

PROJECT ABSTRACT
MEXICO
BRIGHT DISTRIBUTED GENERATION SOLAR PROJECTS
ME-L1185

PROJECT OVERVIEW

The Project consists of financing a portfolio of aggregated small-scale solar photovoltaic (PV) projects throughout Mexico. The overall project objective is to install solar energy systems under an innovative and new financial structure that will allow solar power to scale-up, while mitigating climate change and reducing electricity costs. The estimated total cost of the Project is US\$20 million. The Project's financial plan includes an IDB A Loan for up to US\$10 million under the Climate and Clean Energy Facility (CCEF) RG-X11356 and co-financing provided by the Canadian Climate Fund for the Private Sector in the Americas (C2F) of up to US\$5 million. Up to 50 percent of the IDB A Loan will be covered by a first-loss guarantee of the Clean Technology Fund (CTF).

PROJECT DESCRIPTION

The Project will be developed and implemented by the sponsor and Mexican solar developer, Bright Exchange S.A.P.I. de C.V.. The company develops "behind the meter" solar energy projects that generate electricity for self-consumption by installing photovoltaic panels on the rooftops of its clients' residences. The Project will finance a portfolio of rooftop solar PV sub-projects which will generate zero-emission power for Bright's customers. Bright is one of the first residential solar developers in Mexico and aims to increase the adoption of solar energy throughout the country. The company has already successfully implemented over 100 residential projects and plans to scale up to 2,000 over the next 18 months through financing from the IDB.

DEVELOPMENT IMPACT

The Project will reduce greenhouse gas emissions by reducing household grid-electricity consumption through the generation of clean energy on rooftops. The PV sub-projects are expected to save 170,000 tons of CO₂ emissions over 25 years through the generation of approximately 300 million kilowatt-hours (kWh) of clean energy. Furthermore, the Project will be implemented under a scalable, innovative financial structure established by the IDB and Bright. One of the main barriers to solar energy is the high initial capital cost. In addition, rooftop PV projects are individually too small to be financed with debt on a stand-alone basis. However, with third-party financing, a company can own a portfolio of projects and sell power at a reduced cost to consumers, allowing consumers to benefit from the sun that shines on their roofs with no upfront payment. The IDB is helping launch this new business model for solar development in the residential sector in Mexico by offering the debt financing required to make this business model financially viable and profitable to attract private investment, which is currently very limited in the local market. To ensure the financial viability of the Project and mitigate first-of-kind and other risk barriers, the IDB was able to mobilize co-financing from the C2F and a 50

percent first-loss guarantee from the CTF to backstop the IDB A Loan. The IDB's participation is therefore critical to the Project by providing financing for which there is limited volume and at terms not available in the commercial market.

IDB'S ADDITIONALITY

The IDB is able to structure a financial package that provides the terms necessary for the viability of the project by mobilizing co-financing and risk sharing products directly from climate funds under administration. The co-financing is expected to consist of a tranche from the Canadian Climate Fund for up to US\$5 million. In addition, the proposed IDB A loan will also benefit from a 50 percent donor guarantee from the CTF, which mitigates credit risks and strengthens the financial structure of the Project. The IDB is critical to the feasibility of the Project by providing financing for an innovative project for which there is no appetite from commercial banks. The generation of rooftop solar energy, particularly in the residential sector, is an incipient market in Mexico, as it is the business model used (leasing agreement). These factors add to the perceived risk of new developers, leading to higher collateral requirements and cost of financing. The Project will help Bright to demonstrate the viability of residential solar projects, providing zero-emission energy to households, which is financed based on the electricity savings generated by the projects. Bright has implemented over a hundred projects of smaller scale using their own resources; however, scaling up this model requires leveraging additional resources. IDB's support will allow Bright and other companies to replicate and scale-up the business model throughout Mexico and expand to other sectors such as SMEs. Finally, the IDB developed an action plan to help promote the theme of women's economic empowerment in the Mexican private sector and is exploring more detailed actions to increase job opportunities for women within the company.

PROJECT CONTRIBUTION TO IDB OBJECTIVES

The project supports article 3.42 of the Mexico Country Strategy GN-2749, by which the Bank's NSG windows will look for opportunities in the financing and operation of investments that reduce climate impacts and foster adaptation through renewable energy, energy efficiency, and adopting technology to reduce emissions. The project will also support articles 2.9 and 2.12 of the IDB Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (GN-2609), by implementing energy efficiency technologies for climate mitigation and programs in large cities that help reduce energy demand and CO₂ emissions.