Innovative Instruments for Energy Efficiency Financing for SMEs

Experiences with SME Finance and Green financing in Korea

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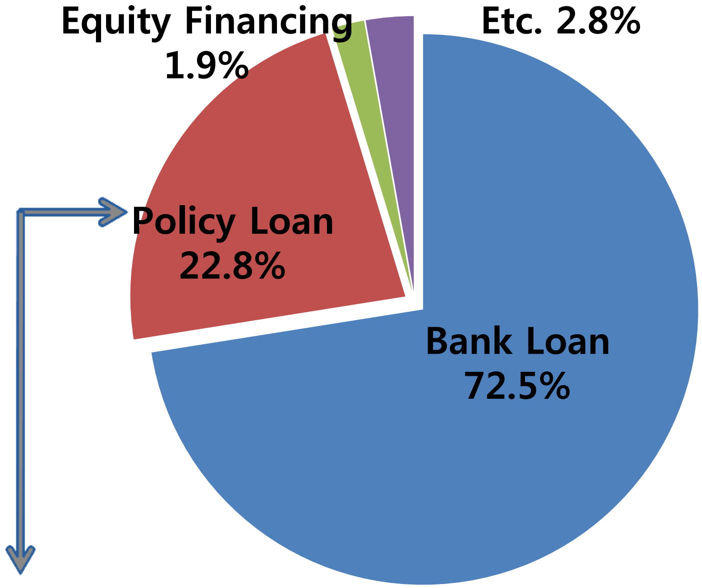
1. SME Financing Market in Korea

Government lead Korea's SME Financing.

Lending is absolute gravity, 95.3% of funding sources.

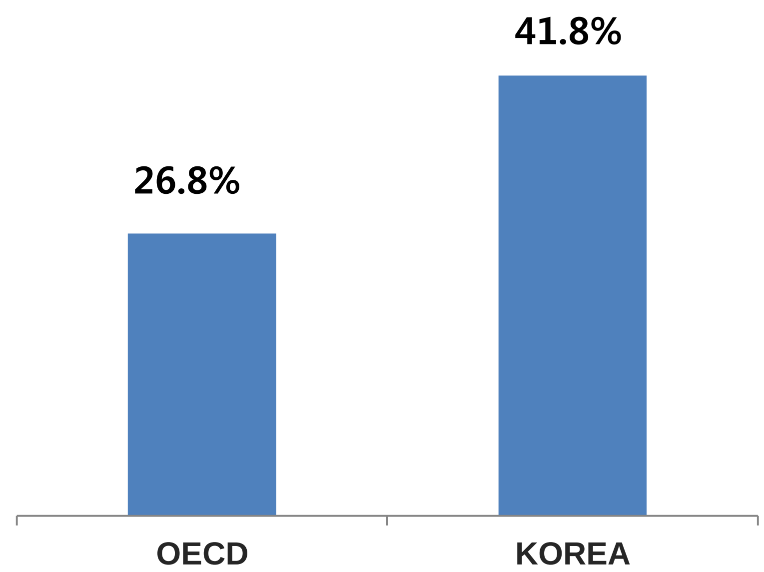
Funding sources of Korean SMEs



Government lending
Credit guarantee
(KCF/KTF/KOREG)

Sources : KBIZ(2013)

SME loan-to-total-loan-ratio



Sources : OECE(2012)

2. SMEs' Funding Support Polices in Korea

Korean Government : Expanding the Frontier of SME Financing.

Public (State-funded) lending

- Provide cheap, long-tenure credit to focused industries
  - Mostly for capital expenditure purposes
- **With funds from the Gov't (or state agencies)**
  - Banks borrow funds from the government and re-lend it to industries (on-lending)

Guarantees

- Enhance SMEs' creditworthiness to facilitate SME lending
- **Guarantee agencies(3)**
  - KODIT
  - KOTEC
  - K-sure
- Funding source
  - Contributions from the Gov't and banks

Mandatory SME loan ratio

- Encourage banks to allocate a certain portion of their lending to SMEs
  - **IBK : 70% + of the outstanding balance**
  - Commercial banks
    - w/ nation-wide network: 45% + of incremental growth
    - w/ limited local network: 60% + of incremental growth

3. Green Finance : How it works

Underlying concept of "National strategy for Green Growth", the role of Green financing sets up and implements by public agencies

Energy Efficiency sector for SMEs in National strategy for green growth

- **Industry**
  - Energy Management System
  - Soft loan for energy saving facilities & Tax Incentives
  - Energy Services Companies(ESCO)
  - Energy Audit
  - Energy Audit Assistance
  - Investment in energy supplier's Demand-side Management(DSM)
  - Integrated Energy Supply
  - Green Growth Partnership
  - Energy Supporter
  - Negotiation on Energy Use Plan
- **Buildings**
- **Transport**
- **Appliances & Equipment**

Role of Green Financing Under the 5 year plan

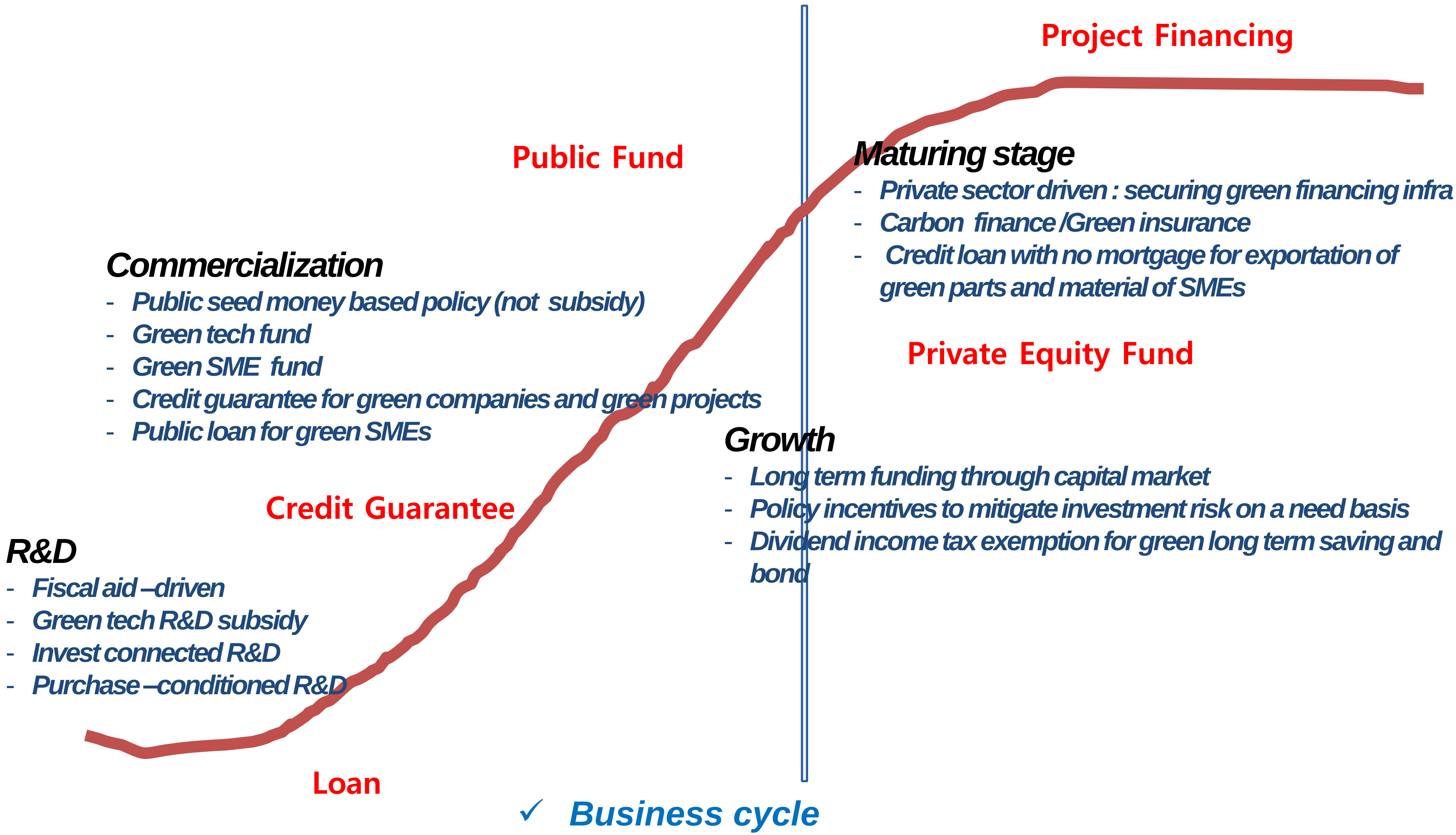
Activating policy finance for early investment

- **Fostering early Investment in Green Tech & Industry**
- **Enlarging finance : guarantee, policy loans, marching funds**
  - KDB, IBK, KEXIM's role
  - Quasi-gov't org's guarantee
  - Private/Public matching fund

Building up Infrastructure Of Green Finance

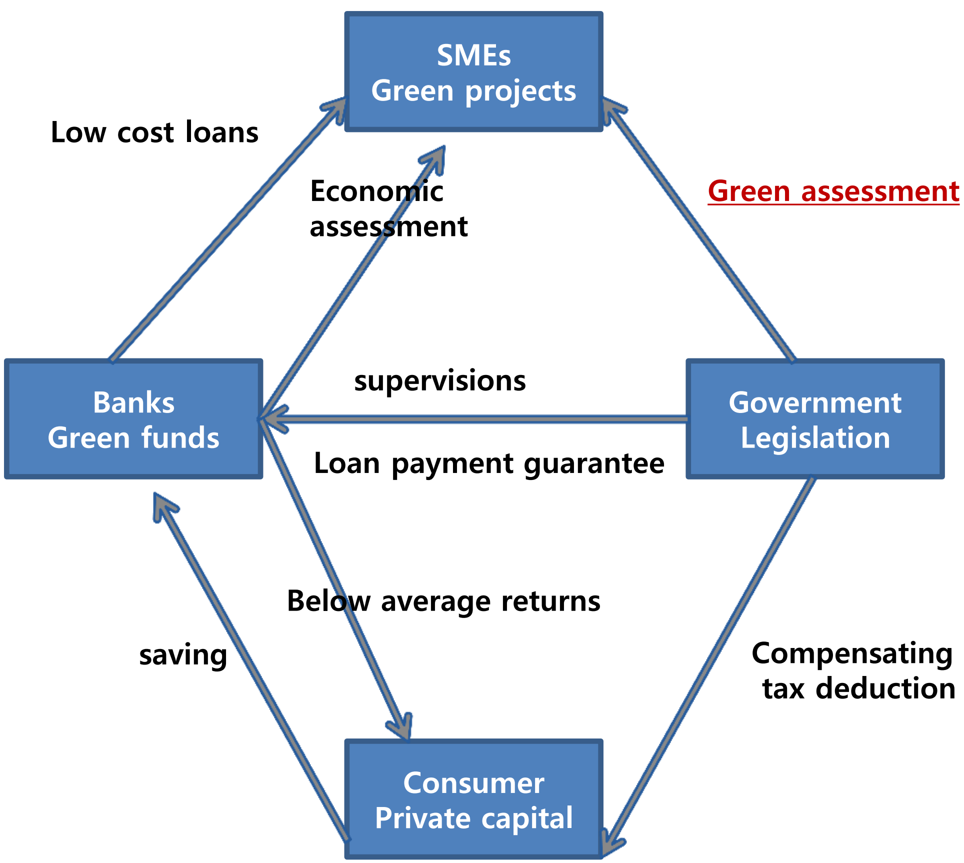
Fostering Carbon Market

4. Green Finance : Growth Stage –wise policy

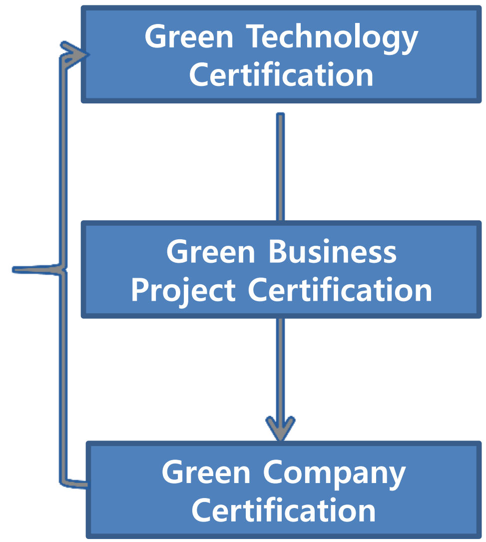


5. Green Assessment : Green Certification

Schematic view of green financing



Green Certification in Korea



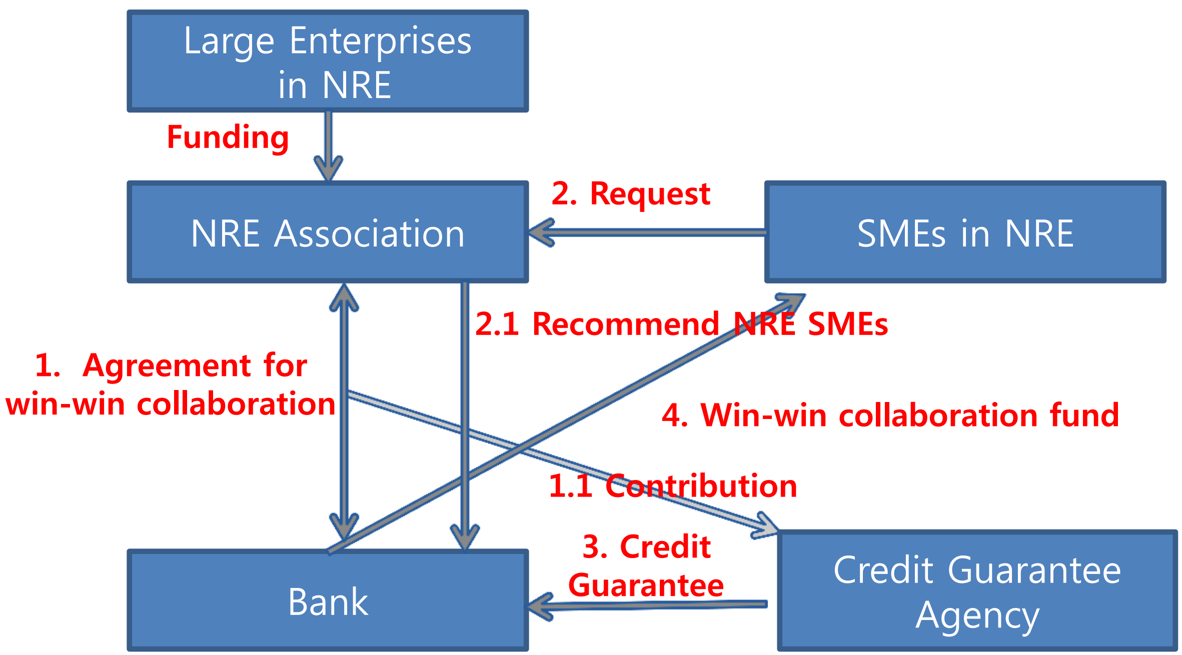
- 10 types & 1,263technologies
- 9 types & 92 business items
- 30% of revenue is obtained from the green technology

6. <Case 1 >: NRE win- win collaboration fund

KNREA Korea New & Renewable Energy

✓ *No collateral, funding for NRE SMEs*

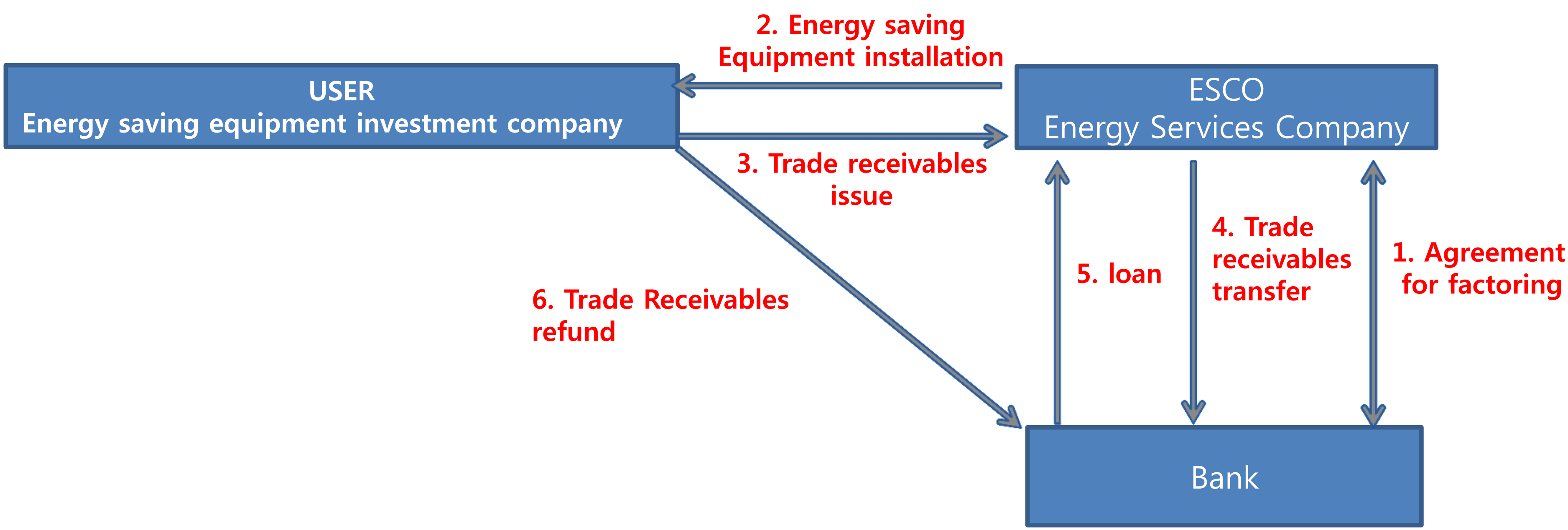
Flow chart of NRE win-win collaboration fund



- Open : September 1, 2011
- Guarantee Scale : 1.2 Brillion $
- Target SMEs :NRE manufacturing, facilities, electricity)
- Guarantee limit in 5 years(extension or renewal)
- Limit per SME : within ten million $

6. <Case 2 >: ESCO Trade Receivables Factoring

Flow chart of ESCO Trade Receivables Factoring



7. Implications(Guiding questions)

✓ *G1. EE Financing for SMEs is not significantly different from general SME financing.*

1. *Risk 1 : The degree of development in green industry and green companies*
2. *Risk 2: Commercialization of green tech*
3. *Risk 3: SME itself*

✓ *G2. Government's strong support and finance institution's evaluation skill is necessary.*

1. *Foster green industry and green SMEs*
2. *Develop an evaluation system that can be estimated on green tech and business*

✓ *G3. EE financing for SMEs starts from understanding the characteristics of SMEs in EE sector.*

- *Many SMEs produce and supply parts/components for large corporations.*

1. *Utilize green growth partnership between conglomerates and SMEs*
2. *Develop a high-efficiency certified product and industry such as LED*

✓ *G4. Robust EE financing of SMEs is essential for an advanced economy.*

1. *Respond to the paradigm shift in the industry : the fourth industrial revolution*
2. *Key factor of SME manufacturing' innovation is energy efficiency : Utilize this trend*

End of Documents