

Why energy efficient street lighting?

Energy efficiency upgrades to street lighting systems are a simple way to improve public services while generating long-term cost savings for municipalities. Projects involve retrofitting existing streetlights with energy efficient lamps and fixtures, and automatic controls to optimize performance and energy use. Energy Services Companies (ESCOs) can implement and manage these renovations for municipalities. However, municipal debt limitations have often postponed upgrades.

Bank financing of ESCOs, instead of municipalities, is a well accepted model which allows the entry of private capital into the sector and offers instant modernization of the street lighting system. This is at minimal or no increase in costs to the municipality as ESCOs receive service fees from municipalities based on energy savings achieved.

What are the opportunities for financial institutions?

- **Largely untapped market with good growth potential:** With rising energy prices, energy efficiency upgrades to outdated and costly lighting systems are increasingly attractive to municipalities.
- **Municipal risk diversification:** FIs lend to an ESCO, which can bundle projects together and manage upgrades for multiple municipalities.
- **Simple repayment:** Projects typically require short loan tenors as municipal cost-savings represent a secure cash flow to the ESCO and projects often pay for themselves in as little as 3 years.
- **Improved client service:** FIs well-acquainted with the specificities of energy efficiency projects with ESCOs have value-added appeal to clients seeking to improve operational performance in competitive domestic and regional markets. In turn, this may generate bottom line portfolio benefits for the FI.
- **Competitive advantage:** FIs can benefit from “first-mover” advantages by differentiating their product offering through energy efficiency finance to attract new business and increase their market share.
- **Increased brand image:** FIs may enjoy reputational benefits with policy makers, customers and shareholders by supporting efficient street lighting projects that improve the quality and delivery of public services, while reducing energy use and environmental emissions.

What are the key issues—questions to ask?

- **Credit risk:** Is the FI comfortable with the municipality’s credit risk? With the ESCO credit risk? With the type of project?
- **Municipal debt ceilings and solvency:** Does the municipality use commercial financing? Do they install basic equipment and strive only to maintain existing levels of service (with associated inefficiencies)? Do they try to finance equipment upgrades? Are they credit-worthy? Have they reached their debt-ceiling?
- **Client capacity:** Is the project capital intensive? Is local technical expertise available to assess energy savings? Is there a need to raise public/government awareness?
- **Monitoring and evaluation:** What is the FI’s level of understanding of energy efficient transactions? Is technical assistance needed for internal training and institutional capacity building to implement this type of lending? How will the FI monitor and process this component of lending to clients?



How can IFC help?

IFC has over ten years experience working with leading FIs in the area of energy efficiency finance, supported by world class experts. IFC's offering includes:

- **Partnership:** IFC works with selected client FIs to assess market potential for developing a bankable pipeline of energy efficiency finance projects, with local technical partners where needed.
- **Product design and structuring:** IFC can provide sectoral and project expertise to assist FIs in product design and the financial structuring of projects.
- **Flexible finance:** IFC offers flexible finance options to FIs, including medium to long term credit lines and guarantees. In addition, for sustainable energy finance, including the financing of street lighting projects, IFC may also offer special financial enhancements, such as partial first loss coverage on portfolios and performance incentives.
- **Technical Assistance:** IFC may also provide customized technical assistance including advisors, market analysis, feasibility studies, energy savings calculations, project preparation assistance, audits, engineering support, and capacity building programs.
- **Ongoing innovation:** IFC continuously develops its own offering in the area of sustainable energy finance based on years of project experience, client needs and market developments. New products under development include assisting client FIs and their customers to access additional revenue streams from carbon credits as an added benefit to sustainable energy projects.

Who to contact at IFC?

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The mission of IFC is to promote sustainable private sector investment in developing and transition countries, helping to reduce poverty and improve people's lives. Since its founding in 1956 through FY05, IFC has committed more than \$49 billion of its own funds and arranged \$24 billion in syndications for 3,319 companies in 140 developing countries. For more information, visit www.ifc.org.



Deal Highlight: Energy Efficiency Street Lighting Project, Hungary

Purpose	Energy efficient street lighting upgrades in small town of 15,000 inhabitants
FI	IFC partner bank in Hungary
Borrower	ESCO
Investment:	US\$640,000
Loan	US\$640,000
Debt/Equity	50/50
Repayment	7 years
IFC role	Guarantee and technical assistance
Lamps	1,581 replaced, 224 new; Total: 1,805 items
Savings	US\$ 84,917 per year
Percentage savings	57.93%
Savings kWh	518,280 kWh / year
Savings kW	129.6 kW
Project impact	Bank now offers municipal street lighting as a core municipal product, differentiating itself as the market leader in this area of municipal finance.