New Market Opportunities:
Value Proposition for Clean Energy Finance

IFC Belgrade, Serbia, March 2012
I. Where is the Opportunity for Financial Institutions

II. IFC Experience & Proposal for Partners
What IFC means by Support of Climate Change Mitigation?

Providing **financial products** and/or **advisory** for FIs in following areas:

- **Renewable Energy (RE):** Investing into technologies generating power or heat from renewable resources
  - Project finance: Hydro power plants, wind, solar etc.

- **Energy Efficiency (EE):** Investing into fixed asset to reduce energy bill of end-users through increased efficiency of energy use
  - Home EE renovation loans, SME loans, Corporate EE finance

- **Resource Efficiency:** Investing into technologies minimizing waste and emissions from industrial processes and maximizing product output
  - Improved industrial processes, Waste water treatment

- **Other, Cross-Cutting Areas:**
  - **Sustainable value chains** - supporting FI partners in supply value chains lending for sustainability upgrade financing.
  - **ESCo financing** - providing finance for providers of energy services
  - **Green buildings** - Providing financing and support for developers and end-user of environmentally friendly buildings and energy sustainable buildings
The Business Opportunity - Market Driven

- High/volatile prices of energy - need for cost cutting
- Energy supply security
- Gradual need for retrofits/upgrade of essential systems
- New technologies available to save energy costs and to produce clean, renewable energy
- Increased environmental awareness and interest of borrowers to invest in energy saving and renewable energy projects and equipment
- New business opportunities for contractors/equipment vendors/Energy Service Companies (ESCos)
- Regulatory/Tariff support for RE technology
What Opportunities you can see for your FI?

Expanded market share through new business line:
- Innovative product/first mover advantage
- Sell to customer on value, not only pricing
- Monetize existing client base, attract new clients
- New marketing channels, vendor partnerships

Improved risk profile of portfolio:
- Energy cost savings as a part of cash-flow
- Project finance with prudent risk evaluation (RE)

Positive social and environmental impacts:
- Enhanced brand reputation, PR opportunities
Market thorough Eyes of Particular Departments:

**Corporate Banking:**
- Renewable energy projects
- Industrial plants (e.g. cement, glass ceramic industries)
- Commerce / large malls, big-box store chains
- Efficient building construction companies
- District heating systems

**Commercial Banking / SMEs:**
- New machinery: substitution with more efficient equipment in all sectors, manufacturers of equipment used for clean energy production, etc.
- Examples: ovens, air conditioners / chillers, compressors, lighting, solar heating, etc.

**Retail Banking:**
- Housing Renovation Loans (multifamily or single family houses/apartments)
- Green Mortgages (cooperation with real estate developers + buyers)

**Leasing:**
- Leasing of more efficient equipment (cogeneration equipment, PV solar panels for rooftops, machinery, production lines, hybrid fleets)

**Public Finance**
- EE/RE in Municipalities (street lighting, district heating, public buildings renovations)
I. Where is the Opportunity for Financial Institutions

II. IFC Experience & Proposal for Partners
IFC Value Proposition for Climate: Combination of .......

- Credit lines and senior loans (medium-to long-term)
- Risk sharing products and partial guarantees
- Mezzanine financing and subordinated debt
- Trade guarantees

**Investment Products & ...**

tailored to the needs of diverse markets

**....& Advisory Services**
designed for help to build a profitable climate business
How do we Work with our Partners?

IFC

Financial Institution

Loans
Risk Sharing
Trade finance
Concessional
Finance

On-lending

SME/Corp.
Housing Loans
ESCOs *
Municipals
Project Developers

*ESCO - Energy Service Companies

Advisory

Advisory
Product Details: Overall Approach

Type 1.

Risk positions at the level of the Bank:
- Credit lines;
- Equity;
- Subordinated debt;
- Currency swap;
- Trade finance

Type 2.

Risk positions at the level of the underlying assets:
- Guarantees;
- Portfolio Risk Sharing;
- RE Mezzanine Facility.

Financial Products
Local Financial Institution
Bank Loans to Sustainability Projects
Project A.
Project B.
Project C.
Portfolio of Sustainability Projects
Which Products may fulfill your Needs?

<table>
<thead>
<tr>
<th>IFC Financial Product</th>
<th>Solution at the client’s side</th>
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</thead>
<tbody>
<tr>
<td>Risk Sharing Facility (unfunded / funded)</td>
<td>Risk management and exposure</td>
</tr>
<tr>
<td>Credit Line</td>
<td>Liquidity shortfall</td>
</tr>
<tr>
<td>Long term credit line</td>
<td>Liability matching/liquidity</td>
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<tr>
<td>Sub-debt/mezzanine financing</td>
<td>Risk appetite/financing shortfall</td>
</tr>
<tr>
<td>Private Equity Funds</td>
<td>Capital for climate friendly projects/companies</td>
</tr>
<tr>
<td>Trade Guarantees</td>
<td>Trade risk mitigation</td>
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..... All in Combination with Concessional Finance
What does it mean "Concessional Finance"?

Financing at softer terms through price, tenor, rank, security or a combination to de-risk project

Blended Finance = Concessional Finance + IFC Investment
An Overview: Canada Climate Change Program (CCCP)

**Primary Objective:** To address market barriers that prevent the faster, more wide-spread or longer term sustainable adoption of low-carbon techn. and/or business models that address climate

**Eligibility Criteria:**

- **Power Sector** - *resulting in substantial reductions in carbon intensity of power prod.*
  - Increase substantially the share of renewable energy (with a focus on new RE) in the total electricity supply, including off-grid renewable energy
  - Promote regional grid schemes that support lower carbon energy production;
  - Significant reductions in transmission and distribution losses;
  - Adopt utility managed demand management programs for retail and wholesale customers.

- **Energy Efficient Technologies** - *resulting in lower emissions and energy use per unit of output in buildings, industry and agriculture:*
  - Low-energy buildings, solar heating, insulation, heat pumps, lighting and appliances;
  - District heating and district cooling based on efficient or renewable heat or cooling production;
  - Energy-intensive industries and equipment

**Eligible Countries:** Serbia included

**Other:**

- Concessional Finance Funds
- Life of facility 20 years. Term cannot exceed life of facility
- Currency: US$ or local currency only where IFC has swapping capability
- Pricing for debt instruments cannot be below LIBOR
Typical CCCP Concessional Parameters:

**Funding:**
- Blending with IFC own funds in ration 1:4 to 1:3
- Tenor up to 10 years
- Denomination in US$ or EURO

**Risk Sharing**
- First Loss cushion on the pari-passu risk sharing structure
- 5-10% of the total portfolio value

**Performance-based Grants**
- Bonus based on successfully build portfolio (“forgiveness” to repay part of the CTF loan)
Example I: Donor Support for Credit Line

Credit Line with concessional price in Honduras

- Credit Line to FI to finance EE/ RE sub-projects:
  - IFC: $45M
  - Canada: $5M concessional credit lines *pari passu* in rank, security, tenor

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<tr>
<th></th>
<th>IFC</th>
<th>Donors</th>
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<tr>
<td>Amount ($M)</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>Tenor (years)</td>
<td>7</td>
<td>7</td>
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<tr>
<td>Seniority</td>
<td>Same</td>
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BANCO ATLANTIDA
Honduras

Donors: $5,000,000
IFC: $45,000,000

Senior Debt
2011
Sustainable Energy Financing
Example II: Credit Line with Interest Step-down

Credit Line with interest rate step down in South Africa

- €8M IFC and CTF senior loan to support Bank’s financing of eligible EE/RE projects, particularly SMEs
- To incentivize Bank to develop and grow EE/RE lending, CTF loan includes an interest rate step-down triggered by size of Bank’s EE/RE sub-loan portfolio

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<th>IFC</th>
<th>CTF</th>
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<tr>
<td>Amount (€M)</td>
<td>6.4 (~$9.5M)</td>
<td>1.6 (~$2.3M)</td>
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<tr>
<td>Tenor (years)</td>
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<tr>
<td>Pricing (spread)</td>
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<tr>
<td>Seniority</td>
<td>Same</td>
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<tr>
<td>Special Feature</td>
<td>-</td>
<td>Interest rate step down to JIBAR + XY bps</td>
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**Mercantile Bank**

South Africa

CTF - €1,600,000
IFC - €6,400,000

Senior Debt 2011
Sustainable Energy Financing
Example III: First Loss in Risk Sharing Facility

Risk Sharing Facility in Colombia

- US$108M EE/RE RSF with Bancolombia
  - IFC and IDB cover 50% of losses of an EE/RE portfolio to be built by FI
  - CTF covers first losses of IFC/IDB tranche
- Part of an IFC and IDB programmatic approach to promote SE financing under CTF Colombia Sustainable Energy Finance Program
- Donor funds role:
  - Reduce overall pricing for Bancolombia

BANCOLOMBIA
Colombia

CTF - $5,400,000
IFC - $25,000,000

First Loss Guarantee
2011
Sustainable Energy Financing
IFC Team is Ready to Meet your Needs

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