CCREEE (PPF) Informational Session

4th February 2021

CREDIT RISK
ABATEMENT FACILITY

Presented by Eugene Williams
CARICOM Development Fund.
Lack of access to finance. Traditional financial products have limited appeal. Lack of understanding of RE/EE solutions. Need for training of financial institutions, services providers and SMEs.
• 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;
  • Developed and implemented for small and medium-sized entities (SMEs);
  • Unlock financial resources of local financial institutions in the Caribbean.
Background

- Market scan and consultation (five countries: Barbados, Belize, Jamaica, Saint Lucia, Suriname)
  - significant unmet demand for RE and EE financing as well as for credit enhancement
  - Need for TA to boost demand, develop the sector and build capacity
  - wide range of key stakeholders and implementation partners

- Preliminary design (approved by stakeholders)
  - Credit Risk Instrument (CRI) – partial risk guarantees
  - Technical Assistance Programme (TAP)
  - Monitoring & Evaluation (M&E) Framework
FINDINGS

• Significant potential for renewable energy (RE) and energy efficiency (EE) in CDF countries

• RE and EE has multiple benefits including
  1. Contribution to SME growth and cost reduction
  2. Green recovery from Covid-19
  3. Decreased exposure to oil market volatility and FX drain

• Access to credit is a key barrier for SMEs. CRAF is designed to unlock additional financing for SMEs that want to benefit from RE and EE

• Three key pillars to CRAF:
  1. Credit Risk Instrument (CRI)
  2. Technical Assistance Programme (TAP)
  3. Robust Monitoring & Evaluation

• An “ecosystem” approach: supporting
  1. Funders: public and private financiers, funds, ESCOs, aggregators;
  2. Industry participants: energy and other service providers; and
  3. SMEs

• Availability in all CDF Member States (Goal)
FINDINGS

CDF Member States
17.5m people
$81.9b GDP

87% of all primary energy is imported

Power sector
Generating capacity: 5.6 GW

• 8% is renewable

Annual generation: 19.8 TWh
Average regional tariff: $0.36/kWh

Large cost-saving opportunities for renewables and energy efficiency

Co-benefits include climate change mitigation and macroeconomic advantages
Regional Climate Change Targets and Opportunities

**Renewable Energy**

- CARICOM target of 28% renewables in the energy matrix by 2022.
- CO₂ emissions target of 32% reduction from 2012 by 2022.
- Renewable energy potential of 21 GW already identified

**Energy Efficiency**

- As much as 85% of all energy efficiency interventions in the region come at a negative cost/with cost saving.
- An investment of $172m in energy efficiency undertakings in the commercial sectors of 12 countries can result in abatement of 1,027 GWh/y and cost savings of $616m per year
Design

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

SMEs

Aggregators, ESCOS & Funds

CRAF Service Providers

Financiers

Regulators & Policy Makers

Policy & regulatory dialogue

TA to selected high potential MSMEs

Cris direct to selected high potential MSMEs

In-country or regional Subject to local regulations

Project identification
Project Implementation
Finance

Project identification
Project implementation
Monitoring & Assurance

Finance

TA to help build capacity

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

Selected by CRAF to meet required criteria
Master contract with requirements and assurances

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

TA to help build capacity

Cris (Wholesale)

CRAF

Management, governance and resourcing

CDF
Design

Key differentiating features

Building a RE and EE ecosystem

✓ The formation of a Craf “ecosystem” of service providers, aggregators, ESCOs and funds, thereby providing an extended “ring of assurance” to Craf as well as helping to build the market as a whole;

✓ The integration of technical assistance via the TAP into this “ecosystem”, thus providing further market-building;

✓ Availability of Craf services (both TAP and CRI) to entities other than financial institutions, for example, aggregators, ESCOs and other funds. This will allow broader impact and development of the industry;

✓ Efficient and easy-to-use online Craf IT Portal, to facilitate processing of applications, approvals, claims and administration. This explicitly will allow for automated decision-making in certain cases;

✓ A focus on additional lending (as opposed to enhancing banks’ credit quality of lending they would make in the normal course of business); and

✓ Specific CRI design parameters to support local conditions, captured in the Master Guarantee Agreement
## Key design features (validated by stakeholders)

### Credit Risk Instrument
- Partial cover to overcome moral hazard but with up to 80% coverage to stimulate additional lending
- Allows savings from conversion to generate **cash flow** to meet loan obligations
- Available to all eligible financiers
- CRI is creditworthy

### Technical Assistance
- Comprehensive but targeted support programme
- Integrated into CRAF
- Aims at *building industry/eco-system* by providing support to CRAF partners and stimulating demand

### Monitoring & Evaluation
- Ongoing monitoring and function to:
  - Measure and report on KPIs
  - Assess performance and impact
  - Provide feedback at all levels in CRAF
LAUNCHED ON
NOVEMBER 25, 2020
Key Impacts Summary

<table>
<thead>
<tr>
<th>Impact Indicators *</th>
<th>Pilot Phase (2020-21)</th>
<th>Full-Scale Roll-Out (2022-2032)</th>
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</thead>
<tbody>
<tr>
<td>Loans supported</td>
<td>Count</td>
<td></td>
</tr>
<tr>
<td>Count</td>
<td>EE 21</td>
<td>238</td>
</tr>
<tr>
<td></td>
<td>RE 83</td>
<td>952</td>
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<tr>
<td></td>
<td><strong>TOTAL 104</strong></td>
<td><strong>1,190</strong></td>
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<tr>
<td>US$m</td>
<td>EE 5.2</td>
<td>59.5</td>
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<tr>
<td></td>
<td>RE 20.9</td>
<td>238.1</td>
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<tr>
<td></td>
<td><strong>TOTAL 26.1</strong></td>
<td><strong>297.6</strong></td>
</tr>
<tr>
<td>Cost savings (US$m; EE)</td>
<td>3.3</td>
<td>38.2</td>
</tr>
<tr>
<td>Emission reductions (tCO2e p.a.)</td>
<td>2,722</td>
<td>205,000</td>
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## Capitalizing CRAF

<table>
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<th>Full-Scale Roll-Out (2022-2032)</th>
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<tbody>
<tr>
<td>Credit Risk Instrument</td>
<td>US$10 Million</td>
<td>US$100 Million</td>
</tr>
<tr>
<td>Technical Assistance Program</td>
<td>US$ 2 Million</td>
<td>US$20 Million</td>
</tr>
<tr>
<td>Operations (including M&amp;E)</td>
<td>US$500 Thousand</td>
<td>US$3 Million</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>US$12.5 Million</strong></td>
<td><strong>US$123 Million</strong></td>
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Thank You & Questions