

KfW IPEX-Bank

Green Loans in the Rail Sector

KfW IPEX-Bank's Green Loan Advisor, Sabine Lehmann, on green loans, green financing, KfW's role and trends.

Josephine Cordero Sapién, Railway-News: We hear a lot these days about decarbonising transport in order for governments to meet their net zero commitments. This also includes rail. For example, the UK government has put forward plans to end the use of diesel-only trains on the British rail network by 2040. Such a shift in policy obviously requires major investment by companies. This is where green loans come in. Could you say a little bit about what a green loan is and what specifically makes a loan a green loan?

Sabine Lehmann, KfW IPEX-Bank: Yes, of course, what makes a loan a green loan? That is indeed a crucial question. Mostly people think the loan should be for

an investment in an asset or project defined as green following a specific definition, category or taxonomy.

The purpose of the financing is only one part. And what kind of project or asset can be defined is best described in Appendix 1 of the Green Loan Principles LMA/LSTA/APLMA, which lists all eligible green categories. Speaking of the core elements of a green loan, the use of proceeds has to be clearly focused on the eligible green asset / project financed. Furthermore, the GLP describe that the borrower has to communicate to its lenders its environmental sustainability objectives and the process by which the borrower determines how its projects fit within the eligible categories. Core element three is that the proceeds of a green loan have to be credited to a dedicated account or tracked by the borrower in an appropriate manner and last but not least, the issue of reporting: borrowers have to keep readily available up to date information on the use of proceeds to be renewed annually until fully drawn.



*Sabine Lehmann,
Green Loan Advisor, KfW IPEX-Bank © Alex Habermehl*

JCS: The idea of financing based around environmental objectives has been around since the early 2000s and this is also when environmental, social and governance (ESG) factors were first mentioned in a report titled ‘Who Cares Wins’, which was produced by financial institutions at the behest of the UN. How has ESG reporting shaped the lending market and when did KfW include green loans in its lending portfolio?

SL: Here it is important to differentiate between ESG reporting on the one hand as a derivative of CSR reporting and on the other hand reporting influenced by initiatives like TCFD [Task Force on Climate-Related Financial Disclosures], going deeply into climate physical and transition risks. KfW Group has been disclosing its Sustainability Report for years but getting deeper on the risk side, KfW has been committed to TCFD since 2018. Next to this, when the focus is on risk avoidance, we have seen a lot of initiatives on different levels: the World Bank Safeguards, the IFC Performance Standards and the Equator Principles, all of which the relevant business areas of the Group are committed to.

Our Sustainability Report is in line with GRI and the German ‘Nachhaltigkeitskodex’.

Speaking not only about risk mitigation or risk avoidance, in the last years the positive side of ESG especially the E – environmental, including climate-positive topics – has raised attention:

KfW is famous for Green Bonds with a portfolio

of about EUR 50 billion. Our customers can take advantage of our many years of expertise in financings that make a positive difference for the environment and the climate. This is already part of our DNA at KfW IPEX-Bank and is also a product segment thanks to our Green Loans – Made by KfW IPEX-Bank. KfW IPEX-Bank launched the first Green Loan in line with the Green Loan Principles for Hapag Lloyd in 2019.

JCS: In terms of green lending, are there any interesting trends of where you see this lending segment going?

SL: We hear and see a lot about green lending, very

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often the term is used for all colours / shades of loans with a sustainable focus. What we see – and we are happy about this – is a more distinct use.

Green loans focus on the aspects described above. When it comes to green assets / projects in sectors not yet fully transformed, we see transition loans becoming more and more relevant with a focus on the net zero path of the company behind.

In the segment of sustainable loans for social projects social loans will play an increasing role in the market.

Next to asset or project-based financing, sustainability-linked loans, which focus on the overall sustainability performance of the company or group, are growing fast in all kinds of sectors.

JCS: Last year KfW IPEX-Bank was the green loan provider to Swiss freight car rental company MFD Rail. What was the value of that green loan and what will MFD Rail use it for?

SL: For the financing totalling EUR 400 million KfW IPEX-Bank gained five other banks as partners: they were participating in the financing by syndication with more than EUR 300 million. The loan agreement is structured as a Green Loan issued by KfW IPEX-Bank and certified accordingly. Together with the previous financing of EUR 100 million from 2020, the total volume financed now stands at EUR 500 million.

The funds will be used to finance up to 6,500 new intermodal railcars, which the company specialises in

leasing as a European platform. The use of intermodal freight cars makes it possible to link different modes of transport to rail transport, making the flow of goods more economical and more environmentally friendly. With financing like this, together with our partners, we are supporting the shift of freight transport to rail and the transition to a climate-friendly transport infrastructure.

JCS: What kind of projects in the rail sector would be eligible for green loans from KfW? Do you specialise in loans for new rolling stock or would you fund retrofits such as installing batteries on trains to allow them to run using electricity rather than diesel on non-electrified stretches of the rail network? Essentially, how is it decided what constitutes a project that falls within the green loan remit?

SL: As to your last question, the definition of eligible green project or asset has to be in line with Appendix 1 of the GLP. There you can find e.g. the definition of 'clean transportation': the category implies transportation without any kind of fossil fuels, neither used as fuel nor transported as cargo.

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