OVERVIEW
This co-financing scheme allows the World Bank, Clean Technology Fund, and Global Environmental Facility to jointly support Mexico’s National Climate Change Strategy. A broader group of consumers will gain access to energy efficient lighting and appliances through financial incentives. The concessional financing package will help reduce more emissions that what would have otherwise been possible.

Background
Mexico ranks 12th in the world in terms of total greenhouse gas (GHG) emissions and is the second largest emitter in Latin America. In its national strategy for climate change mitigation and adaptation, Mexico has committed to cutting GHG emissions in coming years. As part of this program, Mexico has launched an energy efficiency strategy that targets power consumption in the residential sector by increasing the efficiency of household lighting and appliances. Large-scale lighting substitution and appliance replacement programs could reduce the residential electricity sector’s carbon footprint by over 10 percent in the next few years.

Financing Objectives
In order to increase the penetration of more efficient technologies in the residential electricity sector and implement the scrapping of old appliances, public intervention coupled with innovative financing was needed to correct market failures and catalyze investment. This project’s viability was dependent on securing low-cost financing and providing monetary incentives to encourage the participation of low-income consumers in the adoption of energy efficient compact fluorescent lamps (CFLs) and appliance renewal and to promote future investment by other financiers in full sector transformation.

IBRD Financial Solution
The customized financing package for the Mexico Efficient Lighting and Appliances Project involved blending a US$50 million loan from the Clean Technology Fund (CTF) under concessional terms with a US$250 million IBRD loan and a US$7 million Global Environmental Facility (GEF) grant. Funds are being channeled through NAFIN, a state-owned bank, and through the federal government. The
The co-financing package provides financial incentives to consumers in the form of free CFLs for the replacement of inefficient incandescent bulbs, and instant discount vouchers and low-cost loans to reduce the cost of replacing inefficient appliances.

Financing at concessional terms facilitates greater consumer participation, which is needed to demonstrate the merits of the residential energy efficiency program and thus enable full market transformation.

Outcome
The blending of concessional funding from different sources enlarges the pool of low-cost financing available and addresses several of the financial barriers associated with these investments to facilitate Mexico’s path to a low carbon economy. Furthermore, the co-financing scheme allows the Bank, CTF and GEF to jointly support Mexico’s National Climate Change Strategy and partner with Mexico to reduce more emissions than what would have otherwise been possible without this type of financing.

Associated emissions reductions are estimated at 5.14 million tCO2e (tonnes of CO2 equivalent). Potential project electricity savings of 10 TWh (terawatt-hour) over the five-year implementation period represent about 17% of Mexico’s 2009 residential electricity consumption and exceed Paraguay’s estimated 2009 total electricity consumption.

Terms & Conditions
Table 1. Financial Terms

<table>
<thead>
<tr>
<th>Amount</th>
<th>IBRD Loan</th>
<th>CTF Loan</th>
<th>GEF Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
<td>12 years</td>
<td>20 years</td>
<td>n/a</td>
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<tr>
<td>Repayment</td>
<td>Bullet</td>
<td>Amortizing from year 10</td>
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<tr>
<td>Interest Rate</td>
<td>6M LIBOR + variable spread</td>
<td>0.75% annual service charge</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Co-Financing Package:

Figures may not total due to rounding.
*Another US$ 2 million in grant funding from GEF partially funds the technical assistance component of this project.