissions certificates against a fee that covers the costs.

We purchase emissions certificates from Joint Implementation and Clean Development Mechanism projects and make them available primarily to European enterprises that intend to use the project-specific Kyoto mechanisms to meet their emissions reduction obligations. This means we have created a purchase instrument that also offers small enterprises that have no access to projects abroad an opportunity to use certificates to meet their obligations in the framework of the European Emissions Trading System. At the same time the purchase of certificates gives the projects in developing and transition countries an additional source of funding. This fosters climate protection projects, promotes the transfer of modern technologies and supports sustainable development in developing countries.

KfW has now established itself successfully as a purchaser in the market for certificates. The first tranche of KfW's Carbon Fund was closed in the first quarter of 2006 with a volume of around EUR 84 million. It has thus clearly exceeded the target volume of EUR 50 million.

In our operations we value the European dimension. We will therefore prepare a second tranche of the KfW Carbon Fund in close cooperation with the European Investment Bank.

These different activities illustrate that KfW is not only taking on the challenges that are emerging in the area of climate protection and energy security but that it is contributing actively to resolving them. It regards its commitment as an obligation towards the people in our countries as well, not least towards the younger generation. As the "environmental bank of the federal republic" we will even be expanding this commitment where necessary and appropriate, and in this endeavour we are building on you, our partners, to participate. After all, promoting energy conservation, energy efficiency and CO<sub>2</sub> reduction through an ecologically sound energy mix concerns issues that affect us all.

I trust we will have a successful conference with an intensive and critical exchange of views and ideas.