

## EE RETROFIT AND RE FINANCE (SMART FUND LOAN) FACILITY GUIDELINES

The Energy Efficiency (EE) Retrofit and Renewable Energy (RE) Finance Facility supports the implementation of EE and RE projects through loans at below-market rates.

### **Size**

The size of the EE Retrofit and RE Finance Facility is BDS\$12,000,000 (twelve million), subject to any potential reallocation of funds among the Smart Fund's facilities.

### **Eligible customers**

Businesses operating in Barbados (regardless of size of annual sales or revenues, and regardless of line of business), including hotels, are eligible to receive funding under the EE Retrofit and RE Finance Facility. Priority is given to Small and Medium-Sized Businesses. For the purposes of giving priority, a Small or Medium-Sized Business is defined - consistent with the definition<sup>2</sup> by the Central Bank of Barbados - either as one incorporated under the Companies Act and approved as a small business in accordance with the Small Business Development Act, 1999-23; or one that meets the following criteria:

- Gross sales/revenues up to and not exceeding BDS\$5 million per year.
- Stated or paid-up capital up to and not exceeding BDS\$2 million.
- Majority (over 50 percent) Barbadian-owned.
- Not controlled by another business whose reserves and/or capital or non-Barbadian ownership exceed the criteria above.
- Criterion for hotels only: accommodation capacity must not exceed fifty (50) rooms.
- Criterion for businesses engaged in agriculture only: acreage under cultivation must not exceed 25 acres.

### **Eligible projects**

Projects eligible for support under the EE Retrofit and RE Finance Facility are of two types:

- **Energy efficiency and conservation projects.** Energy efficiency projects are projects that save electrical or thermal energy by reducing the intensity of its use (that is, reducing the energy consumed given a constant level of output). Energy conservation projects are projects that save electrical or thermal energy by avoiding its unnecessary use.
- **Distributed scale renewable energy projects.** Renewable energy projects are projects that generate electrical or thermal energy using renewable sources available in Barbados (such as the sun, the wind, and others). This facility supports distributed scale renewable energy projects, which are those that generate energy at customer premises, close to where it is consumed. Eligible distributed RE projects include both those connected to the grid for purposes of re-sale of excess electricity; and those not connected to the grid. The Smart Fund establishes no special limit on installed capacity (kW) of eligible systems.

Utility scale<sup>6</sup> RE projects—those that need to be installed at a dedicated site given their large size, and that supply power over the transmission and distribution grids—are not eligible for support under the EE Retrofit and RE Finance Facility.

RE projects that under the laws of Barbados require authorization under an order or special Act for supplying electrical power are not eligible for support by the Smart Fund.

Project costs eligible for loans are defined on a turnkey basis—that is, capital costs (both material and labor costs) directly related to implementing an EE or RE project.

### **Eligible technologies**

Given the types of eligible EE and RE projects described above, eligible technologies are those that are **technically viable** (that is, EE and RE technologies that are proven) and **economically viable** (that is, EE and RE technologies that decrease energy costs in Barbados). Experimental or non-proven technologies, and technologies that increase energy costs, are not eligible for support.

The Smart Fund Technical Committee (SFTC) (in particular, the Project Execution Unit (PEU) representative within it) is responsible for conducting the technical and economic review of technologies to determine their eligibility for support. The SFTC conducts a technical and economic review of technologies based on the following criteria:

- **Energy efficiency and conservation technologies**
  - **Efficient lighting technologies (Compact Fluorescent Lamps—CFLs, T8 fluorescent lamps, occupancy sensors, T5 high output lamps, magnetic induction street lights, and other efficient lights):** assumed to be technically and economically viable provided they comply with a certificate issued by the Barbados National Standards Institute (BNSI). In the absence of a certificate issued by BNSI, the SFTC may base its assessment on:
    - The Energy Stars certification scheme, or in the absence of that,
    - CFLs approved for sale in the European Union based on the CE certification system
  - **Appliances (excluding refrigerators):** assumed to be technically and economically viable provided they comply with a certificate issued by the BNSI. In the absence of a certificate issued by BNSI, the SFTC may base its assessment on any of the following:
    - The Energy Star certification scheme
    - The European Union Energy Star<sub>7</sub> certification scheme for office appliances
    - European Energy Label system
  - **Refrigerators (for residential and commercial use):** provided they comply with certificate issued by BNSI. The SEFB found that efficient refrigerators, although certified under international schemes, do not perform fully efficiently in Barbados due to different climate conditions.
  - **Light Emitting Diode (LED) lights:** not eligible, based on the finding by the Sustainable Energy Framework for Barbados (SEFB) that LEDs are far from being economically viable due to their high capital cost. This criterion is subject to review 3 years from the beginning of operations of the EE Retrofit and RE Finance Facility, or sooner, to assess whether costs of LED lights has decreased sufficiently to make them economically viable.

- **Power monitors for energy conservation:** always viable and eligible for funding.
- **Other energy saving equipment** (including insulating material, coatings): based on a case-by-case assessment by the SFTC.
- **Distributed scale renewable energy technologies.**
  - **Solar water heaters:** solar water heaters that are manufactured in Barbados are assumed to be always technically and economically viable thanks to the country’s proven and successful experience with this technology. Solar water heaters not manufactured in Barbados (or only assembled in Barbados) are subject to a case-by-case assessment by the SFTC, using the Smart Fund Assessment Tool as it deems appropriate.
  - **Hybrid solar photovoltaic (PV)/thermal systems:** based on a case-by-case assessment by the SFTC, using the Smart Fund Assessment Tool as it deems appropriate. Systems connected to the grid must also meet the technical requirements published in BL&P’s Requirements for Grid Interconnection of Renewable Generation Systems (2009).
  - **Small solar photovoltaic (PV) systems:** based on a case-by-case assessment by the SFTC, using the Smart Fund Assessment Tool as it deems appropriate. Again, systems connected to the grid must also meet the technical requirements published in BL&P’s Requirements for Grid Interconnection of Renewable Generation Systems.
  - **Small wind systems:** the SEFB found small wind systems to be not economically viable (and far from being so). Therefore, normally small wind systems are not eligible for funding. However, the SFTC may consider the potential eligibility of small wind systems on a case-by-case basis if their capital costs undergo a significant decrease, using the Smart Fund Assessment Tool as it deems appropriate. Again, systems connected to the grid must also meet the technical requirements published in BL&P’s Requirements for Grid Interconnection of Renewable Generation Systems.
  - **Other RE systems:** other RE technologies are not deemed to be viable at distributed scale, and therefore not eligible for funding. The SFTC may consider technical and economic viability of other RE technologies in the future, in case technical and economic conditions change.

The SFTC has the authority to use its discretion to determine technical and economic viability establishing exceptions to the criteria above, on a case-by-case basis.

Loans are provided to eligible businesses on a first-come, first-served basis. The process for providing support under the EE retrofit and RE Finance Facility involves the following eight steps (note that steps 2 and 4 are optional, and EGFL may at its discretion proceed directly to the next step):

1. **Application and required documentation.** A business submits an application to EGFL for obtaining a loan for implementing an EE or RE project. In applying, the business may or may not be assisted by a Smart Fund Partner. To apply, the business must submit the following:
  - a. **A signed Letter of Intent.** This is a brief cover letter that presents the application, and states the applicant’s interest to obtain funding (it is not a commitment on the part of the applicant to access funding, or on the part of EGFL to offer funding). In the letter of intent, the applicant states whether it intends to obtain funding only from the EE Retrofit and RE Finance Facility

(only for project implementation), or if it also intends to obtain funding from the TA Facility (also for project preparation). They may indicate the entity or individual that it wants to perform the audit or study—if it is not already a SFP, it would need to qualify as a SFP for funding under the TA Facility to be approved for that project.

- b. A Project Idea.** This document presents the EE and/or RE project that the applicant intends to obtain funding for, describing expected costs, performance, and benefits of the project. A Project Idea may combine both EE and RE measures, or focus on either EE or RE only.

If in the Letter of Intent the applicant states that it also intends to obtain funding from the TA Facility for an EE audit or RE study, the Project Idea must still provide a reasonable overview of expected costs, performance, and benefits of the project. Applicants must indicate the scope that the EE audit and RE study should cover, and request an amount not greater than the maximum allowed (BDS\$40,000). Where EE measures are concerned, the Project Idea should consist of a preliminary audit report. The applicant may or may not indicate a desired entity or individual for carrying out the EE audit or RE study. In either case, the individual or company who will perform the task will need to qualify as a SFP.

If in the Letter of Intent the applicant states that it only intends to obtain funding from the EE Retrofit and RE Finance Facility, the Project Idea should be sufficiently detailed to allow a full technical, economic, and financial assessment with no need of further studies

As explained below, the SFTC may or may not agree with the applicant's view regarding a project's need for further studies funded by the TA Facility—it may recommend doing one even when the applicant does not request it, or recommend not doing one and still approve the project even when the applicant requests it.

- c. Copies of electricity and gas bills for the last 12 months.**

- d. For corporate applicants only, copies of the following documentation at EGFL's satisfaction, based on its standard procedures for loan applications:** documentation may include, as requested by EGFL, financial statements—income statement and balance sheet—for the last three years immediately preceding the year of application (where existing); Certificate of Incorporation; Notice of Address or Notice of Change of Address of the registered office; Notice of Directors or Notice of Change of Directors; Articles of Incorporation; Bylaws.

- e. Governmental or corporate approvals, permits and consents required** in connection with the execution of the project. These must be obtained and be in full force and effect (proof provided to EGFL) prior to any disbursement of funds.

- 2. Preliminary Review by EGFL (optional).** To avoid spending unnecessary time and efforts and ensure an efficient process, EGFL may, at its discretion, conduct a brief preliminary review to eliminate ineligible applications prior to any further review. EGFL's preliminary review may have one of two outcomes:

- a.** EGFL may deem an application **ineligible** if the applicant does not qualify as an eligible customer, or if not all required documentation is submitted, or if the applicant is patently not creditworthy based on EGFL's own credit review parameters. An applicant may not appeal against this decision, which ends the process.

b. EGFL may simply forward to the SFTC all applications it deems **eligible**, or for which it decides, at its own discretion, that a preliminary review is unnecessary.

**3. Technical-economic review by SFTC.** The SFTC reviews applications forwarded by EGFL to assess their technical and economic (but not financial) viability, based on criteria for eligible projects and eligible technologies described above. There may be just one technical-economic review by the SFTC (if no further EE audit or RE study is carried out), or two (if an EE audit or RE study is carried out). The SFTC's first technical-economic review may have one of three outcomes:

a. The SFTC may **approve a project** because it deems it technically and economically viable. The SFTC may also approve a project for which the applicant requested funding from the TA Facility, if it deems the project sufficiently sound to proceed in the process without further studies. The SFTC forwards approved applications to EGFL for its final financial review under step 6 (approved projects skip steps 4 and 5).

b. The SFTC may **reject a project** because it deems it technically or economically not viable. The SFTC may reject a project even if the applicant has requested funding for project preparation from the TA Facility. The SFTC informs EGFL of its decision to reject a project justifying its decision in writing, and the EGFL communicates this justified decision to the unsuccessful applicant in writing. An applicant may not appeal against this decision, which ends the process.

c. The SFTC may **recommend a project for a grant** from the TA Facility to support its further preparation—either because it agrees with the applicant's request, or based on its own assessment of the project (regardless of whether the applicant has or has not applied for a grant). The SFTC forwards its recommendation for a grant to EGFL for EGFL to conduct its optional supplementary financial review (step 4) and then disburse the grant (step 5). The SFTC may approve or amend the scope and amount requested for the EE audit or RE study, when specified by the applicant; if none are specified, the SFTC recommends a scope and amount for the EE audit or RE study.

The SFTC's second technical review is done when it receives the EE audit or RE study carried out after steps 4 and 5 below. In this case, the SFTC either approves an application (as for step 3.a) or rejects it (as for step 3.b). Approved applications are forwarded to EGFL for step 6.

The Program Manager is responsible for drafting and signing all reviews and written recommendations of the SFTC, and for submitting these to EGFL, with copy to ETD and the IDB.

**4. Supplementary review by EGFL (optional).** Since technical and financial aspects of EE and RE projects are closely related, any further EE audit or RE study funded by the TA Facility may consider these aspects in conjunction. EGFL may review the project to assess whether the EE audit or RE study should also further investigate financial aspects, or agree or comment on the request for such further investigation by the applicant (if the applicant has specifically requested it). EGFL may, at its discretion, decide that no supplementary financial review is necessary, and proceed directly to step 5.

**5. Approval and disbursement of grant by EGFL.** Provided that the entity performing the EE audit or RE study has qualified as Smart Fund Partner (SFP), EGFL approves an amount for the grant up to the maximum allowed, and negotiates a deposit with the applicant, as outlined in the TA guidelines. The deposit is expressed as a percentage of the total amount of the grant, and explicitly

includes the management fee (not reimbursable). The amount approved for the grant should be set to cover the entire cost of the EE audit or RE study—however, EGFL may consider exceptions on a case-by-case basis, and allow applicants to provide additional funding if they wish to do so.

EGFL disburses the grant to the applicant for the applicant to pay for the EE audit or RE study, in one or more installments as it negotiates with the applicant. The applicant's deposit is a necessary condition for disbursement (unless EGFL and the SFTC have decided to waive the requirement, see TA guidelines). Regarding the entity or individual that carries out the EE audit or RE study, the following rules apply:

- a. If the applicant indicates a **desired entity or individual** for carrying out the audit or study, it may use the grant to pay the desired entity or individual provided that this entity or individual either (i) already qualifies as SFP, or (ii) qualifies as SFP at that point, according to normal qualification criteria and procedure for selecting SFPs.
- b. If the applicant does not indicate any desired entity or individual for carrying out the audit or study, EGFL directs the applicant to the full list of **Smart Fund Partners**. Applicants are free to contact just one SFP, or get quotes from more than one SFPs. Applicants decide which SFP they use. EGFL will satisfy itself that any contract entered into by applicants represents the most efficient and effective use of the Fund's resources.

In either case, eligible applicants hire and pay SFPs directly, either based on the pre-existing list, or providing that an individual or entity is not on the list, qualifies as SFP at that point.

EGFL receives the EE audit or RE study carried out, and forwards it to the SFTC for its second technical review as described under step 3. At that point, the SFTC either approves an application (as per step 3.a), or rejects it (as per step 3.b, a decision against which the applicant may not appeal, and which ends the process). Approved applications are forwarded to EGFL for step 6

6. **Final financial review by EGFL.** EGFL conducts a full financial review according to its credit review practices and parameters. EGFL's review may have one of two outcomes:
  - a. EGFL may decide to **reject** the application. The unsuccessful applicant may not appeal against this decision, which ends the process.
  - b. EGFL may decide to **approve** the application for a loan, based on terms it negotiates with the applicant according to what described below. An approved application leads to the subsequent step of disbursement.
7. **Disbursement of loan.** EGFL disburses the loan to the applicant in one or more installments, as negotiated with the applicant. Disbursement is subject to terms and conditions described below.
8. **Implementation.** The EE or RE project is implemented, and the successful applicant repays the loan based on agreed terms and conditions. **Implementation is subject to monitoring and evaluation by EGFL, its representatives and other entities associated with the administration of the Smart Fund.**

Applicants are free to withdraw their application at any step of the process.

## Terms and Conditions under the EE Retrofit and RE Finance Facility

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Terms and conditions for loans awarded under the EE Retrofit and RE Finance Facility are as follows:

- **Size of loans and loan amount per applicant:** the maximum loan size is BDS\$1,500,000, which is also the maximum loan amount that may be provided to any single applicant. The maximum amount of loan per applicant may be provided through more than one loan.
- **Interest Rate:** the rate of interest on loans is calculated based on 3 –month LIBOR. It will be variable and will be calculated on a reducing balance basis.
- **Loan restrictions**
  - Loans from this facility are not be used to fund capital and other operating expenses that would be incurred in the normal course of business.
  - The resources of this facility are not to be used to refinance existing debt. Loans are provided for implementing EE measures and/or RE systems at eligible businesses, in accordance with eligibility criteria.
- **Loan Repayment Periods:** repayment periods are 10 years or less. All loans are to be fully repaid within a 10 year period, which may include a moratorium on interest payments. Moratoriums for special business cycles may also be considered. Repayments are to be based, as far as practicable, on the energy cost savings derived from the implementation of the project; they may also be based on the borrowers' business cycle. Unless otherwise specified by EGFL, there are no penalties for early repayment. EGFL may give consideration, and grant approval, to extending the period should circumstances so suggest and on the non-objection of the Government.
- **Loan Security:** security on loans generally takes the form of a first legal mortgage, as normally required by EGFL. However, the Smart Fund may take second mortgages in instances where the market realization value of the underlying security is adequate to liquidate all prior charges and the Smart Fund's exposure.
- **Statutory Payments:** prior to disbursement of a loan, applicants must ensure that all National Insurance Scheme (NIS), Value Added Tax (VAT), and Pay As You Earn (PAYE) taxes are current, or that satisfactory arrangements have been made (and proof provided to EGFL) to discharge their obligations to the relevant entities. A default on these arrangements may result in the Fund placing a call on applicants to repay any funds outstanding.
- **Cost Overruns:** budget overruns or changes in project scope are the responsibility of the borrower.
- **Inspection.** EGFL is empowered to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency. Borrowers accept terms and conditions on random inspections by independent auditors hired by the ETD in accordance with its procurement rules and IDB's, or dedicated ETD staff, by signing a loan agreement.

▪ **Other conditions:**

- For procurement of those goods and services not financed out of the proceeds of the EE Retrofit and RE Finance Facility, the borrower may adopt other procedures. In such cases, EGFL must be satisfied that the procedures to be used fulfill the borrower’s obligation to cause the total project to be carried out diligently and efficiently. EGFL must also be satisfied that the goods and services to be procured: (i) are of satisfactory quality, and compatible with the balance of the project; (ii) are delivered or completed in a timely fashion; and (iii) are priced so as not to adversely affect the financial viability of the project.
- Any major change or variation contemplated in the execution of the contract for retrofitting must be approved by EGFL. A major change or variation is defined as one that results in a 10 percent increase in overall project cost, or more.
- Disbursements to pay for equipment, material, and services are made:
  - To the supplier, where items are procured locally, and as far as is practical.
  - To the borrower, where items are to be imported directly by the borrower.
- In all instances the amount of disbursements should reflect the cost of the retrofits and equipment as indicated in pro forma invoices.
- Where the plant and equipment is being imported directly, the borrower is required to provide evidence that the appropriate funds have been remitted to the supplier within thirty days of receiving disbursement from the Smart Fund.

Should applicants fail to meet the above obligations, EGFL may institute legal or other action to recover any sums advanced and withhold any further payments.