

International Finance Corporation

Financing for Environmental Projects

New Ventures Investment Forum
Rio de Janeiro September 25, 2000



International Finance Corporation

- ◆ **About IFC**
- ◆ **IFC Financing for Environmental Projects**



International Finance Corporation

**IFC is looking for
high quality, private-sector
environmental projects**



IFC - Basic Facts

MISSION:

To promote private sector investment in developing countries which will reduce poverty and improve people's lives

- ◆ IFC only invests in private-sector projects which are both *commercially viable* and promote *sustainable development*
- ◆ Member of World Bank Group - owned by 174 governments
- ◆ In FY 2000, IFC approved US\$ 3.5 billion of investments in 259 projects



IFC's Role

IFC acts as a catalyst to stimulate and mobilize private investment:

IFC investments	US\$ 3.5 billion
+ IFC syndications	US\$ 2.3 billion
+ Other funding sources	US\$ 15.3 billion
	↓
Total project cost	US\$ 21.1 billion

(FY 2000 approvals)



IFC Services

- ① **Project finance - Loans, equity, etc.**
- ② **Mobilization of capital**
- ③ **Financial advisory work**
- ④ **Capital markets development**
- ⑤ **Special development initiatives**



IFC Investment Guidelines

- ◆ **Maximum 25% (35%) of project cost**
 - ◆ Excludes funds raised from other sources
- ◆ **Market pricing**
 - ◆ But flexible on final maturity and grace period
- ◆ **No Government guarantees**
- ◆ **Meet IFC and host country environmental guidelines**



IFC's Value Added

- ➔ **Direct funding with long-term staying power**
- ➔ **Catalyst for other investors and lenders**
(+ possible concessional funding for RE projects)
- ➔ **Honest broker/neutral partner**
 - **Reassuring presence for joint venture partners and host Government**
- ➔ **Risk identification and mitigation**



Why does IFC make a special effort to finance environmental projects?

Because accelerating market acceptance of environmentally beneficial technologies, products and services offers one of the best ways to meet IFC's mission of improving people's lives and reducing poverty



Environmental *and* Economic Benefits

Environmental Benefits - *'improving people's lives'*

- ◆ Local environmental benefits - Cleaner air, water and land today; protecting natural heritage for future generations
- ◆ Global environmental benefits - Reduced global warming, loss of biodiversity, pollution of international waters

Economic Benefits - *'reducing poverty'*

- ◆ Near-term economic benefits - Increased competitiveness due to more efficient production processes
- ◆ Long-run economic benefits - More sustainable economic growth due to improved sustainability of resource use



Potential Challenges to Investing in Environmental Projects

- ✓ Undervalued resources → Wrong price signals
 - ✓ Longer lead times → Higher development costs
-
- Smaller project sizes → Higher transaction costs
 - Newer technologies → Higher operating risks
 - Less experienced sponsors → Higher completion and operating risks
 - Less established markets → Higher operating risks
 - Higher ratio of capital costs to operating costs → Need for longer-term financing at reasonable rates
 - Unfamiliar to financial institutions → Limited access to capital and/or higher cost of capital



IFC's Response to these Challenges: Environmental Projects Unit

- ① Provide extra support up front to identify, develop and structure projects with specific environmental benefits
- ② *If appropriate*, access limited concessional funding from the Global Environment Facility (GEF) and other sources
- ③ Encourage improvements in the 'eco-efficiency' of *all* IFC investments
- ④ Undertake special initiatives such as carbon offset trading under the Kyoto Protocol



IFC's Strategy for Financing Environmental Projects

1st - Use IFC Resources
If commercially viable



2nd - Consider Use of Concessional Funding

- ➔ Wary of subsidies: dangerous and arrogant
 - ➔ Stay as close to commercial viability as possible
- If meet our strict criteria, then try to raise limited concessional funding from GEF or other sources



Environmental Sectors

- ◆ **Water Supply and Wastewater Management**
- ◆ **Solid Waste Management**
- ◆ **Pollution Abatement Technologies and Services**
- ◆ **Renewable Energy**
 - ◆ Biomass, wind, solar, geothermal, small-scale hydro
- ◆ **Energy Efficiency**
 - (1) Industrial (2) T&D (3) Mfg. (4) ESCOs (5) FIs
- ◆ **Sustainable Agriculture and Forestry**
- ◆ **Sustainable Tourism**
- ◆ **Advanced Power and Transport Technologies**
 - ◆ Fuel cells, 'clean coal', efficient vehicles
 - + 'Carbon Trading'



Examples of IFC Environmental Projects

◆ **Aguas Argentinas**

Infrastructure Dept. - \$4,000 M Water/wastewater concession

◆ **Renewable Energy and Energy Efficiency Fund**

Power Dept. - \$200 M Worldwide Fund (equity + debt)

◆ **Terra Capital Fund**

Latin America Dept. - \$50 M Biodiversity Fund

◆ **Conservera Amazónica Hearts of Palm (Peru)**

Agribusiness Dept. - \$4 M 'plantation' expansion project



Examples of IFC/GEF Projects

- ◆ **Renewable Energy and Energy Efficiency Fund**
\$200 M worldwide fund (\$35 M IFC + \$30 M GEF)
- ◆ **Terra Capital Fund**
\$50 M biodiversity fund for LAC (\$5 M IFC + \$5 M GEF)
- ◆ **Small and Medium Scale Enterprise Program**
\$21 M for SMEs from Costa Rica to Egypt
- ◆ **Photovoltaic Market Transformation Initiative**
\$30 M to accelerate solar power in India, Kenya, Morocco
- ◆ **Hungary Energy Efficiency Cofinancing Program**
\$5 M partial guarantee facility



Key GEF Requirements

① GEF Project Eligibility

- ✦ Meets overall GEF objectives (global, not local)
- ✦ Falls under specific GEF 'Operational Programs' in climate change, biodiversity, or international waters

② GEF Funding Limits

- ✦ GEF only covers incremental costs

③ GEF 'Country Drivenness'

- ✦ Official support from Government's GEF 'Focal Point'

④ GEF Approval Process

- ✦ GEF has 2-stage approval process (except MSP)



IFC/GEF Strategy

Match the type of support to the obstacles or risks blocking achievement of GEF objectives

➔ Focus on near-commercial projects

- ② Prefer non-grant financing
- ③ Minimize use of GEF resources
- ④ Maximize leverage of GEF resources
- ⑤ Where possible, co-finance with IFC



IFC and the Kyoto Protocol

IFC has no specific obligations under the KP,
but we're actively tracking the evolving
market for GHG emissions reduction credits:

- ① New sources of financing for projects that reduce GHG emissions
- ② Integrating KP into IFC's mainstream activities



Why use KP-Related Financing?

- ◆ Private-sector clients can access a new source of funding that does not require payback in monetary terms
- ◆ Developing and transitional country members can access cleaner technologies
- ◆ OECD members can reduce cost of complying with KP obligations



International Finance Corporation

**IFC is looking for high quality,
private-sector environmental projects**

Website: www.ifc.org/e pu

Email: ifcepu@ifc.org

Fax: 1-202-974-4349

**New Ventures Investment Forum
Rio de Janeiro September 25, 2000**

