

PROJECT ABSTRACT
BRAZIL
BANCO ABC GREEN FINANCING PARTNERSHIP
(BR-L1413)

Project Overview

Brazil's estimated Gross Domestic Product and population growth through 2022¹ will drive a 47% expected expansion in total demand for domestic and industrial energy during the next decade. The government of Brazil expects a gradual shift in the country's energy consumption matrix toward a higher concentration of renewable energy in order to reduce the effects that this expansion could have on climate change. The planned increase in energy consumption, particularly from renewable sources, will require sizable investments from private developers and companies to service such demand, and Brazilian financial institutions will play a prominent role in the allocation of resources across these sectors.

Project Description

The objective of the proposed Green Financing Partnership with Banco ABC Brasil, S.A. ("ABC") is to expand access to long term financing for eligible private environmentally-friendly investments in Brazil, in particular biofuel and biomass projects. The Partnership consists of a senior unsecured loan for approximately US\$150 million, comprised of an up to US\$75 million A-Loan from the Inter-American Development Bank ("IDB"), an up to US\$25 million Co-loan from the China Co-Financing Fund for Latin America and the Caribbean ("China Fund"), and an approximately US\$50 million B-loan to be syndicated among international financial institutions. ABC is the right partner for IDB in this project because of its extensive experience and working relationships with mid-sized and large sugar & ethanol and biomass companies in Brazil, as well as its strong credit policies, high underwriting standards and commitment to continue lending to these sectors.

Expected Development Impact

The proposed Partnership is expected to have considerable developmental benefits by expanding the availability of private sector financing in adequate terms and conditions to eligible biofuel and biomass producers, thereby supporting productivity, sugarcane fields replanting and expansion, and working capital investments in these sectors in order to address Brazil's required energy supply expansion and the continued transformation of its energy matrix towards a more climate-friendly mix.

IDB's Additionality

IDB's financial additionality stems from offering ABC longer financing tenors than those available in the local market, in order to better match the maturities of the biofuel and biomass investments it supports in Brazil. Furthermore, IDB's mobilization of a B-Loan and Co-Loan expand resources available for ABC to continue growing its green portfolio.

IDB's non-financial additionality will result from providing ABC with specific technical tools to improve the effectiveness of its green lending, in particular: a) IDB's Green Financing Eligibility

¹ Estimated annual average growth of Brazilian Gross Domestic Product through 2022: 4.8%. Estimated annual average growth of Brazilian population through 2022: 0.6%.

Criteria and corresponding online course for ABC's relationship managers and credit officers, aimed at improving eligible deal sourcing for the green financing and ensuring resources are channeled to projects that comply with high sustainability standards; b) IDB's Biofuels Sustainability Scorecard to help mitigate harmful environmental and social practices; and c) for sufficiently large projects, IDB's Green House Gas calculation tool to help ABC estimate the volume of net CO2 emissions avoided. As well, IDB's required environmental and social procedures will create incentives for biofuel producers to maintain sustainable and environmentally-friendly practices in order to be eligible for financing under the Partnership.

Project Contribution to IDB Objectives

This partnership with ABC entails an effective channel for pursuing the fifth priority of the Ninth General Capital Increase of the IDB ("GCI-9"), which focuses on protecting the environment, responding to climate change and food security, and particularly helping develop institutional frameworks to allow investments in alternative fuels and renewable energy. As well, the project is consistent with IDB's country strategy for Brazil (2012-2014), which emphasizes the following objectives: (i) support an increased participation by local and regional financial institutions in the supply of credit for investments in low-carbon projects, and (ii) work directly with public and private financial intermediaries to support various initiatives, such as green credit. The proposed Partnership is also aligned with IDB's Structured and Corporate Finance Department (SCF)'s strategy to expand climate and environmentally friendly investments in the amount of US\$12 billion by 2015, and with the planetBanking pillar of SCF's beyondBanking program, that fosters the development of a financial industry committed to protecting the environment.