



Bank aus Verantwortung



KfW Development Bank

»» *Structured Funds as an Instrument for Blended Finance*

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Equity Financing @ KfW Development Bank

Agenda

1. Overview of KfW Banking Group

2. A Blended Finance Approach

3. Case Study: The ESG First Fund



Overview of KfW Banking Group

Structure of KfW Banking Group

- KfW Banking Group is Germany's state-owned Promotional Bank; 80% owned by the Federal Government, 20% owned by Federal States
- KfW Development Bank is part of KfW's International Business includings around 80 local and representative offices

Domestic Funding

KfW



KfW / Claus Morgensen



KfW / Rüdiger Nehme

**Mittelstandsbank &
Private Clients**

**Financing Solutions
Municipal Financing**

KfW CAPITAL



KfW / Charlie Fawell

**Venture Capital Fund
Investments**

KfW



KfW / photothek.net

**Development
Financing**

International Business

KfW IPEX-Bank



KfW / Charlie Fawell

**International
Export & Project
Financing**

KfW DEG

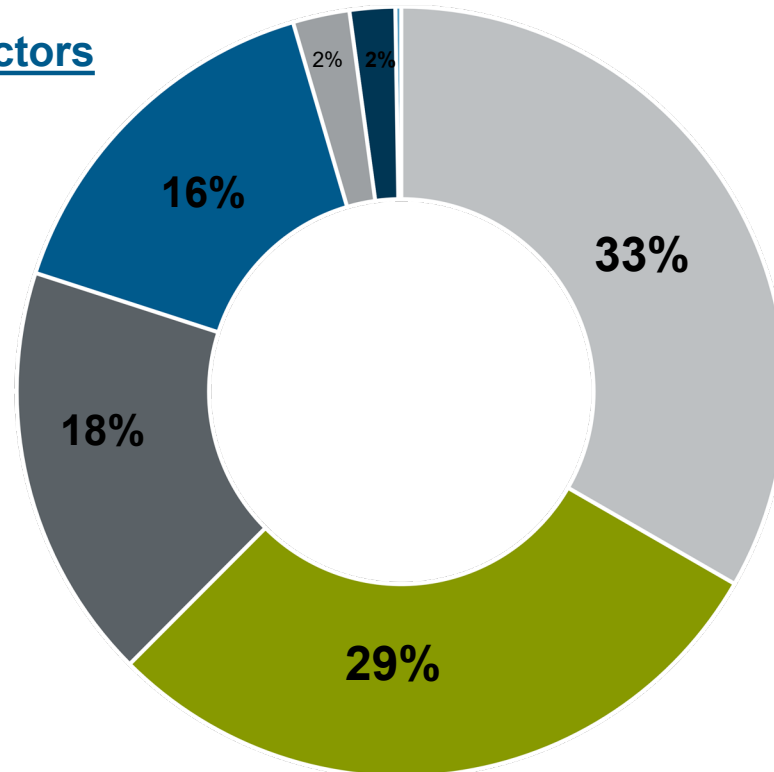


**Developing &
Emerging Countries**

KfW Development Bank: The Equity and Funds Department

- Acting on behalf of the German Federal Government; **BMZ is main donor with almost 70%** in the form of fiduciary investments / subordinated loans
- Total Investment **Portfolio of € 5.4 billion**; splitted over 65 funds and 25 direct investments - **mostly allocated in Africa**
- Focus: primarily in the form of a **First Loss provider** (approx. 55 % of total funds)
- Main **sectoral focus** lies in Climate Risk Insurance, Financial Sector Development, Climate Financing and Biodiversity

KfW commitments by sectors



■ Biodiversity & Food Security ■ Financial Sector Development ■ Health ■ Promotion of SMEs ■ Climate Financing ■ Climate Risk Insurance ■ Others



A Blended Finance Approach

Private Capital Mobilisation - Environment and challenges

Leveraging private capital is essential for achieving the SDGs

Investment requirements



There is an estimated annual financing gap of USD 4.5 trillion to achieve the SDGs.

- The financing gap cannot be closed by government funds alone
- **Substantial leverage of private capital necessary**
- Private capital leverage in LDCs is particularly challenging

Challenges for private investors



- **Risk profile often too high** for private investors.
- Current geopolitical situation additionally **increases the risk profile** and **in some cases also poses greater regulatory challenges for larger asset managers**
- Lack of experience in developing and emerging countries

Mitigation measures



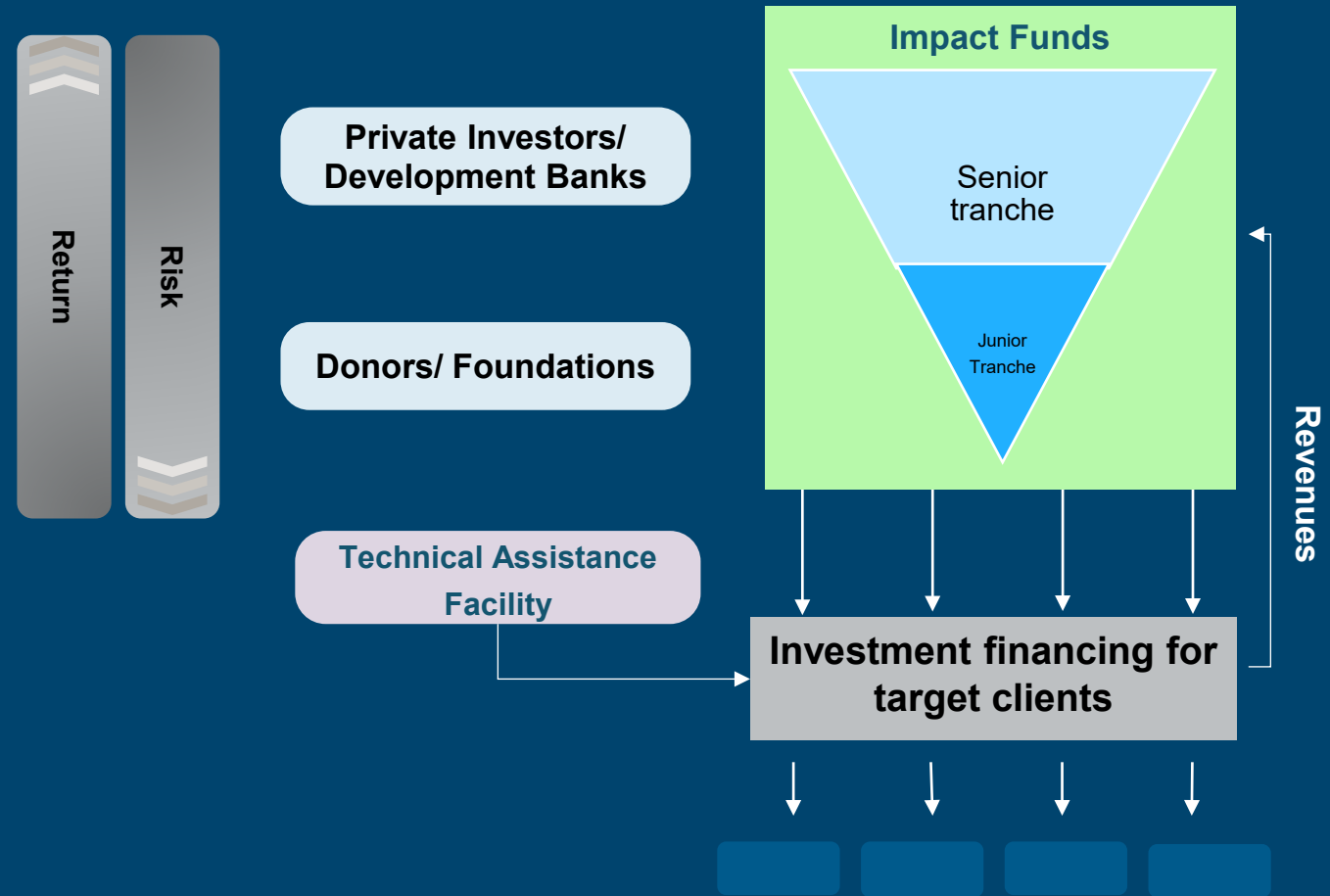
Risk-mitigating structures are needed (first loss, guarantees).

- **Political guardrail function through joint action by the public and private sectors**
- **Market penetration by experienced partners such as KfW/ BMZ**

Our Mission Statement: “A **leading catalyst** for making the **SDGs investible**”

Structured Funds as a Key Instrument under Blended Finance

➤ The funds have a multi-level liability side



„Structured funds should simplify investments in development policy measures“



Case Study: The ESG First Fund

A Case Study: The ESG First Fund

Background

2021

- European Commission submitted a legislative proposal on mandatory value chain due diligence (CSDD Directive)
- During the same year the German Government launched a bill for a new Supply Chain Act (LkSG)

2023

The German Supply Chain Act (LkSG) came into force

- Companies must ensure compliance with human rights; identify, prevent and mitigate adverse environmental destruction among their entire supply chains (e.g. inappropriate use of pesticides, contamination of water etc.)



As a support measure, to ensure that SMEs are compliant to the new Supply Chain Act (LkSG), **KfW** has founded the **ESG First Fund**

ESG First Fund (ESG FF)

Key Facts

Fund Size Target	Structure/ Register Location	Fund Manager
250 Mio. USD	Structured Fund, Luxembourg	
KfW-Investment	Fund Duration	Region
EUR 50 Mio. (BMZ-THB)	3 years until Final Closing + 12 years duration + optional 2 years extension	Basically worldwide, but strong focus in Asia (especially India) and Africa

Investment Objective

- improving Environmental, Social and Human Rights standards by investing in SMEs with a clear and defined ESG intentionality that are integrated in German (or European) global supply chains

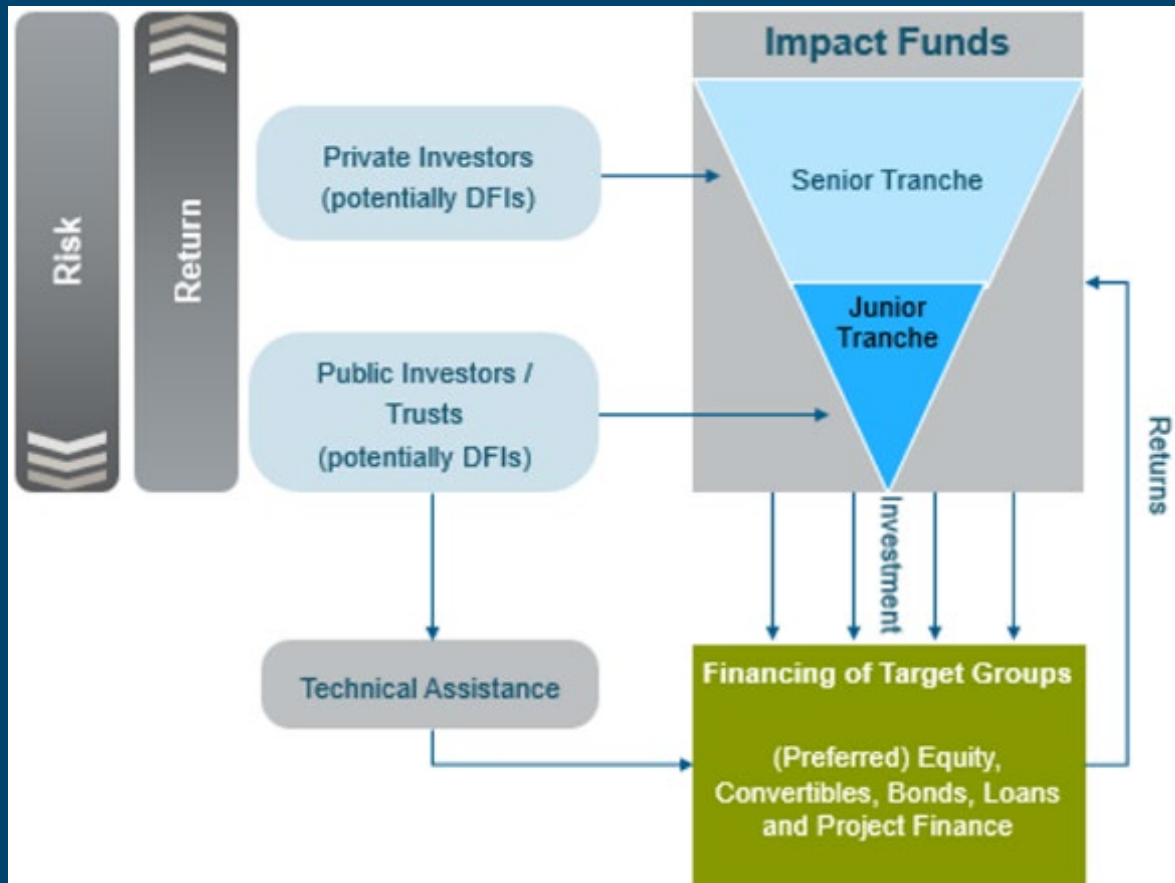
Investment Strategy

- **Assets:** Equity & Debt as direct investments
- ESG Management System (ESMS) integrated into the investment process
- **Technical Assistance Facility** (“TAF”) for the investee companies to enhance and supplement their ESG efforts (€2 million, TAF)

A Case Study: The ESG First Fund

- The Fund is characterized by a blended finance approach, i.e. it aims to make use of public funding to leverage further private sector capital.

ESG First Fund Structure



The Fund consists of a senior and junior tranche

Private investors can invest into the senior tranche while the junior tranche is provided by public investors (risk buffer)

The distribution structure “waterfall” reduces the risk for private investors



... and makes the Fund investable = larger impact on the ground

The ESG First Fund – A Case Study on an Investee Company

About the Company



INI Farms (AgroStar) is a horticulture company located in **India**. The company exports fresh and organically produced fruits and vegetables.

The company's farms grow horticulture products with improved farming practices, providing farm extension services for small-hold farmers.

Investment Thesis

- First Investment of USD 1.95 million into INI Farms
- Extensive ESDD Assessment to identify gaps and strengthen the ESG Management System
- Environmental and Social Action Plan (ESAP) prepared including recommendations for: Environmental and Social Risk Assessment, Social and Employee Welfare, Food and Safety Aspects

Achievements

- Improvement of local working conditions
- Compliance with Environmental Standards
- Flagship project in the region

Selected portfolio examples of an SDG-focused investment strategy



Thank you for your attention.

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Annexes

Fund financing – Leveraging of capital

Over 150 private institutional investors are invested in FZ funds

An exemplary selection of our co-investors from Germany and around the world

