MitigationMomentum

NAMA Financial Component: A Portfolio Guarantee Scheme (PGS)

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Content

1) Introduction
    - Financial component
    - what is a guarantee mechanism?
    - why we explore a guarantee as part of the NAMA?

2) Portfolio Guarantee Scheme (PGS)
    - overview
    - why a PGS in the NAMA?

3) Need and use of international donor funds

4) Key takeaways and discussion points

Design of the **Financial component**

impact	increased i… …ts in energy conservation, energy a… …sed productivity, and GHG		
outcome	Increase in ESCO … • Improved conditio… • Improved capability fo… • Increased trust among end-users, banks, and ESCOs	…iving ESCO market due to: • Improved access to capital for EE investments • …ore and better EE investment proposals	
outputs	• Better understanding of different ESCO business models (govt and ESCOs) • Advise on technical and financial aspects of EE investments (Govt and ESCOs)	• "Facilitation Approach" further elaborated and applied in different market segments	• Access to loan guarantees for implementation (ESCOs) • Access to grants for project development (ESCOs) • Better understanding of financial aspects of EE investments (Banks)
activities	• **A1**: Needs assessment and capacity building (Govt) • **A2**: Needs assessment and capacity building (Thai ESCO association and ESCO companies) • **A3**: Setting up technical assistance facilities	• **B1**: Capacity building and training on "Facilitation Approach" • **B2**: Setting up pilot project • **B3**: Develop guideline for EE-ESCO transaction and MRV with facilitation approach	• **C1**: Establish Portfolio Guarantee • **C2**: Establish Grant scheme for developing a project pipeline • **C3**: Setting up advisory services for financial sector institutions
inputs	Government of Thailand policies and strategies	International funding for: Technical support, and Financial support	

1) Introduction: what is a guarantee mechanism?

- A financial instrument to encourage commercial banks to provide medium- and long-term loans with more relaxed requirements than they would otherwise require – lower collateral, lower interest rates.

- Offers a kind of insurance to lenders for the non-payment of a loan by a borrower. Guarantees can therefore encourage lending when a financial institution considers the risk of non-payment too high.

- Typically guarantees are partial credit guarantees, meaning they cover a portion of an outstanding loan amount (50-80 %) for each individual loan. This ensures that the financial institutions still retain some risk which helps to maintain good lending practices.

1) Introduction: why we explore a guarantee mechanism as part of the NAMA?

- There are many economically viable opportunities for improving energy efficiency. These require investments in equipment, either directly by the end-users or through ESCOs.

- Banks are reluctant to provide loans for the implementation of energy efficiency projects, because they perceive the risk of these loans not being paid back as high. They have strict lending conditions (incl. high collateral requirements)

- What would be an efficient way for the Thai government to stimulate banks to provide loans for energy efficiency projects?

- We are exploring how Thailand can introduce a guarantee mechanism to improve the access to capital for ESCOs and energy end-users wanting to implement EE projects

1) Introduction: why we explore a guarantee mechanism as part of the NAMA?

- **American Council for an Energy-Efficient Economy (ACEEE):** un[illegible]k a review of 24 EE loan programs and found extremely **low default rates rangin[illegible]-3%** throughout the life of the financing program.
- **Hungary EE guarantee fund (HEECP):** financed by GEF [illegible]d Bank. By the end of 2006, the US$55 million loan portfolio that HEECP [illegible]upported with US$17 million of guarantees represented US$93 million worth of [illegible]fficiency investments including a total of 331 energy efficiency projects. **No de[illegible] date in EE portfolio.**
- **Lithuania EE and housing pilot project:** W[illegible]k $10 million loan between 1996-2001 for EE projects. **No defaults recorded.**
- **China Utility Based EE Program (C[illegible]** [illegible]sumed default rates of 4% for entire program at start of project. **Only 6 major [illegible] in 330 projects** implemented.
- **Bulgarian EE Fund (BEEF):** W[illegible]k grant of $10 million. Loan facility and guarantee facility set up. Defaults w[illegible] to zero. **A number of payment delays but no defaults.**
- **Central & Eastern Eur[illegible]mercializing EE Finance Program (CEEFP):** IFC/GEF provided $50m to s[illegible]artial Risk Guarantee. **The default rate was less than 0.5% over the course [illegible]ogram.**

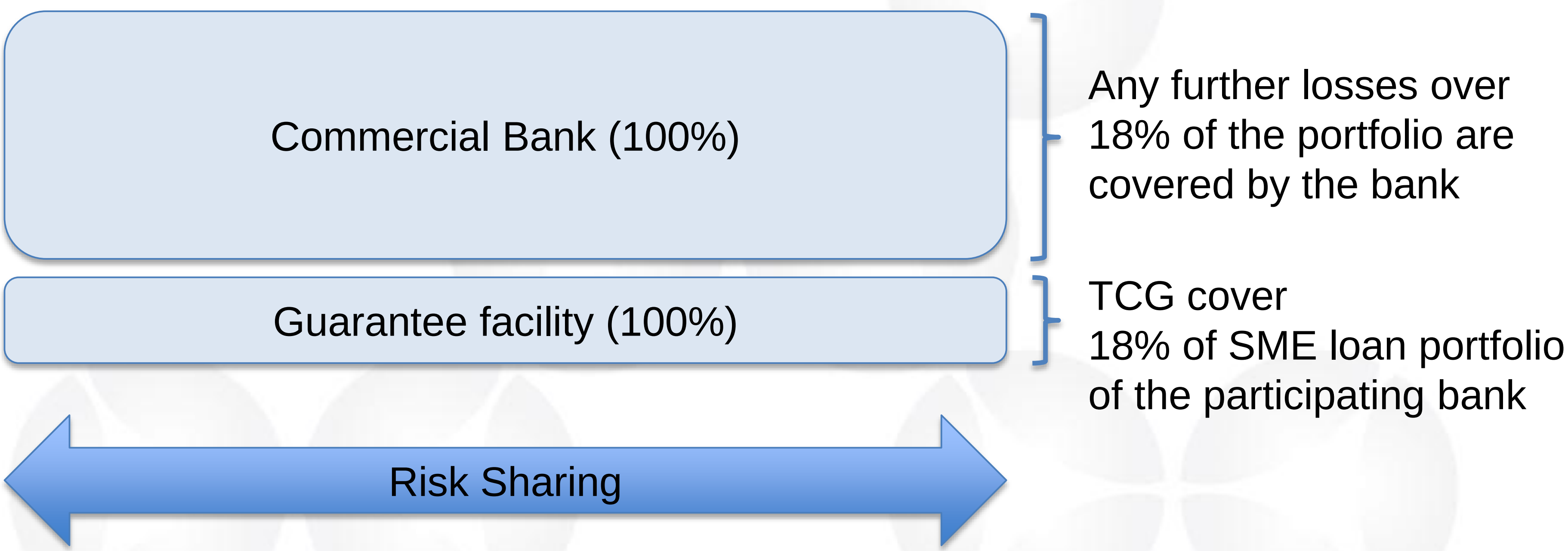
Very low default rates

2) Portfolio Guarantee Scheme (PGS)

Overview

Product of the Thai Credit Guarantee Corporation (TCG) since 2009.

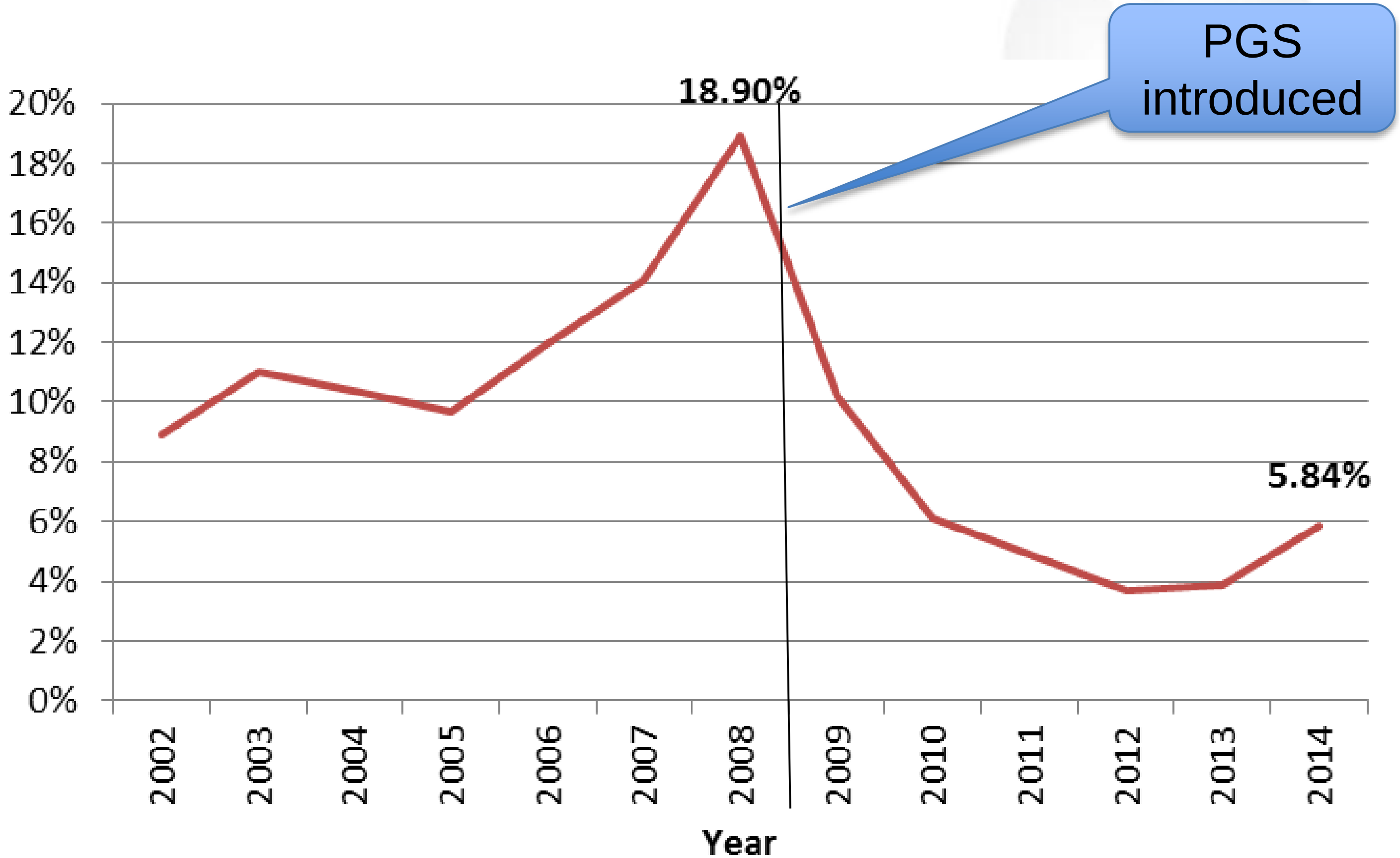
Provides an assurance to banks that, up to a specified percentage, 100% of their SME loan portfolio is protected against non-repayment by the borrower



2) Portfolio Guarantee Scheme (PGS)

Why a PGS in the NAMA?

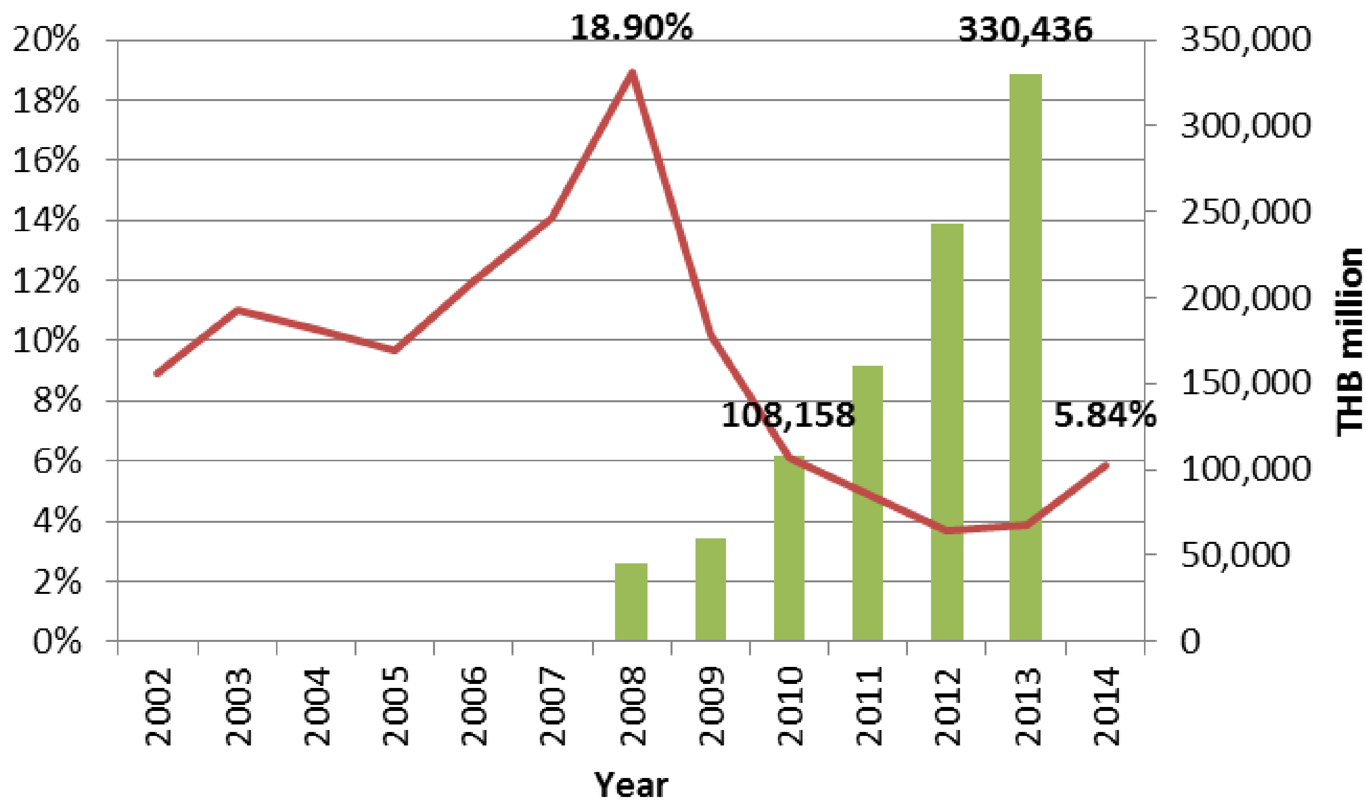
Non-performing guarantees have reduced significantly since introduction of PGS by TCG.



2) Portfolio Guarantee Scheme (PGS)

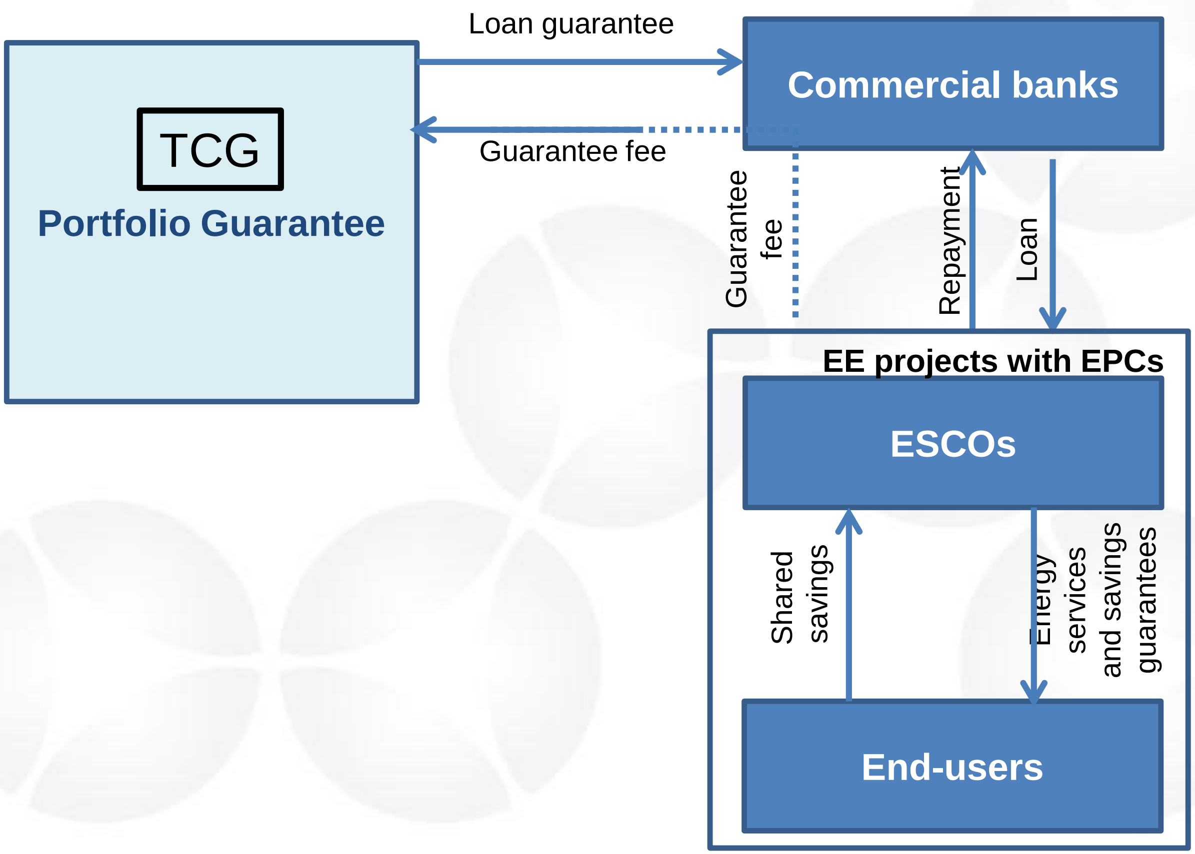
Why a PGS in the NAMA?

Combined with sharp increase in the accumulated approved guarantees.



3) Need and use of donor funds

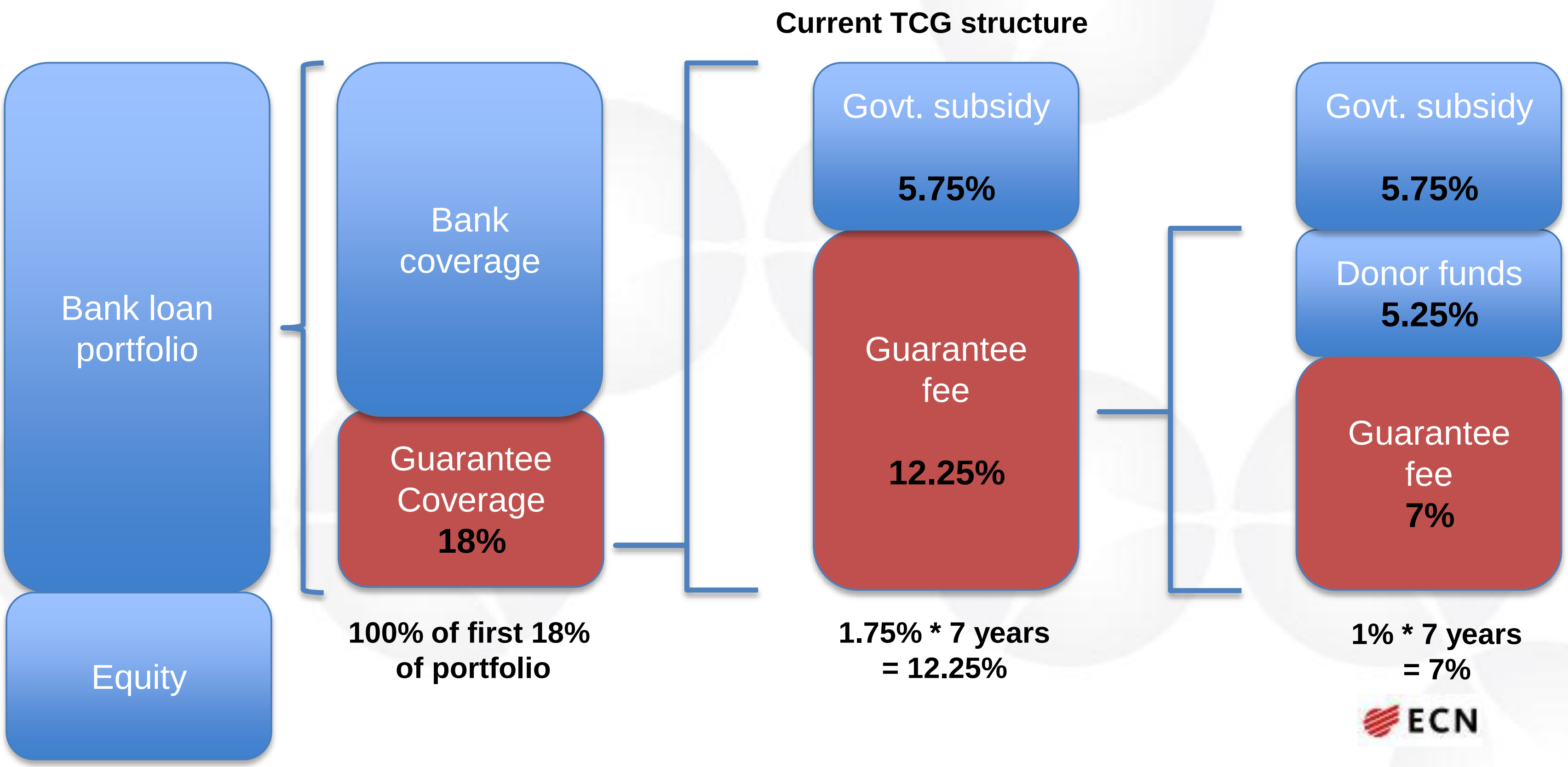
- A guarantee is not for free. There is a cost to the ESCO or end-user: a guarantee fee
- Is this cost reasonable? Does it present a barrier for projects?



3) Need and use of donor funds

Subsidising the guarantee fee:

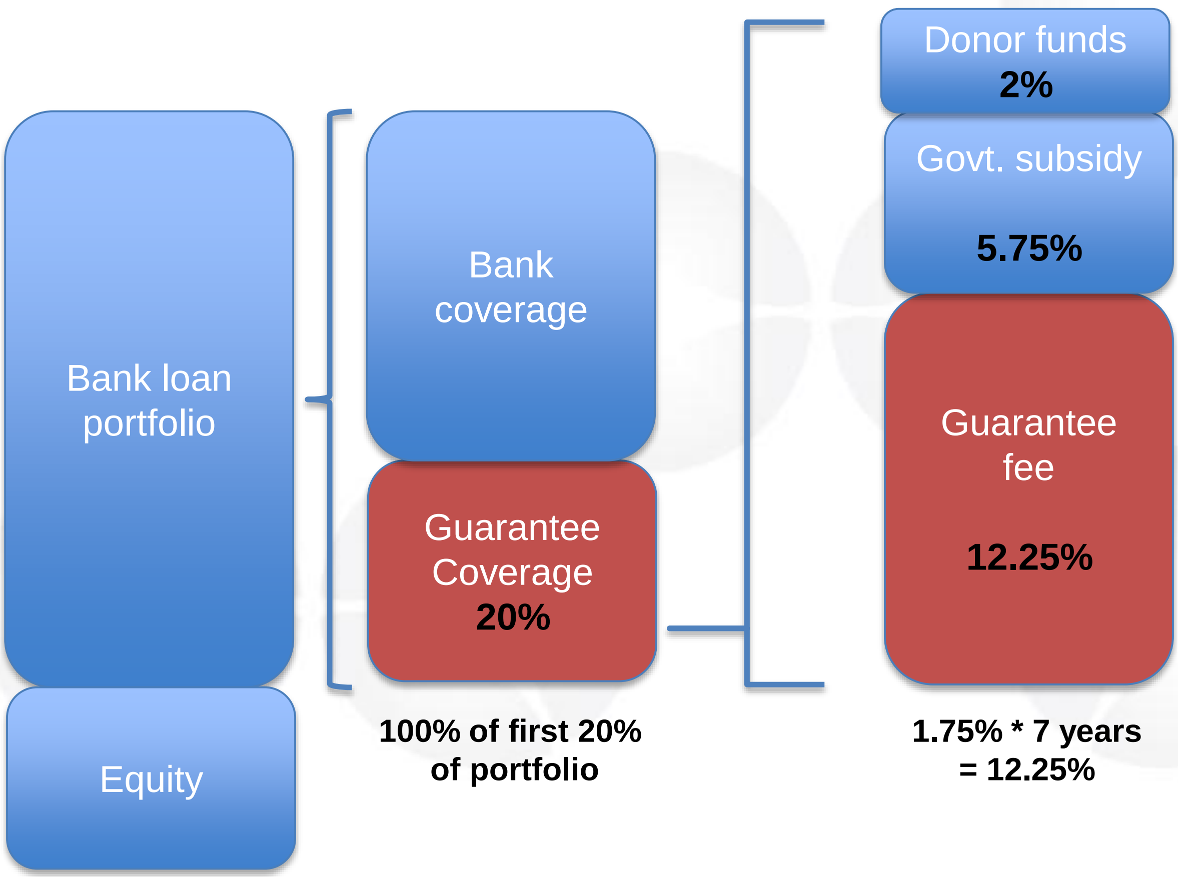
- Fee is 1.75% annually over 7 years with existing TCG product. Fees are usually lower for EE guarantees (approximately 1%)
- Ease the financial burden for the borrower i.e. the ESCO or end-user. This will make small improvements to IRR and NPV.



3) Need and use of donor funds

Increasing the guarantee coverage:

- Coverage is currently 18% with current TCG scheme for SMEs.
- Increase the guarantee coverage (e.g. 20%) and reduce risk to the bank.



4) Key takeaways and discussion points

- A guarantee mechanism can improve the access to capital for ESCOs and energy end-users wanting to implement EE projects

- A Portfolio Guarantee Scheme (PGS) is an innovative mechanism to address the barrier of a lack of access to capital for EE projects
  - The PGS has a proven track record in Thailand in scaling up commercial bank lending to SMEs

- Subsidizing the guarantee fee could reduce the financial burden to ESCOs or end-users.

- Increasing the coverage ratio could reduce the risk to the commercial bank and stimulate increased loans to EE projects.

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Thank you!

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What criteria should a guarantee mechanism satisfy to be suitable for a NAMA?

Sustainability: NAMA funds provide support for a limited duration and used to start a mechanism that can be sustained once the support is no longer available.

Leveraging: NAMA funds should mobilise as much private investment as possible.

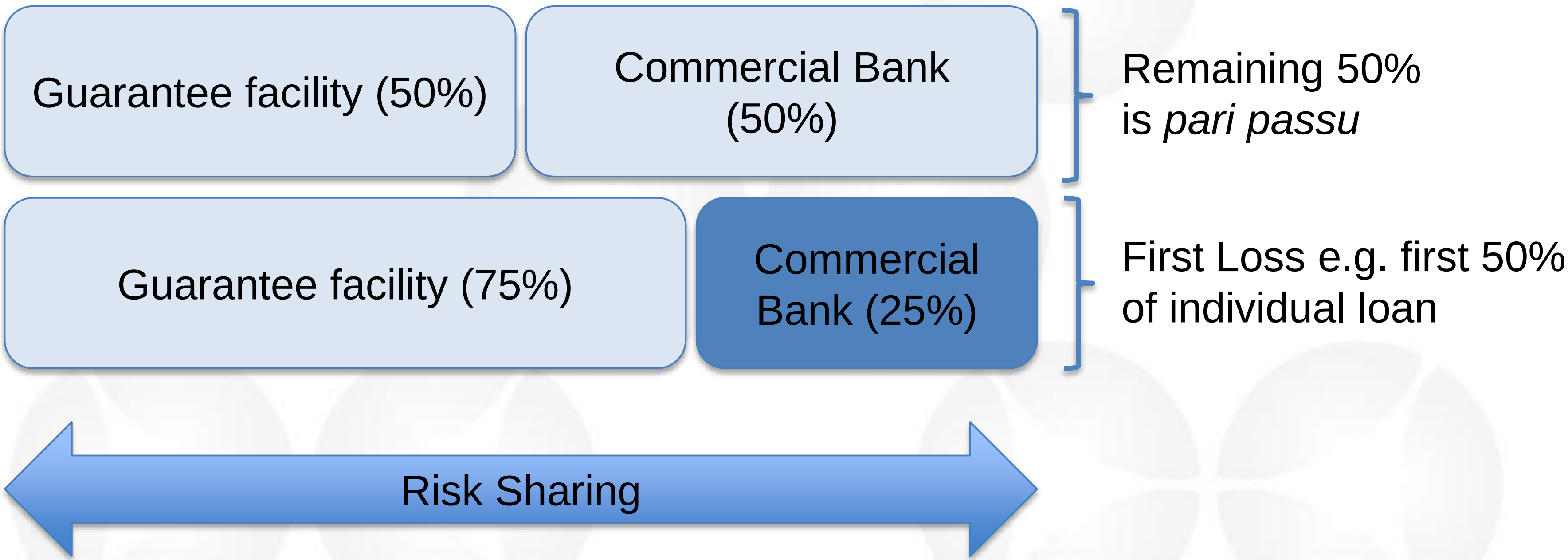
Efficiency: NAMA funds should reduce the costs and risk of financing projects.

Transformational impact: initiate a structural change in attractiveness of energy efficiency investments.

2) Potential guarantee mechanisms: Partial Credit Guarantee (PCG)

Overview

Provides an assurance to banks that a certain percentage of an individual EE loan is protected against non-repayment by the borrower (termed a "first loss" guarantee).



2) Potential guarantee mechanisms: Partial Credit Guarantee (PCG)

Pros:

- **Risk reduction:** addresses the risk that banks take when they provide loans to ESCOs/end-users, and assures that part (or all) of a loan will be paid back.

- **Allows for longer-term lending:** the guarantee can be structured so that coverage increases during later years of the loan.

Cons:

- **Lack of experience:** not easy to assess how much money needs to be held in reserve to cover potential claims.

- **Only part of the solution:** additional efforts are needed to convince banks to make a more realistic (and favourable) assessments of risks and requirements for loan applications (especially for longer-term projects)

2) Potential guarantee mechanisms: Partial Credit Guarantee (PCG)

International experiences: outcomes of the CHUEE PCG

Pros:

- Loan guarantees issued for 148 ESCOs between 2004-2009
- Totaled USD 69 million supporting USD 123 million in EPC project investments
- Attracted local partner banks of IFC to finance EE projects

Cons:

- Limited number of ESCOs and SMEs accessed loans: still high collateral requirements
- Many ESCOs only accessed the guarantee once to gain credibility in the marketplace. They paid a guarantee fee, but did not see any reduction in collateral requirements