



**ProCredit**  
H O L D I N G



## **The introduction of green finance**

A methodological approach for compiling a list of eligible standard energy efficiency investment measures

## Background

The ProCredit group is establishing a strong green finance positioning. It aims to increase investments in sustainable energy and resource management amongst the clients of ProCredit banks in 22 countries. Green finance is part of a comprehensive environmental approach which the group is adopting with a view to substantially improving its internal and external environmental impact and in this way making a contribution to climate change mitigation. This process is supported by IPC, which has specialised in consultancy services for sustainable energy finance and environmental management projects.

Building up a strong "green loan" portfolio in all ProCredit banks is one of the main objectives of the environmental strategy. Green loans are designed to complement the existing loan offer to business and private clients by financing measures in the areas of energy efficiency, renewable energies, and other environmentally-related fields. In order to make the difference understandable to staff and clients, and to build accountability and be able to track the green loans in the reporting system, it is important to apply a transparent methodology to characterise such investments.

## Targets in energy savings

Within the group it has been agreed that investments in energy efficiency ("EE") that are financed with green loans must result in energy savings of at least 20%. Proof of the effect of a measure can either be undertaken by verifying the energy consumption before and after implementation, or it can be based on estimates. The ProCredit group has decided to conduct individual assessments only in cases where the financing is provided for non-standard measures, or for standard measures exceeding a defined threshold. In these cases, assessment is carried out by trained staff members from the banks' environmental units or – in the case of more complex projects – by external experts.

Since individual energy assessments are not only resource-intensive and expensive, but also take up considerable processing time, it should be possible in the bulk of cases for credit staff to categorise the measures using very simple methods. This can only be achieved by deploying a highly streamlined procedure.



## Advantages for using a list of EE standard measures within financial institutions

The approach used in the ProCredit group is to establish a "short list" of eligible investments which result in an energy saving of at least 20%.

Typically, there are two simple ways of analysing the savings potential of proposed EE investments: an automated tool can be used to calculate the energy savings on a case-by-case basis, or a list of standard EE measures and eligibility criteria can be consulted.

In the case of a calculation tool, the client furnishes the bank with technical data pertaining to each measure to be financed. This process can be lengthy and complex for clients and staff and is not very accurate since technical information and understanding is usually limited.

We therefore prefer working with a list of eligible standard measures adapted to each country's local conditions and – most importantly – to the target clientele of the financial institution. If a client approaches the bank with an investment proposal, it is automatically eligible to be classified as a "green loan" if it is stipulated on the list. We have illustrated what steps are necessary to develop such a list in the following table.

Table: Development of a bank and country-specific short list of standard measures for energy efficiency investments\*

Procedural step	Analysis of external market environment	Analysis of the bank's loan portfolio	Evaluation of technological standards	Determination of technical EE potential	Definition of eligibility criteria	Preparation of a list of standard measures
Activities	Energy market demand and technological supply  Environmental legislation  Relevant local know how	Analysing the bank's internal statistics  Interviewing key staff involved	Conducting case studies among the bank's clients  Visiting and interviewing relevant suppliers	Analysis of the collected data  Conducting sample calculations	Determining the technical eligibility criteria, which result in at least 20% energy savings	Agreeing with the bank on most relevant measures  Defining standard measures  Adapting eligibility criteria to user groups
Output	Key information on market situation and legislation	Relevant sectors and client groups for EE investments	Baseline definition. Worthwhile areas for EE investments	Technical and economical feasibility of examined investments	Long list of potential EE investments	Short list of standard measures

\* This approach refers to investment not exceeding a defined threshold according to the ProCredit Group Guidelines

## Development of a short list

The procedures for developing a short list of standard measures can be broken down into six basic steps:

- External market analysis
- Analysis of the bank's loan portfolio
- Evaluation of technological standards
- Determination of the technical EE potential
- Definition of eligibility criteria
- Preparing the short list of standard measures

The results of the market and portfolio analyses as well as the technical evaluations – which are carried out through visiting and interviewing both the bank's clients and relevant suppliers of EE equipment – will lead to an initial estimate of which market sectors and client groups may be interested in obtaining finance to fund energy efficiency measures. Calculations can be made based on these initial findings which allow the technical feasibility to be assessed and decision-making criteria to be defined. In other words, we are able to verify which investments actually do result in at least a 20% saving in energy consumption.

The technical potential for EE measures for all analysed sectors is detailed in a longer list. This long list is broken down by sector and by individual measures, and details the eligibility criteria and underlying calculations pertaining to energy efficient devices/equipment and materials. If applicable, it will also refer to local suppliers from whom the recommended machinery or material can be obtained. Additionally, it provides information about the percentage of clients in the analysed sectors who are still using energy inefficient equipment, giving an indication of the potential demand. Relevant information regarding the housing sector is also included. This list also outlines our calculations for renewable energy sources replacing fossil fuels (where applicable). We do not specify any particular eligibility criteria for these, as they always have a positive impact on the environment.

## Designing a short list of standard measures

The overall objective of the short list is to set eligibility criteria which are easy to understand, enabling bank staff to identify whether a proposed investment qualifies as green. The long list of measures contains more detailed information about potential EE investments that are available in a specific country. The information presented in the long list is more extensive and very technical, which is why we always develop the additional short list, which contains a selection of the standard measures taken from the more comprehensive long list.

The following ideas and criteria are taken into consideration when we develop the short list:

- the selected investments are in high demand by the targeted client group
- the energy savings should be high enough to ensure that the investment is paid back rapidly or that the productivity and quality of the product is enhanced essentially
- if there are new incentives to promote a certain technology, or a certain market trend is visible, we incorporate these items into the short list

We present the technical eligibility criteria for the selected measures in a simplified form that is easier for bank staff to apply. These simpler criteria will vary from country to country. The proposed eligibility criteria can include

- a technical measurement which is easy to discern (e.g. the efficiency of a motor, as indicated on the label)
- an easily identifiable feature (e.g. a motor with a variable speed drive)

- the minimum/maximum age of the old/new equipment (e.g. the machine to be replaced must be older than eight years, and/or only new equipment is eligible for financing)
- a specific brand or a specific country of manufacture
- a minimum required thickness for wall insulation material

The overarching criterion is energy savings of at least 20%, if the equipment is correctly installed and used.

The complete short list is a useful instrument for the bank staff involved in the lending business because it makes it easy for them to identify green investments. Lending staff only need to obtain basic information from the client in order to establish whether a proposed investment is eligible. Since only one easy-to-understand criterion has to be verified, competent handling is ensured. This simple, scalable approach is essential if we are to foster widespread awareness and significantly increase the scale of EE investments.

Short lists are currently in use in many ProCredit Banks in connection with green loans.



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