ANNEX I

Description of Risk Sharing Facility (RSF)

The details presented in this Annex are for general information only and are not binding on GIZ or the PFI. Participating Agreements will be signed between GIZ and the PFI and will spell out the details of the RSF implementation.

Terms and conditions of the RSF from GIZ to PFI

The RSF's budget would be EUR 4.2 Million, which will be from the NAMA facility mechanism will have two objectives

- To provide partial credit guarantees of upto 25% to loans from commercial banks and NBFCs to large waste management companies which have annual turnover greater than INR 25 Crores (> EUR 3.1 Million) with regional/national outreach; the guarantees are meant to make credit from commercial banks and NBFCs more easily accessible to these companies. The budget for this portion of the RSF will be 60%.
- To provide partial credit guarantees upto 50% to loans from commercial banks and NBFCs to smaller waste management companies which have annual turnover less than or equal to INR 25 Crores (=< EUR 3.1 Million); the guarantees are meant to make credit from commercial banks and NBFCs more easily available to smaller waste management companies and start-ups. The budget for this portion of the RSF will be 40%.

Financial Additionality

At an average guarantee of EUR 3 Million of 25% of loan sizes for large companies and EUR 2 Million of 50% of loan sizes for smaller companies, the CGF can leverage a financial additionality (additional capital leveraged from financial institutions) of around EUR 16 Million for financing waste management projects and companies.

RSF Structure

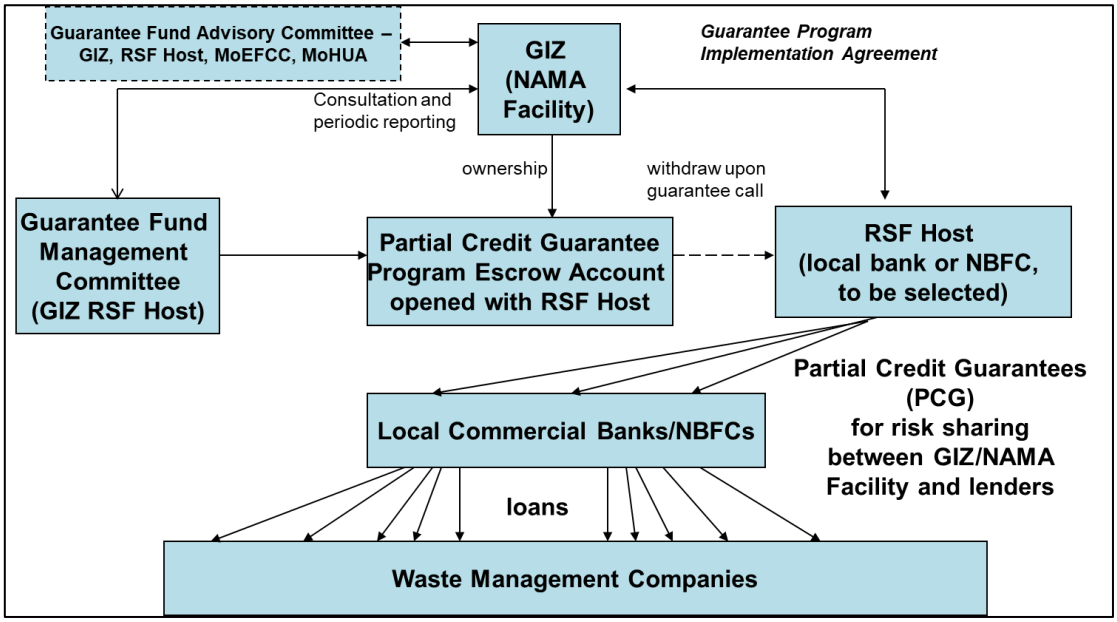

Figure 1: Institutional Structure of RSF Guarantee

1. The fund amount of EUR 4.2 million will be deposited in a special guarantee fund account opened by the RSF Host.
2. GIZ NAMA program will work with RSF Host, commercial banks and NBFCs to build a pipeline of Waste management companies that can access credit using this guarantee facility; organizations such as the industry associations, CII, FICCI, apart from existing customer base of RSF Host, commercial banks and NBFCs will be used as channels to create awareness on the availability of such a guarantee facility and build pipeline
3. The guarantee facility is to be provided as a package together with credit offered from commercial banks and NBFCs to Waste management companies; credit assessment and customer due diligence exercises are to be performed jointly by the guarantor (RSF Host) and lender (commercial banks/NBFCs)
4. The RSF will not provide a guarantee exceeding **EUR 500,000** in absolute terms for any project whether it is for a large firm or a small waste management firm. The respective loan percentage restrictions will follow the guidelines mentioned in section 1.2.
5. Large Waste management companies, which require loans for either working capital or medium-term loans secure these loans from local commercial banks and NBFCs. RSF Host as the guarantor provides credit guarantee of upto 25% or EUR 500,000 of the loan amount, whichever is lower, to the lending commercial bank/NBFC and the Waste management companies (borrowers) provide the rest 75% of the collateral required for a loan from their own fixed assets/capital sources.
6. Small local Waste management companies (MSEs/startups), who require loans for either working capital or medium term loans of average size EUR 500,000 or less, secure these loans from commercial banks/NBFCs; RSF Host as the guarantor provides credit risk guarantee of upto 50% or EUR 500,000,whichever is lower, of the loan amount to the lending financial institution and the Waste management companies (borrowers) provide the rest 50% of the collateral required for a loan from their own fixed assets/capital sources.
7. The guarantee fund account will be administered by RSF Host but qualified professionals from GIZ and the RSF Host will be designated as guarantee fund management committee members.

8. The guarantee fund amount needs to be accessed by RSF Host only in case of default by a borrower, i.e. when the lending commercial bank or NBFC decide to classify a loan as a 'non-performing asset' (NPA) and RSF Host, after it is convinced that the lender has attempted loan recovery but no earlier than 6 months from the NPA classification, can withdraw the guaranteed amount from the fund and pay the lender. Any recovery made by the lender should be followed by a corresponding repayment to the guarantee fund.
9. Any guarantees above EUR 50,000 and all withdrawals from the guarantee fund account need to be reviewed and approved by the fund's management committee.
10. Representatives of GIZ, RSF Host, Ministry of Environment, Forestry and Climate Change (MoEFCC) and Ministry of Housing and Urban Affairs (MoHUA) of the Government of India would be designated as guarantee fund advisory committee members, who will be periodically updated on the progress, credit risk exposure and pipeline of the guarantee fund by the RSF Host.

CGF Mechanism

Eligible Borrowers

In order to avail the credit risk guarantee facility offered by RSF Host,

- Borrowers must meet the lending norms and credit risk profiles of lending financial institution
- Borrowers need to have an approved loan (capex loan or working capital/overdraft) from a licensed commercial bank or NBFC in India, based on a detailed due diligence and credit assessment completed by the lending commercial bank or NBFC
- The purpose of the loan from the lending financial institution must be for the borrower's waste management business, which could be (i) biomethanation, (ii) recycling, (iii) composting or/and (iv) RDF.
- Borrowers intending to use the guarantee facility for obtaining a loan/letter of credit from a commercial bank for importing equipment, need to have the necessary import license and tax/duty registrations as required by Indian law.
- Borrowers must be able to provide the necessary collateral (cash collateral or fixed assets) to cover the rest of the collateral requirement of the lending financial institution which will not be covered by the guarantee facility (50-75% or less)

Loan types under the RSF

- Working capital loans or overdraft facilities provided by commercial banks and NBFCs to waste management companies; the tenor of these loans are typically less than 1 year
- Medium-term loans provided by commercial banks or NBFCs for capital investment requirements (capex loans) of waste management companies who setup biomethanation or recycling or composting or RDF facilities (pre-construction loans issued at financial close); tenor of these loans are typically between 1 to 5 years.
- These credit guarantees can also be used to partially reduce the DSRA bank deposits/guarantees (typically covering 3-6 months of loan repayment instalments) required by commercial banks/NBFCs during loan repayment periods after completion of project construction.
- Letter of Credit (L/C) or similar credit facilities offered by commercial banks to importers of equipment; tenor of these loans are typically 3 months to 1 year

Lending Financial Institutions

The guarantor, RSF Host, will identify a few commercial banks and NBFCs which are financially stable, likely to lend to the target borrowers and have good client due diligence credit assessment practices. The RSF Host will be required to submit a shortlist of banks along with detailed due diligence reports on these banks to GIZ for approval. The criteria for selection of the lending financial institution has been described in section 5.0 of the report.

CGF- Two years Subordination

For an initial period of 2 years, this guarantee facility will be subordinate, which means that the guarantee facility will rank behind lenders in recovery of funds in case of default (i.e. if guarantee is called), in order to provide additional incentives to lenders to lend to Waste management companies. However, after 2 years, depending on the popularity of the scheme and its risk profile, the guarantee facility will be offered on parity with lenders in recovery of funds in case of default

Credit Risk Coverage Ratio

The RSF Host under this project, guarantees will cover a maximum 50% or EUR 500,000, whichever is lower, of the principal of the loan offered by a lender. However, lenders and RSF Host will be required to conduct a thorough assessment of the borrower's ability to repay as well as provide cash or fixed asset collateral and only then determine the guarantee coverage ratio for each individual loan, with a maximum coverage ratio capped to EUR 500,000 or 50%, whichever is lower. Lower than 50% coverage ratios for some borrowers will be encouraged in order to enable the guarantee fund facility to leverage higher additionality of the facility.

Terms of the Guarantee

- For working capital loans or Letter of Credit (L/C) provided by commercial banks and NBFCs with tenors of upto 1 year, the guarantee facility will be for the entire tenor of the loan
- For medium-term loans provided by commercial banks and NBFCs for capital investment requirements with tenors of 1 to 5 years, the guarantee facility will be for 75% of the loan tenor, if the loan repayments are made periodically during the tenor. For example, a medium-term loan of tenor 36 months with quarterly repayments, will be provided a guarantee for 27 months. The guarantee facility will expire after 27 months (at the time of repayment of 9th quarterly instalment) and the freed funds will be reallocated to provide guarantee to new loans.
- For guarantees partially covering bank deposits/guarantees (typically covering 3-6 months of loan repayment instalments in DSRA accounts) required by commercial banks/NBFCs during loan repayment periods after completion of project construction, the guarantees will be offered for tenors of upto 75% of the loan repayment tenor, matching the tenor of guarantees offered for the capex loans (medium terms loans described above)
- The guarantee facility will not be allowed to guarantee medium term loans (of tenor greater than 1 year) that are structured to allow a single, lumpsum repayment at the end of the loan tenor

Guarantee Fees

The lending financial institution, which could be a bank or NBFC, which avails this guarantee facility to provide credit to Waste management companies, will pay a fee of **…..% (To be determined)** per annum of the outstanding loan principal balance covered by the guarantee facility to RSF Host. This fee will cover RSF Host's costs of operating the guarantee fund, including cost of conducting due diligence and credit assessments of borrowers. The fees will be calculated in the same way as the lending bank's interest income accrual policy of the loan and fee payments are made by the lender to RSF Host on a quarterly basis. The lending financial institution will be allowed to pass on this fee to the borrower

Due Diligence and Credit Risk Assessments of Borrowers

Both the lender and RSF Host will be responsible to conduct detailed due diligence and credit risk assessments of borrowers, in addition to a detailed assessment of the borrowers' ability to provide cash or fixed asset collaterals. RSF Host will be encouraged to conduct independent, detailed credit assessments of borrowers before approving any guarantee requests from lenders.

Leverage Ratio and Risk Management

- For an initial period of 2 years, while approving a credit guarantee request from a lender, the guarantee facility will be required to reserves a portion of its guarantee fund equal to the guarantee liability amount, thus maintaining a 1:1 guarantee fund leverage ratio. If the guarantee is not called before its expiry, then the reserved funds are freed for use in providing guarantees to new loans.

- After 2 years, based on a detailed evaluation of the popularity of this guarantee facility, demand for guarantees from lenders and the guarantee fund's risk assessment of loans guaranteed until then, this leverage ratio might be allowed to increase upto 1:2. In general, based on experience of other guarantee funds in developing countries, a leverage ratio beyond 1:2 is not recommended.

- In case of a default by the borrower, lenders will be required by the guarantee agreement with RSF Host to exercise reasonable recovery actions including instituting liquidation proceedings on cash/fixed asset collateral provided by the borrower. Any failure on the part of the lender to exercise all possible recovery actions will result in RSF Host terminating the guarantee facility for that particular transaction. Guarantee claims payments to lenders will be made before 90 days after the loan is classified as non-performing loan by the lender and a call on the guarantee is received by RSF Host.

Guarantee Fund Management Committee (GFMC) and Advisory Committee

The guarantee fund account, which will be a special escrow account of RSF Host, will have a fund management committee comprising of GIZ and RSF Host.

- The committee will be responsible for approval of lenders (commercial banks and NBFCs) that will be eligible to receive guarantees from the facility.
- The committee will also conduct periodic audits and review of the fund's guarantee liabilities and review selected credit risk assessments conducted by the lender and RSF Host.
- Any guarantee of value EUR 50,000 and above need to be reviewed and approved by the committee.
- In case of call on guarantee due to defaults, all claim payments to the lenders have to be reviewed and approved by the committee.

Representatives of GIZ, RSF Host, Ministry of Environment, Forestry and Climate Change (MoEFCC) and Ministry of Housing and Urban Affairs (MoHUA) of the Government of India would be designated as guarantee fund advisory committee members, who will be periodically updated on the progress, credit risk exposure and pipeline of the guarantee fund by the RSF Host.