Clean Energy Finance:
What Does it Mean for a FI?

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June 6, 2014, OECD, Paris

Presentation outline

01 **Business opportunities in the climate space**

02 IFC's Strategy for climate investments

03 Role of governments in the climate financing

04 Examples around the world

What does it mean “be green” for a FI?

Corporate identity

- Being green is fashionable today and helps to sell all products, finance are not different

Compliance with standards

- Internationally/nationally required by laws or voluntary agreements

Risk management

- Portfolios are threatened by various threads, incl. climate change

Business opportunity for further growth

- Markets are huge in the “green space”

Where is the business opportunity?

Energy Efficiency (EE)

- Investing into fixed asset to reduce energy bill of end-users through increased efficiency of energy use (minimal threshold 15% savings against baseline)
  - *Home EE renovation loans, SME loans, Corporate EE finance etc.*

Renewable Energy (RE)

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

Cleaner Production (CP)

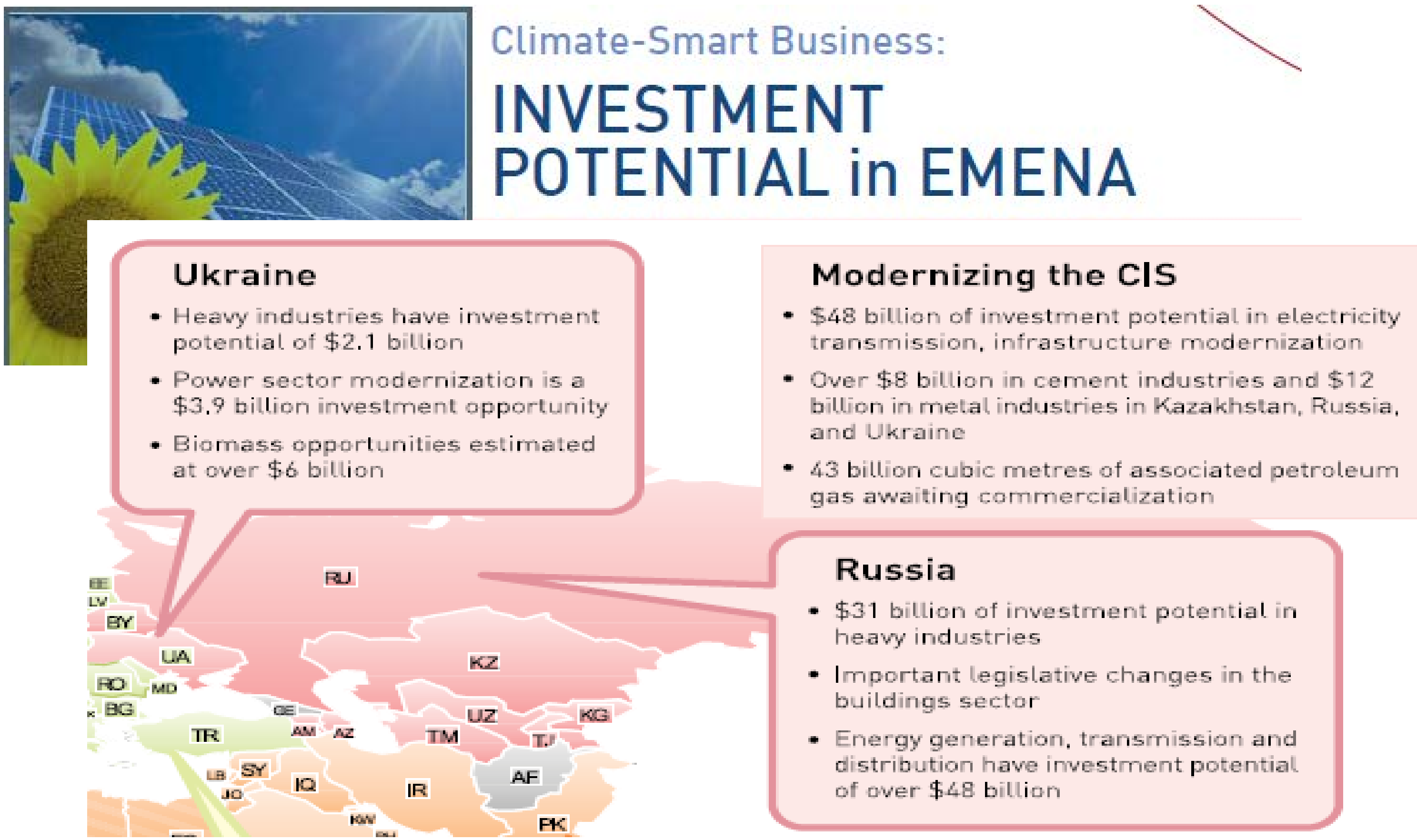
- Investing into technologies minimizing waste and emissions from industrial processes and maximizing product output, including water efficiency
  - *Improved industrial processes, waste water treatment, water efficiency*

Other, Cross-Cutting Areas

- *Transport - supporting close-to-zero emissions vehicles*
- *Green Buildings, ESCos, Supply-chains, general sustainability, etc*

01 – Business opportunities in the climate space

ECA regional opportunities



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IFC at a Glance

International Finance Corporation
World Bank Group

IFC FY13 Highlights*	
IFC Commitments (FY13)	$24.8 bn
IFC's Own Account	$18.3 bn
Mobilization	$6.5 bn
Number of Projects	612
IFC Committed Portfolio	51.6 bn

** FY end June 30.*

IFC's Three Businesses

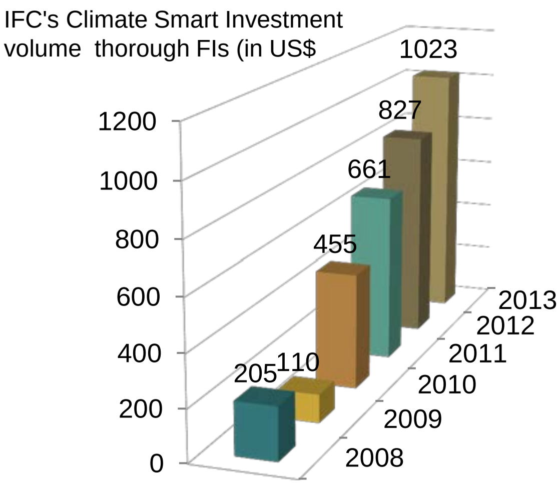
- Investment Services
- Advisory Services
- IFC Asset Management Company

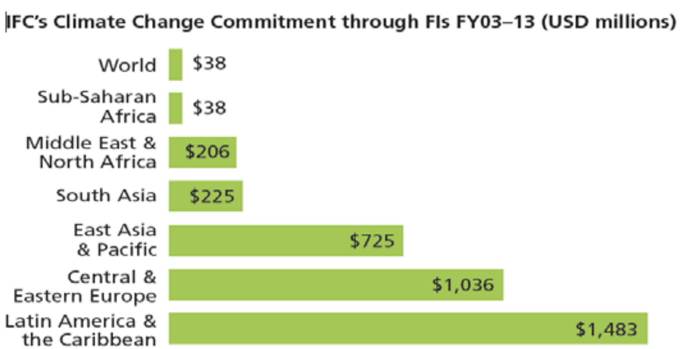
- Financial Institutions
- Infrastructure
- Manufacturing and Services

IFC, Member of the World Bank Group

- Largest multilateral source of financing for Emerging Markets' private sector
- Founded in 1956, currently with 184 member countries
- AAA rated by S&P and Moody's
- 3 Main Businesses: Investment Services, Advisory Services and Asset Management Company (AMC)
- Takes market risk with no sovereign guarantees
- Promoter of environmental, social, and corporate governance standards
- Resources and know-how of a global development bank + flexibility of investment bank
- Has 2073 active partner institutions
- Holds equity in over 800+ companies worldwide
- More than 104 offices worldwide in 95 countries

IFC's Climate Smart Business through FIs





Climate Smart Business through FI's : Since 1997, IFC has supported more than **125 FI clients with more than 135 sustainability and climate projects in 35 countries, providing $3.8 billion in financing** and helping to reduce over 30 million tons of carbon dioxide emissions. Within the past 10 years, IFC's climate financing has increased by more than 54% annually on average, with a resulting record annual commitment in FY13 of $1,023 million in financing provided to banks for climate smart business (energy efficiency, renewable energy and cleaner production projects).

Corporate wide, IFC have invested more than **$11 billion in some 600 projects** related to energy efficiency, renewable energy generation, clean production, sustainable agriculture, green buildings, and climate adaptation since 2005. Additionally, IFC Treasury has issued **$3.4 billion in green bonds** and we have helped to develop Green Bonds principles.

What a Financial Institution should have done to tap the "green" market?

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

Grow in volume, gain market share

Reach new markets, become leader of the new the industry

Understand the market and its niches, develop dedicated product, build specialized team (if volume driven)

Analyze markets, evaluate existing portfolio

….& Advisory Services

designed for help to build a profitable climate business

Market development, analysis and product development

Capacity building, trainings for staff on all levels

Tools and resources

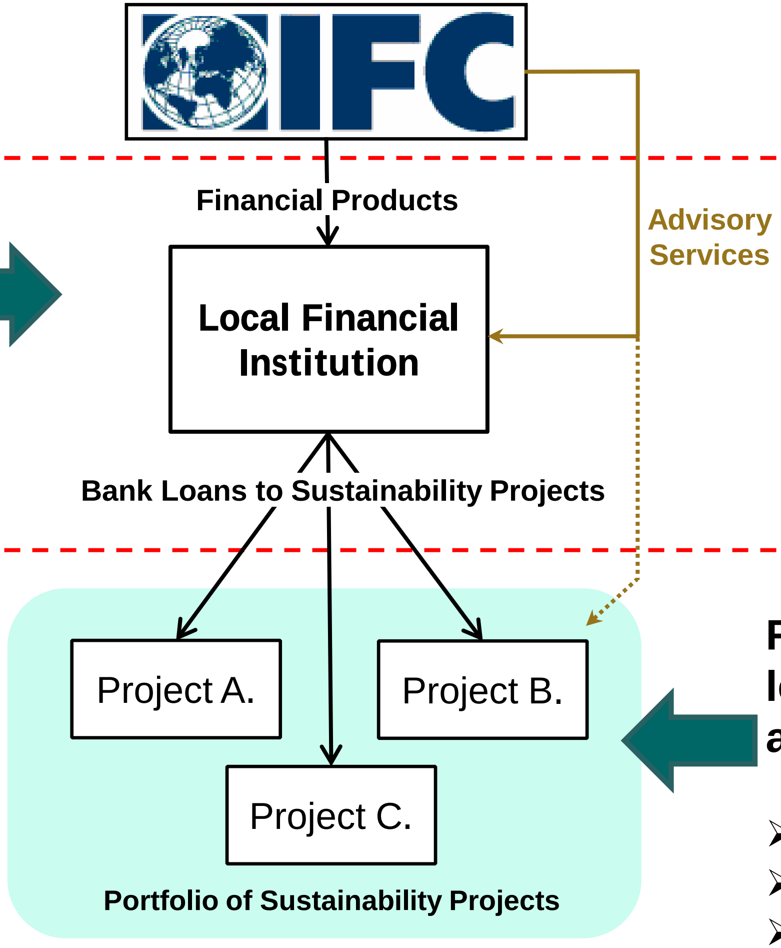
Linkages with contractors/ESCos/vendors

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.

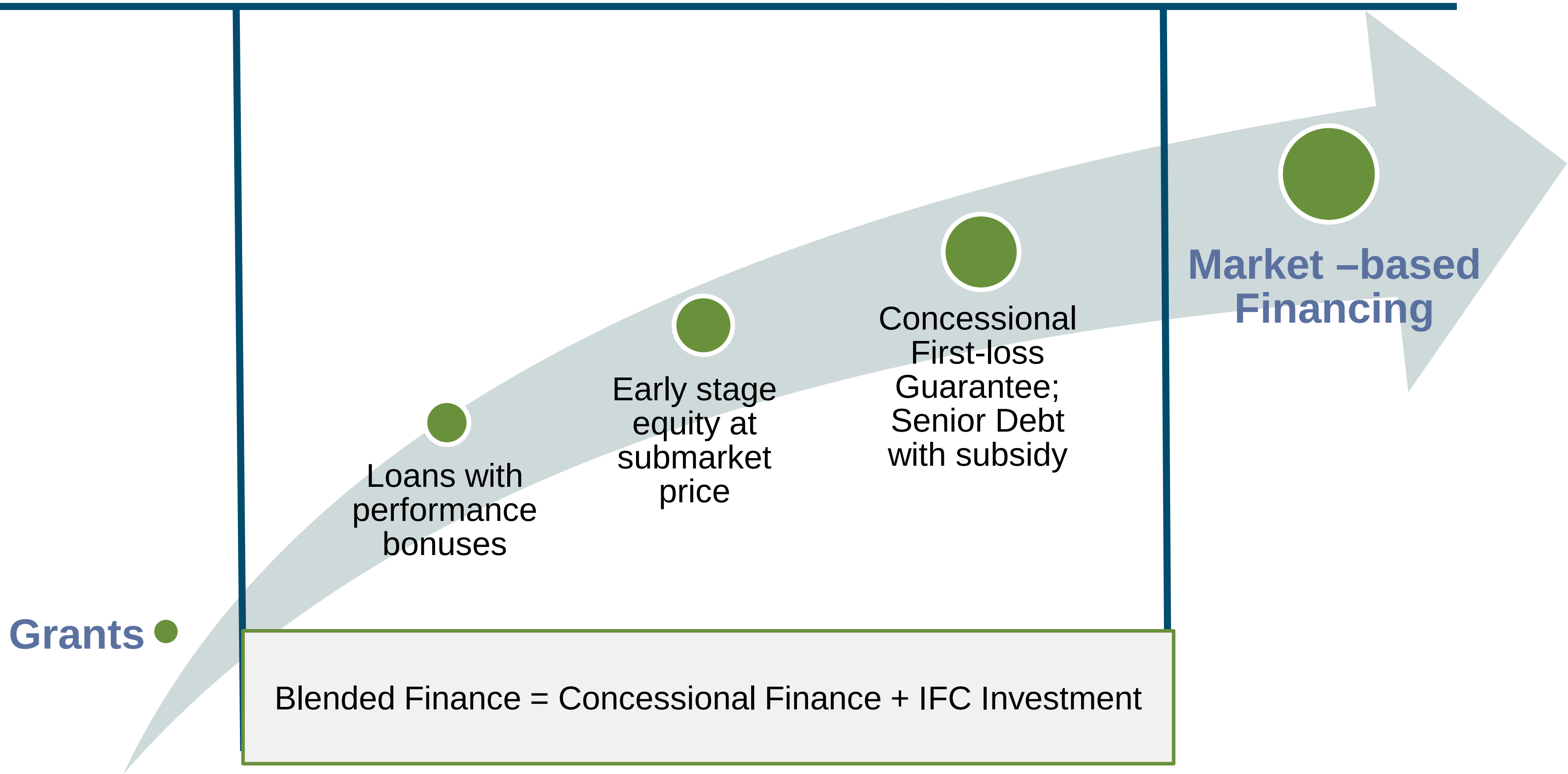
Product must be tailored to needs of FIs:

IFC Financial Product	Solution at the client's side
Risk Sharing Facility (unfunded / funded)	Risk management and exposure
Credit Line	Liquidity shortfall
Long term credit line	Liability matching/liquidity
Sub-debt/mezzanine financing	Risk appetite/financing shortfall
Private Equity Funds	Capital for climate friendly projects/companies
Trade Guarantees	Trade risk mitigation

… all on market price with limited role of concessional support

What does it mean "Concessional Support"?

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



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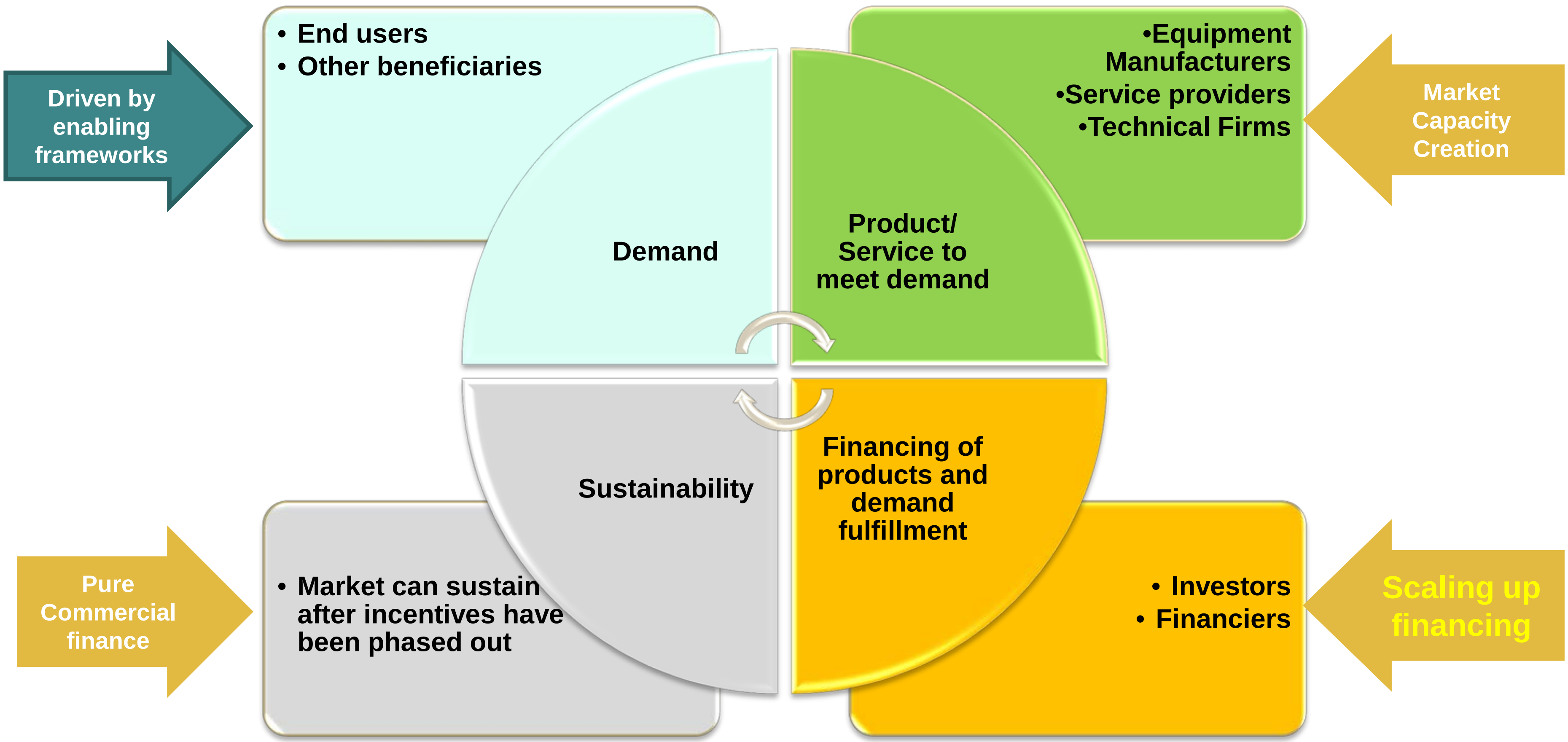
Requirements to Scale up Climate Financing



Climate Finance – Market Development Path

	Technology Research	Technology Development and Pilots	Scaling up and Large scale Demonstration	Mainstream roll out
Government/ Public Funds	• Research Grants	• Grants for pilots	• Grants/subsidies for reduction of transaction costs, and for creating the pipeline of projects • Risk capital/first loss funding for financing : Blended finance	Not required
MDBs/DFI		• Selective Equity, Debt and mezzanine financing	• Equity, Debt and mezzanine financing with Blended finance	• Phase out engagement over time
Equity	• Limited Angel investing	• Angel/Venture investing	• Private equity	• Public equity markets
Debt	• Not available	• Limited, low leverage financing • High risk loans with up-side	• Commercial Financing available but constrained by risk appetite and risk perceptions	• Bank and market financing easily available

EE Policy - Typical Roles for Public Finance

Type of intervention	Role of public finance	Rationale
Establishing the necessary regulatory framework	Grants and Technical Assistance	Frameworks are necessary to create the demand Help price public goods : Water, energy, other resources
Financing pilot products in new/emerging technologies	Capital/interest subsidies as Grants to make project viable	Demonstration will lead to lowering of technology costs and to scale up
Establishing capacity in the market	Grants and Technical Assistance	Capacity is necessary to create a pipeline of projects for scale up
Performance based incentives	Performance based subsidies to transform market behavior	Market behavior changes lead to scale up
Blended finance : (State first loss blended with commercial funds for equity, mezzanine and debt)	Higher risk investments	Reduces risk of private financial investors leading to higher risk appetite and scaling up

Create demand and market drivers

Support market ability to provide solutions

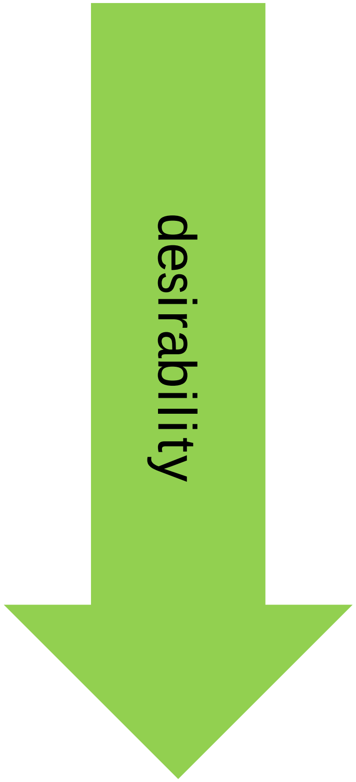
Enabling financing

Role of Govt. I : Creation of Demand

Intervention	Comments
Providing capital subsidies	Cheaper to implement and Effective in the short term to change behavior but demand drops when subsidy is phased out.
Use based subsidies	More expensive to implement but less distortive and therefore more sustainable
Tax breaks	Needs to fit within the tax paying regime
Financing incentives	To enable end users to choose the desired alternative : Most efficient and least distortive
Awareness creation of benefits	Most important aspect required for all other interventions

Role of Govt. II : Enabling Financing

Intervention	Comments
Policy support to enable the range of finance required	Early stage venture for new manufacturing Private equity, Debt Consumer and end use
Subsidizing cost of capital	Useful to get the process started but can become a dependence and market may fail once the subsidy is phased out
Subsidizing risk	Very critical and efficient as the FI gets more comfortable with the business, this can be phased out
Subsidizing transaction costs	Necessary and efficient as the FI builds capacity and familiarity with the market, the market grows, transaction costs drop as a % of business enabling this to be phased out
Awareness creation of benefits	Critically important as financiers typically tend to be conservative Special Example: Super-ESCo



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IFC’s FIs climate portfolio in EaP coutries:

Ukraine	Belarus	Armenia	Azerbaijan
ProCredit Bank **USD 20 million** 2008	MTBank **USD 10 million + AS** 2011	AmeriaBank **USD 15 million + AS** 2010	**Bank Respublika** **USD 3 million + AS** 2013
Ukraine Erste Bank **Advisory Services** 2010		**Armenia** HSBC Armenia **USD 26 million + AS** 2010	
Ukraine Credit Europe Bank **USD 15 million** 2012		**Armenia** Byblos Bank **USD 5 million + AS** 2010	

First Turkish EE/RE leasing

In 2008, IFC provided a first loan of US$50 million to Yapi Kredi Leasing Turkey (YKL). This investment help YKL diversify its portfolio and increase its market share in very competitive market.

YKL's objective was to target SME's and new products in EE and RE financing. The transaction marks the first time that the company has taken financing to direct to sustainable energy projects.

YKL Leasing focused to develop sustainable energy investments across all industry sectors.

Within two years, YKL EE/RE portfolio reached US$200 million of loans

04 - Examples around the world

BLF Lebanon

BANQUE
LIBANO-FRANÇAISE
A partner for your ambitions

Assistance to BLF who position itself as a leader of "green" banking in Lebanon

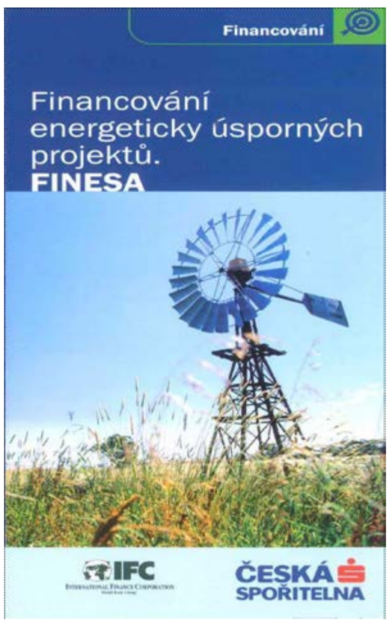
- Senior Level Strategy Session to identify opportunities & key strategic considerations
- Staff training on SEF to build knowledge & awareness of SEF opportunities
- In-depth industrial sector reports highlighting SEF opportunities
- Comprehensive portfolio review to segment & identify SEF targets in existing portfolio, client visits to evaluate SEF opportunities

US$ 24.4 m in approved SEF projects during pilot stage

BLF apparently SEF market leader, with 90% of total environmentally-friendly loans under BdL Circular 313

04 - Examples around the world

Ceska Sporitelna SE Program



Leading Czech bank looking for new market opportunities in 2004

IFC identified SEF potential in Czech market (10m people) of $7.3 bn/6years

Bank embraced opportunity and developed FINESA (Financing Energy Saving Applications) with IFC assistance

FINESA means:

- Product with defined internal procedures
- Targeted marketing strategy and sales
- Dedicated Energy team, dealing with sustainable energy projects centrally, supporting credit officers and branches sales people

CS now leading bank in Czech SE market

04 - Examples around the world

Credins bank Albania

BANKA CREDINS

In 2012, IFC provided €10 million in financing to Credins bank.

This loan helps the bank provide sub-loans to Albanian companies interested in investing in energy efficient technologies and renewable energy projects.

"*This partnership with IFC will help us take a leadership role in combating climate change in Albania. We believe that the potential for development of sustainable energy finance in Albania is significant and aim to offer our services to companies that plan to go green*." **Artan Santo, Credins Bank CEO.**

TSKB Resource Efficiency, Turkey

Türkiye Sınai Kalkınma Bankası A.Ş.

Longer tenor financing is critical to the success of sustainable energy projects, but is still relatively scarce in Turkey.

In 2013, IFC provided a US$75 million loan to Turkiye Smai Kalkmma Bankasi (TSKB). This long-term investment (7-year) is directed to pollution abatement and energy efficiency projects in various sectors.

The Scope of the project goes beyond GHG reduction by mobilizing funding for high-impact projects that help to reduce local pollutants such as dust particles.

thank you

contact information

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