Financing Renewable Energy and Energy Efficiency Projects for SMEs

The Role of the Credit Risk Abatement Facility (CRAF)

CRAF-CCREEE Financier Training: 29-30 October 2020
Agenda

1. Key Concepts
2. Key Project Risks
3. Borrower Credit Risk
4. Introduction to CRAF
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2. Key Project Risks
3. Borrower Credit Risk
4. Introduction to CRAF
Key Concepts: Project Finance

- Project
- Lender
- SME
Key Concepts: Corporate Lending

- **Project**
- **SME**
- **Lender**
Key Concepts: Credit Enhancement

- Project
- SME
- CRAF guarantee
- Lender
Agenda

1. Key Concepts
2. Key Project Risks
3. Borrower Credit Risk
4. Introduction to CRAF
Key Project Risks

Risk and Opportunity Analysis

- Technical
- Environmental and Social Impact
- Commercial
- Legal / Documentation
- Regulatory and Compliance
Key Project Risks: Investment Life Cycle

- Early Development
- Development
- Construction
- Operations
- Mature Operations

Risk and Return vs. Time

Loan
Key Project Risks: Technical

Performance: Yield/resource study

Seasonality

Grid study

Geotechnical (ground mounted)

Roof suitability (roof mounted)

Equipment selection and suppliers (panels, inverters, batteries)

Guarantees and Warranties
Key Project Risks: Commercial

Capital Costs

Operating and Maintenance Costs

Tariff

Sources and Uses

Loan terms (tenor, pricing)

Exchange rates

inflation

Tax (income tax, withholding tax)

Depreciation and Amortisation

Risk mitigation (Insurance, Guarantees)

Debt Service

Returns – project and equity returns
Key Project Risks: Regulatory and Compliance

Permitting

Licensing

Net Metering
Key Project Risks: Legal and Documentation

Land/site acquisition: lease agreement
PPA
EPC and O&M contracts
Loan contracts
Security documentation
Key Project Risks: Environmental and Social Impact

E&S Impacts Assessment (ESIA): prior to installation

E&S Management System (ESMS): throughout construction and operational lifetime

Important consideration

Lender requirement (imposed by their funders)

International standards: IFC Performance Standards; Equator Principles

Proportionality

Gender
Key Project Risks: Case Study
Agenda

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Borrower Credit Risk: Credit Assessment Framework: Underwriting Approach

- **Character**: Borrower’s reputation and integrity assessment
- **Capacity**: Borrower’s ability to repay the loan (based on income and other obligations)
- **Capital**: Borrower’s available funds and commitment to the business
- **Collateral**: Borrowers assets that can be liquidated to secure the loan
- **Conditions**: Terms and conditions under which the credit is offered to the client (commercial terms, other conditions)
Borrower Credit Risk: Credit Assessment Framework: Credit Evaluation Tool

- **Industry**
  - Growth trends
  - Competitor analysis
  - Regulatory risk

- **Business**
  - Suppliers and Customers
  - Operational resilience
  - Governance & reporting

- **Management**
  - Track record and experience
  - Integrity / Standing in the market
  - Strategy & planning

- **Financial**
  - Liquidity, solvency, profitability, efficiency
Borrower Credit Risk: Case Study

- Project
- SME
- Lender

Logos and initiatives from CARICOM, TAPSEC, EU, GIZ.
Borrower Credit Risk: Still to be considered

Collateral: Borrowers assets that can be liquidated to secure the loan

Conditions: terms and conditions under which the credit is offered to the client (commercial terms, other conditions)
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The Credit Risk Abatement Facility (CRAF)

Developed by the CDF in collaboration with

• the CARICOM Secretariat; and

• the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)

Designed to

• facilitate access to financing;

• for renewable energy (RE) and energy efficiency (EE) projects;

• Being developed and implemented for small and medium-sized entities (SMEs)
CRAF: Key Elements

Credit Risk Instrument (CRI) – partial risk guarantees

Technical Assistance Programme (TAP)

Monitoring & Evaluation (M&E) Framework
# CRAF: Credit Risk Instrument

## Key Features

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Currency</td>
<td>US Dollars (US$)</td>
</tr>
<tr>
<td>Loan size</td>
<td>US$25,000 – US$750,000</td>
</tr>
<tr>
<td>Tenor</td>
<td>Master Guarantee Agreement: 5-year Availability Period</td>
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<td></td>
<td>Individual Guarantee: 10 years (can be written at any point during the Availability Period)</td>
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<tr>
<td>Maximum Coverage</td>
<td>80% of Loan Outstanding Balance</td>
</tr>
<tr>
<td>Collateral</td>
<td>At issuance of the PRG, CRAF will recognise collateral up to a maximum of 50% of the Loan Value (permitting a maximum leverage of 2x)</td>
</tr>
<tr>
<td>Pricing</td>
<td>100 bp of the Guarantee Amount subject to loan interest rate cap</td>
</tr>
<tr>
<td>Payouts</td>
<td>50% when non-performing loan is classified as “Stage 3” (IFRS 9) 50% once recovery is complete</td>
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CRAF: Credit Risk Instrument
Eligibility Requirements

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Lender</td>
<td>To be eligible, a Lender must be a duly registered and authorized financial service provider under the laws of the applicable CDF Member State, operating in a CDF Member State.</td>
</tr>
<tr>
<td>CDF Member State</td>
<td>Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, and any country that becomes a member state of the CDF from time to time.</td>
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<tr>
<td>Borrower</td>
<td>SME incorporated in a fully eligible (i.e., fully paid up) CDF Member State, including energy service providers; Special focus on operations in the sectors of tourism, agriculture and/or manufacturing</td>
</tr>
<tr>
<td>Country</td>
<td>Pilot Phase: Barbados, Belize, Guyana, Saint Lucia Full-scale roll-out: All fully paid up CDF Member States</td>
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## CRAF: Credit Risk Instrument
### Eligibility Requirements (continued)

<table>
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<tr>
<th>Element</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Loans</strong></td>
<td>Loan criteria defined above</td>
</tr>
</tbody>
</table>
| **Lending Activities** | Single loan guarantees  
Portfolio guarantees (guarantee for a line of credit or for an Energy Services Company ("ESCO") or to support implementation of an Integrated Utility Services ("IUS") model) |
| **Projects**       | The proceeds of the loan may only be used to support renewable energy power generation projects and energy efficiency interventions that demonstrate the potential for commercial and technological viability.  
Project types:  
• Renewable Energy  
• Energy Efficiency  
• Energy Managements  
• Ancillary Technologies (e.g. storage) |
| **Additionality**  | The purpose of the loan must meet one or more of the following additionality requirements:  
• First of its kind  
• Catalytic  
• Increasing the scale of the intervention  
• Changing the expected timeframes of the intervention |
CRAF: Concept

SMEs

*In participating countries (CRI contracts subject to local financial regulations)*

Regulators & Policy Makers

- TA to selected high-potential MSMEs
- Policy & regulatory dialogue

Aggregators, ESCOS & Funds

- CPFs direct to selected high-potential MSMEs
- TA to help build sector
- CDBs (wholesale)

CRAF Service Providers

- Select by CRAF to meet required criteria
- Master contract with streamlined issuance
- TA to build capacity

Financiers

- Select by CRAF to meet required criteria
- Master contract with streamlined issuance
- TA to build capacity

CRAF

- Management, governance and resourcing

CDF
CRAF: Technical Assistance Programme

Purpose

Address knowledge gaps in the RE/EE sector
Stimulate demand for and supply of RE/EE funding
Increase technical capacity for RE and EE project execution
Help to eliminate barriers to RE/EE sector growth

Energy Service Providers (energy auditors, energy management, design and implementation, operations and maintenance)

Technical Assistance Service Providers (TA partners, trainers)
CRAF: Technical Assistance Programme

Approach

Bespoke and targeted technical assistance

Facilitate access to and collaboration with other TA providers (CRAF TA Partners)

CRAF TAP funding will be used to support issuance of guarantees
CRAF: Concept

SMEs

In participating countries (CRI contracts subject to local financial regulations)

Regulators & Policy Makers

In-country or regional Subject to local regulations

Project identification
Project implementation
Finance

CRAF Service Providers

Selected by CRAF to meet required criteria
Master contract with streamlined issuance

Financiers

Selected by CRAF to meet required criteria
Master contract with streamlined issuance

Aggregators, ESCOS & Funds

Selected by CRAF to help build sector
CRPs (wholesale)

Management, governance and resourcing

CRAF

CRAF to help build sector
CRPs (wholesale)

TD to help build capacity

CDF

TA

Policy & regulatory dialogue

Monitoring & Evaluation

TAs to selected high-potential MSMEs

TAs to selected high-potential MSMEs

TCM to help build sector
CRPs (wholesale)
Borrower Credit Risk: Issues and CRAF Solutions

Example 1: Insufficient Collateral

SME is already banked by an international bank

Wants to install rooftop solar + storage

Insufficient credit line available for capex and unable to reallocate funds from “normal” capex requirements

CRAF helps financier to understand risk

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Service provider does bankable study

Financier applies for CRI to cover additional lending

CRAF assesses/writes CRI

SME receives additional funding

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Finance could also be provided by ESCOs

CRAF helps service provider, ESCO, SME with TA through the TAP
Borrower Credit Risk: Issues and CRAF Solutions

Example 2: Cashflow Needs Reinforcement

SME has transactional account but no credit line

Sees promotion and wants to do energy efficiency retrofit

Insufficient capital for upfront cost and no credit line

SME approaches bank

Service provider does bankable study

Financier applies for CRI to cover risk

CRAF assesses/ writes CRI, relying on bankable study

SME receives additional funding

Finance could also be provided by ESCOs

Bank refers to service provider or ESCO from approved list

SME uses savings to repay loan

CRAF helps service provider, ESCO, SME with TA through the TAP
Borrower Credit Risk: Issues and CRAF Solutions

Example 3: Support to ESCO

An ESCO is currently active but has no financing capability.

Applies to bank for wholesale funding but bank unwilling to consider.

CRAF accredits ESCO and provides capacity building through the TAP.

Accredited ESCO applies for CRI to cover risk.

CRAF assesses/writes CRI.

ESCO uses CRI to raise finance.

ESCO lends to projects and builds balance sheet.
CRAF: Online IT Portal

General:

   Help Desk
   Onboarding (financiers, ESCOs, energy service providers, technical service providers)
   Administration

CRI

   Guarantee Issuance
   Claims Processing

Technical Assistance

   Requests for Technical Assistance
   Procurement

Due Q3 2021
CRAF Pilot Phase (2021)

January – December 2021

Operationalise CRAF systems and process
Continue to build pipeline and financing partnerships
Continue to build TA partnerships
Implement and operationalise the IT Portal
Resource mobilisation for full-scale roll-out (target $100m)
CRAF: Working with CRAF

Financiers (incl. ESCOs)
- NDA
- Pipeline
- Master Guarantee Agreement
- Onboarding & DD
- Gap Analysis
- Execution and Operation

Energy & TA Service Providers
- NDA
- Master Service Agreement
- Onboarding and DD
- Gap Analysis
- Execution and Operation

Other Partners
- NDA
- Master Agreement
- Onboarding and DD
- Partnership Plan
- Execution and Operation

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