



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

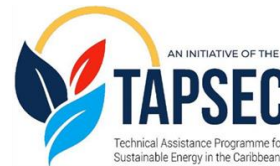
30 October 2020



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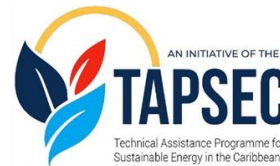
- 1 Key Concepts
- 2 Key Project Risks
- 3 Borrower Credit Risk
- 4 Introduction to CRAF



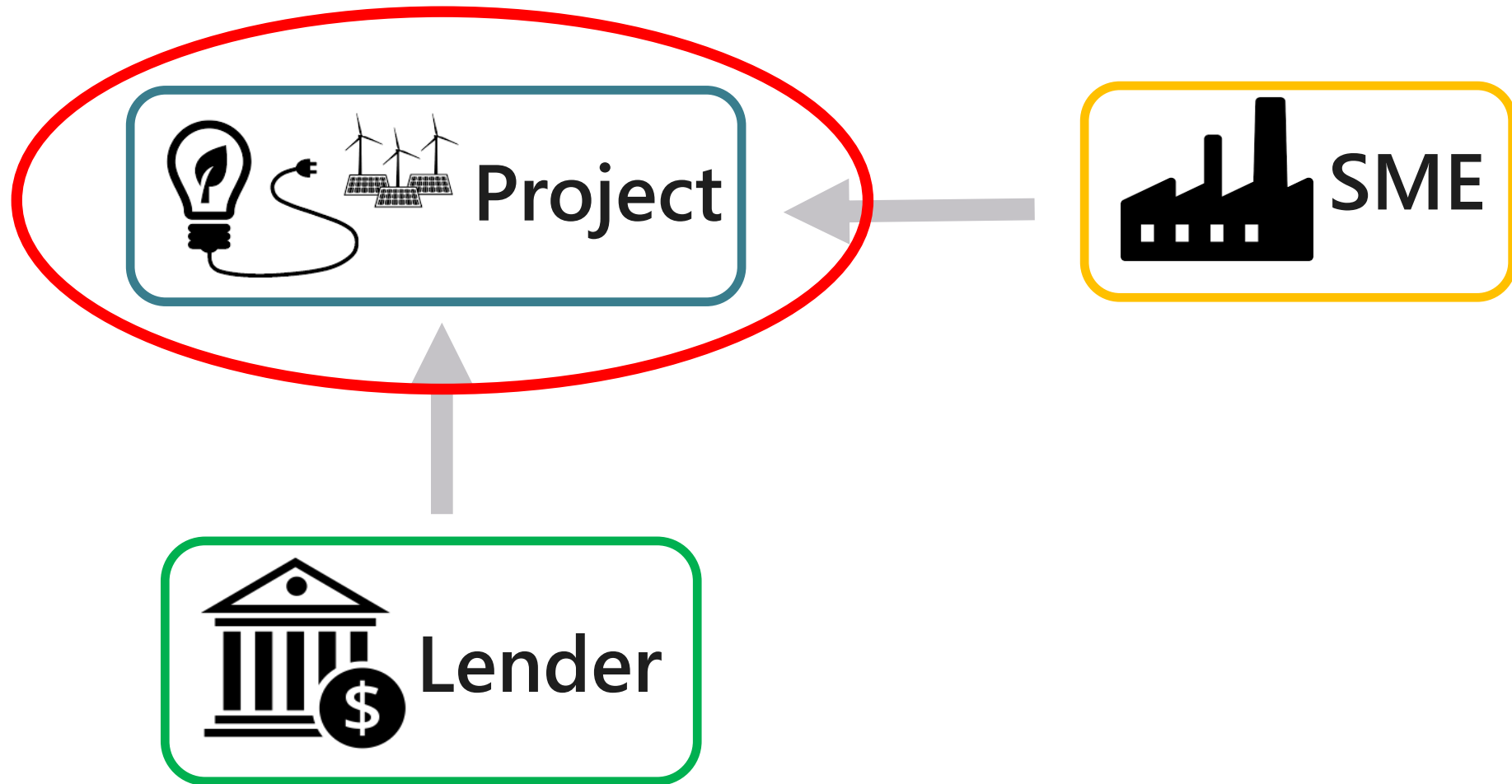
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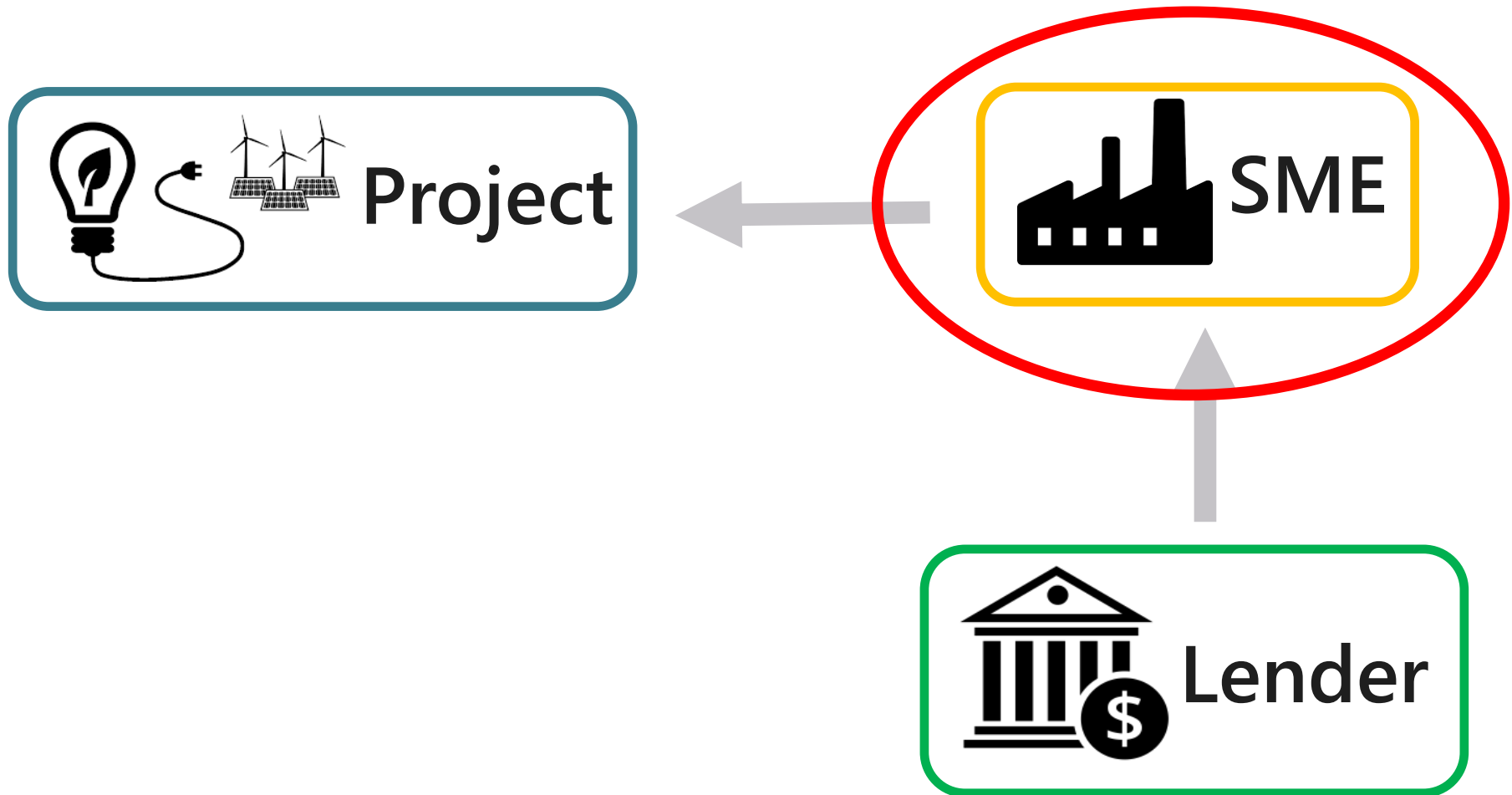
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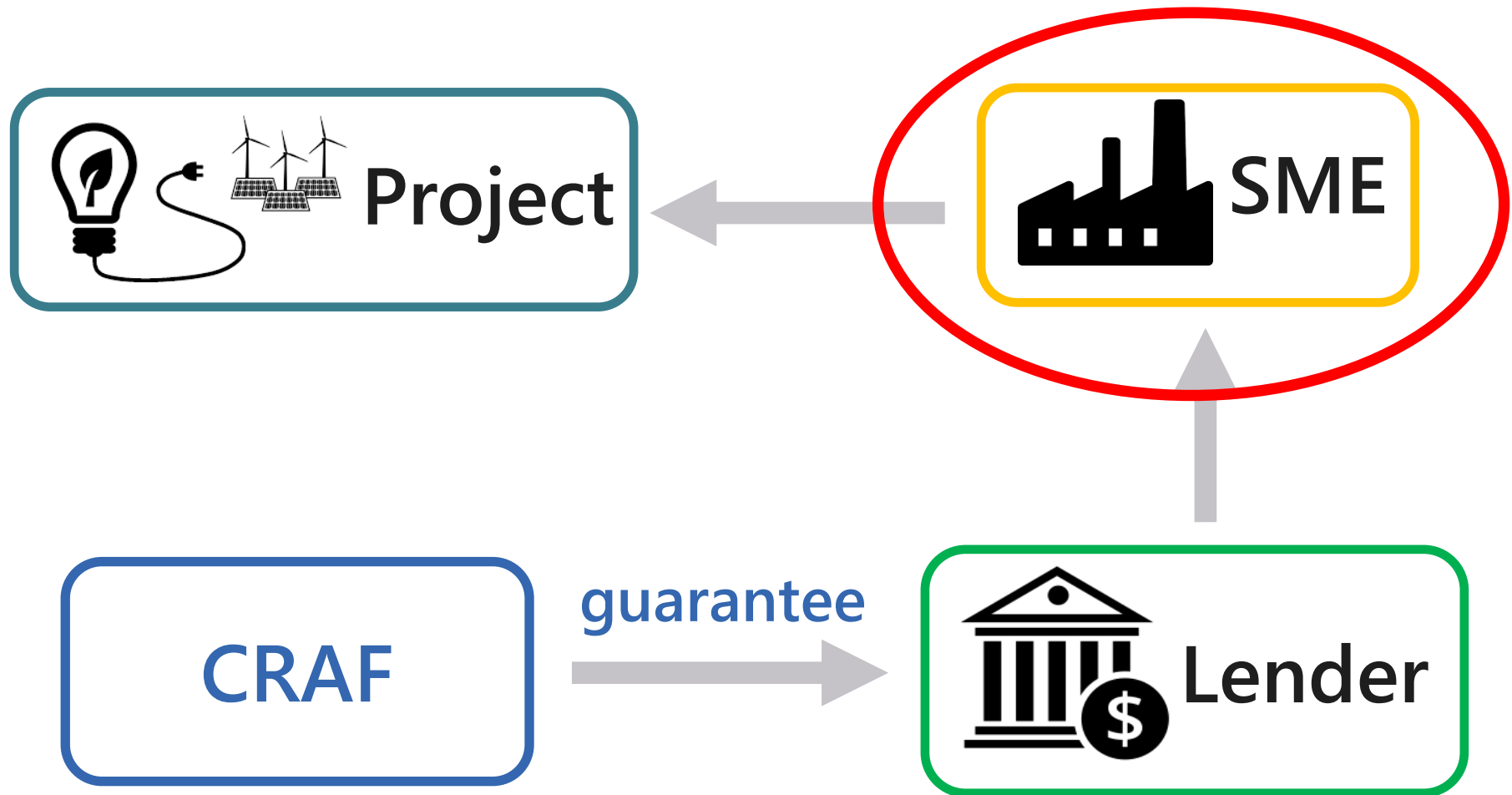
Key Concepts: Project Finance



Key Concepts: Corporate Lending



Key Concepts: Credit Enhancement



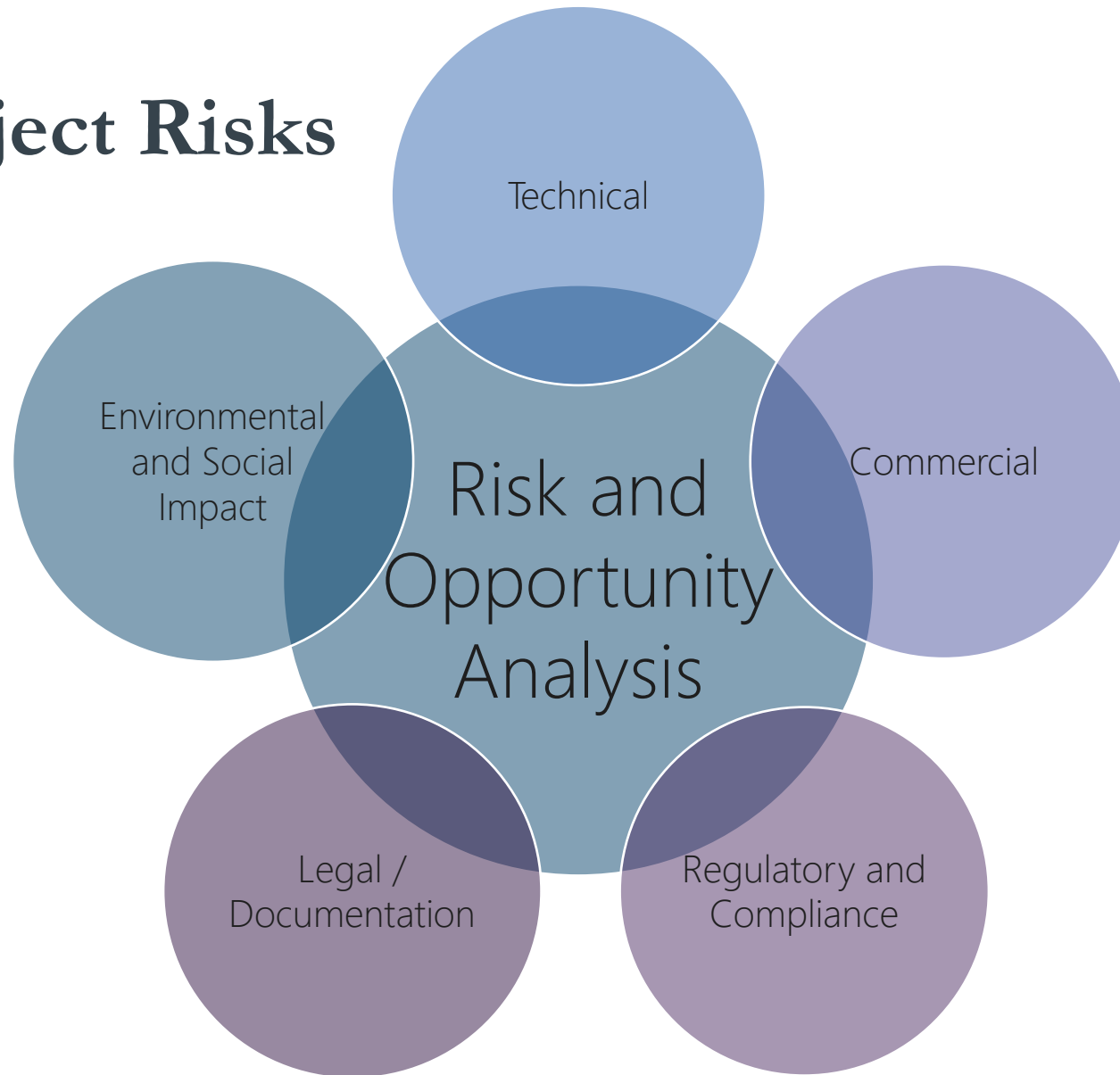
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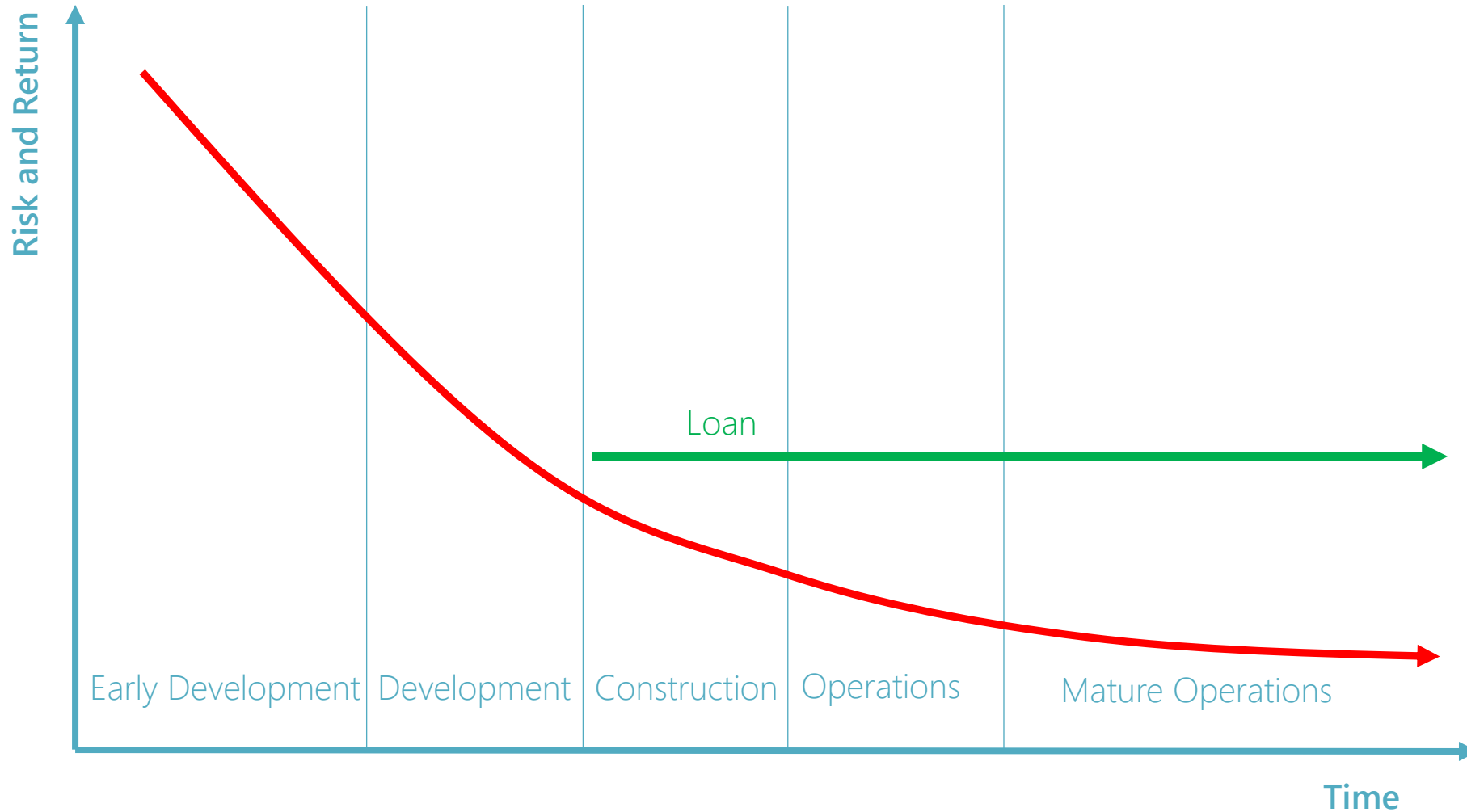
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Key Project Risks



Key Project Risks: Investment Life Cycle



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

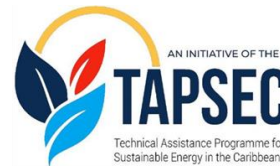
Key Project Risks: Case Study



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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

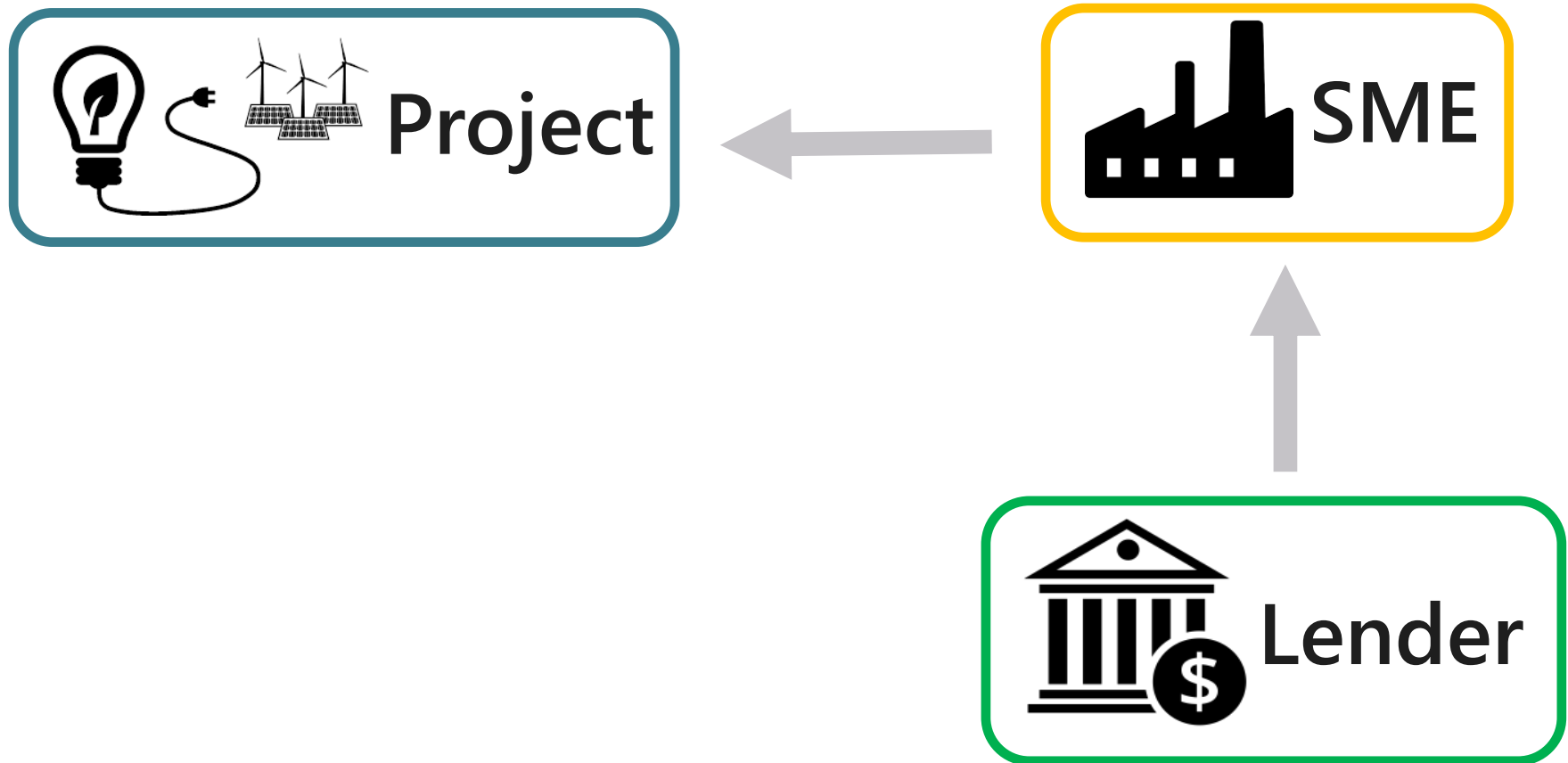
Management

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

Financial

- Liquidity, solvency, profitability, efficiency

Borrower Credit Risk: Case Study



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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CRAF: Background

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)

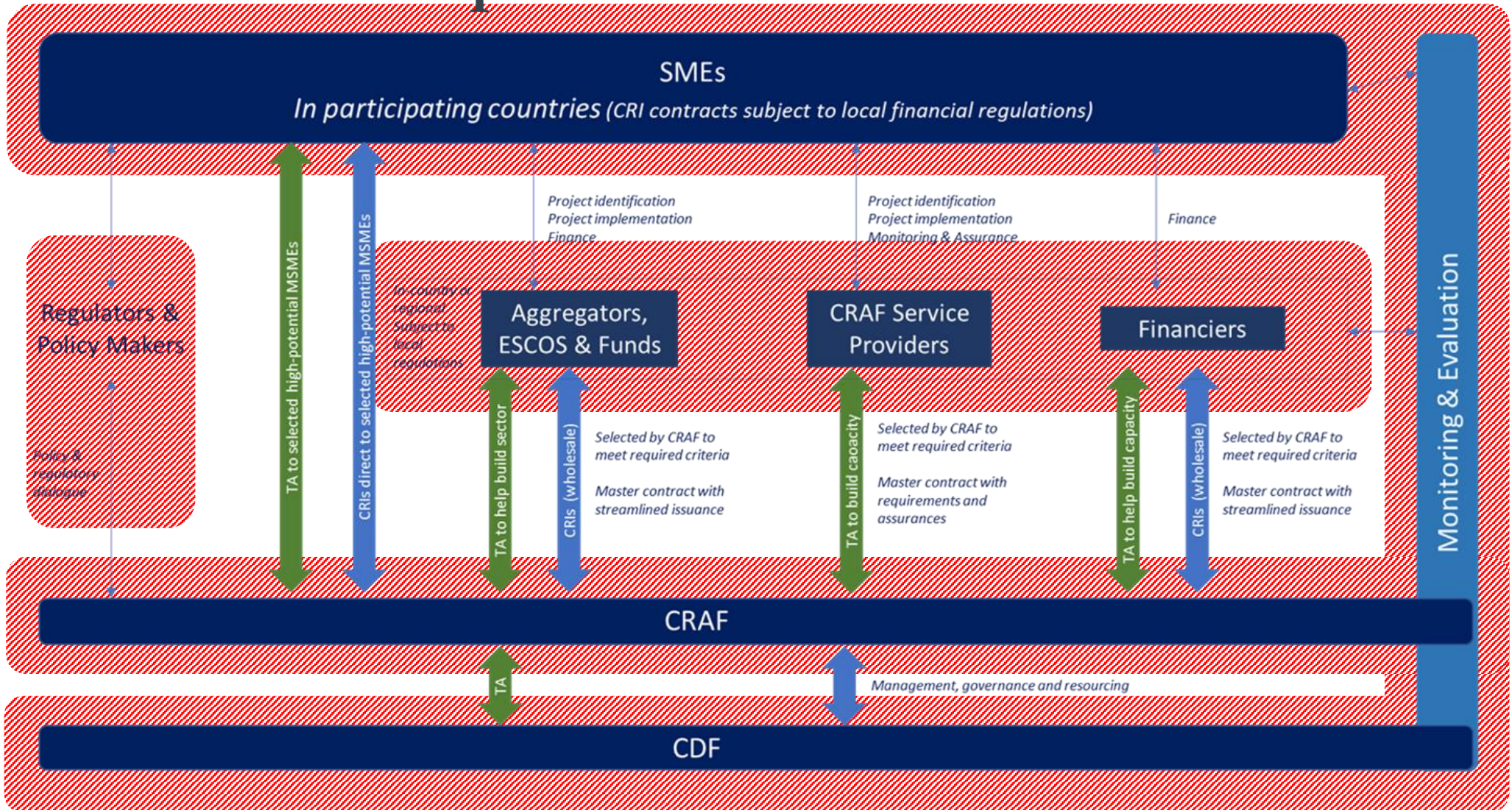
CRAF: Key Elements

Credit Risk Instrument (CRI) – partial risk guarantees

Technical Assistance Programme (TAP)

Monitoring & Evaluation (M&E) Framework

CRAF: Concept



CRAF: Credit Risk Instrument

Key Features

Feature	Description
Currency	US Dollars (US\$)
Loan size	US\$25,000 – US\$750,000
Tenor	Master Guarantee Agreement: 5-year Availability Period Individual Guarantee: 10 years (can be written at any point during the Availability Period)
Maximum Coverage	80% of Loan Outstanding Balance
Collateral	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)
Pricing	100 bp of the Guarantee Amount subject to loan interest rate cap
Payouts	50% when non-performing loan is classified as "Stage 3" (IFRS 9) 50% once recovery is complete

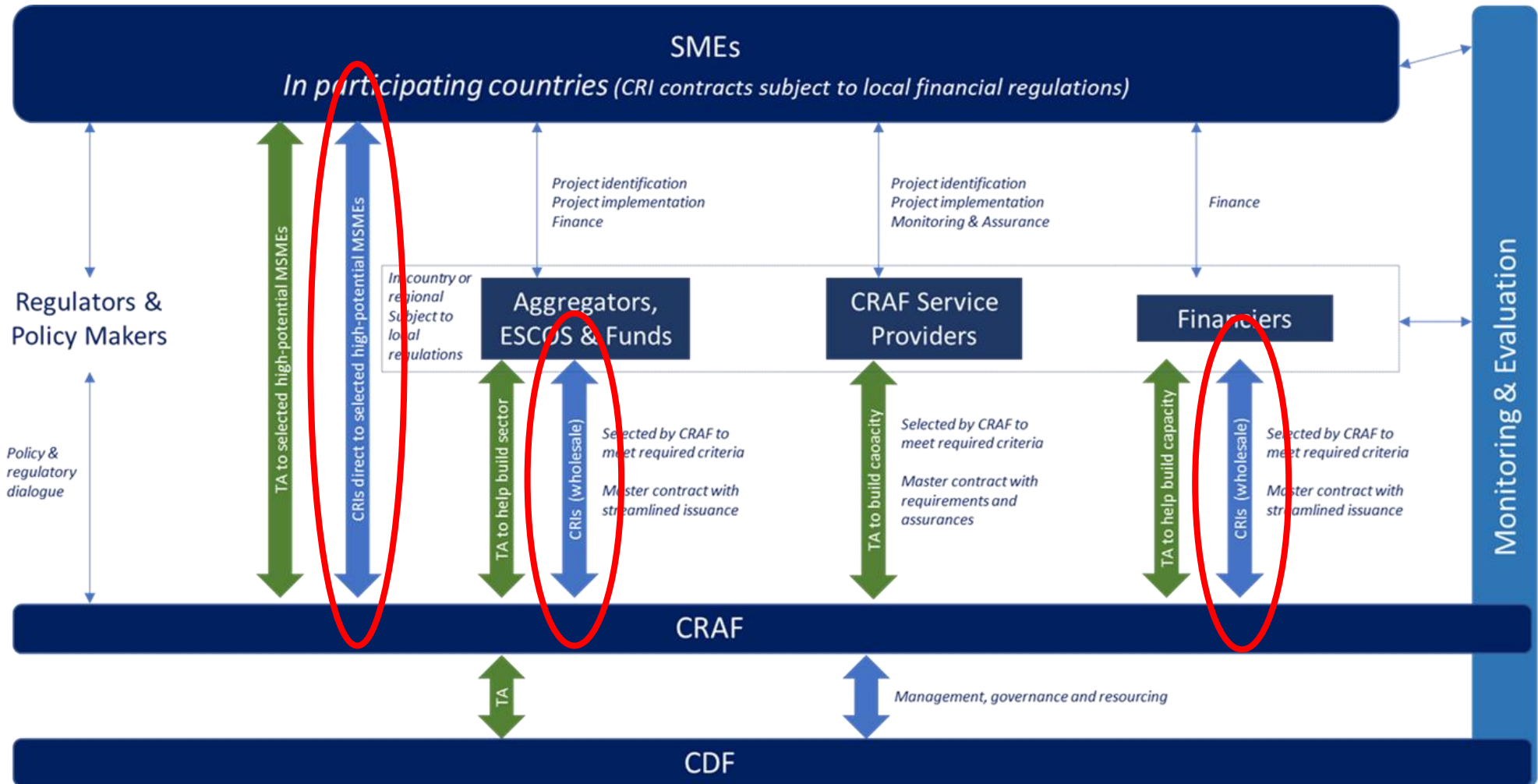
CRAF: Credit Risk Instrument Eligibility Requirements

Element	Description
Lender	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.
CDF Member State	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.
Borrower	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
Country	Pilot Phase: Barbados, Belize, Guyana, Saint Lucia Full-scale roll-out: All fully paid up CDF Member States

CRAF: Credit Risk Instrument Eligibility Requirements (continued)

Element	Description
Loans	Loan criteria defined above
Lending Activities	Single loan guarantees Portfolio guarantees (guarantee for a line of credit or for and 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • First of its kind • Catalytic • Increasing the scale of the intervention • Changing the expected timeframes of the intervention

CRAF: Concept



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)

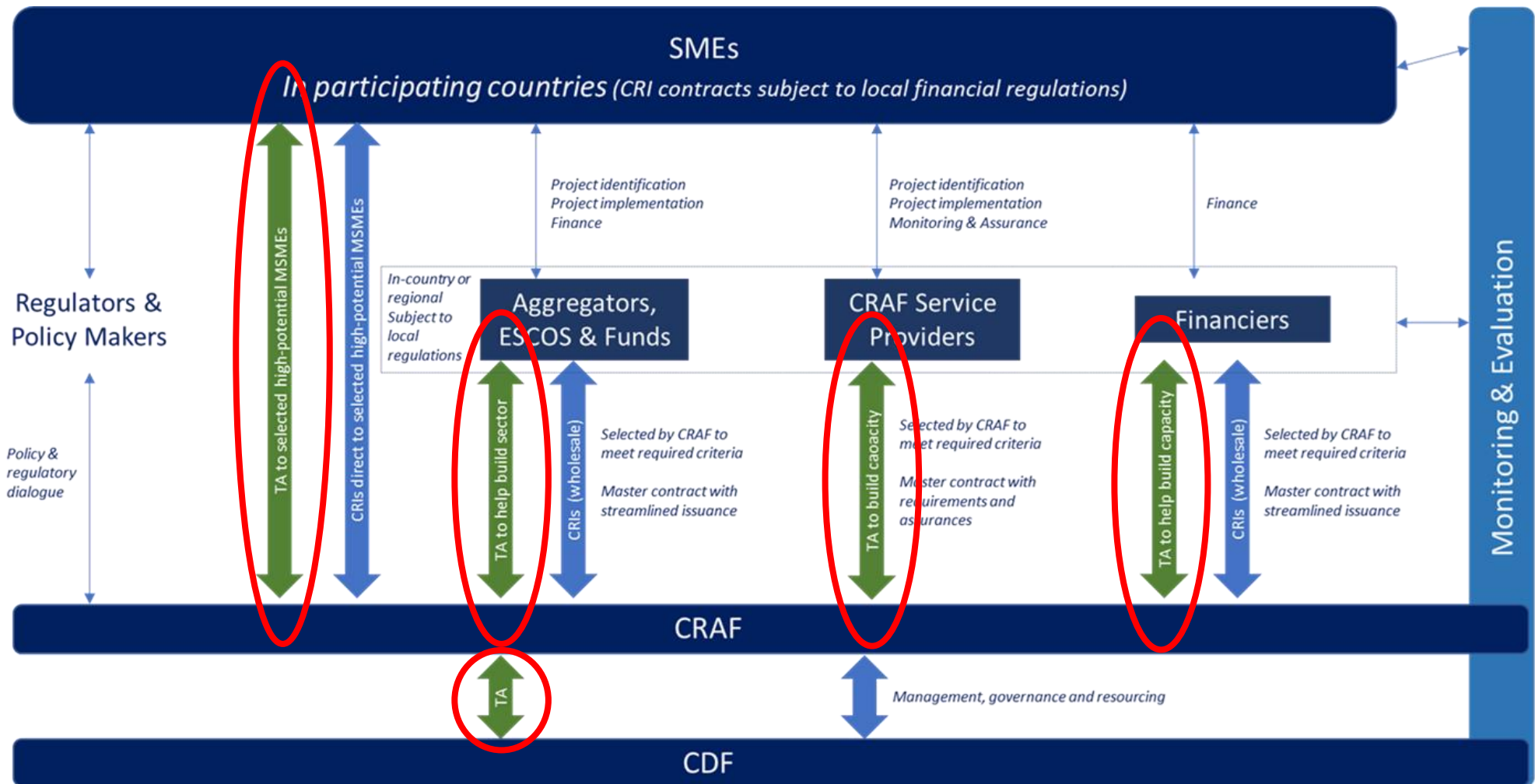
CRAF: Technical Assistance Programme Approach

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



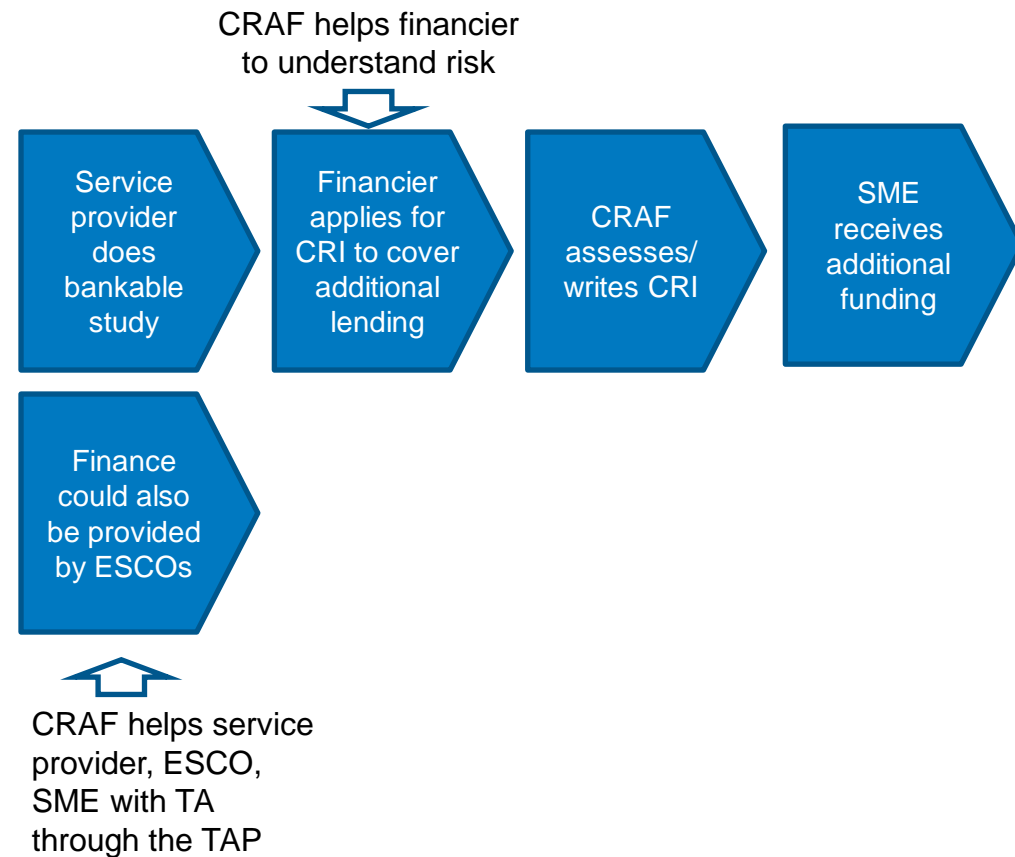
Borrower Credit Risk: Issues and CRAF Solutions

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



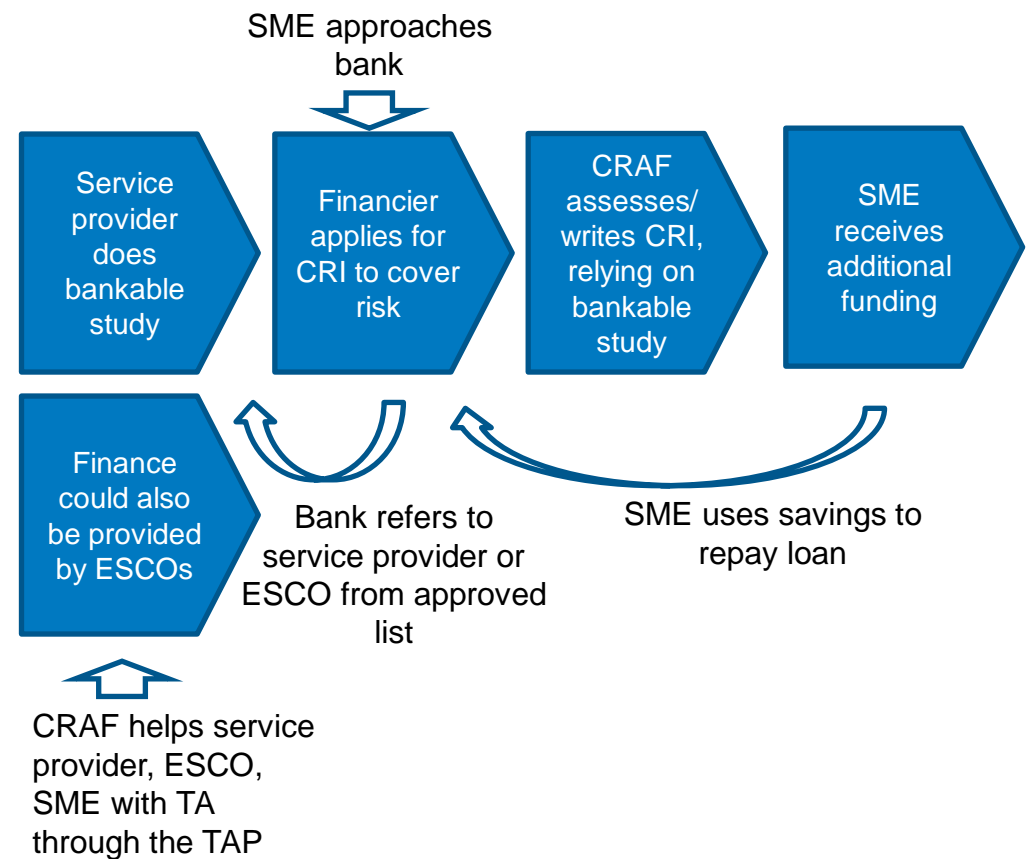
Borrower Credit Risk: Issues and CRAF Solutions

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

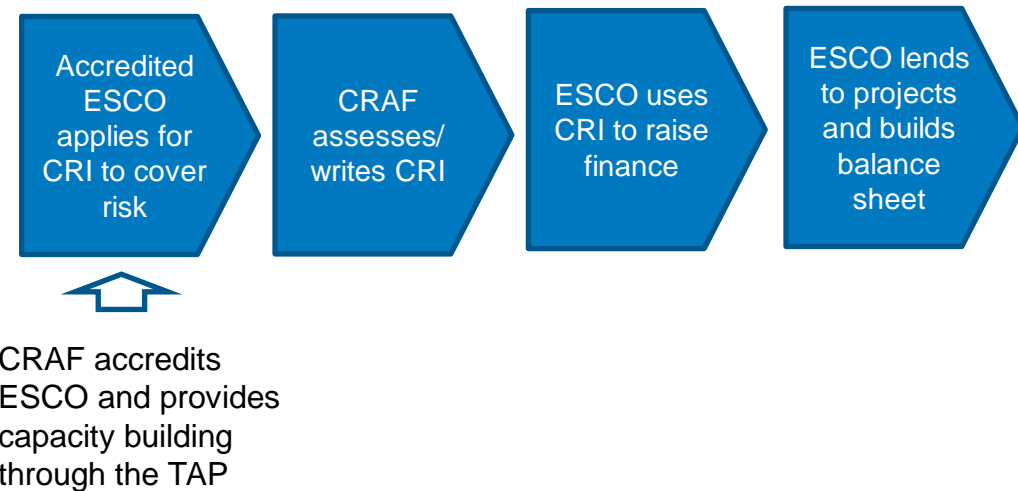


Borrower Credit Risk: Issues and CRAF Solutions

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: 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

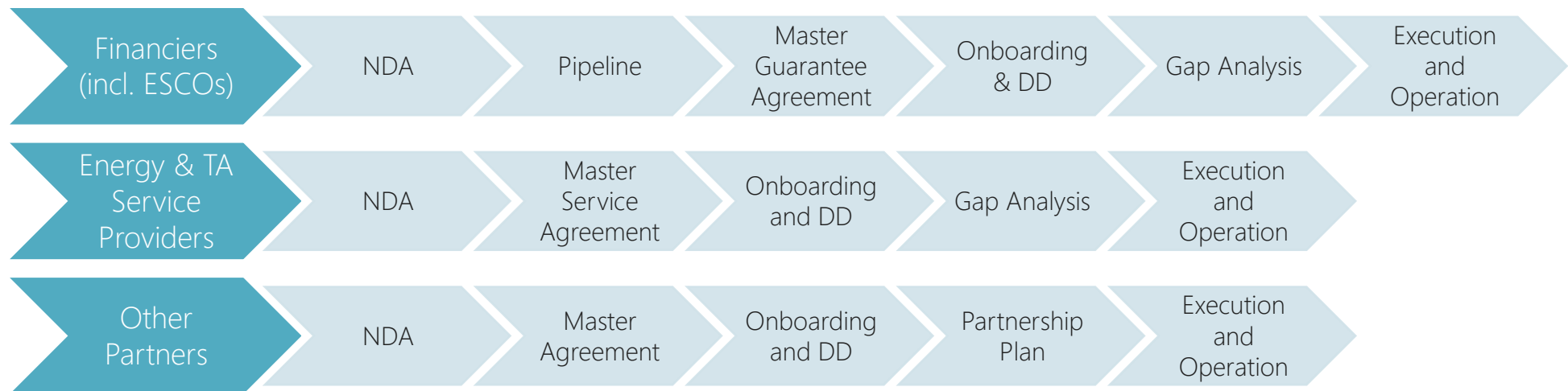
Continue to build pipeline and financing partnerships

Continue to build TA partnerships

Implement and operationalise the IT Portal

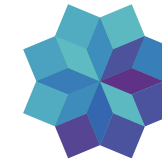
Resource mobilisation for full-scale roll-out (target \$100m)

CRAF: Working with CRAF



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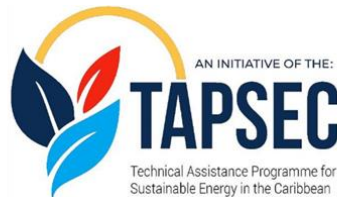
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