SUNREF Workshop

1st Edition

Capitalisation Document

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AFD

I4CE
INSTITUTE FOR CLIMATE ECONOMICS
Disclaimer: This capitalization document summarizes the discussions engaged with the participants of the workshop. This document has not been reviewed nor validated by the participating institutions. Thus, it does not constitute any commitment or official position of any of the institutions mentioned in the document.

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Session 1 - Paving the way to a more climate-aware financial sector (organized by AFD - CEFEB and I4CE)

Moderator: Mariana Deheza (I4CE)

This initial introductory session comprised three presentations with the following key takeaways:

1. Opening remarks by Brice Lalonde – Ongoing discussion on green finance and current interactions between the finance and climate agenda (French Global Compact France)

Brice insisted on the need for the financial system not only to be sound and stable, but sustainable. The task is to align with sustainable development. Two major landmark decisions adopted in 2015 represent important and increased engagement from the financial sector: the 2030 Development Agenda and the SDGs, and the Paris Agreement. Changes in the finance industry consist mostly of market-based innovations and good practices driven by public concerns more than policy measures (enhanced risk analysis and disclosure, negative or positive impact screening of investment and lending portfolios, green ratings, green indices, green bonds) and have led to a current industrialization of green climate finance.

Brice then presented a detailed historical review of this movement of green finance between climate change and disasters. It has been forecasted that cost of natural disasters will double between 2010 and 2040. Mark Carney, governor of the Bank of England and chair of the G20 FSB introduced in 2015 a typology of risks faced by this industry: direct or physical risks, liability risks, and transition risks.

- Important evidence brought forward by the New Climate Economy report in 2014: the world will be spending $90 trillion USD in the next 15 years, fighting climate change only adds 5% ($4 trillion USD).
- A price on carbon (taxes or emission trading schemes) is seen as one of the best ways to gather carbon finance. Carbon pricing actually covers 12% of annual global emissions.
- Carbon Tracker since 2011 made the idea of unburnable coal more and more popular and the idea of stranded assets was also brought forward by other researchers. Stranded assets refers to the idea that if we want to have a chance to stay under the 2°C threshold, there is a carbon budget to comply with. Existing global fossil reserves (particularly coal) are beyond that budget and will basically have to stay unexploited. Thus the need for asset managers, investors, lenders must be careful not having unburnable carbon, simply too much carbon, in their assets.

Brice finished by insisting on what he sees as the real question: shifting trillions, not raising billions.

SUNREF Workshop Day 1
Key takeaways

Key quotes and questions from attendees
- Importance of understanding the issue of stranded assets
- Carbon Capture and Storage (CCS) as of now has limited potential
- Challenges around the measurement of financed emissions. Two options: 1) measuring all clients; 2) share of the market based on sectoral emissions
- Coal is cheap because we do not pay for its damages. There is strong need to build a coalition to think about development beyond coal.
- Carbon pricing is a solution Brice Lalonde is favorable to. However, there is need to have strong signals. Demand to emerge from Aviation agreements in the future.
- Best option for energy security: combine renewable with energy efficiency

Brice closed his talk with a very strong and straightforward message: We cannot afford to have 2 different tracks, one little road to save the climate, and a big avenue to destroy it.
2. Promoting green financing
Completing the financial chain by Romain Morel (I4CE)

Romain’s presentation discussed the potential of innovative green financial intermediation instruments such as green credit lines and green securitization to help address the key challenge of bridging the investment gap required to address the low carbon resilient transition presented by Brice. Key takeaways from this presentation include:

- The technical assistance component of Green credit lines allows for a deeper understanding of what is green at an affordable cost.
- Both green bonds and green credit lines face the challenge of finding a sustainable pipe of projects to (re)finance. Increasing availability of information for project developers.
- Green redirection tools accompanied by suitable public policies aiming to increase the incentives for green projects are key.

3. Practical solutions currently being developed and implemented by banks by Rodolphe Bocquet (Beyond Ratings)

Rodolphe began by mentioning that while climate change was in the past mostly a preoccupation of NGOs, it is now a concern of the financial industry. He also stressed the evolutions of financial regulation to better integrate climate change.

He developed the options banks have to develop their Climate Change Strategy. These go from a consideration of climate change in their external communication materials and the marginal integration of climate change into specific products to the inclusion of climate change as a driver of their overall strategy.

He presented examples from the field on how Banks are tackling climate challenges, some of which include (see figure below):

- Analysis of the climate exposure of an infrastructure fund that had financed lanes in the State of Texas. Three risks analyzed: dependency of the state’s economic growth and mobility needs from energy sector, solvency of the State impacted by energy-climate issues and the impact of climate evolution in maintenance costs.
- Development of a tool to assist a bank in identifying acceptable energy projects based on their alignment with climate change strategies established by 16 countries.
- Improving climate change reporting for stakeholders, including guidelines for establishing the carbon content of investment portfolios.
- Including an energy-climate pillar into the country risk scoring model applied by the AFD.
- Development of climate stress tests for banks. No reference methodology is available yet.

Key quotes and questions from attendees

- Discussions were held on Risk/Reward and risk sharing. Participants mentioned that quite a few interesting projects exist, and banks are willing to take these projects. However, commercial banks see the risk/reward ratio as not good enough. Thus, it is very important to include de-risking tools in future credit lines.
- The issue of raising internal capacity to better understand risks and improve their pricing by banks was also discussed. If no risk is considered, you don’t price it and thus risk losing your loan. If you overprice the risk the project may not be funded.
- Discussions around SUNREF past projects concluded that as of now no default had been witnessed on any project under SUNREF. Technical assistance has shown that projects are good enough. Maybe this is because riskier projects are left aside.
- Pricing is not only linked with risks but also linked with cost of capital. Linked with how the country is rated. Mauritius discussion with central banks to create exemption good enough. Maybe this is because riskier projects are left aside.

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Source: Beyond Ratings PPT
Session 2 - Introducing the objectives and participants of the workshop
Facilitators: Caroline Rozières (AFD – CEFEB), Mustapha Kleiche (AFD)

During this session an exercise was made in order for the participants to know each other. This was followed by a presentation of the workshop objectives and the expectations of the participants:

1. Objectives of the workshop

Mustapha began by mentioning that the idea of the workshop is to discuss solutions and to join forces. He pointed out that somehow the SUNREF network is a community; and that it is key to build on this community to enhance the role we have to play in creating proposals and ideas for the international community taking the decisions on green and climate finance. He also mentioned that AFD is willing to facilitate the work of this community.

The role of local financial institutions for achieving a successful ecological transition, not being dealt by think tanks yet. Mustapha mentioned the existence of a gap to be addressed by this community.

Three objectives of the workshop were thus presented:

- Creating an appropriate place for discussion and technical knowledge sharing.
- Strengthening technical capacities on Energy efficiency and capacities to change our institutions through corporate social responsibility (CSR), focusing on the benefits of such skills for the banks.
- Sharing examples of French projects and technologies financed, through regional field visits.

2. Knowledge sharing and capitalization

In this section Mustapha mentioned the collaboration between I4CE and AFD. This collaboration aims to develop comprehensive ideas on what to do to assist SUNREF bank partners to be more efficient and more successful. He mentioned that strengthening this collaboration is a common objective.

The following ideas were cited by Mustapha:

- Using the recently launched SUNREF website. This website was designed in order to contain elements that can be used by commercial banks and should become a platform of knowledge and consultation. Different tools will be provided online such as online training tools.
- The optimization of communications through online tools will also be pursued with new technologies that will be put at service of this green finance community.
- Fostering the knowledge acquired during this workshop. All the presentations to be made available to the participants in the USB key and synthetized in this document.

Expectations from the participants

Prior to the Workshop, CEFEB launched a survey among participants. Four big areas of expectations were identified:

- Creation of a SUNREF Club - Network building
- Sharing best practices and past experiences.
- Precise technical assessment of SUNREF projects
- Technical exchanges on technologies and instruments to better apply SUNREF

Field trip requests were covered as much as possible, and with the sessions will aim to respond to the technical enhancement concerns from participants.
Session 3 – SUNREF, AFD’s green finance label: objectives, projects examples and results

Speaker: Mustapha Kleiche (AFD)

This presentation began with a discussion of the objectives of SUNREF. These include the mobilization of the private sector through the engagement of local finance institutions to finance the ecological transition and the support of local public policies. Ensuring strong leverage, dissemination and scalability and the dissemination of technical are also important objectives of the SUNREF program.

The SUNREF program, currently partnering with more than 50 local finance institutions, aims to build capacity to select and support the origination and appraisal of bankable projects where support provided by subsidies remains marginal. Through the establishment of green credit lines SUNREF allows to finance several small projects in SMEs and households. In terms of the modus operandi of SUNREF he mentioned:

- The elaboration of market analysis/potential studies upfront to identify investment opportunities and alternatives to tackle green investment barriers.
- The elaboration of eligibility criteria allowing the targeting of best projects and limiting concessional loans that must be passed onto the final customer. Technical assistance is provided in order to help identify good projects and ensure the compliance with the eligibility criteria, to support the project design and appraisal stages and to provide elements to reporting and marketing campaigns.

As of June 2016, 2.5 billion € were allocated with 1.5 billion € disbursed. Among the desired outcomes of SUNREF, Mustapha mentioned the capacity of the program to have a demonstration effect while mitigating negative impacts on the local and global environment and to foster the mobilization of the private sector in the long run which can benefit the broader economy with effects such as new job opportunities.
Questions and discussions following SUNREF’s presentation

What explains that there is more financing through SUNREF in some countries?

AFD began in emerging countries and in Africa where it had been working in the past. On emerging countries AFD had the mandate to work on global issues, that is why we started with China, Turkey (with EBRD). This was an opportunity to increase impact and followed contacts with institutions established in India and Tunisia. AFD is mostly active through SUNREF in countries with a good banking system.

Latin America has a lot of National Development Banks (NDBs) that have to go through commercial banks before reaching beneficiaries. AFD wants to pursue its work in Africa and is working in the first generation of credit lines in countries such as: Nigeria, Namibia, Ghana, etc.

What about working with municipalities? Can they go through SUNREF partners?

In Latin America many banks are specialized in local authorities, there is no problem in doing that, it is however a very complex issue and so far not in the heart of SUNREF’s activity.

Session 4 – SUNREF Bank Partner Bank Testimonies

Speakers: Lindiwe Zwane (IDC), Onur Bilgin (Halkbank), Alois Muritithi Ngure (Co-op bank), Taher Aslam (SBM)

1. Industrial Development Corporation (IDC) – South Africa Testimony by Lindiwe Zwane

Established in 1940, IDC is a 100% State owned bank with the mission of funding industrialisation and job creation in the private sector.

The IDC works on 4 main sectors of activity including its industrial infrastructure unit (energy, water, logistics, broadband), covering RE, EE, Biofuels, Waste to energy and pollution mitigation.

11 projects have received SUNREF support since 2012 and have helped develop a bioenergy financial model for biomass, biogas and landfill gas projects, often in the form of Power Purchase Agreements (PPA). The IDC has also received a green credit line from the KfW.

Lessons learned:
At the Project-level there is strong need to budget longer moratoriums to account for unforeseen delays.

Technical and demand requirements need to be accounted for. In the case of Biogas there is still lacking technical expertise for the maintenance and installation of equipment. It is still difficult to report CO2 and energy savings, so capacity building still needs to be increased.

IDC encourages local projects but green funders does not always take that into consideration. As an institution, IDC needs to consider how to avoid risk concentration (as an institution to avoid being too exposed to some technologies.

They are currently in the process of looking for grants to do energy audits to enable Energy Efficiency projects.

2. Halkbank – Turkey Testimony – Onur Bilgin

Established in 1938, Halkbank is the 6th largest bank in Turkey providing long term capital, investment loans and other financial services to different segments of clients including mostly SMEs. It is 52% state owned.

The Turkish context was described by Onur mentioning the country’s important growth also visible in its energy demand (+5.6% per annum until 2023). Investment needs have been estimated at 110 billion USD by 2023 (x2) compared with last decade. Expectations are that renewable energies will take the lead in covering this increasing demand even though coal remains important and increasing the coal-fired installed capacity remains among Turkish priorities. EE potential is estimated at 1,5 billion USD by 2023 with 75% in residential. Energy savings companies (ESCO) model did not develop well in the country.

Regarding Halkbank’s experience with SUNREF Onur mentioned collaboration dates back to 2006,
since then 4 credit lines have been signed including 2 targeting the financing of small scale RE projects and a strong CSR reinforcement component, one of EE including TA and one aiming to support environmental management improvement in Turkish Organised Industrial Zones (OIZ). In the last 10 years financing from AFD has reached 330 million USD.

The collaboration with AFD and other donors has led to important outcomes presented in detail in the presentation.

Offering longer maturities and more attractive rates, the credit lines allowed Halbank to attract customers, to devolve the advantages to the final beneficiaries. Overall, there is recognition that Halbank’s and its clients’ capacities in the field of sustainable energy were reinforced on a long term basis thanks to the technical assistance provided as part of these credit lines.

Lessons learned:
Halbank identifies a significant increase in awareness of staff and customers that improved as the bank started to adopt CSR within the loan appraisal process.

Nevertheless, the level of market awareness is still low. This implies that there was need to do a lot of advertising and this is still an important requirement. Strong need to work with marketing and technical teams and to keep them aware and updated.

Regulation is still an issue. A top down approach adopted by regulatory authorities is the way forward.

Building internal capacity on EE assessment is very useful to be on time.

Regarding the tools and financing schemes to be kept in hand, Onur mentioned: Vendor finance, ESCO model, sub-granting and Portfolio Guarantee schemes.


Alois began by elaborating on the Kenyan energy context. Low access to energy were biomass covers around 68% of total energy consumption. Electricity access in Kenya is also low despite ambitions to increase connectivity from the current 15% to at least 65% by the year 2022. Both elements constrain economic growth.

Nevertheless, Kenya, has the ambition to increase its current 2,150 MW generation capacity to 23,000 MW by 2030. Alternatives for achieving this goal include geothermal development, solar, wind and generation from biomass residues.

The government is striving to maintain a stable investment climate to increase private sector participation in terms of adapted distribution networks, cost-reflective tariff, reducing inefficiencies, etc.

First green credit line signed with AFD started in 2011 39M$ RE+EE : 30M$ for hydro, 4 M$ for EE and 2M$ for solar PV. Current negotiation for a second credit line, and a strong motivation to bring in other DFIs to foster concessional funding through co-financing to provide lower interest rates.

Lessons learned:
Equity requirement are mentioned as a limiting component for the development of RE/EE projects.

Also for projects with high up front costs and low returns it is difficult to think of commercial loans, thus the need to find concessional loans. Nevertheless, few DFI have come with strong support on this type of ventures. Business angels and venture capitalists have little participation providing equity as well.

For some RE land availability is a limitation.

On the DFI side, Alois mentioned the need for reinforced technical assistance operations with stronger involvement from technical teams inside the bank for issues including project eligibility. He also mentioned that DFIs could deliver increased levels of guarantee lines for riskier projects.

Co-op bank’s strategy is to tap and further engage into the renewable energy financing available through the DFIs in order to help customers lower their operating costs thanks to reduction in energy costs. This also provides business impetus of ventures that can contribute in providing energy to Kenya’s national grid.

4. SBM – Mauritius Testimony – by Taher Aslam

SBM Holdings is a financial group that started operations in 1973 and was listed on the Stock Exchange of Mauritius in 1995. This group currently holds 21 banks and the biggest two account for 75% of the market share.

Taher pursued his presentation explaining the Mauritius government’s plans with a pathway set for Mauritius in 2010 to 2025 that currently holds a mix comprised of 85-90% coal, diesel, and bagasse. A number of incentives have been set that
makes SBM to expect increased support for RE producers. Criteria important to take into account for these incentives includes availability, energy security and affordability, key issue as financial sustainability is essential.

As of June 2016, SBM has benefited of 25 million € in partnership with AFD, this partnership was considered very useful. 10 M€ used in the first linen and 15M€ were committed in the second line where only 4M have been spent so far. Grant instruments included cash grants provided to project promoters so that they improve their cash flow profile. Local Guarantee schemes such as the SME LGE set by the government are complementary to the credit line for state investment companies (in this case up to 70% of losses are covered). Discussion on a third line will begin in the coming months aiming to tackle the blue economy and risk sharing schemes.

Questions and discussions after testimonies

How were these projects secured?

Halbank perspective: We are bound by the rules of our banking regulation authority that after 2001 banking crisis became very stringent. Capital ratios / credit rating costumers / collateral requirements. We also have a cooperation with the EIF that gives portfolio guarantees, that include in some cases a fee for big companies and free for SMEs, count as cash collateral to ease the case of small companies.

Coop bank: Security de-risking. Aries is a guarantee tool part of the global package. It consists of a risk sharing mechanism where AFD takes half of the risk up to 4 million. There is a fee for that, that needs to be included in the costing made for the client.

IDC perspective: Projects need to be viable. Require guarantee from shareholders. Take a pledge and cession of shares to make sure we have step in rights.

Ecobank perspective: They adapt to Capital Adequacy Ratio (CAR) of 15-16% required according to national regulation, requiring this amount from their clients.

How long does it take you once the funds are ready from the AFD to fund a project?

Turkey – 6 months of structuring the TA (includes bidding process and preparation of internal legislation) + awareness raising internal and costumer (ongoing) + loan origination 2 months = around 9 months

South Africa – Almost two years to get the penetration. There was a lack of awareness in the market, of incentives and low electricity prices.

Kenya – We have institutions making energy audits, there is also the issue of cash flows.

What was the big gesture from the South African government?

Government is trying to keep its Copenhagen pledge to reduce its coal share. Green building regulations where introduced, which created an enabling environment. However, this is still insufficient. We need the government to push this, including the inclusion of a carbon tax, to be implemented in 2016, but this has been frozen for the time being. They are introducing tax allowance for EE investments

Have you rejected projects? Why? How to engage public policy makers?

IDC: We have rejected transactions because of lack of security

Halkbank: We don’t reject, costumer rejects our conditions. The regulatory authority doesn’t have this topic high up in their agenda, this is not as satisfactory as required

Additional comments by AFD

Being able to create a portfolio and having the capacity to still mobilize the industries is key and there are signs that there is still potential, mostly visible by the fact that credit lines are being renewed. Targeting SMEs is feasible if it is accompanied by TA.

In terms of influencing the policy environment AFD mentioned that as an institution they cannot be prescriptive. One of the participants recommended for DFIs to come together as a group to discuss alternatives with governments. Banks in a for profit position find themselves limited to engage that type of dialogue.
Session 1 – Financing energy efficiency
Moderator: Franck Daganaud (Consultant)

1. Introduction by Franck Daganaud – Key issues to take into account for financing energy efficiency

In his introduction, Franck Daganaud presented the main issues to be taken into account by banks willing to finance projects dedicated to energy efficiency.

He started by stressing the importance of properly understanding definitions, and the need to find a common unit to add apples and pears: physical sources (kWh, toe); environmental impact (tCO2); economic impact (energy bill and energy savings/year). Energy savings (ES) depicted most often as annual ES in for instance €/yr, kWh/yr or tCO2/yr.

The savings generated by a reduction of the energy bill are often evaluated using the following indicators:
- Payback period (PBP) = investment cost / annual savings
- Other indicators: IRR, NPV

The pertinence of using either the PBP or IRR as eligibility criteria were discussed by participants.

Because of these characteristics energy efficiency can be driven by market approaches due to the economic gains they can generate. Which is not systematic for other environmental issues. In some cases such as building codes, regulations can have an impact in decision-making.

Market for energy efficiency

In terms of the market for EE, he described two market segments dependent on energy weight per sector: high and low energy sectors. This classification - he defined as arbitrary – is nevertheless useful in contextualizing the underlying opportunities and barriers.

While energy efficiency in low energy intensive industries may not lead to big projects, this segment requires support given their high transaction costs and limited access to information. They also often depend on less efficient generation sources (eg. diesel generators).

Benefits of EE were also discussed during this presentation and include energy savings, improved environmental image, but also better energy management as Energy Efficiency investments often lead to Energy management systems that allow a better management of the overall industrial process such as the Plan-Do-Check-Act approach (ISO 50001).

Different EE potential assessment approaches were presented such as the technical potential (Best available technology without consideration of economic return) and economic potential (i.e with acceptable PBP). Nevertheless, the speaker pointed out that banks often look rather at the company’s risk rating level rather than the project’s economic model, especially for SMEs.

In terms of approaches for market assessment, two approaches are available: top down (data collection and statistics-based) and bottom up (survey, energy audits, sites visits, etc.)

Barriers to EE where described as the presentation moved including market failures (long PBP, insufficient auto financing capability, insufficient creditworthiness, etc) and lack of consumers’ awareness and information about EE potential and...
benefits (insufficient expertise internally, lack of an energy audit market, lack of EE solutions on the market, unfavorable policy framework, etc).

Potential ways in which a financing tool for EE can help address those barriers were discussed highlighting that when referring to the design of a Financial tool, it is very important to base it on a proper market analysis allowing the identification of different barriers for each market segment and the terms aimed at tackling each of these barriers.

Nevertheless, financing tools do not solve all the barriers to EE as some actions do not necessarily require external investments such as:

- Actions implying quick wins (requiring low or no investment)
- Actions concerning the modernization of processes and the replacement of equipment implying investments but having affordable PBPs
- Actions with long PBP (large retrofit operations etc.) where EE is not the main driver but rather a co-benefit. In a number of cases these actions are auto-financed (the case of a broken boiler that needs replacements).

Moreover the presentation highlighted that any EE financial tool should aim to support national and local EE strategies and policies, thus the need to constantly advance on strengthening the policy dialogue.

Information barriers are also very important, in a number of cases SMEs have competing investment to do and EE is not seen as the most attractive investment (lack of information, lack of trust). A number of ideas for increasing confidence and the flow of information to consumers were discussed with the participants. These range from the elaboration of information brochures, to the development of demonstration projects, the training of energy officers and the development of an energy management system.

Energy audits being an important step for identifying EE investment opportunities, the presentation concluded with a presentation of the benefits of engaging into grouped audits.

2. Mauritius Commercial Bank’s experience in Sunref Indian Ocean by Ashwin Foogooa

Ashwin presented the experience of the Mauritius Commercial Bank with SUNREF. This bank is currently active beyond Mauritius but also in 8 foreign countries (notably in Africa and Asia).

Since the signing of its 1st credit line of 40M€ with the AFD in in Nov 2009 with MCB and three other banks in Mauritius, it took MCB 1 year to submit the 1st project. Since then they submitted 88 projects. The MCB captured 70% of this first credit line (30% to other banks). He mentioned that the 2nd credit line signed with the AFD focused on bigger projects. In comparison, the 2nd credit line funded 47 projects for 29.6M€ while the first line provided loans to 88 projects for an amount of 28.7M€.

In his presentation, Ashwin mentioned that they finance most projects in local currencies but more and more are being financed in foreign currencies. In that sense MCB see the interest of the credit line by giving them access to long-term foreign currency.

He mentioned several benefits for the bank that include improved client satisfaction, reduced risk and improved cash flows, the possibility to convert long-term currency funding into fixed interest rate, etc.

He concluded by mentioning that a key learning for them is that in this sector, bankers need to get out of their comfort zone and join forces with engineers to identify business opportunities.

He also mentioned that when dealing with end-borrowers, they often have to fight internally for cash flows (and share them) at the company level. This entails higher risks the banks since in some cases cash flows saved by companies may be directed to cover operational costs rather than debt services. In the overall it is important to avoid financing clients with poor balance sheets. Avoid financing a client that is already losing
money, since that will only increase your exposure.

During the discussion with the workshop participants, it was concluded that working with ESCO can be an interesting option but that they are still difficult to finance since they often do not have traditionally solid balance sheets.

3. Energy efficiency part 2 by Franck Daganaud – Eligibility criteria

Franck’s second part of his session tackled the complicated issue of establishing proper eligibility criteria for Energy Efficiency. He reminded why it is important to minimize as much as possible the “deadweight effect” by defining solid eligibility criteria. This effect refers to financing projects that would have happened anyway and that do not deserve public support channeled through the credit line.

In terms of eligibility criteria allowing to identify an EE project, he started by presenting alternatives including maximum PBP on energy savings, minimum IRR, minimum reduction of energy per 1000 €, or the one applied by the World Bank (at least 50% of the savings must come from energy savings).

He pointed out that PBP and IRR are micro economic indicators showing the value of the project for the consumer, however he mentioned we need to ensure that those indicators meet policy and strategic objectives. The such called distortions may emerge from energy subsidies, constraints in the energy systems, etc. Thus the need to look for criteria beyond those economic indicators. These could include technical criteria requiring minimum EE impact (e.g. X% savings over the baseline consumption).

He also mentioned that in the case of fuel switch projects support must be decided under strategic consideration and certain exclusions should be clearly stated in the criteria. For example in some regions because of subsidies it could make economic sense to switch from oil to coal.

Exclusions could also apply to Demand Side management projects considering that adequate electric tariffs should support those type of investments.

The presentation pursued developing the criteria and the considerations to take into account when considering energy efficiency in industrial projects that can range from:

- Retrofitting projects: the project reduce energy consumption of an existing consumer, with the same level of production or service
- Greenfield projects: additional output or increased service in a completely new facility
- Expansion projects: additional output or increased service in an existing facility

And finally, Franck presented criteria to be taken into consideration in terms of:

- Project size: the need to put a higher limit to avoid very large projects consuming all the funding and a lower limit to avoid very high transaction costs
- The selection and prioritization of demonstration projects
- The types of project owners or potential beneficiaries.
- Geographical criteria
- Economic health and creditworthiness
- Other conditionalities such as for example the engagement of the beneficiary to develop an Energy Management System or the inclusion of EE in its strategic framework.

He concluded that resources can be allocated in a combined manner in order to ensure meeting different targets or market segments.

4. Energy savings Insurance - Maria Netto (Inter-American Development Bank - IDB)

After presenting the key financial issues for Energy Efficiency in Latin America (lack of collateral, lack of trust in markets, lack of trust in energy...
Maria delivered a presentation in the Energy savings Insurance (ESI) Program. This program aims at developing a comprehensive measure package to manage the performance risk associated with energy efficiency projects. It allows SMEs to be insured that expected energy savings from their projects will generate sufficient cash flows to repay loans and generate profit. It also helps LFIs better understand the risk and return profile of energy efficiency projects and increase their appetite for their financing.

Bringing in local and international insurance companies, the program provides an insurance product covering projected energy savings for specifically defined and verifiable energy efficiency measures. These measures are agreed ex-ante in a standard contract the SMEs and energy efficiency service and technology providers. In the case where energy savings do not match initial expectations, a compensation would be paid to the SME. Through the implication of a third party verifier the technology and service provider can give insurance to a bank that detailed assessment have been made. In the case there is a problem a verifier is brought in to assess the loss.

Maria mentioned that not all tools need to be applied to every single loan. Commercial banks that want to replicate this model need to find the actors, segments they want to work with and adapt the tools to them.

As of now, this program has been implemented in Colombia and Mexico where National Development Banks (Bancoldex and FIRA) performed as champions in introducing the scheme in these two pilot countries. Local insurance companies and international reinsurers have been engaged in the program in structuring the insurance product. Third party verifiers, energy efficiency service and technology providers are part of this program – the latter in the form of performance contracts. Energy efficiency service and technology providers are indeed the ones purchasing the insurance product to back their contractual guarantees to their SME clients on the performance of their energy efficiency products.

The provision of non-reimbursable technical assistance funds for the development of standardized forms and contracts, for the release of methodologies and protocols for the structuring of projects, their monitoring, reporting and verification (MRV) have been key to streamline the process and to gain trust among the different stakeholders engaged in the process.

The IDB has the ambition to work with its country partners to replicate and scale up Energy Savings Insurance in other countries in Latin America and Caribbean through a proposed regional Energy Savings Insurance Facility. The IDB is currently in the process of raising funds for this facility – estimated at USD 16.9 million – to expand to seven additional countries as well as to other sectors. Partnerships with DFIs working in Asia and Africa are also being explored by the IDB.

5. Energy efficiency part 3 by Franck Daganaud – Assessment of Energy Efficiency projects

Due to time constraints, this presentation could not take place. Nevertheless, the PPT was made available to the participants.

6. International climate finance negotiations : impact on energy efficiency financing in model banking – Arnaud Berger (BPCE - France)

In his presentation, Arnaud insisted on the important changes we have seen between Copenhagen and Paris. More business and in the overall the financial sector is more and more aware of the climate challenge.

Nevertheless, he mentioned that in his opinion the local banking systems is still lagging behind. Conversely, he recognized that there is a lot of potential for retail banks that could build on international processes (such as G20’s FSB).

He also mentioned the ongoing work of the DG Trésor (Finance ministry) on climate stress tests on the French Banking industry (mentioned in the new French energy transition bill).

He mentioned the BPCE is favorable to the introduction of green prudential ratios allowing a differentiated liquidity treatment in favor of green projects.
Session 2 - Corporate Social Responsibility (CSR) and E&S Risk Management for Banks

Moderator: Anne Dargelos (Consultant)

1. Introduction by Anne Dargelos

Anne began this session mentioning how Corporate social responsibility (CSR) has increasingly managed to insert itself in Quality management processes.

Then she presented the definition of CSR as the responsibility of an organization for the impact of its decisions and activities on society and the environment through transparent and ethical behavior in line with Sustainable development, the expectation of the company’s stakeholders, in compliance with domestic and international law and integrated throughout the organization.

In what concerns Sustainable development she presented its 1987 definition: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, and the 17 Sustainable Development goals (SDGs) adopted in 2015. In Aude’s opinion SDGs to assess sustainability.

She then spent some time discussing ways in which regulation can increase and fasten the adoption of CSR policies and as such mentioned the French law for the Energy transition, the requirements set by Dutch and Swedish Financial supervision authorities, the work of the Financial Stability Board (FSB), among others.

The challenges faced by investors and asset managers are diverse. They include the challenges to capturing added value and having a long term view and to mobilize additional resources when SRI activity increases.

Among different good practices currently applied, Anne mentioned: disclosing an ESG policy and sectoral subpolicies, making reference to international standards, doing risk screening and due-diligence for large impact projects.

She mentioned the difficulty to align short term and long term needs, and how important it is to have top management must be convinced if you want to be impactful.

One of the operational alternatives is to establish a committee to assess alignment of strategies and sustainability objectives.

2. Supporting public banks to improve their capacity in the management of Environmental & Social Risks – Maria Netto (IDB)

The current context is helping to bring more attention on CSR, especially in IDB’s region: Latin America and the Caribbean.

There is some kind of momentum existing in LAC, as of now two countries have already established their green protocols.

This is an important issue in the region as there is more pressure from societies. But it is still challenging as in some cases there are complicated regulations in countries that are often replicated in public banks. And also there is

3 key factors of success to lift barriers to succeed in the green economy

Anne facilitated a discussion among participants on the following questions:

- **How do I tap the green financial market?**
  Being capable to analyze risks (financial, physical or other) including those that are highly uncertain (climate risks)

- **How do I get return from my CSR investment?**
  Being capable of pricing E&S performance

- **How do I further engage my bank in the ecological transition?**
  Being capable of engaging in corporate governance (a competitive advantage for the banks); Take strategic decisions and move forward.
high demand for “risky” infrastructure projects.

For Development Finance Institutions the question always remains: How much beyond national regulation should we go in requirements?

The IDB has been active in developing Environmental and social Management Systems (ESMS) with domestic public banks.

To deal with this work we need to:

- Diagnosis: Start with “who are the clients of the banks”? diagnosis to be crossed with country context. Not the same type of risks if the clients are SMEs or big companies.
- Design: do technical work (process, manual, etc.). In the design process, you have to involve operational people (commercial)
- Pilot: Test the system in a pipe of projects to make sure it is usable. Bear in mind that if it is too complicated it may never be approved
- Implement: If approved, make appropriate training bringing the risk, financial and dedicated teams

Maria presented some case studies:

- Bancoldex, Colombia Tier 2 bank with main client being service providers. Thanks to training, new business opportunities emerged
- FND in Mexico, bank specialized in agriculture (TIER 1-2 intermediation related) Very complex ESMS, as agriculture is a complex sector.
- FONPLATA, subnational bank doing infrastructure investments. More sophisticated process required often relying on external auditors that understand sophistication.

Maria also mentioned that they spent a lot of resources in the dissemination of knowledge, for banks it is important to understand what other banks have done. Let’s not forget that designing a ESMS is a long process (2-3 years). It is not simple because you need ownership.

The IDB has learned that having the senior management involved and committed is key and that while a consultant can do the process the hardest part is to have it approved. Training is key for implementation.

In terms of next steps, the IDB want to analyze how upcoming local regulations are going to have an impact on banks, they want to concentrate on more complex issues such as tier 2 activities, infrastructure funds and guarantee schemes and finally they want to continue working on dissemination in collaboration with the AFD.

3. AFD and the management of Environmental and social risks

Introduction by Camille Le Bloa (AFD)

Camille began her presentation by explaining how the Environmental & Social Risk Management (ESRM) process is integrated in AFD operations.

The ESRM is integrated in the project cycle (through their first screening the exclusion list, risk assessment starting at the project screening up to the introduction of E&S terms in credit facility and grant agreements, the monitoring and technical support and the ex-post evaluation of E&S). Their objective being to improve E&S quality of financed operations and to mainstream the principles of sustainable development in all operations.

How AFD deals with Financial Intermediaries in terms of E&S risk management was the second part of the presentation. This is a particular case as the E&S impacts of the projects funded by AFD are not under direct supervision of AFD’s E&S risk management team but under the responsibility of the financial institutions. It is important that AFD ensures E&S risk mitigation is performed by FIs. AFD’s approach: ensure that FIs financed by AFD will respect a similar level of the one of AFD in terms of CSR and/or ESRM and support, work together with, the FI in its transformational process so that the FI integrates the principles of sustainable development and access to new opportunities. The AFD thus expects that ESRM is increasingly applied to the whole portfolio and not only to the projects financed by AFD’s credit facility.

To that end, she explained how categorization of FIs is done in A, B, C level based on the level of their portfolio and the type of measures applied to each case:

- If risks are limited (microfinance): focus on internal CSR
- If risks are moderate or high: internal CSR + standard framework tailored to the project and the FI and necessity of establishing an E&S risk management system.

She stressed the need to engage on dialogue with the Bank in order to understand its E&S risk management approach, define needs in terms of improvement of ESRM. This in order to assess the feasibility of integration of specific activities into the project. In a number of cases, technical assistance programs to support the implementation of an ESMS are implemented.
Coşkun then explained that their Environmental and Social Risk Evaluation tool (ERET) functions as an evaluation model rating projects based on Credit risk evaluation and Project risk evaluation.

For each category of risk individual action plans have been developed and required actions are conditions part of the loan agreement.

ERET is reviewed and completed during each project appraisal process and submitted to the Head of the Engineering Department. The reviewed and summarized ERET file is also submitted to the TSKB Sustainability Committee.

Discussions with participants

Most questions directed to Coşkun were related to their green bond issuance.

Participants wondered how TSKB managed to attract so many subscribers to their green bond. To this question Coşkun mentioned that if an issuance system is in place then the process can go really fast as this type of asset has high demand at this time.

Other questions were related to whether the bond managed to get a preferential rate and if there were IFI investors interested in the bond. To this questions Coşkun answered the rate was set based on Turkey’s credit rating. Regarding IFIs, he mentioned the bond had IFC as one of its subscribers.
SUNREF Workshop Day 3 – Field visits
Key takeaways from participants

The third day of the workshop, 4 field visits where organized.

Canto-Perdrix wood combustion heating system: In November by Dalkia) created a new wood combustion heating system in Martigues that aimed at providing both lower tariffs for electricity and heat to the municipality as well as diminish the previous emissions of such energy production. The new system is expected to reduce by 59% the total yearly emission of CO2 of the energy production process and allow Canto-Perdrix to reduce prices for energy by 10%.

Urbasolar Photovoltaic field: Located on a former quarry with a history of forty years of multiple uses (extraction of alluvial materials, disposal of inert materials, wood waste storage area), this 25ha photovoltaic with a capacity of 12MW was built in early 2016. Supplying up to 7 835 households, the project avoids the emission of 7.2 ktCO2/year.

Solamat Merex: This is an industrial waste incinerator with a capacity of 60,000 tons / year. The incineration process produces a volume of 10 tons / hour of steam that reaches 235 ° C. This steam can be used either in a heat network or be converted into electricity. Here, the steam engine provides about 95% of the electricity used by the site during the year.
**Key takeaways from participants**

- The Nigerian participant underlined that the solar farm was an eye opener and was perceived as a solution applicable to his country context.
- Kenyan representatives mentioned that the solar plant gives us hints to advice our costumers and give keys to the government to reach their objective to increase solar generation.
- IDC having a mandate to work on industrial energy efficiency appreciated the visit in the waste generation plant. She indicated their role is not to be prescriptive, they have to be reactive and try to be more proactive.
- The Solar Farm project is interesting for Mauritius banks as a number of promoters is interested in this type of project.
- Mauritius SBM mentioned that the case of the Coca Cola plant is similar to cases they work on with textile companies in Mauritius. As a bank they do not intend to provide advice to costumers per se but to guide them through their investments.
- TSKB mentioned that it was surprising to learn that the investment cost is only 15% higher in France that it is in Turkey. He also mentioned that the period of the feed-in tariff in France being of 20 years makes it a higher incentive than the one that exists in Turkey of only 10 years. This could explain why they is little foreign investments.
- Halkbank appreciated learning of the type of production and management applied in each case.
- Egyptian representatives mentioned the waste incineration example was very interesting as it generated huge savings and had a good PBP.
- Participants mentioned that it was interesting to learn from the model applied in Coca Cola, where an expert from EDF (Electricity provider) performing an advising role in the company. Sometimes this role is covered by consultants that can advice banks’ clients, however participants mentioned that beyond outsourcing it is important to build the technical capacity in-house.
- Halkbank appreciated learning of the type of production and management applied in each case.

In most cases, it was recognized that public support (such as the public call for tenders of the French government) was key for the feasibility of the solar PV and biomass projects visited that day.
Yves started the presentation by defining blending as the use of a limited amount of grants to mobilize financing from partner FI’s and private sector to enhance the development impact of investment projects.

For the European Union, blending is becoming a key measure to mobilize financing from the private sector and DFIs like the AFD. Between 2007 and 2015, € 2.7 billion were allocated to blending operations that mobilized € 23 billion from European Financial Institutions and helped support 272 projects with a total estimated budget of € 50 billion. Two thirds of the EU blending EU funds were had a climate change motivation. In terms of selecting their partners, Yves mentioned that to be accredited they need to comply with EU requirements.

There exists 4 forms of blending:

- Direct Investment Grants or Interest Rate Subsidy Grants, to reduce cost to end users or taxpayers by partly financing the total investment cost or by reducing interest cost and/or avoiding IMF debt ceilings;
- Technical Assistance Grant, to boost management, speed, project design, feasibility/preparation and quality;
- Risk Capital, to address perceived risk by filling the higher risk financing gap;
- Guarantee, to address perceived risk by partly guaranteeing certain types of investments.

The SUNREF program is one example of Direct Investment Grants that encourages banks to finance EE and renewable energy investments. Collaboration with Sunref has allowed the EU to reach smaller projects.

Even if the blending facilities currently mainly support public investment projects, Yves then presented the tools of the European Commission to catalyze private investments:

- Concerning risk capital, the Global Energy Efficiency and Renewable Energy Fund aims to address the lack of equity capital in some countries. The first losses are for the EU and other donors. With € 220 million of funds under management, over € 10 billion could be mobilized.
- The EU EDFI private sector development framework facility stimulate private sector investments aimed at increasing access to electricity (ElectriFI) or agricultural production (AgriFI). Projects need to be bankable but the risk is then shared with EU bilateral finance institutions.
- Guarantees of the SME Finance Facility Guarantee leverage new onlending by PFIs to SMEs and/or Technical Assistance to local PFIs that want to leverage investments on priority sectors.
The discussions in this group can be summarized in 10 key points:

1. **Enhancement of sustainable practices thanks to better:**
   - CSR practices
   - Capacity building (no need to start from scratch thanks to technical assistance provided by AFD)
   - Increased awareness of their own personnel towards SUNREF projects and green initiatives

2. **SUNREF improves the brand of the bank:**
   - The label improves the overall image of the bank that is now seen as ecofriendly;
   - It allows the institution to access a new market segment – the clients who were looking for financing from “green institutions”.

3. **SUNREF ensures a level of quality of projects and a reduced turn-around time**
   - The capacity building offered by AFD’s technical assistance is key on this issue

4. **SUNREF helped improved the banks’ relation with stakeholders**
   - The teams analyzing the projects are now able to fully understand what to look for in a specific project, which means better reporting.

5. **Capacity to share experiences among SUNREF partners is well appreciated**
   - Access to a club to help benchmarking and innovation
   - New business opportunities on new projects as different partners will most likely be able to team up and invest together, thus reducing risk.

6. **Reduced risk**
   - Banks improve their overall methodology for assessing new green projects and to comply with SUNREF demands.
   - This improved framework reduces risks for the institution.

7. **Access to information on new methods and associated instruments of financing**
   - Including guarantees and insurance mechanisms

8. **Access to long term funding in foreign currency (€)**

9. **SUNREF increases attractiveness of the bank to external investors and green project developers**
   - This helps lower interest rates and increases the bank’s capacity to fund new projects;

10. **World café is perceived as a great experience!**

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**Key quotes**

"The teams analyzing the projects are now able to fully understand what to look for in a specific project, which means better reporting"

"Technical assistance allows us not to start from scratch and to ensure the desired level of quality of the different projects"

"SUNREF has allowed us to increase our attractiveness to external investors and green project developers"

“SUNREF improves the overall image of the bank, we are now seen as ecofriendly”
Group 2 – What type of barriers/potential limits do you identify to this deployment?
Facilitator: Romain Morel (I4CE)

Barriers that apply to banks that deploy green credit lines are threefold according to the group discussions:

1. Financial characteristics of the given credit lines
   - Participants emphasized the need for green credit lines to be competitive compared to other ‘mainstream’ financial tools, especially since they imply higher transaction costs. Issues such as foreign exchange (FX) risks, AFD’s fees, competitive interest rates have been evoked.
   - The lack of tools suited to help institutions manage financial risk has been evoked.
   - Guarantee schemes covering FX risks appear to be the most palatable type of tools for the discussants.

2. Stimulating a pipeline of financeable projects
   - Increasing the pipeline of bankable projects requires improving awareness and capacity building.
   - Permanent work with external consultants is seen as a barrier to the long term appropriation of and the increase of internal expertise within banks.
   - Raising awareness within banks’ customers is seen as an important barrier to address.
   - Communication regarding green credit lines must take into account and integrate the fact that little knowledge on green issues is available for the time being.
   - The lack of adapted policies is perceived as a stronger barrier by banks. Thus, the need to increase engagement with policymakers to stimulate investment-friendly green policies.

3. The additional procedures and investment restrictions implied by green credit lines
   - These two elements can slow down the implementation and even impede lending money to innovative projects.
   - Indeed, even though current strict eligibility criteria can help tackle 80% to 90% of investment, a small share of interesting projects cannot be addressed. Leaving doors open for tailor-made analysis is perceived as necessary to address atypical projects.

More broadly, the ability of AFD to mobilize institutions and partners is seen as an opportunity to address some of these barriers, whether it by mutualizing risk, engaging with policymakers, sharing experiences, etc.

All these barriers interact with each other and some may be more important in some countries than others.

Key takeaways

Barriers that apply to banks that deploy green credit lines are threefold:

(i) Financial characteristics of the given credit lines.
(ii) Stimulating a pipeline – of financeable projects and
(iii) Additional procedures implied by green credit lines.

All these barriers interact with each other and some may be more pregnant in some countries rather than others.
Group 3 – How to identify new possible innovative initiatives in the field/ new ideas that emerge?
Facilitator: Celine Boulay (AFD)

A broad number of ideas were brought up by the participants:

1. Improve information sharing among members of this ‘club’ and with other stakeholders (regulators, equipment providers, etc)
   - Work on training modules that include information on real successful and unsuccessful case studies, including technology and financial information.
   - Each bank could bring one project example in the near future so that everybody can learn from real case studies
   - Organize an annual SUNREF conference in each country with concerned stakeholders to increase awareness
   - Share technical information on most adapted equipment and technology for each sector to guide clients.
   - Share a list of DOs & NOT-DOs based on each bank’s experience. This could take the form of a one or two-pager
   - Create a confidential forum in the SUNREF website to share information among partners.

2. Financial innovations
   - More flexibility on currencies: Study the possibility to have funding in local currency or at least matching currencies (e.g. I lend in USD I get funding in USD). Feasibility at the AFD level needs to be studied.
   - More flexibility in terms of financial criteria on a case-by-case basis (e.g. some agreements include tight financing amounts for each project)
   - Increase the mobilization of top management levels inside the institutions including CEOs
   - Organize high-level meetings so that high-level managers meet, share experience and raise awareness (e.g. at a regional basis, interregional)
   - Envision IDFC side events

4. Study the possibility of creating a risk sharing mechanism among partners
   - Some banks could be interested in investing in other countries (e.g. Mauritius and Turkey mentioned a potential interest to co-finance in Egypt).
   - Find another partner to co-finance some projects
   - Thus the need to include this type of provisions in agreements signed with the AFD. The case of the Bank in Mauritius investing in Madagascar was raised as previous successful experience.

5. Share information on new technologies
   - TAs could draft simple memos on new technologies. Case studies are available on the website.
   - Online meetings / webinars could be organized to share more practical information on “Whaoul” projects.

6. Increase engagement with regulators
   - In the form of meetings.
   - Sharing with them learning from case studies.

Key takeaways
- Improve information sharing among members of this ‘club’ and with other stakeholders
- Work on financial innovations (big concern : FX risks)
- Increase top-management engagement
- Share risk among banks (co-financing)
- Learn from other banks’ experiences (best available technologies, DOs and DON’Ts, …)
- More dialogue with the regulators
Group 4 – What are the next potential “steps” for the SUNREF partners’ group created during this workshop?

Facilitator: Mariana Deheza (I4CE)

1. Keep the momentum so that all this enthusiasm and collaboration ideas are not lost – “Marseille Declaration”
   - Define a limited amount of actions, both ambitious but also realistic.
   - Define SMART objectives (Specific, Measurable,Assignable, Realistic, and Time-related)
   - Time is very important: establish a timeline including immediate actions, and actions that will not be pursued and why.

2. AFD should keep being the engine to keep this moving forward

3. Immediate expectations
   - Case studies discussed during the workshop were perceived to remain at a high level. More technical and financial details would be appreciated.
   - Work together in delivering more tailor made solutions between banks, the AFD, and other donors

4. In depth analysis and discussion of complicated issues
   - Define together a set of technical issues to be treated (for example FX risk) and a timeline of analysis.
   - One institution can bring theoretical and high level elements to improve the understanding of the issue.
   - Then, each Bank can present their restrictions and share what solutions they have put in place (eg.Tunisia, Turkey with EIB, etc)
   - This would allow the emergence of solutions for the group such as lending in local currency, SWAP solutions and absorption of swapping costs, etc).

5. Interactive discussion platforms taking diverse forms
   - Webinars with a well-defined clear agenda.
   - Establish a private forum in the website where members can raise questions and get feedback from other banks.
   - Make sure people participate establishing a minimum participation threshold to remain active in the network.

6. Establish “What’s new” updates every 3 months in the form of a newsletter
   - Each partner can share brief information in the form of: “These last 3 months I have been working on these projects and these sectors with these technologies”.
   - Interested institutions can reach out for more information.
   - Partners can also share with the person in charge of the newsletter information on relevant reports and issues to share with the group.

7. Establish physical exchange programs
   - For this, options include:
     - Stewardship programs: Representatives of a bank visiting a partnering bank to get on-site information. Useful special for new entrants to the SUNREF program. Participants mentioned some obstacles could emerge (time constraints, confidentiality issues, etc.)
     - Employee exchange for young professionals.
     - Annual Workshop to be held in each country hosted by each bank including site visits.

8. Establish “Carrots for collaboration”
   - This could facilitate getting management support to justify the time spent in collaborating and sharing with other banks (eg. risk sharing scheme among banks)

9. Learn from TAs and consultants preparing completion reports
   - Make sure external consultants have both in-country and international expertise
   - Ask consultants to prepare short synthesis documents of finishing credit lines to allow identifying what went right, what went wrong.