Experiences from implementing Green Financing Credit Lines for SMEs

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Selected „Green Finance“ Projects

- **China**: Green Financing Programme, KfW (2012-2014);
- **South Africa**: Credit Line for EE & RE Financing, KfW (2011-2013);
- **Poland, Hungary, Bulgaria, Romania, Slovakia, Croatia, Czech Republic, Slovenia**: Consultancy Services in Support of EU-Programmes on Energy Efficiency ("Green Initiative"), EIB (2012-2016);
- **Kazakhstan**: Sustainable Energy Financing Facility, EBRD (2008-2011);
- **Indonesia**: Feasibility Study and Project Preparation for Emission Reduction Investment Program, KfW (2011)
Selected „Green Finance“ Projects

- **Kyrgyzstan**: Kyrgyz Sustainable Energy Financing Facility (KyrSEFF), EBRD (2013-2017);
- **Russia**: Sustainable Energy Financing Facility (RuSEFF), EBRD (2009-2015);
- **Turkey**: Sustainable Energy Financing Facility (TurSEFF), EBRD (2010-2012); Mid-Size Sustainable Energy Financing Facility (MidSEFF), EBRD (2011-2012);
- **Western Balkan**: Private Sector Support Facility and Energy Efficiency and SME Competitiveness Facility, EBRD (2011-2014).
How does it work?

- **Development Finance Institution**
- **Consultant**
- **Partner Financial Institution**
- **End-users (sub-borrowers)**
- **Technical Assistance**
- **Credit Lines**

**Flow Process**:
1. Donor funded Contract
2. Project identification & assessment
3. Development Finance Institution
4. Technical Assistance
5. Partner Financial Institution
6. Loan / Lease
7. End-users (sub-borrowers)
General Project Characteristics

- **Loan Facilities**: 20 million USD (Kyrgyzstan), 62 Million EUR (China), 45 million EUR (South Africa), 200 million USD (Russia)
- **No. of Partner Financial Institutions**: 1 – 10
- **Project Duration**: 24 months – 48 months
- **Loan sizes**: up to 12.5 million EUR
- **Eligibility Criteria**: at least 20% of energy savings or reduction of CO$_2$-eq emissions of at least 20%
- **Terms and conditions**: Terms and conditions of loans are set by the partner bank.
Technical Assistance Components

- Screening & Clustering
- Set-up of Processes & Procedures
- Technical Assistance Components
- Monitoring Energy & CO2
- Marketing & Project Appraisal
- Training of PFI Staff
Tasks Overview

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Loan Processing

Standard Loan processing of the Bank

- Loan Application
  - SME
  - Supplier
  - ESCO

- Initial check of creditworthiness

- Credit assessment & decision

- Loan agreement

- Loan disbursement

Implementation

Repayment

GFP processing

- Pre-assessment
  - screening
  - eligibility check

- Project Appraisal
  - Site-visit/Energy Audit
  - Technical and financial assessment
  - Project Appraisal Report

- Financing
  - Donor approval

Eligibility confirmation

Project Appraisal Report

No-objection
Investment Types: Standardized

Type 1

Loans up to USD 300,000 for standardized small scale investments

Technology driven approach

Small Scale Investments

The technology-driven approach is based on a list of pre-approved eligible measures and equipment (LEME) which are energy efficient and emission reducing. Equipment and technologies selected from this list are automatically eligible for funding without requiring additional technical assessments.
applicable to loan amounts > USD 300,000

each investment is analysed and screened against a set of technical, environmental and financial eligibility requirements on-site, incl.:

- baseline
- expected energy savings & emission reductions
- project cash-flows and a calculation of financial viability parameters

Important: the assessment of the creditworthiness of the potential sub-borrower is carried out by the PFI according to its normal risk assessment and credit procedures.
Pipeline Development: Top-Down Approach

Data Collection

Screening of SME Portfolio
- by industries
- by subsectors

Evaluation

Selection of target
- regions
- industries
- clients

Action

- Marketing strategy
- client approach

- Identification of companies of all industry sectors, broken down by region and subsectors.
- Selection of target regions and industries according to their energy savings potential
- Identification of target clients
- Selection of marketing instruments and client approach
Pipeline Development: Bottom-up Screening

- Definition of standardized measures (LEME)
- Identification of applying industries & sub-sectors
- Selection of target clients
- Follow-up calls & Client visits
- Targeted Marketing Campaigns

- The PFIs will select the (creditworthy) companies for targeted marketing campaigns
- Follow-up calls to increase the interest and eventual company visits.

The initial screening of the PFIs existing client portfolio has certain advantages in terms of utilization of already existing client relationships, reduced transaction costs and faster portfolio development.
Examples of potential « green » projects:

- Replacement or modernization of energy-intensive process equipment e.g. ovens, furnaces etc.
- Exchange of air compressors
- Replacement of boilers
- High efficiency lighting
- Installation of variable speed drives on motors
- Installation of heat recovery systems or absorption chillers
- …
Some Lessons Learned

- Commitment of Partner Financial Institutions is key
- "Green Finance" products are financial products, disbursements of loans for eligible sub-projects are for involved PFIs of highest priority
- Establishing "green financing" at a financial institution is a very resource intensive task
- Simplified, shortened and standardized processes and procedures are an important requirement to increase the acceptance
Some Lessons Learned

- Continuous marketing efforts are important
- Financing of a number of straightforward, replicable pilot sub-projects serve as case studies and inspire credibility in the green finance facility
- Low priority given to energy efficiency in most businesses
For Further Information

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