CTF - IFC THAILAND SUSTAINABLE ENERGY FINANCE PROGRAM

Comments/Questions from CTF TFC

		Comments/Questions	Responses
Japan	1.	Thank you for preparing the project documents for Thailand Sustainable Energy Finance Program. We appreciate the efforts by the team structuring the program to enhance private sector participation and support the IFC's proposal with following notes: The objectives of CTF funds is to endorse developing countries' introduction of low-carbon technologies by removing or reducing the barriers for early market entrants such that additional investors, developers and financial intermediaries will subsequently enter the market without additional CTF support. And IFC should, considering the specific barriers identified in each project, provide the concessional funds needed to catalyze this program by utilizing CTF funds. Therefore, we support the proposed proposal which fits such objective of CTF funds and welcome the Risk Sharing Facility to address each barrier for early market entrants by covering first loss with a step-down approach. Furthermore, we request the team to share the relative information and results of the program with Japan International Cooperation Agency, who is helping the Ministry of Energy Thailand develop EE and	We appreciate your support and we take note of your comments. We will coordinate with development partners including JICA in order to achieve maximum impact of the CTF program in the most efficient and effective manner.

		RE sectors, in order to avoid overlaps and maximize effective delivery of actions and supports.	
Germany	2.	Request for some criteria for on-lending. There is very little in the proposal	Eligible sub-projects will have to fall under one of the two following categories: (i) Energy Efficiency Project - a project, including an investment in goods and services, which will result in at least a 15% reduction in: a. energy used per unit of production (for process technology related measures), or b. energy/fuel used for facility for non-process technology related measures (such as heating, refrigeration, lighting etc.) (ii) Cleaner Production Project – investment in the improvement of operational processes along a company's value chain to achieve at least 15% reduction in: a. resources (raw materials or power) used or wastes generated per unit of production, or b. other non-process related resources (raw materials or power) used or wastes generated.

3.	It would be helpful to get some more information about prospective partners. Given the fact that some of this information might be classified as confidential, we suggest to expedite the signature of the pending Non-Disclosure Agreement. You would then be in a position to forward this additional information to interested donors.	There are 2 categories of financial institutions we intend to partner with in Thailand: 1) Local Thai financial institutions (Local FIs) are active in the SME space. The selection of partners will be based on the FIs being (i) financially solvent and eligible for IFC financing; (ii) committed to and able to support this new business line on a sustainable level going forward; and (iii) would have sufficient internal resources to work with the IFC team to design a investment and advisory services program to promote this product across the Thai market. 2) Global financial institutions (Global FIs) from developed markets who are highly experienced in energy efficiency and ESCO business finance. We work with global FIs in many cases to bring their expertise to developing countries, and in this case, the Thai market. There are a number of such institutions that are interested in entering the Thai energy efficiency market that may require support from CTF in the form of credit risk mitigation. Global FIs will need credit risk mitigation, such as a partial first loss cover, in order to be able to assume the risks of entering a new market in a developing country. They will, in turn, transfer technology and know-how to the local market, and can be expected to make a strong impact on local energy efficiency finance market development. There are several confidentiality and practical reasons why IFC does not disclose project/partner names in program proposals: 1. CTF Programs are intended to be programmatic in nature, and sub-project details are not required at this stage. IFC cannot engage in negotiations with clients

		until the program funds are approved. In addition, it is against IFC s' policies to discuss publically sponsor names for pipeline projects given that if the MDBs were to choose not to move forward with the project after appraisal, this could have negative reputational impacts on the company; 2. If sponsors were disclosed as part of a CTF program proposal, the MDBs' negotiating position with such sponsors could be compromised; specifically, program proposals identify a pricing "floor". It would not be consistent with negotiating the minimum concessionality into the financing if the client were aware of the floor pricing and knew the negotiating position of the MDB. Furthermore, a client could request a higher subsidy to undertake the CTF initiative if they realize they are a strategic and critical part of achieving the CTF objectives in a given market. 3. Any perception that TFC members could make approval decisions based on the nationality of the sub-project sponsors/partners could have negative reputational impacts for the CIFs/CTF and its donors.
4.	With regard to your analysis, there is a lack of appropriate financing mechanisms for small projects and SME's. On this background and given the rather small overall budget, we would like to suggest that on-lending should be better adapted to the analysis, i.a. the lower and upper limits for individual loans should be reduced. Then it would be possible to reach out to more and smaller projects and clients – despite the fact that it would increase the transaction	As reported under the Performance Indicators Sections IFC expects to partner with 3 to 4 FIs with 5-6 separate financing instruments which will support a large number of EE and RE sub-projects through various funding instruments. The anticipated average loan / lease size per sub-project will be approximately US$300,000, and it is expected that at least 250 small scale EE and RE sub-projects will be supported with this funding, many of which will be with SMEs. IFC will be working with each partner FI to come to terms

	costs and possible interest rates.	that suit its needs rather than dictate financing terms as we feel the FIs are in a better position to define benchmarks and adapt pricing and product offerings according to prevailing market conditions. What we agree up-front with the FI is on portfolio growth potential as well as areas and sectors of focus. Pricing and tenor of the financing is determined based on client needs and satisfactory servicing of the loan payment schedule.
5.	Pricing/CTF Terms: we wondered why the mezzanine debt loan would be structured similarly to the senior debt loan. We also wondered why the risk share facility would cover up to 80% of the first loss, whether 50% might not be sufficient.	Levels of pricing included in the proposals are to establish a floor price; below which the final pricing will not exceed. Final pricing may be above the floor depending on the negotiations and prevailing market conditions. As reported in the "Summary of CTF Terms" the proposed floor pricing of the mezzanine subordinated loans is indicated to be no lower than a local base rate or LIBOR plus 100 basis points, which is higher compared to the terms proposed for the floor pricing of the senior loan; which is of no lower than the local base rate or LIBOR rate. In the case of a Risk Sharing Facility (RSF) a first loss cover of up to 80% is requested to kick-start a new product and to provide the necessary credit risk mitigation to Global Financial Institutions. This extended coverage of the first loss is necessary to mitigate the risk of entering a new market for Global FI which is unfamiliar with the Thai market and without an existing local client base. The proposed 80% cover will only apply to Phase 1 of a step down approach of a program, and will be stepped down to 50% in the following phase. It is not anticipated that first loss cover greater than 50% will be required in RSFs with local FIs as they are more familiar with assessing local credit risk and have an established local client base.

			Under this program IFC could potentially work with 2-3 Global FIs bringing them, for the first time, to the Thai market. It is anticipated that no greater than 50% of the total CTF funding available under this program would be used in an RSF with an extended first loss coverage beyond 50% (to 80%). It is noted that even with the first loss coverage of up to 80% cover provided by CTF funding the partner financial institution will be assuming 40% of the first loss risk on its share of the facility, on the basis that after the first loss each asset in the portfolio is covered 50-50 between IFC and the FI. We hence expect that the partner financial institution will have a strong incentive to book good assets through the facility.
	6.	Considering that the political situation seems to have stabilized we agree with your risk assessment, but would still ask you to give more specific information on the impact of the political tensions on the targeted sector and partners.	IFC's strategy in Thailand has three main themes: (i) Sustainable Growth – building on Thailand's regional leadership in developing a renewable energy base to put Thailand firmly on a low-carbon growth path; (ii) Inclusiveness – broadening the impact of economic growth in Thailand beyond Bangkok with a particular focus on rural and frontier areas and on access to infrastructure and access to finance for SMEs and small borrower; and (iii) Competitiveness – helping Thailand's industrial base and capital markets to become more competitive, value-adding and efficient to move Thailand beyond its Middle Income Country ('MIC') status. The focus of the strategy was developed in coordination with IBRD and the Government of Thailand which at the time (late-2009) identified developing beyond MIC status, broadening the benefits of growth and developing renewable sources of energy as

			three key challenges the country faced. Since the political crisis and “redshirt uprising” of early-2010, GoT’s focus is increasingly on inclusive growth in order to address the imbalances between the rural economy and the Bangkok economy as the main contributor to the recent violence and the ongoing political tensions in Thailand. The government has made progress in mobilizing support for its policies and the government’s recent announcement to delay elections until the first half of 2011 was accepted, which suggests that the government continues to gain credibility with the public and has moved beyond crisis mode. It also recently won a parliamentary seat, further proof that the existing government is gaining support. In the last two months since the resolution of the “redshirt” crisis, GoT has been working closely with the IBRD to focus engagement on the equality and inclusive growth agenda. IFC has also been closely involved in discussions with IBRD on how IFC can best support this process. As a result, IFC is focused on identifying opportunities to increase access to finance in rural and frontier regions, particularly in SME lending, agricultural finance and microfinance.
UK/DFID	7.	Regarding the Investment Component we would like a stronger case to be made justifying the anticipated range (50 - 80%) of the first loss expected to be covered by the funds. We would prefer to see this set at a fixed proportion of the funds and capped at a fixed proportion of the CTF investment. Why are CTF funds placed at this higher risk	Please see response to question 5 above for specific on the extended first loss cushion coverage with CTF funding. Under RSF in general, the first loss coverage with CTF funding at concessional rates gives the FI enough risk coverage to enter the market with a funding solution for RE and EE subprojects in the Thai market. The fact that CTF funding can be used to provide this first loss cushion is

		level, both in comparison to the MDBs but also more generally?	essential for the economic structure of the transaction to become viable. While IFC does have a track record of RE and EE programs with FIs in other regions, the specific risks for such projects in Thailand are not known and if IFC were to take and price a first loss tranche at market rates, the project economics would become unattractive and the FIs would not undertake the investments at all.
	8.	The proposal has quite a lot of detail on the development impact of the project. However, none of the issues highlighted are picked up as Performance Indicators with appropriate baselines. We would like to see an expanded set of appropriate developmental indicators highlighting the impact on poverty. Can these be provided?	IFC will be monitoring the development impact of CTF funded projects as we do for every other project. We will add "Direct and Indirect Jobs created through the program" as Performance Indicator to measure impact on poverty. However, as mentioned in the program proposal, the number of jobs created that is attributable to EE related investments are difficult to measure. Through IFCs M&E framework for each project, these indicators will be tracked during regular portfolio supervision activities, and through a mid-term and/or final consultative evaluation. Since these will be new projects, we do not have a baseline to report at this moment.
France	9.	Regarding the concessionality, is there any condition on the use of the concessionality by the participating IF? Should they use it to limit collaterals for example? Is there any “condition” on the report of part of this concessionality on the end user (only the banks seem to benefit from the concessionality proposed)?	The conditions we put in place are: i) eligibility criteria of the asset portfolio; ii) portfolio ramp-up period; and iii) number of SMEs in the portfolio. We don't put conditions on the pricing to end-users as we want to leave it for the banks to decide based on their market context. The concessionality is mainly aimed at helping the bank to absorb some of the up-front costs they have to incur to start this new business. The concessionality is minimal, as we limit the ratio of IFC:CTF participation in every credit line.

	10.	The mix between the three financial instruments is interesting. Would it be possible to be provided with some more details on the guarantee mechanism: size, eligibility criteria, targets and loss management, assumptions leading to the anticipated range (50-80%) of the first loss (as outlined also by the US) impact on the CTF?	Please see responses 2 and 5 which address the issues raised regarding criteria, size, targets etc. We anticipate that possible mixed-instrument structures would be a combination of i) a senior loan and a mezzanine loan (when senior debt leverage is limited to make a project bankable); ii) a senior loan (including a credit line) and a risk sharing facility (when end borrowers need to seek funds from partner FIs).
	11.	The project is targeting various sectors: industries, SMEs, buildings, municipalities, etc. Is it fully relevant for a first step? Why not pushing for more targeted products?	This program intends to improve energy efficiency mainly from the demand side. GHG emission savings for each sub-project would be smaller than large size RE projects but we expect to have large savings on an aggregated basis of smaller EE projects by broadening target sectors. One focus area we are starting with is to improve energy efficiency of air-conditioning system, chiller and refrigerating system in various types of buildings and factories.