



Environmental **Investment** Fund
of **Namibia** | ensuring sustainability

ENVIRONMENTAL INVESTMENT FUND OF NAMIBIA

Operational Guidelines

GREEN CREDIT LINE

2021

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1. Introduction

Namibia has attained remarkable economic achievements after nearly 30 years of innovation and opening policies. These achievements are greatly attributed to the nationwide establishment and development of economic and enabling policies, which were designed to create a favourable environment for manufacturers and entrepreneurs, both domestic and international. However, it is urgent that environmental issues and environmental management should be addressed within the context of entrepreneurial development.

The Environmental Investment Fund of Namibia (Fund) has developed a green concessional lending product with the aim to avail sustainable capital for SMEs wanting to access green financial mechanisms. The Fund notes that there is an increasing number of SMEs seeking to capitalise on green and sustainable strategies, incorporating them into their business strategy and aligning their funding mechanisms to sustainable development commitments. Supporting SMEs to improve their environmental footprint can promote the transfer, application and diffusion of cleaner production technology and methods to reduce hazardous waste, greenhouse gas (GHG) emissions, water pollutants, while also helping them become more competitive

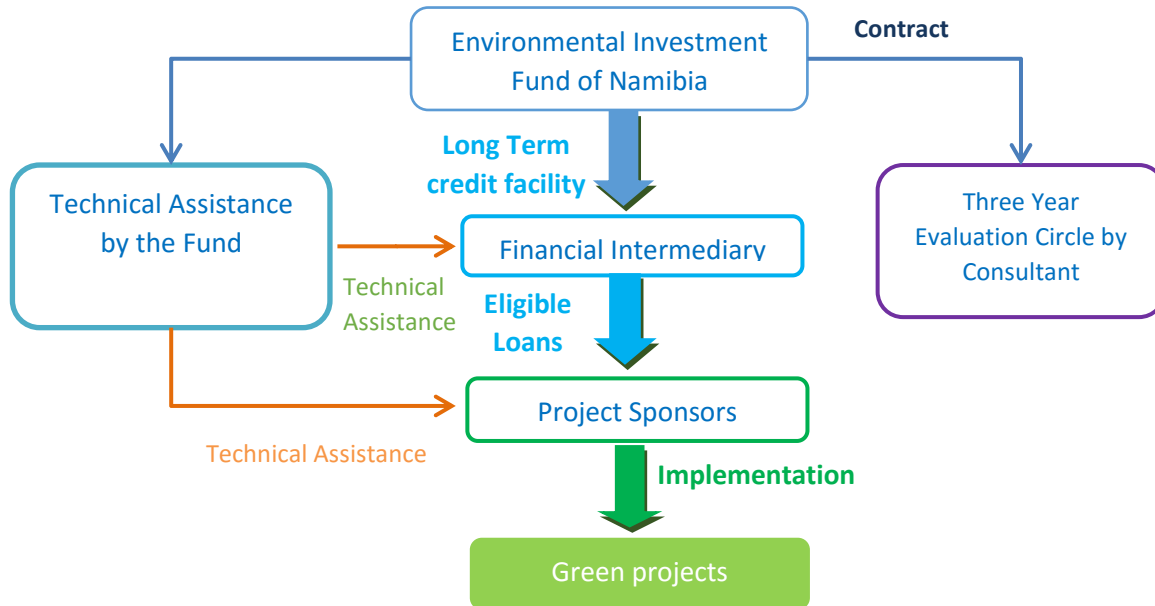
2. Mandate

Environmental Investment Fund of Namibia is an investment fund set under the laws of Namibia through an act of parliament of the Environmental Investments Fund Act, of 2001 (no 130 of 2001) as a statutory entity outside the public service with clear and separate roles and functions distinct from Government body and entity. The Fund is established to mobilize financial resources for an endowment fund that will generate a sustainable financial pool for direct investment in environmental protection, promotion of green technologies and other natural resource management activities and projects, which aims support the sustainable economic development of Namibia. This speaks to:

- a) the sustainable use and management of natural resources;
- b) the maintenance of the natural resource base and ecological processes;
- c) the maintenance of biological diversity and ecosystems; and
- d) Socio-economic improvements in the use of natural resources for sustainable rural and urban development.

Credit Line

The Green Credit Facility will be implemented through the establishment of a credit line to a financial intermediary, preferably an entity with proven experience and specialization in the area of SME financing. The intermediary entity will then, in turn, use these credit lines to finance projects that have high environmental benefits. The Fund will support the financial intermediary and project promoters to ensure that the project pipeline and the actual portfolio attains the objectives of the facility.



The technical assistance to support the financial intermediary in developing their activities, portfolio and capacity in green financing. Based on the needs expressed by the sector, the following detailed activities will be implemented through such arrangements:

- Screening of client database to identify potential beneficiaries;
- Support to the development of, and review of procedures for green financing;
- Site visits of projects and technical due diligence of projects in support of the financial intermediary;
- Potential support of project sponsors in developing bankable projects;
- Communication and marketing of the credit line.

3. Proposed Products

3.1 Facility quantum/ capitalization

- The Fund will capitalize the facility with an initial amount of N\$30, 000 000
- A further annual recapitalisation based on performance and as new financial products are developed and proposed.
- The initial investment period is 5 years to the financial intermediary

3.2 Product offering

- The facility will allocate capital to productive enterprises through a variety of blended/ hybrid instruments namely debt, guarantees and equity (for future considerations) to the preference of borrowers through a credit line extended to the financial intermediary.

- Interest to be charged by the Fund on the credit line
- The line of credit will be secured by the successful intermediary
- This offering will have a clear distinct and separation from all and other granting facilities administered by the Fund. The objective is to not have the proposed facility competing with existing grant facilities but for them to be complementary services to each other in the green financing space that the Fund aims to continue championing.

3.3 Debt Instruments

- Concessional loans (Term loans): Offered under commercial terms (up to prime minus 4 in consideration of risk exposure and available collateral) - N\$100 000 – N\$2,000,000
- Bridging finance (contract base): Offered under commercial terms (up to prime minus 4 in consideration of risk exposure and available collateral) - N\$100 000- N\$1 000 000
- Repayment periods under this facility is between 1 to 8 years

3.4 Guarantees

Guarantees will be considered under the credit line on a case-by-case basis. The guarantees offered will be limited to sectors that the EIF has identified as priority area of investments.

The financial intermediary may provide performance guarantees, advance payments and credit security bonds (from other lenders) under the credit line.

If the financial intermediary believes that a project has a high level of commercial viability, but the project proposer is unable to meet the collateral requirement, the financial intermediary may approach the EIF to provide a credit guaranteed of up to 100% of the credit amount sought. Based on the merit of the project, the EIF may grant the credit guarantee.

The EIF shall create an internal credit evaluation committee consisting of not less than 3 members, that will assess the guarantee requests from the financial intermediary.

3.5 Equity

Equity offering and financing in sectors under consideration will be a future consideration based on facility performance and future re-capitalization

3.6 Security

The loan is to be provided in the form of a Line of Credit with the successful bidder assuming full credit risk on the loans. Credit line will be fully secured by successful institution, proportioned to the funds secured.

The financial intermediary may use a number of instruments to secure the credit facility, these include but are not limited to the following:

- Collateral from the recipient
- Suretyship of the loan from an individual who is employed full time.
- A cession agreement with the off-taker, if in the judgment of the financial intermediary, the off-taker is a reputable entity.
- If the client has been banking with the financial intermediary for a significant period of time, a credit scoring lending approach will be allowed.
- Insurance products including business loan protection insurance and credit life insurance.
- For bank guarantees, the financial intermediary may request a cash cover by the lending entity.

The EIF will explore self-insuring some of the credit risk through an alternative risk transfer insurance product from an insurance company.

3.7 Priority Investment Areas

Investment areas under consideration in the facility are the areas (with considerations for youth enterprises)

- Renewable Energy and Energy Efficiency
- Natural Resource Value Chains
- Waste Management / Recycling
- Sustainable Agriculture
- Bush Encroachment
- Sustainable Tourism
- Green Technologies Innovations
- Resource Efficient (water, etc)

4. Selection Criteria

General selection conditions/criteria for financial support are based on:

- environmental protection effectiveness and urgency
- size and characteristics
- economic viability
- ability to repay

- sustainability and replicability
- applicability of suitable advanced technology, especially domestic manufacturing
- direct contribution to government environmental policies

Besides the general conditions, each form of support requires further specific conditions including scale, duration, preferential interest rates, guarantees/grants, as follows.

i. Requirements for preferential loans

The decision to provide investors with preferential loans (guarantee) is based on the following conditions:

- eligible client for preferential loans as stipulated above;
- capacity for civil legal and civil acts, taking civil responsibilities in accordance with legal regulations;
- completion of investment procedures in accordance with legal regulations;
- existing evaluation and approval of Loan Application Document;
- sufficient financial and repayment ability in the period specified in the Loan Application Documents while ensuring the committed counterpart capital;

loan collateral such as the property assets, assets from loans or guarantees by a third party. In special cases, the unsecured lending is to be decided by the fund management committee/internal credit evaluation committee. In the payoff period, the investor or the guarantor is not allowed to transfer, trade or collateralize assets which are hypothecated or bailed to borrow elsewhere.

5. Monitoring and Evaluation

The financial intermediary must ensure adequate monitoring and evaluation of the disbursed funds in order to ascertain that the disbursed funds are used as intended by the loan recipient. This includes but is not limited to:

- paying funds to service providers instead of directly to the loan recipient;
- agreeing to certain milestones with the loan recipient to be met with disbursed funds and following up to make sure they are met;
- disbursing loans in tranches based on milestones being met, instead of the full approved amount all being paid at once;
- requesting quarterly reports from the loan recipient on the progress of the business

Additionally, the financial intermediary must provide the necessary support to loan recipients to ensure that they are in a position to repay their debt obligation. This may include enrolling the loan recipient in a short entrepreneurship course or making a business coach available to the loan recipient to assist in the areas in which they are struggling.

The above can be made a precondition for receiving funding or continuing funding.

6. Summarised terms of the facility

Financing amount	<ul style="list-style-type: none"> • Initial amount N\$ 32,000,000.00 • Depending on performance and audited reports, the scheme will be re-capitalized annually. • The EIF will also engage development partners to recapitalize the credit line
Term of facility	<p>Loan repayment of maximum eight years (inclusive of a 6- 12month grace).</p> <p>Loan recipients may make a bullet repayment at any point in time during the loan period.</p>
Grace Period	<ul style="list-style-type: none"> • A 6-month loan grace period shall be granted under this facility. • The grace period can be extended up to 12 months at the discretion of the financial intermediary, if the recipient is unable to pay after the first 6 months. • No grace period will be allowed for bridging finance facilities.
Application of funds	<p>The funds are to be used to provide credit to a successful Financial Intermediary's (both existing and prospective).</p> <p>The funds will be used to fund term loans as well as to provide bridging finance.</p>
Nature of transaction	The loan is to be provided in the form of a Line of Credit with the successful bidder assuming full credit risk.
Principal Documentation	<p>(a) The Loan Agreement between the Fund and Financial Intermediary</p> <p>(b) All legal documents pertaining to securities, cessions and notaries</p>
Financing range	The financing range should be for loans ranging between N\$100,000 to N\$ 2,000,000.
Priority Sectors to be financed	<ul style="list-style-type: none"> • Renewable Energy and Energy Efficiency • Natural Resource Management • Waste Management/ recycling • Sustainable Agriculture • Sustainable Tourism • Green Innovations
Interest rate	The successful Financial Intermediary shall pay interest on the Investment, as follows:

	<p>i) On the Investor Portfolio, the Portfolio Interest Rate: This is a rate calculated at three hundred basis points below the rate at which Namibian Commercial banks borrow money from the Bank of Namibia against collateral (repo rate), provided that such rate shall never be less than 3.5% per annum.</p> <p>ii) On the balance of the Investment (undrawn portion) the Wholesale Call Rate: This is the interest rate known as such and paid by the Bank to its corporate clients on deposits made by such clients with the Bank, in excess of N\$ 1 (one) million. If the financial intermediary is not a bank, the interest rate will be equal to the call money market index rate.</p> <p>(ii) The default margin for late payments under the Line of Credit shall be the margin set out in (i) above plus 2.0% p.a.</p>
Disbursements of LOC	Disbursements will be phased in N\$ 5 million tranches, with subsequent disbursements released on request and after satisfactory utilization of 85% of previous disbursement.
Security	<p>Credit line will be fully secured by successful institution, proportioned to the funds secured.</p> <ul style="list-style-type: none"> • The internal credit evaluation committee may provide a guarantee on application by the financial intermediary. • Notary bond to be registered on the availed collateral • The Line of Credit will be reviewed annually on the basis of audited financial statements.

7. Proposed set-up

7.1 Project Origination & Identification

- Identification of lead and viable projects will originate from both the networks & pipelines of the Fund and financial intermediary.
- The Fund & Financial Intermediary could dually play a role of identifying high potential sectors / sub-sectors / customers that could be targeted by the credit facility, this is because the Fund as an intuition has access to a network of project developers and investors that the financially intermediary can tap from.

7.2 Project assessments

- The underwriting and credit assessments of all the loans under the facility will be done in accordance with the successful institutions own credit & lending processes

- In accordance, the condition to these processes is for the Business Development & Financial Investment Analyst of the Fund to be part and composition of the financial intermediary's credit committee where all funding request under this facility are tabled
- The credit committee should propose to convene monthly
- Project appraisal methodology will be provided by the Financial Intermediary, in consultation with the Fund lending unit technical team
- The Fund to have a functionary in the post funding monitoring of all funding given under this facility

7.3 Communication, informational tools and marketing activities

- The Fund will support the eligible financial intermediary the marketing and branding activities of the scheme
- All communication and marketing materials outlining the structure of the financial products and facility will be done in close collaboration with the Fund.

8. Fees

Green financial products are becoming more and more diverse and can become an opportunity for financial institutions to improve their market share; to increase profit; to create customers' loyalty with new products; to improve employee satisfaction and retention; to enhance their brand image; to catch positive media attention; to improve licenses to operate delivered by governments; and to strengthen relationships and partnerships with external eco-friendly stakeholders. The eligible financial intermediary will have to adhere to the following fee clauses or condition:

Match funding contribution: The successful applicant will have to prove that they are able to contribute at least 1% of own contribution towards the credit line facility.

- The EIF has a target annual return equal to the Bank of Namibia repo rate.
- The funds' interest rate will be charged at the prime rate minus 1%. This will be reviewed whenever there is a change in the prime rate.
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- The financial intermediary will have to ensure that the EIF's Environmental and Social Safeguards are absolved in the lending appraisals techniques and product development.
- A flat management fee of N\$ 20,000.00 per month and 2% of fund disbursed of asset under management will be charged by the financial intermediation company.
- The EIF will provide a grant amount of N\$500,000.00 (Five Hundred Thousand Namibia Dollar) per annum to cover as an expense account.
- A 2.5% penalty will be charged by the EIF to the intermediary entity on undisbursed funds per annum.

9. All securities or collateral pledged under this funding will be in favour of the EIF.

10. Skills and Experience Required

The financial intermediary should possess experience in and provide a project team with suitable expertise in the following fields and demonstrated experience as a fund manager, including experience with strategy, business development, client acquisition, investment due diligence, portfolio management, exit planning, fund structure, and back-office operations.

- a. Establishment and operations of investment products, including sovereign investment funds that invest domestically, and including legal, regulatory, institutional and governance aspects.
- b. Establishment and operation of investment products according to the EIF proposed model
- c. Developing project pipelines and structuring of SMEs funding
- d. A strategic thinker with an ability to see the “big picture” of country, regional and global private sector development challenges and proactively identify opportunities that can have transformative impact
- e. Strategic business acumen, deal making skills, an investment track record, and strong operational hands-on skills are highly desirable
- f. Strong organizational skills with an ability to work under time pressure, respond to ad-hoc shifts in client priorities, unstructured situations and unexpected events while maintaining order and delivery.
- g. Experience in Small and Medium business finance
- i . Ability to communicate effectively, and credibly
- j. Excellent written and verbal English communications skills essential.