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CASE STUDY 40: SOUTH AFRICA – ENERGY EFFICIENCY PROGRAMME

Barriers	Lack of access to credit, lack of technical capacity
Instrument	Senior Loan (with interest rate step down performance incentive)
Application	Financing of energy efficiency and renewable energy projects
Amount	EUR8 million

PROJECT BACKGROUND AND OBJECTIVES

South Africa is the largest contributor to greenhouse gas (GHG) emissions in Africa. The energy sector is the single largest source of CO2 emissions, accounting for more than 70 percent of the total. One of the main barriers preventing private sector energy efficiency and renewable energy lending in South Africa is that financial intermediaries are hesitant to provide financing to energy efficiency (EE) and small-scale renewable energy (RE) projects as a specific product line, since they associate such funding with higher transactional costs as a result of their lack of experience with the technologies and market opportunities. Additionally, banks do not typically have internal resources to evaluate or identify appropriate energy efficiency projects. As a result of these hurdles, real and perceived, financing on fully commercial rates does not provide banks a sufficient incentive to venture into an energy efficiency line of business for the first time.

In order to increase the availability of appropriate financing mechanisms for EE and small-scale RE projects, IFC is providing Mercantile Bank with a senior loan investment to be on-lent to eligible EE/RE projects. The loan includes a tranche funded by the Clean Technology Fund (CTF) with an interest rate step down to encourage Mercantile to develop and grow a sizeable EE/RE sub-loan portfolio. The project is part of the CTF South Africa Energy Efficiency Program.

INSTRUMENTS USED

IFC and the CTF are providing a €8 million senior loan package to support Mercantile to develop a new line of business - EE/RE lending - focusing on the SME sector in which the bank currently specializes. To encourage faster integration of the new EE/RE business line, and to encourage the bank to deliver on target outcomes, the loan includes a performance incentive. The performance incentive in this project is an interest rate step down which is triggered once the EE/RE portfolio reaches agreed targets.

INSTITUTIONAL ARRANGEMENTS

This is the first IFC investment under the CTF South Africa Energy Efficiency Program. Additional investments with other local banks willing to develop their sustainable energy lending business are being developed in order to increase the impact in the market.

OUTCOMES

The project aims to build a EUR8 million portfolio of EE/RE sub-loans with at least 8 to 10 companies. As the first EE/RE product to be launched by a second tier South African bank, the project should have a demonstration effect to Mercantile's peers.

Further reading

IFC, Mercantile Bank Holdings Limited: Summary of Proposed Investment – click here

Climate Investment Funds, South Africa Energy Efficiency Program (the "Program") – click here