**EDGE DISCOVERY WORKSHOP**

**for Financial Institutions in Mexico**

Script

**SECTION I: introduction**

**SLIDE 1:**

* Welcome to the EDGE DISCOVERY WORKSHOP for Financial Institutions. Thank you for joining us today.
* I am…

**SLIDE 2:**

* Our workshop today will cover the following subjects:

1. Understanding the business case for green building investments
2. Defining a green building
3. Summarizing the benefits of EDGE green building certification
4. Exploring the progress of green buildings in Mexico
5. Considering how IFC’s EDGE answers the needs of the financial industry
6. Demoing the EDGE software together
7. Analyzing case studies of banks investing in green buildings; and
8. Learning about best practices for launching a green buildings investment program

* Before we start, I’ll introduce IFC.
* IFC is a member of the World Bank Group.
* IFC is focused on solutions for private sector development and part of their mission is to create markets that support climate business.

**Slide 3:**

* IFC created its Green Building Market Transformation Program to take a leadership role in encouraging a new paradigm where financial institutions, governments, the property sector and consumers all come together to benefit financially through the mainstreaming of green buildings.
* The program addresses the gap in the market for an international green building standard that offers a free software solution to help identify the most cost-effective solutions to design and build green, to unlock the potential for a new era of green construction and development.
* IFC’s 4-part strategy supports diverting investment to green buildings, through working with banks, investing directly into the building sector, advising governments on green building codes and incentives, and the EDGE certification program.
* So far, IFC has mobilized $4.5 billion in green building investments – from its own account and through syndicated loans. Out of that, $876 million – or 20% of all investments – is through other financial institutions. IFC believes in the business case for green buildings and how they are a win-win for all.

**SLIDE 4:**

* IFC offers advice and investment to financial institutions, so that together we can transform markets.
* For its advisory, IFC has in-house technical expertise to share market intelligence and offer support to identify and develop an investment pipeline through connecting relationships. They can also offer training for your loan officers and developer clients.
* Their investment products range from debt, equity, and structured finance, to capital markets. They are also able to occasionally draw on blended concessional finance, through the MAGC Program funded by the UK Government.
* A foundation for IFC’s work is market creation, including global and local awareness campaigns on the benefits of green building certification, stakeholder education, capacity building, and technical advisory, as well as the promotion of incentives.

**SECTION II: Green building definition and Business Case**

**SLIDE 5:**

* Let’s step back and define what we mean by “a green building.”
* A green building needs to be at least 20% more resource efficient than a comparable baseline building in the local market.
* A green building must also obtain a local or international standard of green building certification, as verified by an independent party.
* Finally, in order to satisfy green finance requirements, projects must have quantified impact reporting – reporting on an individual project basis and on a portfolio basis, such as energy and water saved or reduced GHG emissions.

**SLIDE 6:**

* Let’s summarize the advantages of a green building investment program for the bank, its developer clients, and home buyers.
* In the U.S., it’s been proven that green buildings ensure lower investment risk for the financing of both developers and homebuyers. IFC will soon develop an evidence program to explore this with the support of banks such as yourselves across various markets.
* There’s the opportunity to become a market leader and gain greater market share. You’ll be able to cross-sell green products between construction finance and mortgages, and be better able to securitize your portfolio to spin it off for future investments.
* You will also earn enhanced brand reputation as an innovative and socially responsible bank. Bancolombia, as we’ll soon see in a case study, was named the most sustainable bank in the world by the Dow Jones Sustainability Index, in large part due to their work with green buildings.
* After the Paris climate agreement, many international investors are looking for quality green projects. The UN tracks over 11,000 investors who have committed to climate action in green buildings. This provides the opportunity to diversify your funder base and to tap institutional investors through new platforms such as green bonds.
* In addition to lowering your financial risk, certifying your investments protects you from reputational risk today and from climate policies in the future.
* Already, the Task Force on Climate Disclosure is asking that banks disclose their climate policies and their exposure to brown assets. Cities such as New York are imposing a carbon tax on conventional buildings. These policies will continue to develop, as countries increase their climate ambitions every five years.

**SLIDE 7:**

* Your developers will also enjoy a number of benefits.
* They’ll be positioned as first movers in the market with a marketing and communications push supported by IFC. Through EDGE, developers associate their brands with the World Bank Group.
* This differentiation can lead to higher prices or quicker sales, particularly in a crowded market.
* Developers can enjoy the easy-to-use EDGE online certification process, which serves them every step of the way, from A to Z. The process is backed by the EDGE software which they can use for free.
* At the same time, by incorporating EDGE early into their project design, developers can keep costs low. Many of IFC’s clients say that reaching the EDGE standard had zero incremental costs.
* Similar to you as investors, certification reduces reputational risk, satisfies compliance criteria with investors, and verifiably communicates value to buyers.

**Slide 8:**

* End users will enjoy a better quality of life – whether they be home buyers, office tenants, or even retail shoppers.
* Utility bill savings can be repurposed for a better quality of life, or an investment into other areas, such as education.
* Overall, end users experience better thermal comfort.
* Home owners, renters, and tenants can feel pride in protecting the environment.
* Savings from utility bills mean less chance of late payments or loan default, which protects both home owners and banks.
* Buildings have a potential for higher resale value.

**Slide 9:**

* Buildings are a tremendous investment opportunity – globally as well as locally.
* Here in Mexico, the green building market is experiencing rapid growth. Over 1,100 commercial projects are either registered or certified with LEED certification. Mexico is a global green leader, ranking as the seventh country in the world for LEED-certified projects, which really means it is the number one among emerging markets. The country has 16 million square meters of green floor space.
* This is due to strong local programs, with a very active green building council in SUMe.
* As you are well aware, progressive government policies have led to the most innovative green mortgage program in the world through INFONAVIT, which has benefited millions of low-income residents. Tens of thousands of energy-efficient homes have been brought onto the market annually through Sociedad Hipotecaria Federal’s EcoCasa program.
* This momentum leads to a large opportunity. IFC projects a $30 billion investment opportunity in green buildings through 2030 with a potential for 170,000 green residential units.

**SLIDE 10:**

* Momentum is building for EDGE in Mexico.
* 546,000 m2 have been either registered or certified by such early adopters as Vinte, FINSA, and Grupo Posadas. You can see a few project examples here, listed with their developers.
* There are over 1,500 projects uploaded into EDGE, which we would consider “early pipeline.”
* Of these, 22 projects are actively looking for green financing.

**SECTION III – Demo of EDGE software**

**SLIDE 11:**

* So, now you may ask – how will you recognize a building as green? How will your clients know how to design a green building? And how will end buyers – whether home owners or commercial tenants – recognize the value of a green building?
* Before, it was difficult to know the best way to build green.
* There wasn’t an easy way to figure out which green ideas would work the best, and how much they would cost.
* There was a need to know the numbers, but no way to find them.
* The time was right for a solution that could measure how to turn an ordinary building into a high performing one – before it’s been built.
* IFC created EDGE to address challenges that emerging markets face and implemented a third-party verification system to ensure benefits are passed onto consumers and credibly reported to investors, policy makers, and standard-setting bodies.

**SLIDE 12:**

* The solution is EDGE, which stands for “Excellence in Design for Greater Efficiencies.”
* EDGE consists of three components:
  + First, the free software helps you choose the most cost-effective ways to build green. The software is free and you can access it from the EDGE website today.
  + Second, EDGE is an achievable green building standard with a 20 percent resource-efficiency criteria.
  + And third, EDGE is a certification system to verify and reward green building projects through a green label.

**SLIDE 13:**

* The EDGE software is the first of its kind in the world.
* The complexity of the application is hidden beneath the user interface, making it easy for your clients to cut back on the resource intensity of their building designs.

**SLIDE 14:**

* EDGE certification is possible for new and existing buildings, suiting a variety of typologies.
* Multiple projects can be certified with a portfolio approach, to transform a company’s business model and maximize profits.

**SLIDE 15:**

* To reach the EDGE standard, a project must reach 20 percent savings in energy use, 20 percent savings in water use, and 20 percent less embodied energy in the construction materials, as compared to a local baseline.

**SLIDE 16:**

* All EDGE-certified projects protect natural resources and save on operational expenses.
* EDGE Advanced and Zero Carbon are opportunities for builders to aspire to even higher levels of certification.
* EDGE supports the ambitions of Architecture 2030 and the World Green Building Council for new buildings to be zero carbon by 2030 and all buildings to be zero carbon by 2050.
* The “Advancing Net Zero” initiative of the World Green Building Council aligns with the Paris Agreement to keep rising temperatures well below 2 degrees Celsius.

**SLIDE 17:**

* If a project meets or exceeds the standard, it can be certified for a modest fee.
* Each certificate lists the percentage savings and the measures utilized to achieve the green savings.
* EDGE certification helps to communicate benefits among investors, developers, and end users. The certificate verifies the claim and serves as a common language. This greatly simplifies your compliance costs.
* In this way, a financial institution doesn’t need to introduce new due diligence measures to recognize green buildings on its books.
* When it comes to residential projects, EACH unit receives its own green certificate, which can then be used for green mortgages.
* Certification also reduces reputational risk as it is the only verifiable way to communicate value between all the stakeholders in the construction value chain.

**Slide 18:**

* EDGE is available for buildings designed in more than 150 countries, including Mexico.
* There are country-specific certify pages on the EDGE website where you can find relevant information for your market.

**SLIDE 19:**

* EDGE is different than other certification systems.
* You’ll see first-hand how the EDGE software calculates the incremental cost and ROI for green measures – a unique feature among certification systems.
* EDGE simplifies compliance by focusing on just three parameters: energy, water, and materials, with a one-stop shop for the entire design and certification process.
* EDGE streamlines the compliance process, with global standard-setting bodies ensuring certified projects conform to green finance requirements. It also gives you one standard that you can apply across your entire portfolio, still with enough flexibility to tailor solutions for different building types or different climates.
* This leads to reduced processing, as loan officers can rely on the EDGE certificate, with easy reporting on impact metrics.
* EDGE has simplified reporting for financial institutions or for developer, ensuring that you can get connected with global green finance flows, where impact reporting is a must.
* Fast and cost-effective, EDGE makes green certification achievable for all, bringing international cachet to certified projects through association with the World Bank Group’s brand, delivering value to both you and your clients.

**SLIDE 20:**

* We’ll now proceed to a live demonstration of the EDGE software and talk more about the certification process, in addition to sharing a few case studies.

**ACTION:** Close PowerPoint and open the EDGE website.

* The EDGE software can be accessed at any point from the EDGE website at [www.edgebuildings.com](http://www.edgebuildings.com).
* The website has useful information – we encourage you to return often.

**ACTION:** Hover over the “join our email list” stripe at the top of the EDGE website.

* To keep up to date, join the email list.

**ACTION:** Pull down on the language menu of the website.

* EDGE is available in multiple languages, including Spanish. In addition to those shown here, the software is also available in French, Indonesian Bahasa, and Chinese.

**ACTION:** Hover over the EDGE App section (still in the EDGE website).

* Start the EDGE software by clicking the EDGE App button.
* Sign up for an EDGE user account to save a project or log in with your existing account.

**ACTION:** Click on the EDGE App window (which you should have already opened).

* I’ll open a new window where I’ve already logged into the software.

**ACTION:** Click on menu in the upper left-hand corner to find the different building typologies.

* EDGE has multiple building typologies, including homes, hotels, retail, offices, hospitals, and education.
* In the retail category, EDGE also covers warehouses and light industry.

**ACTION:** Click on Homes.

* Let’s select Homes.
* Under Location Data, I’ll choose Mexico, then Mexico City, then Lower Middle income.

**ACTION:** Hover over Building Data.

* I could change my building data, but for now I’ll keep it as is. By choosing my building’s location and keeping the building data defaults, I’ve already designed my base case building.
* Our next step is to reduce our building’s energy, water, and embodied energy in materials.
* Let’s start with energy.

**ACTION:** Click on Energy to open the Energy tab.

* You can see which passive design and technology solutions make the most sense for your project from a cost perspective.

**ACTION:** Click on the Low-E Coated Glass measure.

* For example, if I click on Low-E coated glass, energy-saving lighting systems, and solar hot water collectors, I can more than reach the standard of 20 percent for my project compared to the local baseline.

**ACTION**: Click on the Low-E Coated Glass hyperlink.

* Click on any measure for a short tooltip.

**ACTION:** Hover over More Info. Ideally, you’ve already opened the user guide for this measure in a separate browser tab and can click on that browser tab to demonstrate.

* Click on “More Info” for a deeper explanation in the EDGE User Guide. The guide will open to the page describing that particular measure.

**ACTION:** Click on the X button, then click on the three dots in the upper right-hand corner of this measure to Upload Document(s) for Low-E Coated Glass. Note that if you haven’t saved your document, you won’t be able to do this.

* When I’m ready to certify my project, I’ll upload compliance documents directly into the EDGE App.

**ACTION:** Click on the X button to return to the Energy tab. Hover over Incremental Cost and Payback in Years.

* The main feature that differentiates EDGE is its powerful financial planning tool, which calculates the return on investment for your green interventions, allowing you to see how long it takes to pay back the incremental capital costs before you are saving money that you otherwise wouldn’t have had.

**ACTION:** Hover over Utility Cost Reduction.

* For residential developers, the Utility Cost Reduction is the value that is being passed on to your customers by building green.

**ACTION:** Click on the Water tab and select Low-Flow Showerheads, Low-Flow Faucets for Kitchen Sinks, Low-Flow Faucets in All Bathrooms, Dual Flush for Water Closets in All Bathrooms, and a Rainwater Harvesting System.

* When I select various water-saving measures, I reach more than 20 percent water savings.

**ACTION:** Click on the Materials tab and select Autoclaved Aerated Concrete Blocks for External and Internal Walls.

* For Materials, I need to choose the materials for my floor, roof, and walls to reach at least a 20 percent reduction in embodied energy.

**ACTION:** Click on the File dropdown, then Download EDGE Assessment.

* In addition to sharing your project with your team, EDGE lets you download a PDF of the project.

**ACTION:** Click on the EDGE website, then the Certify page.

* When I click on Certify, then Mexico, I can see certification information customized to Mexico, including pricing information.

**ACTION:** Scroll to the bottom of the Certify page.

* You can also preview projects in Mexico that have already achieved certification.

**ACTION:** Click on the Projects page.

* Or I can see all of the projects around the world where clients have submitted project studies.

**ACTION:** Click on any Project Study.

* Select a project study, and you can see a short narrative on the project, the savings achieved, and the selected technical measures.

**ACTION:** Hover over the Expert page, then choose “Find an Expert” from the dropdown menu.

* To find an EDGE Expert in Mexico, I select Mexico, then scroll down to see the professionals who can help me with my project. While not required to achieve certification, EDGE Experts provide significant value through their skills, insights and technical know-how. We recommend you develop close relationships with EDGE Experts – who can be developed internally through training or out-sourced – to serve as technical advisors on projects.

**ACTION:** Scroll all the way down to Technical section, then click Research.

* I mentioned that there is a robust technical section on the website, and here you can see a small preview.
* In the research section, IFC posts information such as the return on investment for green buildings and country-specific market intelligence.

**ACTION:** Click on the Stories page.

* On the Stories section of the website, you can find deeper profiles on clients around the world who have embraced EDGE, from a hospital funded by the First Lady of Ghana to a project in Vietnam that won the prestigious Financial Times Award for Transformational Business.

**SLIDE 21:**

* Let’s look more closely at the EDGE certification workflow. EDGE projects receive both a preliminary EDGE certificate at the design stage, and final EDGE certification at the post-construction stage. A building currently under construction can skip the preliminary process and go straight to final certification.
* As soon as the certificate is issued, a project study can be submitted by the client for publishing on the EDGE website, with social media coverage provided across EDGE channels. The EDGE logo and brand guidelines are also provided for investor and/or sales promotion purposes.

**SLIDE 22:**

* In Mexico you have a choice between two certifiers with different business models.
* GBCI, the operational entity of the U.S. Green Building Council that also offers LEED certification, has a sliding scale that requires an independent auditor with separately negotiated fees.
* The consortium of thinkstep-SGS has a flat fee for projects with one typology, where both the audit and certification fee are included.

**Slide 23:**

* Now that we have established a green building definition, and the business case for investing in green buildings, let’s take a look at three main categories of financing: green construction finance, green mortgages, and capital market products.
* With green construction finance, the focus is, of course, on developers. What developers need is awareness of the benefits of green buildings and the technical capacity to make them happen.
* From the bank’s side, you can incentivize the adoption of green practices by providing a lower risk rating for green buildings, which won’t become stranded assets when climate policies are increased.
* You can start by rewarding developers now for green adoption by providing a discounted financing rate – no matter how small – which we’ll review together in our case studies.
* Green mortgages allow you to cross-sell with construction finance. You can work with the same developer and finance the same property twice. Developers can drive home buyers to you for mortgages, with verification provided through a copy of the EDGE certificate.
* With home buyers, a green home can be slightly more expensive than regular construction. You can increase your allowable loan ratio and qualify home buyers, as utility savings can be redirected into a larger loan payment.
* One of the ways you can do this is to include utility bill savings in disposable income and adjust the debt to income ratio for the home buyer.
* In capital markets, you can raise a green bond to finance a new portfolio of green buildings. Once you have a stock of certified buildings, you can securitize them as collateral, as the green certificate provides the same standard that will enable securitization.
* You can also introduce new products such as green leasing or REITs.

**Section iv: Best practices**

**SLIDE 24:**

* Let’s look into some of the best practices for launching a green building investment program.
* When it comes to green construction finance, green criteria must be embedded into the loan agreement with clients.
* You might consider providing conventional financing at the start of a loan agreement and require a specific time frame – such as a three-month period – during which time the project must be certified. At that point, green financing would be provided. This is the model used by Bancolombia, which we’ll discuss in more detail in a moment.
* The EDGE certificate proves the project is verifiably green for green mortgages as well. EDGE reduces your transaction costs by saving loan officers from checking the implementation of technical measures.
* Finally, if you are working with IFC or other international investors, you’ll need to report your impacts, which EDGE can easily provide, at both an individual project level and on a portfolio basis.

**SLIDE 25:**

* Earlier I mentioned that we recommend you develop a close relationship with a cadre of dedicated EDGE Experts. These are technical advisors who have been trained and accredited by IFC and are a part of a global community of green building professionals.
* Experience shows that the best practice is for EDGE Experts to be employed by you and embedded within the process.
* As EDGE Experts provide training to your clients, this will ensure quality control across your portfolio.
* EDGE Experts also ensure that the certification compliance is executed within the time frame set by your loan agreement.
* There are various levels of technical advice possible, some of which are free, and some that require some investment from you.
* EDGE Experts can offer basic or advanced services for developers. IFC can also provide training to the bank’s investment officers. You may also choose a comprehensive advisory services agreement with IFC.

**SECTION V: CASE STUDIES**

**Slide 26:**

* Let’s take a look at a few case studies to see how other banks launched their green building investment programs.
* First, we have a case study from Romania, where the local green building council worked with Raffeisen Bank to launch a green mortgage product.
* You can see the comparison of a home which received an energy performance certificate in blue and a certified home in green. The green home is a little more expensive to cover the cost of the green features. To incentivize adoption, Raffeisen provides home buyers a slightly preferential interest rate.
* The home buyer pays the bank a higher mortgage payment (592 euros compared to 561 euros) but the total cost of ownership is lower because of utility bills. The green home buyer’s all-in cost is 37 euros lower (625 euros compared to 662 euros). It’s a win-win for both the bank and the home buyer.

**SLIDE 27:**

* This slide is a more generalized version of the same example. Here, you can see the cascade of the green mortgage versus a standard mortgage, and which benefits go to the home buyer and which to the bank.
* The benefits accrue even on fully commercial terms (with an interest rate and the term the same for both the standard and green example).
* It’s another win-win, with a lower all-in scenario for the borrower and higher income for the bank.

**SLIDE 28:**

* For its green mortgages program, Banco Promerica partnered with FMO to create a warehouse facility to spur green homes in the Costa Rican market.
* Promerica encouraged developers to design green assets, then created a green mortgage product to finance those assets, which are supported by the proceeds of a green bond.
* You can see a virtuous loop, where one product supports another.
* Banco Promerica also provides a construction financing rate at 8.75% compared to a normal rate of 9.25%, with the support of the multi-lateral bank’s warehouse facility.

**SLIDE 29:**

* Banco Pichincha in Ecuador offers free EDGE certification for their first crop of projects.
* They also offer free training to developers as well as in-house EDGE Experts who serve as technical advisors on projects.

**SLIDE 30:**

* Davivienda in Colombia offers a green construction financing rate and a promotional offer of free EDGE certification. This was important for the bank in order to compete with Bancolombia’s early entry into the market with green financing.

**SLIDE 31:**

* Another case study is from Bancolombia, which used proceeds from green bonds as well as its own resources for green construction finance and green mortgages.
* The bank was the first in the Colombian market to issue a green bond with IFC as the sole investor, with the proceeds earmarked to green buildings. Its second bond was issued without IFC’s support, which was over-subscribed 2.8 times with 72 domestic investors participating. Bancolombia predicts that investment demand could be 10 to 12 times the original size of the bond.
* Bancolombia met with 300 of its developers during 17 roadshow events that it marketed extensively.
* The bank offers a generous financing rate of up to 2% less than conventional market rates for construction financing and 65 basis points lower for green mortgages.

**SLIDE 32:**

* We also acknowledge IFC’s donor partners who have made EDGE and IFC’s work in green buildings possible. These governments and institutions are the reason IFC is able to offer the EDGE software application for free, as well as all of our awareness raising and promotional activities.

**SLIDE 33:**

* Thank you again for joining us today.
* We appreciate your interest in EDGE and hope you will join us in transforming the construction market in Mexico.