CASE STUDY 3: CENTRAL AMERICA - E+Co CAREC MEZZANINE FINANCE FUND

Barriers	High collateral and project equity requirements for commercial loans
Instrument	Mezzanine debt financing
Application	Finances up to 25% of project capital costs for renewable energy projects
Amount	Total targeted capitalisation of US$20 million

PROJECT BACKGROUND AND OBJECTIVES

In Latin America and the Caribbean, a key barrier to affordable financing for RE project developers and small businesses has been high collateral and project equity requirements for bank loans. To address these barriers, and to mobilize commercial and development bank debt from both local and international sources, the recently established Central American Renewable Energy and Cleaner Production (CAREC) Facility provides innovative, '"mezzanine" financing for renewable energy, energy efficiency and clean production projects in seven countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). Mezzanine financing serves as a bridge to help entrepreneurs access bank loans by, for example, offering unsecured loans or additional project equity. The fund's US$20 million capital will be used to co-finance energy projects with local banks, and is expected to leverage over US$65m in private investment for clean energy projects.

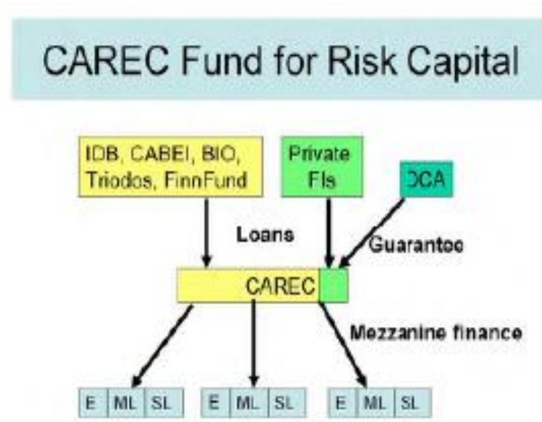
Establishment of CAREC reflects E+Co.'s operating philosophy to be a strategic and patient investor, focused on SSRE projects and enterprises, combine their investment with hands-on TA to clients, use grant funding to cover the extra investment origination and advisory functions required, and to spin-off and create dedicated funds and investment management teams as good market niches are defined.

INSTRUMENTS USED

CAREC provides flexible capital – mezzanine-finance such as subordinated debt, convertible debt, preferred shares, and other quasi-equity structures.

CAREC finances up to 25% of a project's capital cost. The terms of CAREC finance are matched to a project's revenue stream, loan payment come out of revenues net of operating costs and senior debt service.

The instruments are typically designed to earn a fixed rate of return plus additional returns in the form of profit sharing, ownership shares, and potentially, acquisition and sale of carbon emission reduction credits. Figure below shows how the CAREC Fund is financed (E = equity, ML = mezzanine loan, SL = senior loan).



Source: UNEP (2010), Publicly Backed Guarantees As Policy Instruments to Promote Clean Energy.

INSTITUTIONAL ARRANGEMENTS

CAREC, managed by E+Co Capital Ltd., a subsidiary of E+Co, Inc., was initiated with core financial and institutional support from the Multilateral Investment Fund (MIF) of the Inter- American Development Bank (IDB). In addition to MIF, other CAREC's investors include the Central American Bank for Economic Integration (CABEI), The Belgian Investment Company for Developing Countries (BIO), Triodos Renewable Energy for Development Fund (TREDF) and the Finnish Fund for Industrial Cooperation, Ltd. (Finnfund). Also, with grant funding from MIF and the Netherlands Development Finance Company (FMO) the fund will have a TA facility to help cover investment preparation and project and business financial advisory services.

CAREC works together with local financial institution. The target market is mainly SSRE projects, < 5 MW typically, and mostly grid connected, but also including a range of clean energy enterprises. CAREC is operated mainly from E+Co's San Jose, Costa Rica offices.

OUTCOMES

Several projects have been financed through CAREC. In Guatemala, an investment of US$2.5 million was approved in 2006 for *Bioenergia*, a company that recycles biogas from distilleries. In Honduras, two projects have been financed; one is a 13.5 MW hydroelectric plant, investment approved in 2006 and already electrifying households and industries in Intibuca. Another one is 9.5MW private grid-connected hydroelectric plant, investment approved in 2009. Electricity generated will be sold to national utility under a 20 year PPA. In Costa Rica, investment was approved in 2010 for a beef rendering plant that uses bi-products to process meat and bone for animal consumption.

Further reading

CAREC website – click here