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IFC SmartLessons

real experiences, real development

Working Together to Move Client Relationships from Advice to Partnership in Sustainable Energy Finance

IFC has successfully developed sustainable energy projects in a number of emerging markets over the last decade. While each intervention is tailored to its specific markets and the needs of our clients, in general the initiatives have focused on using local financial intermediaries as aggregating agents to stimulate investment in both energy efficiency and renewable energy, thus reducing both client operating costs (and improving the clients' margins) and greenhouse gas emissions. This paper focuses on the sustainable energy finance project IFC has developed in the Philippines and how we have leveraged more developed projects and ensured a one-IFC approach, the importance of focused research, listening to and being responsive to clients, and maintaining flexibility and realistic objectives in the program design.

This document is intended for IFC colleagues responsible for developing projects in various business lines and regions, with particular relevance to those involved with either sustainable energy or local financial institutions. The lessons are presented with minimum technical jargon to make the message accessible to as wide an audience of project/program developers as possible.

Background

The Philippines Sustainable Energy Finance Project ("Phils SEF" or the "Project") supports the creation of a commercial financing market for sustainable energy projects in the Philippines. This program assists the Philippines in improving energy security and economic productivity, and promoting private enterprise in the energy sector. Phils SEF covers both energy efficiency and renewable energy projects.

The program is designed to leverage IFC's capabilities and experience, backed by donor resources, to catalyze financing for sustainable energy projects, and is expected to result in: (i)

improved access to financing for sustainable energy projects, which will continue beyond the support of IFC financial instruments and advisory services; (ii) growth and business development for private enterprises related to energy efficiency and renewable energy projects; and (iii) promotion of more sustainable development, with better use of natural resources and a reduction in projected greenhouse gas emissions. This program also supports the national government, as it implements both its national energy efficiency and climate change mitigation campaigns.

The IFC signed cooperation agreements with two of the Philippines' three largest financial institutions earlier this year to provide them with the support necessary to develop portfolios in the area of sustainable energy. Phils SEF is an 18-month engagement worth approximately US\$650,000 focused on building capacity, pipelines, and portfolios within partner financial institutions and raising awareness for the business cases behind energy efficiency and renewable energy for the wider community.

The Project went through a number of clear stages before we got to where we are today. These stages are elaborated on below.

Lessons Learned

1) While a market opportunity may look obvious to you, it may not be to your client. Bringing value to clients is easier once you understand what they want.

"We don't see things as they are. We see things as we are." —Anais Nin

The inception of this project, like many others in this space, began with some important work done by IFC's Environment and Social Development Department. They undertook research three years ago comparing various countries

in order to ascertain the next market to roll out a sustainable energy finance program. This was a key step, and the Philippines was clearly the most appropriate market. Our research showed that there was a strong business case for sustainable energy finance: with electricity prices consistently among the highest in the region and over 50 percent of power reliant on imported oil, combined with a comparatively sophisticated local banking industry and government commitment to energy efficiency and renewable energy, the country had significant potential to see rapid growth in the sustainable energy financing market. However, when we took these findings to the local financial institutions, it became clear that, while they were interested in the concept, even the most enthusiastic of them were unwilling to invest resources in building internal capacity to lend to this market. While the business case looked clear to us, to the local financial institutions more detailed data was needed before they would seriously consider investing in the market.

In order to begin work with the financial institutions, we needed to undertake some more detailed, local research to garner the necessary information about the size of different market segments, the barriers to developing them, the potential financing opportunities they contained, potential pipelines, deal aggregators, etc.

This gave us a chance to do two things:

- *Establish a clear strategy with our Investment Services colleagues as to which financial institutions IFC most wanted to build a relationship with. IFC Philippines Investment Services and Advisory Services teams had already agreed that the financial markets sector was a key pillar of our country strategy. Working with the Global Financial Markets Department to identify and then cultivate relationships with key potential clients allowed us in Advisory Services to leverage the stronger relationships that our Investment Services colleagues had with the local financial institutions' senior management, while we could offer services to these institutions that could help unlock the door to greater interaction with these clients. It also meant that we were working in tandem to develop these relationships. When we met obstacles, we could brainstorm together to work out the best strategies for overcoming them; and*
- *Based on the joint strategy we developed as a result of the above point, we were able to focus on two or three banks with which to begin the program, and to undertake the research that was of most use to those banks.*

Once we had completed these pieces of research, we shared our findings with the wider financial community. However, our priority clients were the keenest and most enthusiastic to work with us in developing the opportunities this research had uncovered and, as such, we were able to leverage the research into engaging with both of them. Both were now willing to invest in allocating a small group of their staff to be tasked with developing the project and delivering on sustainable energy finance pipeline and portfolio objectives and, in both cases, paying 50 percent of the

costs for the specific work that was designed for them.

N.B. An additional advantage of the close working relationship between IFC Advisory Services and Investment Services is that by working in the sustainable energy field, our Investment Services colleagues are able to introduce financial products to clients that help mitigate climate change, a key World Bank Group strategic pillar. This provides them with a clear “additionality” role, where IFC is providing a service that is not otherwise available in the market.

2) Leveraging success from elsewhere does not mean adopting it in its entirety. Adaptation is a powerful tool.

“If we keep doing what we’re doing, we’re going to keep getting what we’re getting.”—Stephen Covey

As we were building relationships with these priority clients, the IFC team, including Advisory Services and Investment Services staff, as well as our environment specialists and Structured Finance colleagues, were all on the same page with regard to the model we wished to leverage. We had spent time looking at the models that had been successful elsewhere. We engaged and received valuable support from IFC colleagues in Central Europe, Russia, and China, as well as from IFC Headquarters in Washington, DC.

The China model in particular was recognized as a success we wanted to emulate. It included IFC Advisory Services and Investment Services engagements in lock step. In order for this model to work, financial institutions needed to buy into the opportunity both by paying fees for advice (thus investing their own resources in building capacity and pipelines), and by entering into a financial engagement at the same time, before the pipeline had been built. Philippine banks are comparatively sophisticated, compared to other emerging markets. However, they are also comparatively risk-averse. This meant that they were unwilling to incur the expenses related to engaging in IFC’s Risk Sharing Facility¹ until they had a greater degree of certainty that they were going to fill it with deals.

At this point in the project development cycle, the time spent with our Investment Services colleagues in setting priorities paid dividends. As a team we had agreed that these were clients IFC was willing to invest in building a relationship with. Together we were able to analyze the investment Advisory Services could make in beginning these relationships, and the opportunity cost of not being able to use these Advisory Services resources elsewhere. With country management and regional industry management involvement, a clear decision was made that in this case, Advisory Services should play a catalytic role in building IFC’s relationships with these priority banks by supporting these financial institutions to build their sustainable energy finance portfolios before a firm commitment for an Investment Services product had been made. The Advisory Services intervention was viewed as a worthwhile investment of IFC’s time and resources, as it provided IFC with an excellent opportunity to interact more frequently with the clients and

¹ A risk sharing facility, like a securitization, allows a client to sell a portion of the risk associated with a pool of assets. However, in this case the assets typically remain on the client’s balance sheet and the risk transfer comes from a partial guarantee provided by IFC.

get to know them better, and, by providing support in building their pipelines and portfolios, IFC was helping them get a firmer understanding of the true size of the market opportunities, thus developing their appetite for IFC's financial products.

In both cases, our Investment Services and Structured Finance colleagues have been increasingly engaged with these clients in talks about both risk sharing facilities and other financial products. IFC would not be in this position if it had not been for the day-to-day interaction our team now has with them.

N.B. In developing our strategy at the country, industry, and project levels, and in ascertaining whether IFC should commit Advisory Services resources without a committed investment project, the framework below proved a valuable tool in ensuring we had a value proposition for the client.

Another valuable piece of work that our environment specialists completed at an early stage was to engage the Global Environment Facility (GEF)². As a result, GEF earmarked a significant grant for the proposed sustainable energy finance engagement in the Philippines. This included US\$5 million in funds both for advisory services and the introduction of suitable financial products into the market to catalyze the growth of sustainable energy financing.

However, based on a strict implementation of IFC's Advisory Services pricing policy and an honest assessment of the realistic opportunities for meaningful IFC intervention, when it came time to write the project design document, we could not justify using that sum efficiently. As a result, IFC Advisory Services in the Philippines, formerly known as Private Enterprise Partnership for the Philippines (PEP Philippines), having invested some considerable time and money in developing the project, decided to finance the initial engagement from

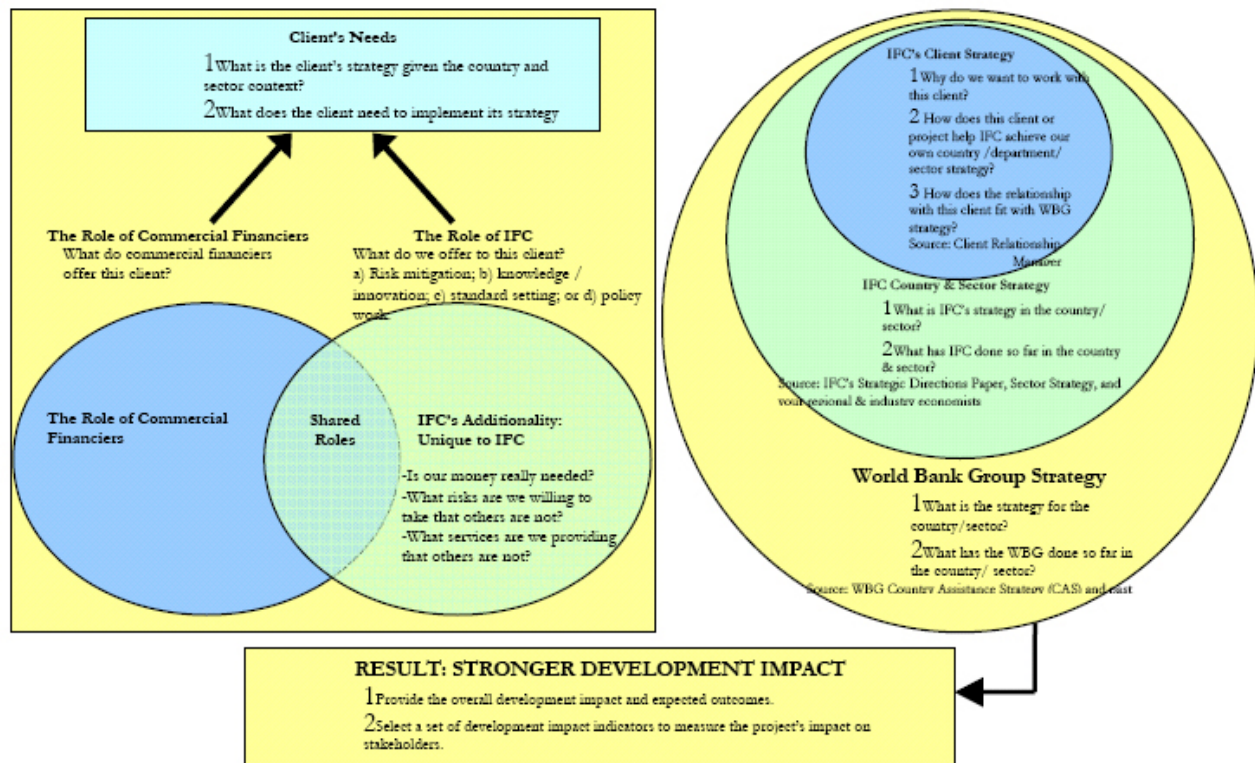
FIGURE 1: IFC'S ROLE AND ADDITIONALITY – A CONCEPTUAL FRAMEWORK

Maximizing our additionality through strategic selection of the client or project will lead to a stronger development impact.

Explain the rationale for your project with the help of the template below.

Why has this client chosen to work with us?
Describe IFC's additionality.

Why have we chosen to work with this client?
Put the client/project in a larger, strategic context.



3) Scale up sensibly. Don't rush to expand; waiting for the right conditions means money will be better spent and the project is better placed for success.

"A mediocre idea that generates enthusiasm will go further than a great idea that inspires no one." —Mary Kay Ash

their core funds rather than access the larger GEF grant. This allowed us to develop an appropriate intervention for the current state of the market and its current readiness for the opportunities available.

² The GEF is a global partnership among 178 countries, international institutions, non-governmental organizations (NGOs), and the private sector to address global environmental issues while supporting national sustainable development initiatives.

Having spent the last six months working with our partner financial institutions, we (and they) now have a firmer grasp of the potential to engage in the field of sustainable energy. Both financial institutions now have healthy pipelines, with a combined value of over US\$50 million and with \$25m in loans already approved. Both are now interested in investigating additional areas under their sustainable energy finance programs. Further, other financial institutions are beginning to show interest. And through our work over the last 18 months, IFC has a much firmer grasp of the other challenges and opportunities facing this market in the areas of regulation, new market opportunities, work with service providers and equipment manufacturers, and our development partners. As a result we are now in a much better position to allocate the GEF funds to the most appropriate objectives, and we are much more confident that we know the best ways we can reach those objectives.

Given the encouraging start this program has made, the commitment our clients have demonstrated, the growing awareness of the potential for sustainable energy finance, and the need for greater and wider market awareness raising, IFC is now in the right position to, and is working to, design a second phase of this project that will be funded by the GEF funds mentioned above. The second phase is likely to cover the following areas: expanded work with current and new partners; work in the policy/regulation space; and work with relevant stakeholders to support the country's renewable energy development, with particular focus on policies and conditions effecting investment in this area. This moment is opportune because of the imminent passage of a renewable energy bill in the Philippine Congress.



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