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SAWEA
South African Wind Energy Association

DEVELOPING DEVELOPERS
LIVE WEBINARS

THE FINANCIAL OUTLOOK: BANKABILITY TO FINANCIAL CLOSE

12 NOVEMBER 2020 – 14:00pm

IN PARTNERSHIP WITH

BEPA Black Energy Professionals Association

RENEWABLE ENERGY ENTREPRENEUR FC

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MAINSTREAM RENEWABLE POWER SOUTH AFRICA

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Chanda Nxumalo
SAPVIA
Spokesperson & Board Member

WELCOME

Welcome to the "The Financial Outlook: Bankability To Financial Close " Webinar 2020

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LOCAL RESOURCES – GLOBAL COMPETENCE

SAPVIA and SAWEA, in partnership with BEPA, IPPO and REEF(SA) present the second webinar of the seven-part series of workshops to address key areas that aspiring developers need to understand.

A financial perspective of how to make renewable energy projects bankable, how to get access to funding and what it takes to reach financial close, will be unpacked in this session.

As the representative voices of the solar PV and Wind industries we are constantly working towards collaborating with stakeholders across the renewable energy sector to share knowledge and drive effective change. Developing South African developers to build local competence of global standard, is key in accelerating the local renewable energy market.

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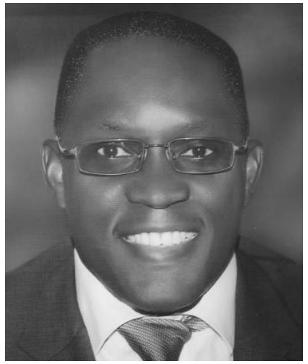
AGENDA

SPEAKERS

SHERRILL BYRNE
Standard Bank
Executive: Energy & Infrastructure

LUNGILE TOM
DBSA
Senior Investment Officer: Project Finance

MARK VAN WYK
Mergence Investment Managers
Projects Partner and Head of Energy Sector



MICHAEL SUDARKASA
Private Finance Advisory Network (PFAN)
Country Coordinator: SA, Lesotho and Eswatini

THABISO TENYANE
Phakwe Group
Executive Chairman

AGENDA: *14h00 – 16h00*

- Introduction and Welcome **SAPVIA**
- The REIPPPP Financial Outlook: Financial Modelling to Financial Close **STANDARD BANK**
- Bankability of REIPPPP Projects **DBSA**
- Experiences of equity funders participating in the REIPPPP **MERGENCE INVESTMENT MANAGERS**
- Access to Funding for black participation in REIPPPP **PRIVATE FINANCE ADVISORY NETWORK (PFAN)**
- Developer Spotlight **PHAKWE GROUP**
- Q&A **SAWEA**
- Closing Remarks **SAWEA**

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SHERRILL BYRNE
Standard Bank
Executive: Energy & Infrastructure

Sherrill Byrne is an Executive at Standard Bank's Energy and Infrastructure Team in Investment Banking. Sherrill has over 13 years' experience in the sector and has worked on numerous energy and infrastructure projects in South Africa and the rest of Africa. Under the SA REIPP program, she has closed over 750MW of renewables projects including wind and PV projects. Sherrill has worked throughout Africa as well closing over 300MW of both thermal and renewable energy projects. She is also experienced with infrastructure projects and has worked on gas projects including pipeline infrastructure on the continent.

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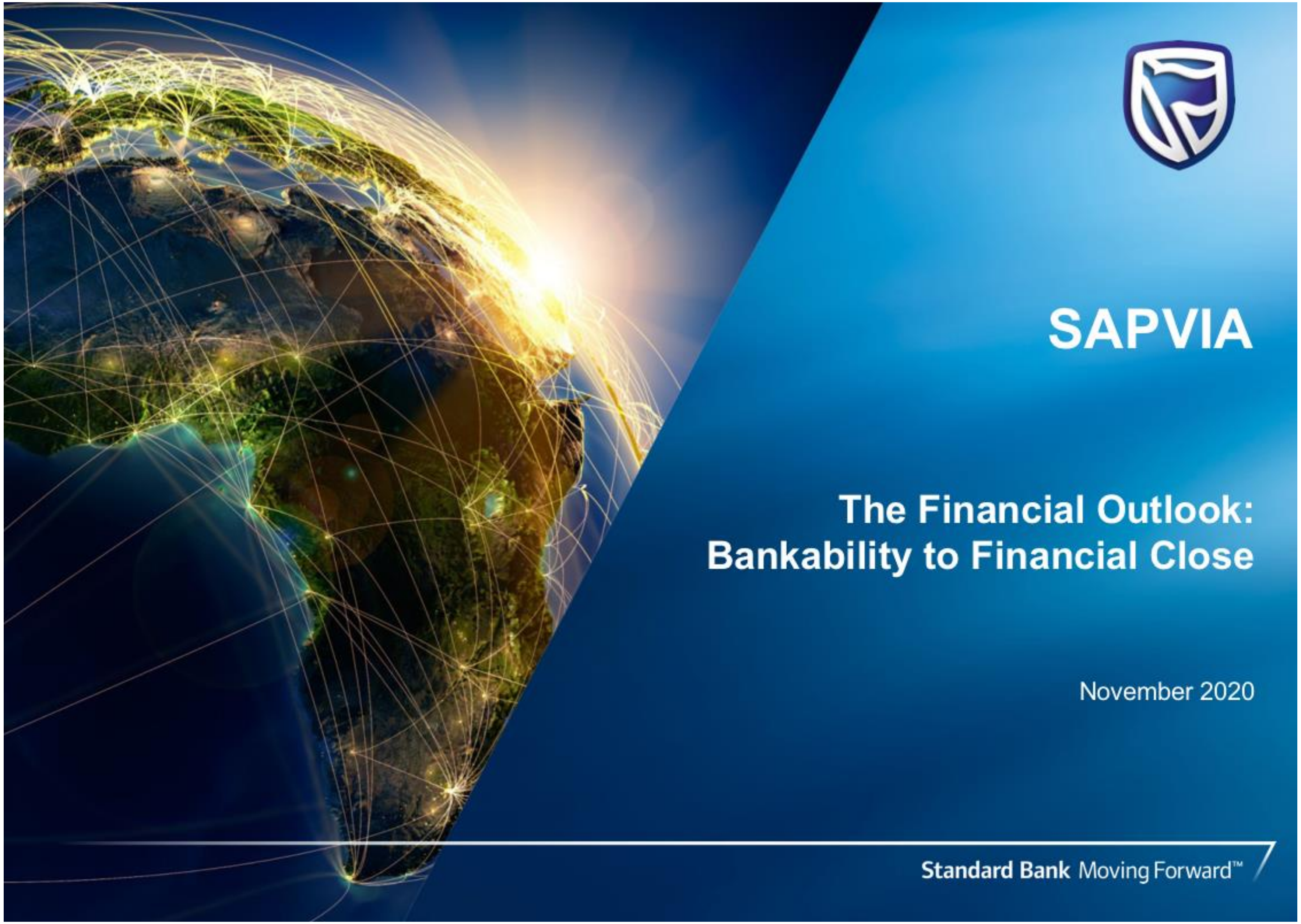
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The Financial Outlook:
Bankability to Financial Close
November 2020
Standard Bank Moving Forward™

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Top bank in Africa

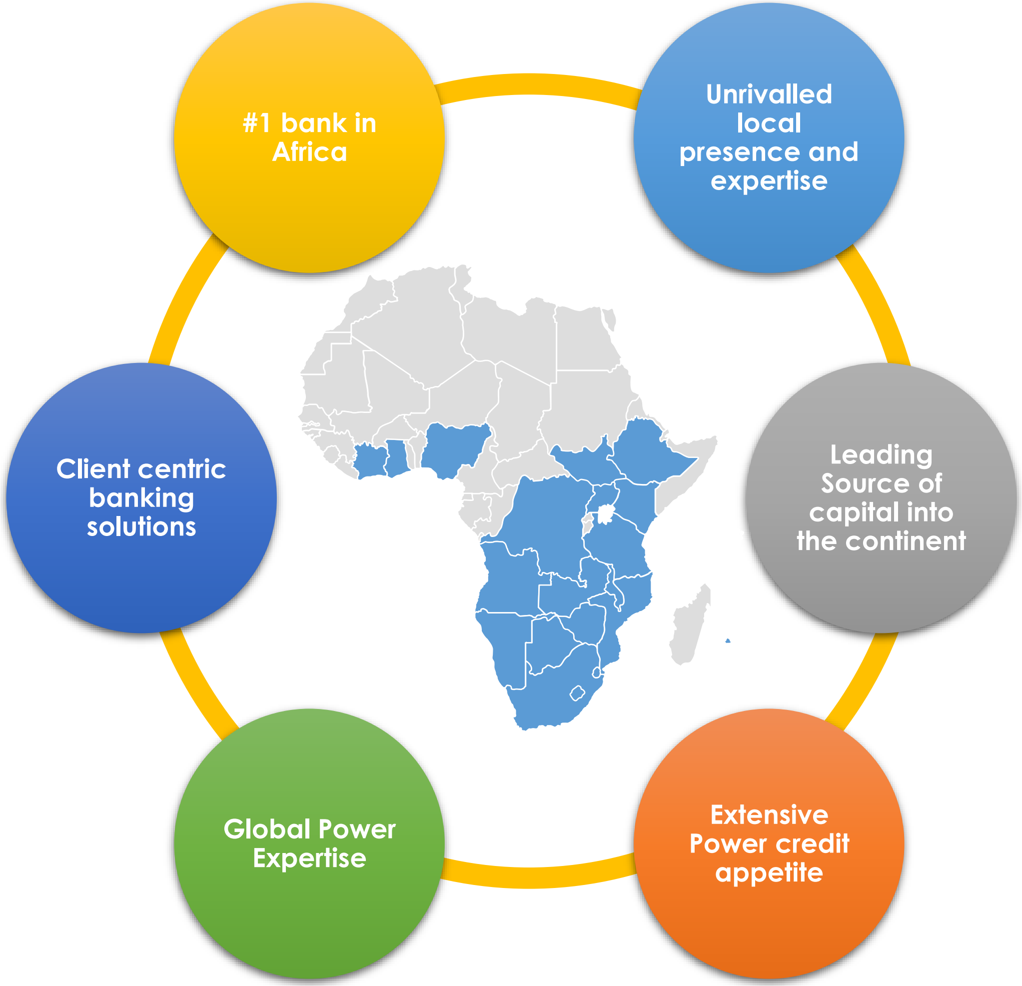
- Best Bank in Africa award 2018
- Best Investment Bank in Africa award 2018
- Best Trade Finance provider in Africa award 2018
- Best FX provider in Africa award 2018
- Comprehensive universal banking value proposition across Africa

Competitive banking solutions

- Integrated banking platform
- Transactional banking and services
- Global markets solutions

Power Sector Expertise

- One of the leading MLAs of power projects across the continent
- One of the largest lenders in South Africa under RMIPP



Africa specialists

- Africa is our home – SSA sole strategic focus
- Present in 20 countries – the broadest SSA footprint of any international bank
- International bank standards and expertise with local bank know-how and relationships

Africa's source of capital

- Leading bank in syndicated loans across SSA
- Leading bank in SSA bond market
- #1 M&A advisor bank in Africa
- #1 equity platform in Africa

Extensive sector lending appetite

- #1 sector lender across SSA
- Best lending credentials across the sector

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1/ Standard Bank's Arranging Proposal

Key Financing Considerations

FINANCING OBJECTIVES

- In devising the appropriate financing structure, cognizance needs to be taken of the objectives of the main parties to be involved in the financing, namely the Sponsors and the Lenders:

Sponsor's Objectives	Lenders Objectives
Limited recourse funding terms	Fully de-risked project with mitigants for revenue shortfall and payment assurance
Maximise debt funding and pools of liquidity	Robust security package
Guaranteed minimum return on investments	Bankable contractual structure
Maximise Shareholders return	Suitable repayment profile
Some flexibility in funding terms	Reserve accounts
Maximise access to competitively priced funding	Industry standard Financial Ratios
Maximise loan tenors	Dividend distributions subject to key banking ratios being maintained
Achievement of financial close within shortest possible time	Rights under material contracts

- The optimal funding solution will seek to balance the objectives between the Equity Sponsors and Lenders
- The financing solution will therefore take the following into consideration:
  - Robust and practical security structure / credit enhancements for proposed lenders
  - Balanced financing costs via a multi-sourced financing strategy (ECA financing)
  - Robust commercial contracts to appropriately support the financing strategy

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Process To Financial Close

Due Diligence Required and Process to Financial Close

KEY POINTS

Technical, Legal, Insurance, Model Audit, Market and Environmental due diligence will be required in order to reach financial close

We would anticipate that a multi-tranche financing with various lender groups could take up to 10 months to close

- From our experience, we would advise that the following time frames should be considered when determining your program of activities to financial close:

Structure & Bankability → **Due Diligence** → **Financial Close**

1 to 4 months

- Review Offtake and other key contracts
- Build Financial Model
- Conduct market soundings
- Determine optimal funding solution
- Identify Lenders based on RFP
- Initial approval of Lenders based on agreed term sheet
- Begin process of procuring PRI/ECA funding is required

Lead Arranger involved

4 to 10 months

- Lenders and Shareholder's' DD
- Appointment of Advisors:
  - Technical & Environmental, Market, Lender's Legal, Insurance and Model Audit
- Project Documents: EPC, O&M etc. negotiation
- Finance Document finalised
- Coordination of CPs fulfilment process

All Lenders involved

Pre-Approval of Lender → Documents Agreed → Finalize lender's DD & Credit Approval → Condition Precedents Fulfilment → Financial Close → Post Deal Monitoring

FINANCING PROCESS

1 **Bankability Review** → **Development of funding strategy**

- Validation of financial models, analysis of key inputs and sensitivities to permit a full analysis of optimal funding structure;
- Analysis of the optimal debt carrying capacity for the Project;
- Preparation of Teaser and tailor for specific lender requirements;
- Conduct a market sounding with prospective lenders to understand their appetite, tenors, credit approval process and any other specific requirements or conditions to funding;
- Understand the procurement plans for the Project as these will determine potential financing sources;
- Develop a financing timetable, identifying all key project milestones
- Provision of a detailed view on the current state of the bank and non-bank credit markets, which will inform bank club, structure, timing and instrument types;
- Determine the optimal financing plan that meets Sponsor's objectives based on detailed analysis of potential sources of financing
- Full review of transaction structure and documentation for bankability and lender concerns

2 **Debt Arranging** → **Execution of funding strategy**

- Formulating the underwriting strategy
- Assistance with the preparation of a detailed information memorandum
- Preparation of indicative term sheets
- Identifying appropriate target financial institutions
- Coordinate appointment of Lender independent advisors

- Organising investor interactions
- Evaluating funding proposals
- Provision of Board updates
- Assembling the funding consortium
- Advising during negotiations with potential funders

- Project management of the funding time-table
- Assisting Lenders in obtaining necessary approvals
- Management and finalisation of all funding documentation
- Input into legal documents relating to the transaction

3 **Financial Close** → **Participate in required funding**

- Standard Bank will also seek to provide significant balance sheet support (underwriting and hold position) to meet the Project's funding requirement should a tranche of commercial bank funding be required.

VALUE OF LEAD ARRANGER

Raising funding in the current market can be complex and absorb significant management time

The use of a lead arranging bank significantly improves:

1. **The efficiency and speed of the fund raising process;**
2. **The prospects of securing optimal terms; and**
3. **The prospects of raising the required quantum**

Advice and preparation

Develop structure and terms

- Review of the financial model
- Develop an optimal funding structure for the debt raising including currency split
- Advise on market appetite, including ensuring appropriate terms and conditions to suit current market and debt investors

Market strategy

- Provide advice on the relative merits of approaching the funding market on a "fully underwritten" basis versus a "best efforts" basis
- Discuss best approach for development of bank club

Develop detailed terms sheets

- Prepare detailed term sheets for the required funding on terms acceptable to DNG Energy and the funding market

Prepare arranging material

- Assist in the development a comprehensive information memorandum with which to approach the funding market, both ECAs, DFIs and Commercial Banking counterparties
- Disseminate and manage the bidding package including information memorandum, funding presentations, base case financial model and term sheet
- Appoint and manage lenders independent advisors (technical, legal, environmental, insurance, model audit)

Manage drafting attorneys

- Manage the drafting attorneys in preparation of detailed agreements reflecting the required terms

Execute fund raising

Run the book-build process

- Execute and manage all aspects of the book-build process, determine the optimum price / quantum point
- Manage queries in respect of financial model, requests for amendment of terms, etc.

Transaction implementation

- Managing the closing of the transaction, including document execution, CP fulfilment and transaction close
- Advising on any and all contractual arrangements to achieve financial close

Financing Timelines and Process

Suggested Steps in the Arranging Process

Approximately 6-10 Months

1. Decision to Mandate Bank
2. Finalise Indicative Financial Model
3. Teaser and Initial Approach to Market
4. Determine Optimal Financing Structure
5. Finalise Financial Model
6. Appointment of Lender Advisors re Required Due Diligence
7. Formal Approach to Market with Indicative Credit Term Sheets
8. Negotiation of Documentation
9. Finalisation of Initial Due Diligence
10. Final Credit Approved Term Sheets
11. Selection of Lenders
12. CP Fulfilment Process and Financial Close

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2 / What is Meant by Bankable?

What Is Meant by Bankability?

What makes a project "bankable"?

"…is, as it sounds, the acceptability or otherwise of a Project's structure as the basis of a project financing"

"a Project is bankable if lenders and equity are willing to finance it"

Certainty of revenue stream, costs and expenses

Risk Identification

Identify risks

↓

Risk Assessment

Determining the likelihood of identified risks materializing and the magnitude of their consequences

↓

Risk Mitigation

Attempting to reduce the likelihood of the risk occurring and the degree of its consequences

↓

Risk Allocation

Allocating responsibility for dealing with the consequences and/ or agreeing a specified mechanism which may involve sharing the risk

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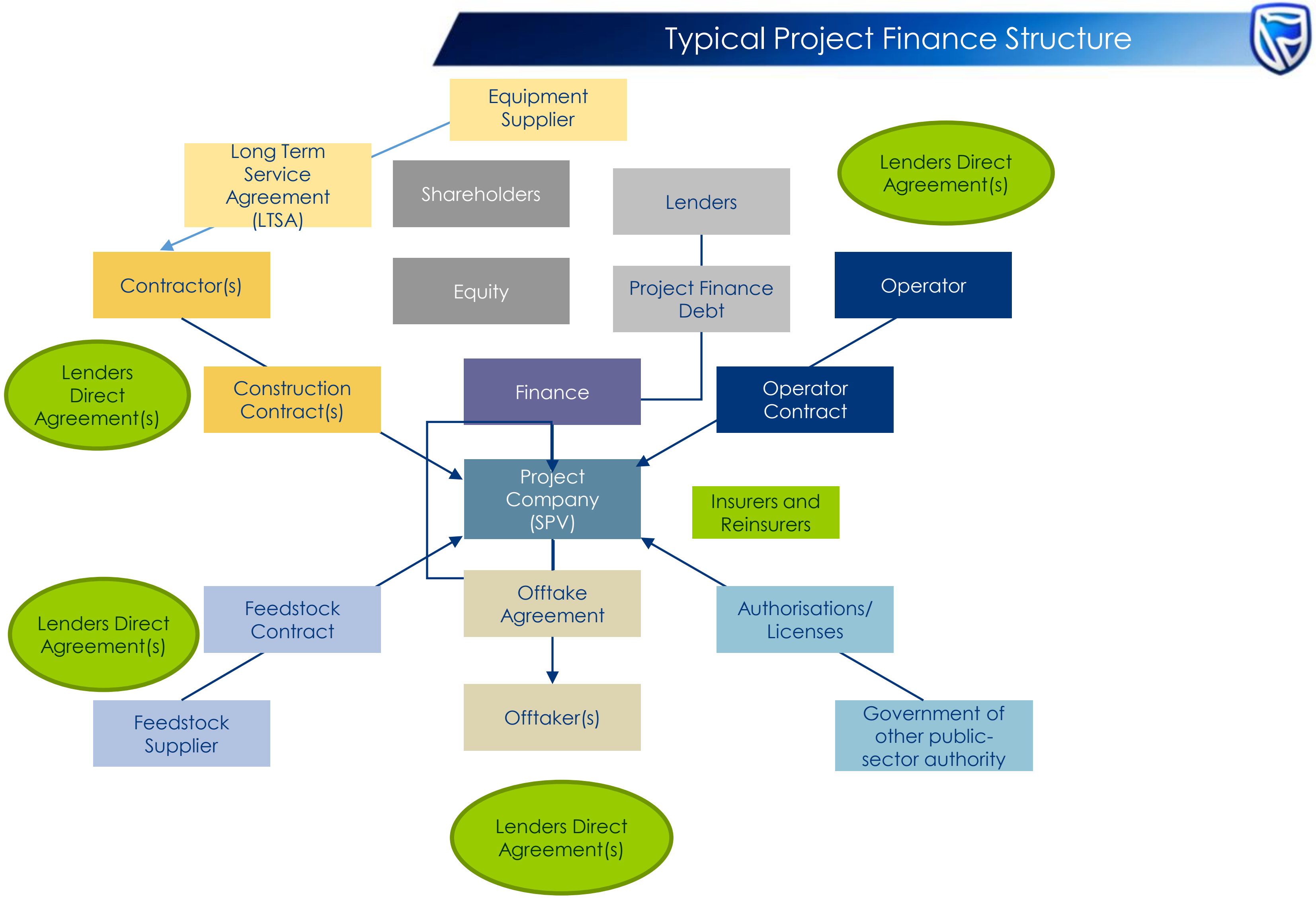
KEY POINTS

As the SPV has no assets or cashflows, analysis of future performance is based on the terms of the underlying contractual framework

Risks must be allocated appropriately: the guiding principle of Project Finance is that financing is structured so that specific project risks are allocated to those parties most able to manage them

Direct Agreements between Lenders and each of the key participants is usual (Feedstock Supplier, Offtaker, Contractor, Operator , LTSA).



Offtake Purchase Agreement – Source of Revenue

Source of future project cash flows

KEY POINTS

The key contract for lenders that defines the cash flow is the offtake contract

If there are multiple offtakers, need to consider priority of supply

Project Company (SPV)

Purchase Agreement

Offtaker(s)

Key Elements

- Long term tenor typical
- Price – set price or linked to formula (market risk)
- Volume guaranteed or committed needs to be sufficient to service debt``````
- Take or pay basis
- Ability to pass through risk to third parties
- Termination compensation regime (political risk, natural force majeure, seller default and buyer/offtaker default)
- Change in law protection or ability to pass through price adjustments
- Strong credit worthiness of the offtaker
- Credit enhancement of offtaker

Projects can cost billions of ZAR and to raise finance, lenders require a strong offtake contract

Fuel Supply Agreement – Feedstock to Generate Revenue

Pass through cost

KEY POINTS

The source and security of fuel supply is a critical component of any project finance

However the cost of the fuel is usually a pass through under the Offtake Contract with the risk of supply being borne by the Project Company

Fuel Supplier

Fuel Supply Contract(s)

Project Company (SPV)

Key Elements

- Source and security of fuel supply is critical
- Availability and price of the fuel supply and requirement for additional infrastructure will be key determining factors in tenor and terms of the Fuel supply contract
- Where infrastructure is needed to be invested in to accommodate fuel supply, a minimum offtake under the offtake contract may be required
- Depending on fuel infrastructure needed, minimum size of facility may be a consideration
- Fuel supplier needs to stand behind feedstock supply risk (time, quality and availability)
- Important that force majeure of fuel supplier is a force majeure under the offtake contract

Lenders want comfort that the fuel is available at the required specification for the term of the Offtake Contract

Use of the funds

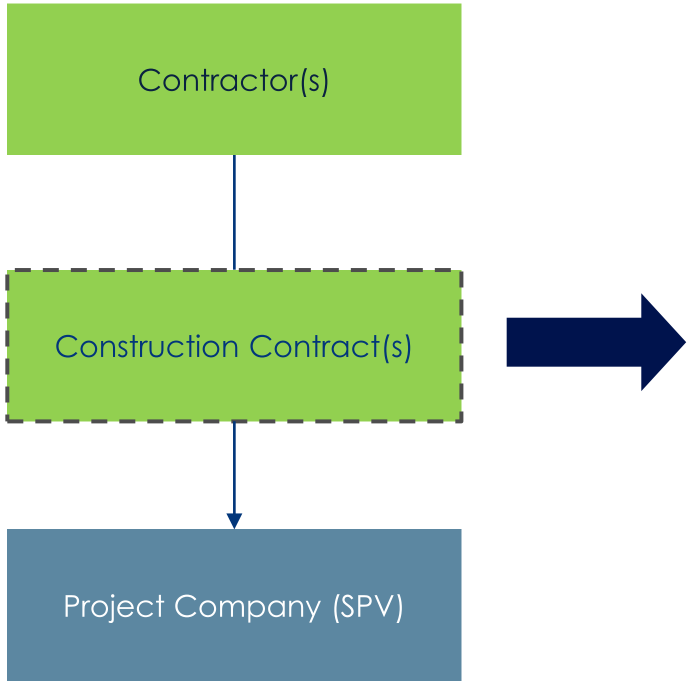
The Construction Contract – Upfront Capex

KEY POINTS

There are many risks associated with the construction phase such as delays and cost overruns

Important to have a reputable contractor and robust contract that allocates risks appropriately

Multiple contractors increases the risks and the need for completion guarantees and/or contingency



Key Elements

- EPC contract (Engineering, Procurement & Construction)
- Often "turnkey" contract – encompasses all the components of the construction into 1 contract - essentially Project Company is able to turn the key on the project once the contract is complete
- Performance bonds – contractor guarantees project completion timing and performance up to a cap. Higher level of bond typically results in more expensive EPC price
- Reputable and strong contractor and strength of balance sheet/guarantee are important consideration
- Often not all risks can be flowed through fully to EPC Contract but goal is to minimise risks sitting with Project Company
- Interface risk between EPC and other required infrastructure needs to be considered carefully as this can lead to disputes and delays which cannot be fully compensated for

Lenders want comfort that project will be completed within a certain time frame and budget

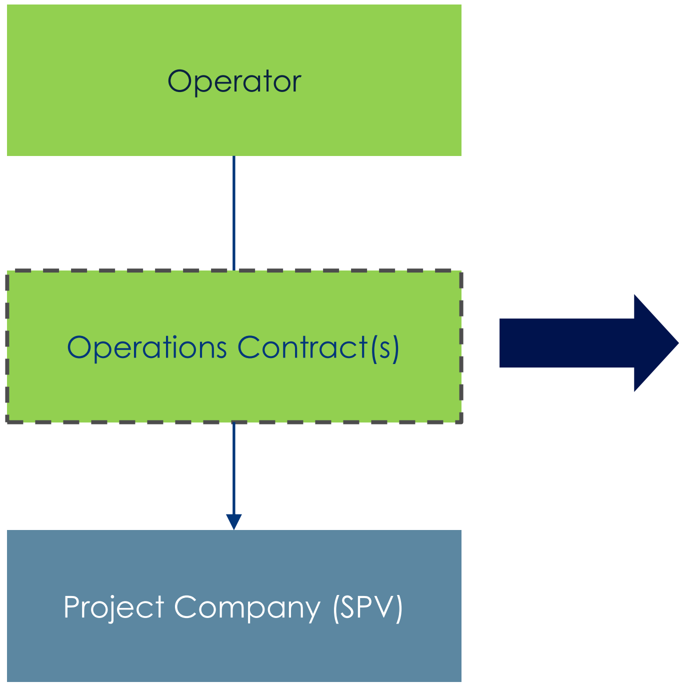
The Operations Contract – Operating Costs

Use of the funds

KEY POINTS

Typically operational risks are considered lower than construction risks

Major maintenance and cost certainty of O&M services are two key components along with penalties being sufficient to ensure performance by the Operator



Key Elements

- Operations and maintenance contract (O&M)
- Skills and experience of operator
- Roles and responsibilities under operating contract
- Minimise price risk to ensure stability of cash flows
- Balance between cost and term of contract as Lenders want a committed operator (especially where skill set in O&M of the applicable technology is lacking in the country) versus cost of a fixed price longer O&M contract
- Understanding of major maintenance profile and determine major maintenance reserve account requirements
- Balance sheet exposure of operator is usually minimal but needs to be sufficient to ensure "hurt" to operator for poor performance
- Ability to replace operator for poor performance ahead of offtake default triggers
- Often not all risks can be flowed through fully to O&M Contract but goal is to minimise risks sitting with Project Company
- Interaction between LTSA (if required) and Operator needs to be understood to prevent disputes and gaps in service

Lenders want comfort project will be operated to the required standards and levels in the Offtakes

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3 / Funding Types and Considerations

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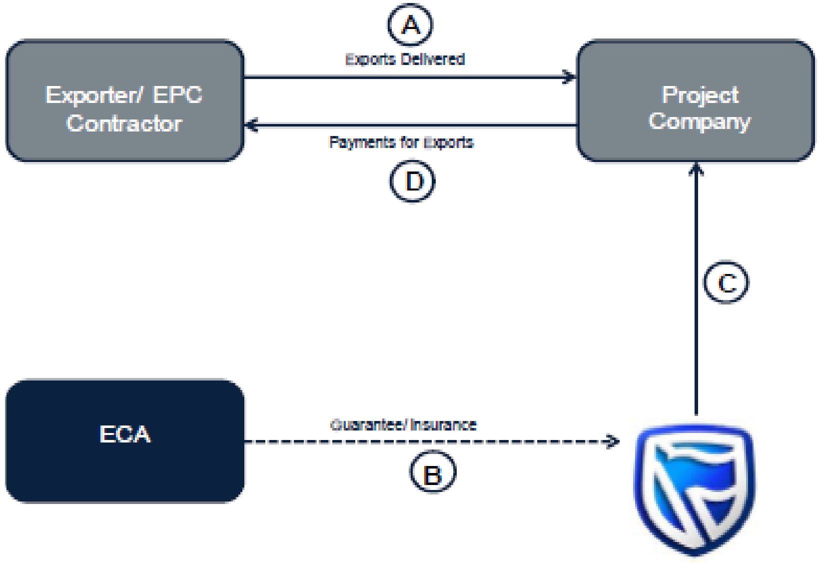
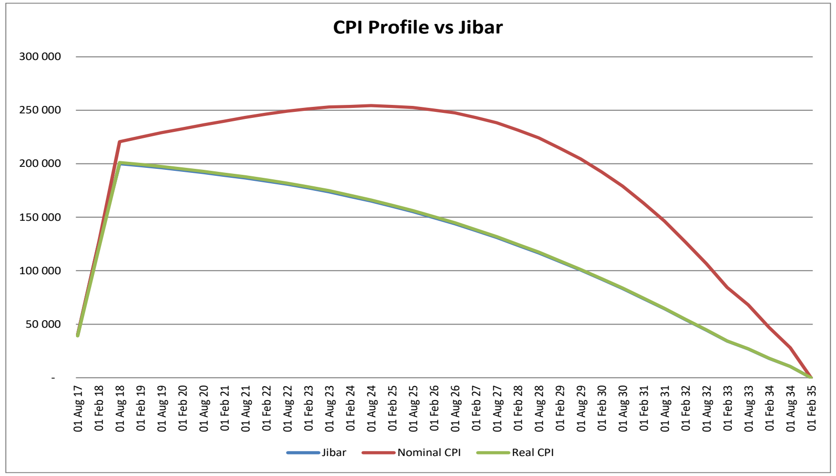
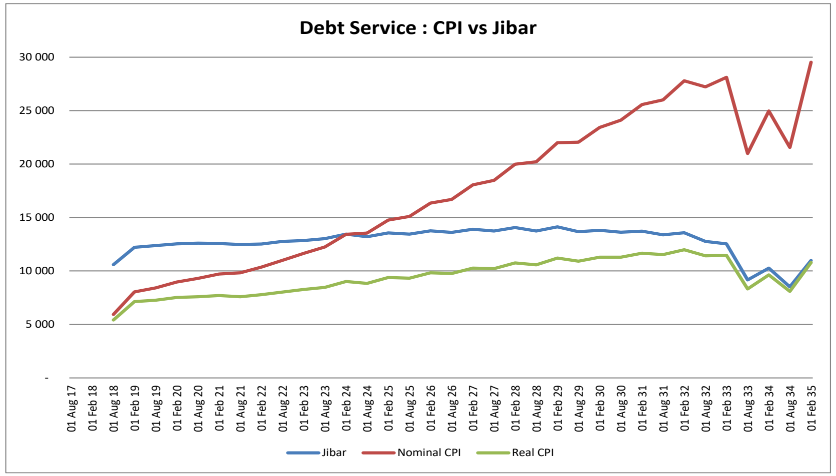
Available Liquidity Pools for Project Finance

- Commercial Banks
- Non Banking Financial Institutions
- Development Finance Institutions
- Export Credit Agency Funding
  - US/European
  - Chinese
- Chinese Commercial Banks
- Bond Markets



- CPI vs Floating Rate vs Fixed Rate Funding





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Appendix

Select Power Tombstones

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Power Tombstone 1/2

STANLIB Infrastructure Private Equity Fund
2019
R400m
Structured Acquisition Facility
Sole Mandated Lead Arranger
Standard Bank

Genser Energy Ghana Limited
2019
USD 50 million
Term Loan Facility
Lender , Agent , Account Bank
Standard Bank

Umeme Limited
2019
USD 201.5 million
Syndicated Term Loan Facility
MLA
Standard Bank

Scatec Solar ASA
Sirius Solar PV, Dyasons Klip 1 & Dyasons Klip 2
April 2018
ZAR 2.29 billion
3 x 75 MW Solar PV Projects
Mandated Lead Arranger, Underwriter & Hedge Provider
Standard Bank

Riverbank Wind Power Pty Ltd (Wesley)
April 2018
ZAR 800 million
33 MW Wind Project
Mandated Lead Arranger, Underwriter & Hedge Provider
Standard Bank

Alten Hardap PV Project
March 2018
ZAR 760 million
45 MW Solar PV Project
Mandated Lead Arranger, Underwriter & Hedge Provider
Namibia
Standard Bank

Mulilo Sonnedix Prieska PV Pty Ltd
2015
ZAR 1.62 billion
75MW Solar PV Project
Mandated Lead Arranger
Standard Bank

ENGIE South Africa Holdings
2019
Structured Equity Finance Facility
Sole Mandated Lead Arranger and Sole Underwriter
Standard Bank

Zimbabwe Power Company (Private) Limited
2016
ZAR 650m / USD 60m
Medium term loan
Mandate lead Arranger
Standard Bank

Karoshoek Solar One (RF) Pty Ltd
2015
ZAR 11.0 billion
100MW Solar CSP
Joint Mandated Lead Arranger, Joint FX hedging bank
Standard Bank

Mulilo Sonnedix Prieska PV Pty Ltd
2015
ZAR 1.62 billion
75MW Solar PV Joint Project/Mandated Lead Arranger
Standard Bank

ACWA Power
2015
ZAR 725 million
Bridge Facility / Sole Mandated Lead Arranger and Underwriter
Standard Bank

Cenpower Ghana
2014
USD 893 million
340MW Gas and Oil Fired Combined Cycle Generation Power Project /Co - Mandated Lead Arranger and Financial Advisor
Standard Bank

Lake Turkana Kenya
2014
EUR 643 million
310MW Wind Farm - Biggest on Continent/ Co - Mandated Lead Arranger and Financial Advisor
Standard Bank

Copperton Wind Farm
2018
ZAR 2.6bn
108 MW Wind Project
Mandated Lead Arranger, Underwriter & Hedge Provider
Standard Bank

the Sponsors-Edo IPP
2015
USD $700 million
Term Loan Facility
Lender
Standard Bank

Gigawatt Mozambique
2014
USD 170 million
118MW Gas Fired Power / Mandated Lead Arranger and Financial Advisor
Standard Bank

Enel South Africa
2013
ZAR 220 million
13MW PV Project / Mandated Lead Arranger and Financial Advisor
Standard Bank

Exxaro/Tata Power South Africa
2013
ZAR 4.0 billion
Amakhala – 140MW Wind Farm / Mandated Lead Arranger
Standard Bank

Scatec Solar South Africa
2013
ZAR 2.35 billion
Dreunberg - 75MW PV Project / Mandated Lead Arranger
Standard Bank

Scatec Solar South Africa
2013
ZAR 1.2 billion
Linde – 40MW PV Project / Mandated Lead Arranger
Standard Bank

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Power Tombstone 2/2

Gulf Power **Kenya** 2013 **EUR 83 million** 80MW HFO Power Plant / Co-Mandated Lead Arranger Standard Bank	**Kingangop** **Kenya** 2013 **USD 160 million** 60MW Wind Farm / Financial Advisor and Lead Arranger Standard Bank	**Triumph** **Kenya** 2013 **USD 150 million** 83MW HFO Power Plant / Mandated Lead Arranger Standard Bank	**BioTherm** **South Africa** 2012 **ZAR 800 million** 27MW Wind Farm / Mandated Lead Arranger Standard Bank	**Red Cap** **South Africa** 2012 **ZAR 1.9 billion** 80MW Wind Farm / Co-Mandated Lead Arranger Standard Bank	**Metrowind** **South Africa** 2012 **ZAR 600 million** 27MW Wind Farm / Mandated Lead Arranger Standard Bank	**CIC Energy** **Botswana** 2009 **USD 5.0 billion** Mmamabula Energy Project – 1200MW Coal fired plant / Co-Mandated Lead Arranger Standard Bank
Scatec Solar **South Africa** 2012 **ZAR 2.2 billion** Kalkbult 75MW PV Project / Mandated Lead Arranger Standard Bank	**Sun Edison** **South Africa** 2012 **ZAR 1.25 billion** Soutpan - 28MW PV Project / Mandated Lead Arranger Standard Bank	**Electromaxx** **Uganda** 2012 **USD 25 million** 50MW HFO Power Plant / Sole Lead Arranger Standard Bank	**AE-AMD** **South Africa** 2012 **ZAR 425 million** Greefspan – 10MW PV Project / Mandated Lead Arranger and Financial Modeler Standard Bank	**Sun Edison** **South Africa** 2012 **ZAR 1.40 billion** Witkop - 30MW PV Project / Mandated Lead Arranger Standard Bank	**AE-AMD** **South Africa** 2012 **ZAR 840 million** Herbert – 20MW PV Project / Mandated Lead Arranger and Financial Modeler Standard Bank	**Botswana Power Corporation** **Botswana** 2009 **USD 1.6 billion** Morupule B Coal Power Project / Co-Mandated Lead Arranger Standard Bank
Volt River Authority **Ghana** 2012 **TBC** 330MW Combined Cycle Power Plant Expansion / Financial Advisor Standard Bank	**Solar Capital** **South Africa** 2012 **ZAR 2.2 billion** 75MW De Aar PV Project / Mandated Lead Arranger Standard Bank	**ACED** **South Africa** 2012 **ZAR 2.2 billion** Cookhouse - 140MW Wind Farm / Co-Mandated Lead Arranger Standard Bank	**State Grid International Development Ltd. ("SGID")** **Brazil** **2011** **undisclosed** Advised SGID in its acquisition of seven power assets of Plena Transmissoras Standard Bank			

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South Africa
The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider and Credit Provider.

Lungile is currently a Senior Investment Officer at the Development Bank of Southern Africa (DBSA), specifically focused in Project Finance (Infrastructure Projects across various sectors). She is a chartered accountant (CA (SA)) and a 2020/2021 Harvard South Africa Fellow with almost 15 years of professional experience. Her educational background also includes Master of Philosophy (MPhil) in Development Finance from the University of Cape Town Graduate School of Business. She is an experienced finance and investment professional and has also spent a number of years in deal making at the Industrial Development Corporation (IDC). After IDC she moved on to become Financial Executive and Director at KDI Mining Solutions where she also served on various boards of the company's investee companies. Earlier in her career, Lungile also gained valuable experience while at Deloitte in the Financial Services Team, where she was involved in external audit and financial services advisory of various blue chip companies.

LUNGILE TOM
DBSA
Senior Investment Officer: Project Finance

SAPVIA SAWEA

DBSA

Bankability of REIPPPP AND RE Projects IN SOUTH AFRICA

THE FINANCIAL OUTLOOK - BANKABILITY TO FINANCIAL CLOSE WEBINAR

12 November 2020

Presented by:

Lungile L. Tom

SAPVIA SAWEA

Introduction

Preparing, financing and implementing infrastructure projects in Africa

Founded	Owned	Total assets
1983 DBSA Act 1997	**100%** by SA Government	**R100.4bn** **(US$6.3bn)** Equity **R37.5bn** **(US$2.3bn)**

Externally rated	Well governed	Globally accredited
DBSA foreign currency rating is **Ba2** (Moody's)	Unqualified audits **A+** rating from AADFI PSGRS	Global Environment Facility Green Climate Fund EU 6-pillar

Average US$/ZAR exchange rate of 1:16

Introduction

Preparing, financing and implementing infrastructure projects in Africa

Mission

- Advance development impact in Africa by expanding access to development finance and effectively integrating and implementing sustainable development solutions to:
  - Improve quality of life through the development of social infrastructure
  - Support economic growth through investment in economic infrastructure
  - Support regional integration
  - Promote sustainable use of scarce resources

• Strategic objectives

- Sustained growth in developmental impact – aggressively grow businesses to maximise developmental impact
- Integrated infrastructure solutions' provider across value chain – partner of choice
- Financial sustainability – maintain profitability and operational efficiency to enable growth in equity and fund developmental activities
- Sustainability innovations

Integrated Approach To Infrastructure Development

DBSA

1. Plan

- Municipal assessments
- Bulk infrastructure plans
- Infrastructure planning advice

2. Prepare

- Project identification
- Feasibility assessments
- Technical assistance
- Programme development
- Project preparation funds

3. Finance

- Long-term senior and subordinated debt
- Corporate and project finance
- Mezzanine finance
- Structured financing solutions

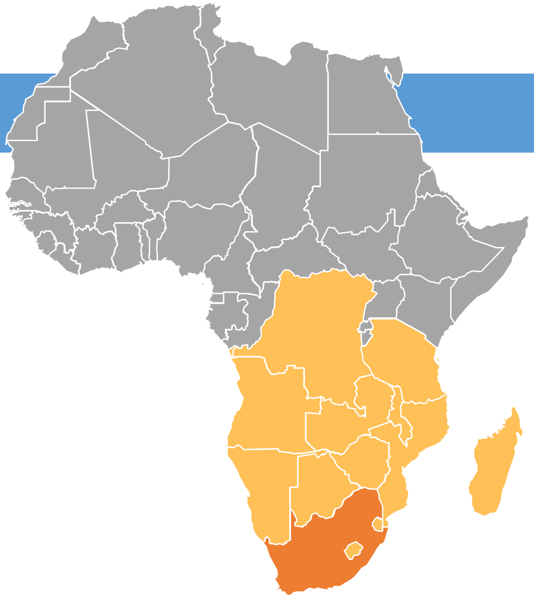
4. Build

- Managing design and construction of projects in education, health and housing sectors
- Project management support

5. Maintain

- Supporting maintenance/ improvement of social infrastructure projects

Clients



Public

- Municipalities
- SOEs
- Sovereigns

Private

- PPPs
- Private sector

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Sectors

Preparing, financing and implementing infrastructure projects in Africa

TRANSPORT

ENERGY

ICT

WATER AND SANITATION

HUMAN SETLEMENTS

EDUCATION

HEALTH

Alignment To National, Regional & Global Plans

DBSA

Preparing, financing and implementing infrastructure projects in Africa

National

NATIONAL DEVELOPMENT PLAN 2030

IUDF Integrated Urban Development Framework

integrated resource plan

Regional

Agenda 2063 The Africa We Want

Infrastructure Vision 2027

Regional Infrastructure Development Master Plan

Global

SUSTAINABLE DEVELOPMENT GOALS

PARIS2015 UN CLIMATE CHANGE CONFERENCE COP21·CMP11

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IPP Office

Advisory, investment and implementation support

- The DMRE, National Treasury (NT) and Development Bank of Southern Africa (DBSA) established the IPP Office for the purpose of delivering on the IPPPP objectives.
- In May 2016, a new Memorandum of Agreement (MoA) was agreed by all parties to provide the necessary support to the IPP Office to implement the IPPPP for a further 3-year period.
- This MoA was subsequently extended to 2023.
- DBSA provided the seed capital of **R80 million** to establish the office. This has since been recovered.
- The primary mandate of the IPP Office is to secure electricity from renewable and non-renewable energy sources from the private sector.
- DBSA provides **programme management support** to the IPP Office in fulfilling its mandate.

Key Projects In South Africa

Renewable Energy Independent Power Producers Procurement Programme (REIPPPP)

Key role as a funder

R12.4bn

on 14 projects (Round 4)

- Features

R2.5bn funding support for 9 BEE Entities and 15 local community trusts

Renewable Energy Independent Power Producers Procurement Programme (REIPPPP)

- 33 projects: ~R17bn
- 14 projects in Round 4: R12.4bn
- Enabled participation of B-BBEE parties and local community trusts: R2.5bn
- 31% projects owned by black South Africans

BANKABILITY CONSIDERATIONS OF REIPPPP PROJECTS

REIPPPP PROJECTS BANKABILITY CONSIDERATIONS

DBSA

1 Off-Take Agreement

- Primary off-taker is Eskom.
- The cash flows of the project are based on the payment by Eskom, under a 20 year Power Purchase Agreement ("PPA").
- The Government, through the Department of Minerals and Energy, will guarantee Eskom's obligations under the PPA.

2 Debt Serviceability

- Revenues are certain, predictable and stable with confirmed demand from Eskom through the PPA.
- Bid tariff is escalated at CPI.
- Minimum and robust Debt Service Cover Ratios.

3 Sponsors Capability

- Reputable sponsors in terms of implementing, completing and owning the project.
- Sponsors experienced globally and under the REIPPPP, with renewable energy projects that are operational in South Africa.

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REIPPPP PROJECTS BANKABILITY CONSIDERATIONS

4 Strong Contractors

- Reputable parties for the task of constructing and operating the project.
- The Companies are reputable and have adequate financial and technical capacity to implement the project successfully.
- They have constructed and operated projects under REIPPPP and/or in globally.

5 Technical

- The project is technically sound and there are no critical matters that may halt its successful implementation.

6 Licenses and Permits

- The project has obtained all the necessary permits and licenses to reach financial close.
- The project has access to the electricity grid within a reasonable distance of the project site.
- Servitudes required.

REIPPPP PROJECTS BANKABILITY CONSIDERATIONS

DBSA

7

Equipment Suppliers

- The main components for the project will be sourced from reputable manufactures with experience.
- Proven technologies.

8

Resource

- Solar irradiation risk etc.
- Lenders Technical Advisor to opine on the resource availability.

9

Project Technology

- Proven technology and has a sufficient track record of operations globally.

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WHAT DOES OUR FUTURE LOOK LIKE

Doing things differently

What Is Embedded Generation?

Generation facilities that are connected to the national grid, namely:

- When the generation facility supplies electricity to a **single customer** and there is **no wheeling** of that electricity through the national grid; and the generator or single customer has entered into a connection and use-of-system agreement with, or obtained approval from, the holder of the relevant distribution license; and

- When the generation facility is operated solely to supply a **single customer/related customers** by **wheeling electricity through the national grid**; and the generator or single/related customers has/ve entered into a connection and use-of-system agreement with the holder of the distribution or transmission license in respect of the power system over which the electricity is to be transported.

EGIP PROGRAMME DESCRIPTION

DBSA

Embedded Generation Investment Programme (EGIP) is a programme targeted towards the implementation of Distributed Generation as defined in the IRP2019.

EGIP has secured a financing package of US$200 million from the DBSA and Green Climate Fund ("GCF").

- GCF: US$100 million on a concessional basis; and
- DBSA: US$100 million to be blended with GCF financing to reduce the cost of funding.

Target the implementation of up to 470MW of renewable energy projects outside of the REIPPP.

The Projects will have off-takers from the private sector and municipalities that are not underpinned by sovereign/government guarantees.

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PROGRAMME RATIONALE & OBJECTIVES

- Create a market for Embedded Generation and other non-sovereign backed RE Projects in SA.
- Demonstrate to the relevant stakeholders the value of developing an RE Programme outside of the Government led REIPPP Programme.
- Validation for developers and lenders that the new RE Procurement Programme is bankable.
- Accelerate progress towards achieving the country's ambitious climate change targets.
- Create a platform for learning and improving on the current legislation and policies to allow for further development of the renewable energy market.
- Free up limited government resources for other imminent social programs and infrastructure related projects that require government guarantees.

Increasing energy supply and promoting the global climate change agenda

BLENDED FINANCE/FIRST LOSS MECHANISM

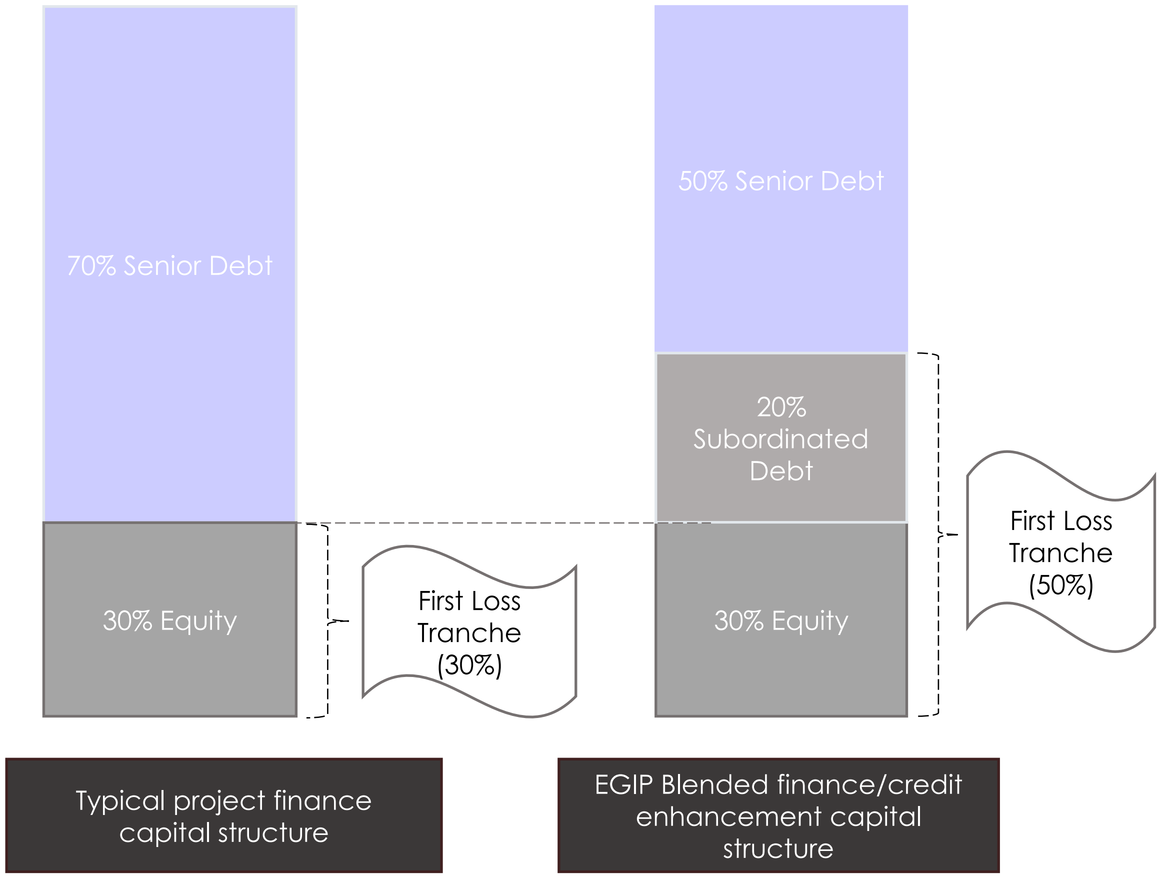
- EGIP will establish a credit enhancement mechanism/first loss facility for embedded generation projects.
- Implemented by private sector entities (in their capacity as IPPs and off-takers) and local municipalities (acting primarily as off-takers).
- Creating an enabling environment and a new funding model for continued RE investments.
- EGIP is aimed at improving the viability and bankability of the initial projects so that they reach financial close.
- This will ensure that a market for embedded generation is created in South Africa.

The funding under the Programme comprises of two components:

- **Component 1** – Credit enhancement for renewable energy investments (Subordinated Debt/First Loss Facility); and
- **Component 2** – Sustainable development through BBBEE equity financing (Junior Debt).

BLENDED FINANCE/FIRST LOSS MECHANISM

EGIP VS PROJECT FINANCE STRUCTURE



Key Features	Typical Project Finance Capital Structure	EGIP Blended Finance Capital Structure
Capital Structure	70% (senior debt): 30% (equity)	50% (senior debt): 20% (subordinated debt): 30% (equity)
First loss tranche (including equity)	30% to absorb losses ahead of senior debt	• 50% to absorb losses ahead of senior debt • Reduced Exposure At Default ("EAD") for senior debt
Additional Credit Enhancement Requirements	Government Guarantee and/or Parent Company Guarantee	None or significantly reduced levels of guarantees (due to higher debt service cover ratios and level of first loss)
DSCRs and Cash Flows Available for Debt Service (CFADS)	• Senior DSCRs-market related	• Robust senior DSCRs and CFADS due to lower senior debt gearing at 50%
Interest Rate	• Senior interest rate-market related	• Senior interest rate margin discounted due to robust CFADS, Senior DSCRs and the level of first level tranche • First loss tranche interest rate margin fully subordinated to senior debt tranche in the cash water fall and security
Additional project offerings	• N/A	• Incorporates concessional BBBEE funding for ownership of Black Industrialists and Local Community Trusts in embedded generation projects.

DEVELOPMENT IMPACT

1

Playing a catalytical role in creating an alternative funding mechanism and potential crowding in of commercial institutions and DFIs to fund non-sovereign backed embedded generation projects in South Africa

Develop regulatory framework for embedded generation projects

2

Potential for scaling up and replication in South Africa and rest of Africa

Platform for knowledge and learning

Climate change and sustainable development goals

3

Development impact in the following areas:

- Provision of clean energy to households;
- Socio-economic benefits through job creation, gender mainstreaming and lowering electricity costs; and
- Black Economic Empowerment

REGULATORY REVIEW

DBSA

IRP2019

- Promulgated in October 2019.
- Embedded generation/distributed generation allocation in the IRP as follows:
  - Allocation to the extent of short-term capacity and energy gap (from 2019 to 2022); and
  - Allocation of 500 MW per annum (from 2023-2030).

SCHEDULE 2 of ERA

- Registration only:
  - Capacity of below 1MW; and
  - Capacity above 1 MW, not grid connected.
- Registration and licensing:
  - Capacity of more than 1MW and grid connected (EGIP).

MINISTERIAL DETERMINATIONS

- Ministerial Determination covering embedded generation are not required as there is a specific allocation in the IRP2019.

MUNICIPALITIES

- MSA and MFMA.
- Municipal PPP Regulations (including Section 33 approval process).
- Regulations Amending the Electricity Regulations on New Generation Capacity.

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Municipal Regulations

MFMA Regulations

- The Municipal Systems Act (“MSA”), and the Municipal Finance Management Act (“MFMA”), govern PPPs for municipal governments.
- Municipalities not subject to the PFMA and Treasury Regulation 16 but to the Municipal Service Delivery and PPP Guidelines of 2007.

Section 33 of the MFMA

- Where a municipality is contracting with a Private Party under the PPP agreement for a period of more than 3 years, it must follow the Section 33 approval process.

National Treasury

- NT has a Review and Recommendations role in terms the Municipal PPP Project Cycle – in line with the Municipal PPP Project Cycle.

Implications

- The regulatory requirements for a district and local municipalities are onerous and will affect the speed of the implementation of projects entered with IPPs funded under the Programme.

DBSA

PATH TO CLEANER ENERGY.....

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ELIGIBILITY CRITERIA

- **Borrower**: Independent Power Producer.
- **Geographic Region**: South Africa
- **Technologies:** Solar PV and Onshore Wind.
- **Project Size:** >10 MW
- **Grid connection:** Only Grid Connected Projects.
- **Eligible Offtakers:**
    - Industrial;
    - Commercial; and
    - Municipalities.
- **Power Purchase Agreements (PPAs):**
    - Legally binding PPAs with take-or-pay obligations.

THANK YOU

Mark has over 14 year's investment experience and his career includes development finance, structured finance, external auditing and property management experience. Prior to joining Mergence Investment Managers in 2011, Mark was responsible for establishing new wholesale debt funding relationships, performing due diligences, drafting business plans, financial modelling, liaison with funding partners and oversight of proprietary private equity investments at Mettle, a company within the financial services sector. At Mergence, Mark is currently head of impact investments and heads up the first South African Impact Investment Pioneer Fund using the USAID funded Global Impact Investing Rating System [GIIRS]. He has significant experience of incorporating impact measurement systems based on the Impact Reporting & Investment Standards [IRIS] into the investment process and is one of the leaders in providing institutional investment offerings in high impact investments in South Africa. In 2014 and 2016, Mark received an ABSIP Award for Alternative Asset / Fund Manager.

MARK VAN WYK

Mergence Investment Managers

Projects Partner and Head of Energy Sector

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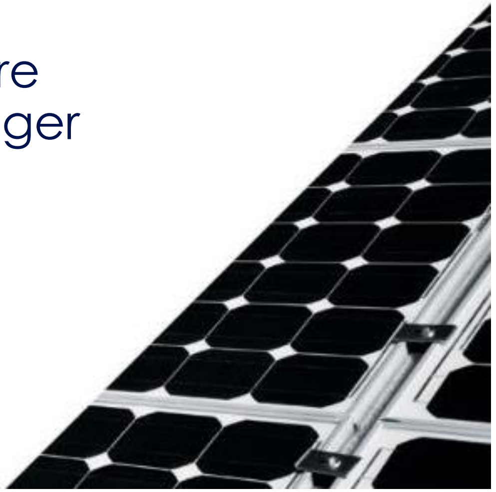
Experiences of equity funders participating in the REIPPPP

Mark Van Wyk- Infrastructure Investments Portfolio Manager



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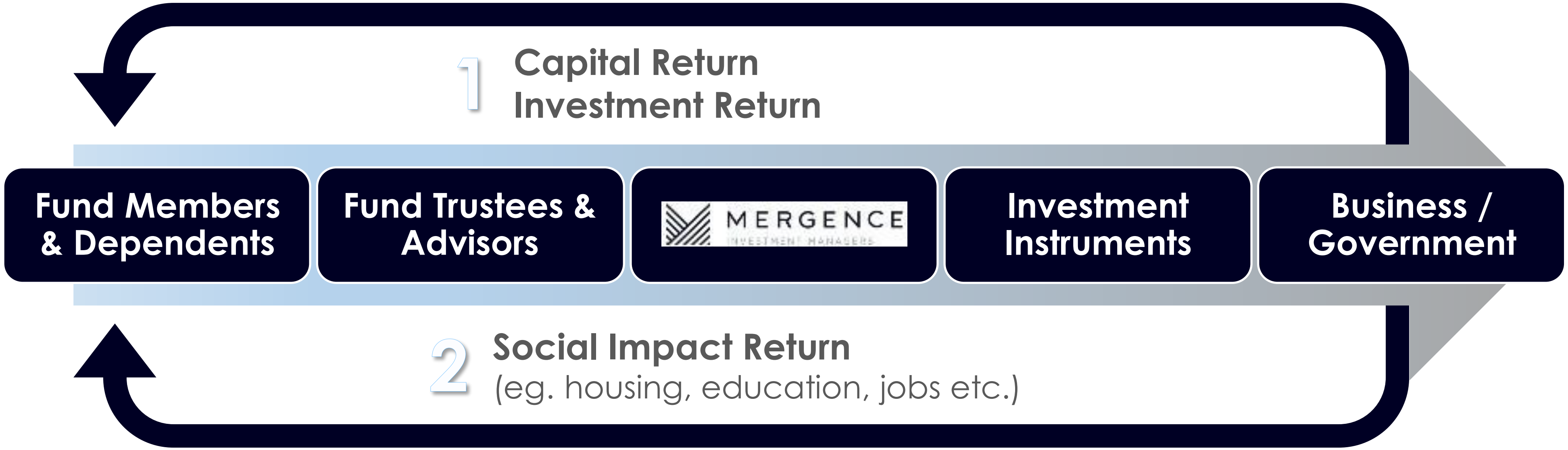
SAWEA

Agenda

- Company overview & Investment Philosophy
- Portfolio Overview
- Common Issues Observed
- Outlook

Investment Strategy | Philosophy

FINANCIAL RETURNS + SOCIAL RETURNS = SHARED VALUE



R30 Billion of Assets Under Management

R 3.6 billion Unlisted AUM (12%)

17 Projects (Debt and Equity)

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Different Equity Investor Tales

- BEE Equity
- Community Trusts
- Sponsor Equity
- Institutional Equity

Diversified Investment Portfolio – 650 MW Multiple Rounds

Noblesfontein: NC
8% Fund allocation

Soitec: Touwsriver, WC
8% Fund allocation

Herbert: Douglas, NC
9% Fund allocation

Van Stadens: Port Elizabeth, EC. 8% Fund allocation

Greefspan: Prieska, NC
3% Fund allocation

Soutpan: Limpopo
6% Fund allocation

Dassiesklip: Caledon, WC
8% Fund allocation

Witkop: Limpopo
9% Fund allocation

Kalkbult: De Aar, NC
8% Fund allocation

Kouga: Oyster Bay, EC
4% Fund allocation

Solar Capital 3: De Aar, NC
18% Fund allocation

Solar Capital 1: De Aar, NC
10% Fund allocation


YOUR PLAN


REALITY

Development Phase

Development Phase

- Permitting & Delays
- Limited development funding
- Limited BEE Funding, Local Content
- Grid Connection Costs – could be fatal
- Banking Partner Funding Requirements

Change in RE Senior Debt Markets

Key terms and financial covenants	Mergence Renewable Energy Debt Fund Range (Solar & Wind)	New: Solar	New: Wind
All-in margin over Jibar	+ 400 bps	275-295 bps	275-295 bps
Gearing (D | M | E)	70:5:25	80:5:15	80:5:15
Tenure (years)	15	17	17
Revenue Assumptions	Conservative	Aggressive	Moderate
Debt Covenants	1.30x-1.45x	1.05x-1.10x	1.30x-1.45x

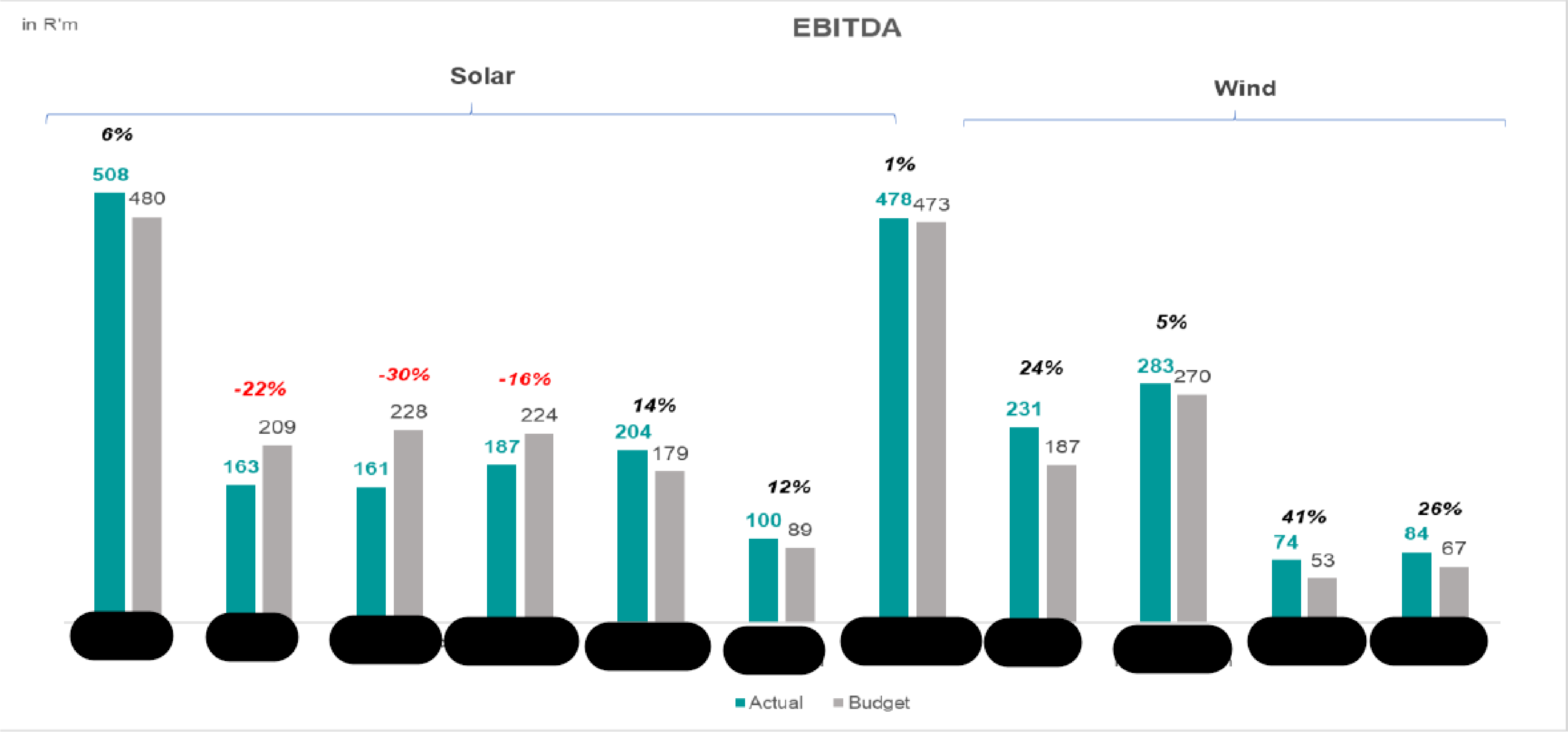
Construction Phase

- COVID 19
  - Supply Chain / Lead Times
  - Man Power Issues
- Contractor and Sub-Contractor Counterparty Risks
- Delays
- Community Discontent and COD Risk
- Local Content lead time challenges

Operational Phase

- Co-Investor Issues
- Resource overestimation, with little room for error
- Equipment Failures/ PR
- Failures of Major Equipment Suppliers (warrantees)
- Protest and disruption of operations

Mixed Bag


in R'm
EBITDA
Solar
Wind
6%
508
480
-22%
163
209
-30%
161
228
-16%
187
224
14%
204
179
12%
100
89
1%
478
473
24%
231
187
5%
283
270
41%
74
53
26%
84
67
[redacted]
Actual
Budget

Requires Active Management

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Michael Sudarkasa
Private Finance Advisory Network (PFAN)
Country Coordinator: South Africa, Lesotho and Eswatini

Michael Sudarkasa is the CEO of Africa Business Group (ABG), a South Africa based continentally active, African economic development company. Founded in 2005, ABG focuses on three key areas: 1) economic and business development consulting, 2) agriculture, tourism and renewable energy projects, and 3) capacity development. The Group specializes in the areas of private sector development, trade and investment within Africa and between Africa and the global business community. In January 2020, ABG was appointed to serve as the Country Coordinator – South Africa, Eswatini and Lesotho for the Private Financing Advisory Network (a global network of climate and clean energy financing experts) of UNIDO and REEEP; and in April 2020 ABG was appointed to serve as the Southern Africa Regional Coordinator of the UNDRR's private sector network, ARISE. For young agripreneurs, ABG also has designed and manages the Global African Agribusiness Accelerator Platform (www.gaaap.biz) as the company's principal capacity development initiative.

A U.S. commercial attorney by training, Michael has lived, travelled, and worked in 50 countries around the world (including 35 in Africa), and is the author of several publications, including: *The African Union Commission's Africa Business Directory: Toward the Facilitation of Growth, Partnership and Global Inclusion* (African Union, 2014), *A Field Guide to Inclusive Business Finance* (UNDP 2012) and *Investing in Africa: An Insider's Guide to the Ultimate Emerging Market* (John Wiley & Sons, August 2000). Michael currently serves as the Chair of Impact@Africa, a continentally focused impact investment ecosystem development platform, as a member of the University of Michigan Provost's Advisory Committee and as Chair of the Advisory Board of the African Studies Center of the University of Michigan. He holds a B.A. degree from the University of Michigan-Ann Arbor (High Honors in History), a J.D. degree from Harvard Law School.

Accelerating Investment for Climate and Clean Energy

THE FINANCIAL OUTLOOK: BANKABILITY TO FINANCIAL CLOSE

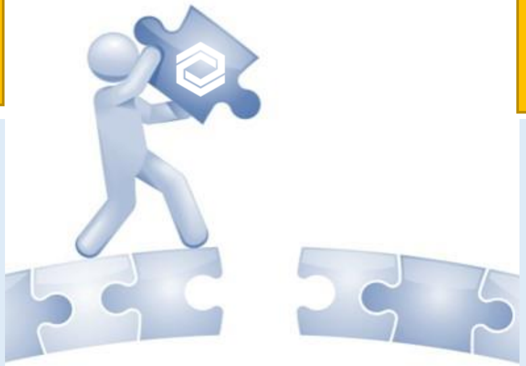
Introducing the Private Financing Advisory Network (PFAN)

Michael Sudarkasa, Africa Business Group
PFAN Country Coordinator – South Africa, Lesotho, Eswatini (formerly Swaziland)
Nov. 2020

What is the Problem?

How PFAN Addresses the Missing Middle

The “Missing Middle”



Limited Supply of Investor Ready Projects	**Low Investment Levels**
Oversupply of poorly structured projects Lack of financial & commercial skills Unrealistic Expectations	Large supplies of financing Underdeveloped investment cultures and risk assessment Low familiarity with technologies & business models Limited number of successful exits in this space

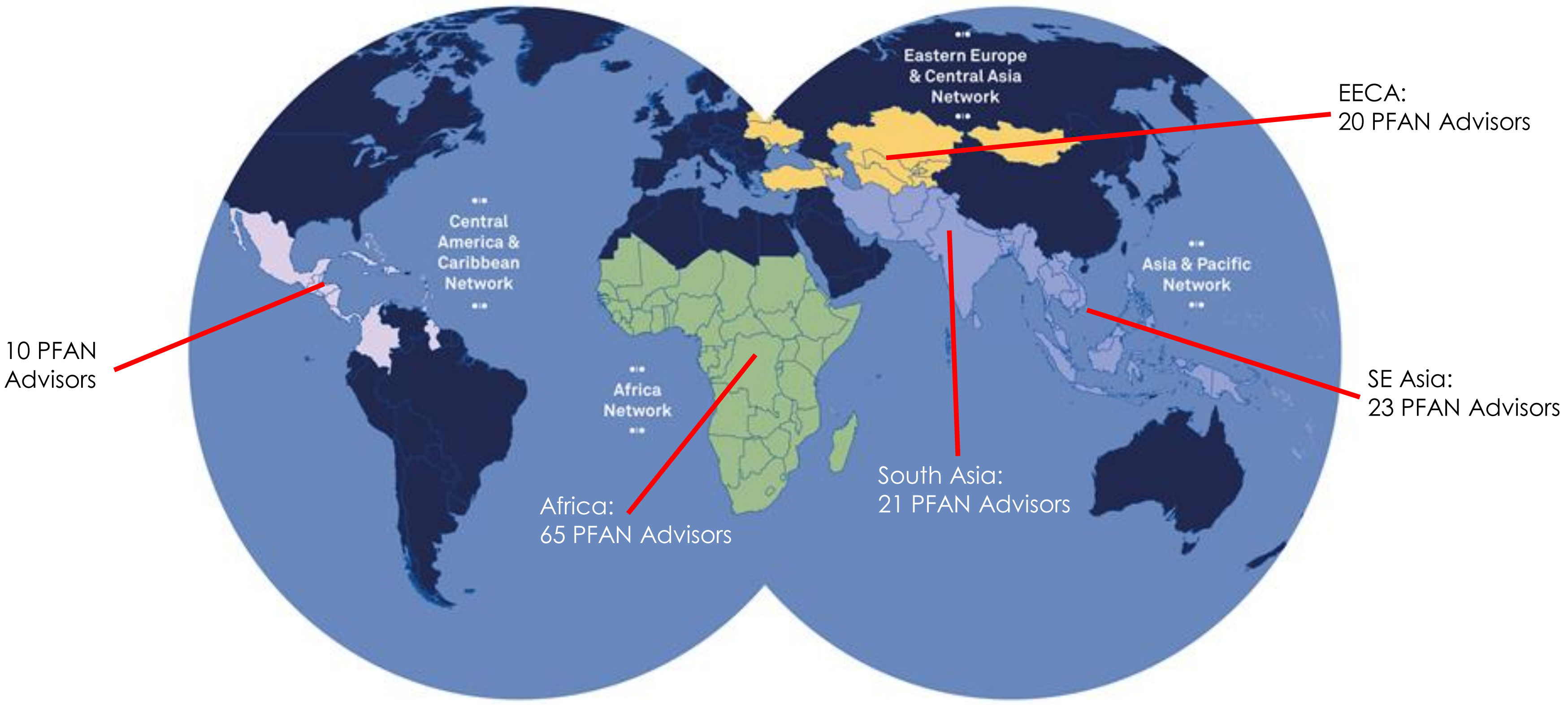
PFAN advises low-carbon, climate resilient businesses in developing countries and matches projects to appropriate private financing

PFAN

REEEP UNIDO

What PFAN Is: A Global Network

More Than 130 Climate, Clean Energy, and Finance Experts



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PFAN

REEEP UNIDO

How PFAN Works

- Network of locally based private sector advisors
- Coaching and investment facilitation in principle provided at no cost to project developers
- Fixed fee for advisors against services & deliverables + potential for success fee
- Driven by seasoned Global Coordinator, 6 Regional Coordinators and Head Investment Facilitation
- Supported by an extensive network of Investment and Network Partners
- Hosted by UNIDO and REEEP since 2016, initiated in 2006
- Funded by a Multi-Party Trust Fund supported by:

Sweden Sverige | Australian Government Department of Foreign Affairs and Trade | USAID FROM THE AMERICAN PEOPLE | Norwegian Ministry of Foreign Affairs | METI Ministry of Economy, Trade and Industry | KIGALI COOLING EFFICIENCY PROGRAM | Federal Ministry Digital and Economic Affairs

Unique and proven low overhead networking business model

SAPVIA SAWEA

Business Areas in which PFAN Supports Projects

Historically

Clean Energy & Access to Energy

Additional business areas: climate resilience and adaptation

Agriculture (upstream and downstream, including agribusiness and processing)

Ecosystem Services

Forestry

Urban Development

Health

Water

Waste

Microfinance/-Insurance

Tourism

Adaptation products and services

PFAN

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Projects That PFAN Supports

Eligibility Criteria

Renewable Energy

Rural Electrifications & Energy Access

Agricultural & AgriBusiness

Clean Technology

Forestry

Energy Efficiency & Demand Reduction

Energy Storage & Conservation

Water & Sanitation

Tourism

Climate Change Adaptation

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Projects That PFAN Supports

Project Selection Criteria and Scope

Scope

Investment Ask

- Sweet spot USD 1-50 million
- Micro projects (< USD 1 million)

Maturity

- Green field and scale-up
- First round of external financing

Project type

- Clean Energy & Climate Adaptation
- Technology Neutral

Geography

- Least Developed Countries
- Middle Income Countries

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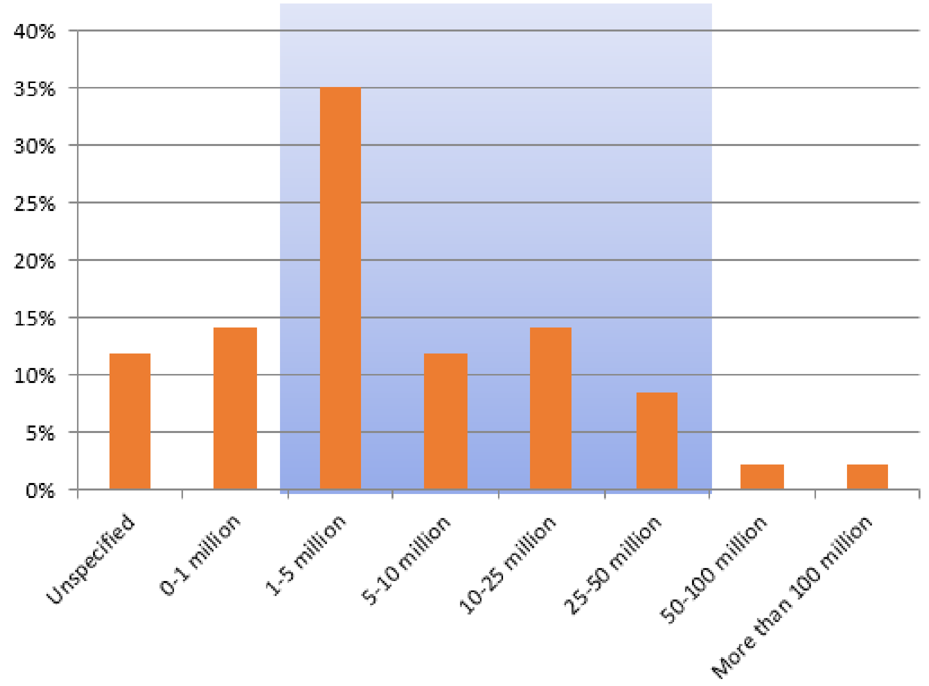
PFAN REEEP UNIDO

Project Development Pipeline

Split by type and investment ask

Project Type	Percentage
Brownfield	6%
Greenfield	45%
Scale-up	29%
Technology Development	8%
Merger, Acquisition or JV	1%
Unspecified	11%
Total	**100%**

Distribution by Investment Ask Buckets (in USD)



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PFAN's Track Record

- PFAN mobilizes private financing to reduce GHG emissions and build climate resilience contributing to Paris Agreement and SDGs:
  - SDGs 7 (Energy), 9 (Industry), 13 (Climate Action), and 17 (Partnership)

- Since inception PFAN supported 675 projects, 465 projects in current development pipeline
- Main achievements since inception in 2008

$ 1.7 bn
Total investment raised by PFAN supported projects

126
Total closed projects

18%
Success rate

>1000 MW
Clean energy generation capacity added

4 m t
Annual CO_2 emission mitigation

How You Can Participate

Project Developers

- Submit applications for PFAN mentoring
- “Free” coaching by expert PFAN Advisors

Thank you for your attention!

Michael Sudarkasa, ABG
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For more information, see www.pfan.net

Thabiso Tenyane
Phakwe Group
Executive Chairman

Phakwe Group was founded by Thabiso Tenyane currently executive chairman of the group. Mr. Thabiso Tenyane is an accomplished global leader, investor, and entrepreneur with over 25 years experience in managing multibillion-rand global businesses in industries that include ICT, Public sector, Energy, Investments, Aviation, and Engineering. By capitalizing on his sharp business acumen, technical expertise, interpersonal skills, and strategic mindset. He previously worked within the Gauteng Provincial Legislature and later joined a successful listed Information and Communications Technology company, Comparex Africa. He was responsible for both the transformation and employment equity initiatives within the Group before moving into Executive management where he later became the Regional Chief Executive.

He later founded Telecoms Company which operated in Africa where he delivered telecommunication projects in West, East and Southern Africa for premium clients like Vodacom, Airtel and MTN, Vmobile.

Thabiso Tenyane entrepreneurial journey has drawn inspiration from the life of an eagle as it determinedly soars, intelligently identifying opportunities to effortlessly achieve its desired altitude. Thabiso Tenyane he is a true believer of the eagle business model which entails crystal clear vision and precision hunting to build businesses that are solid and sustainable; these businesses should be identifiable, recognisable, and distinguishable.

Mr. Thabiso Tenyane now looks forward to leveraging his experience and value-added expertise to making Phakwe Group a thriving, multi-national group, one that will play a major role in growing Africa and maximizing the return on investment for the company's investors and partners.

SAPVIA SAWEA

PHAKWEGROUP

Growing with Africa!

Thabiso Tenyane

Phakwe Group

Executive Chairman

SAPVIA SAWEA

QUESTIONS AND ANSWERS SESSION

Please type your questions in the message box and we will respond

Ntombifuthi Ntuli
SAWEA
Chief Executive Officer

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SAWEA
Chief Executive Officer

CLOSING REMARKS

Thank you for joining our third webinar of the 'Developing Developers' series

DATE	WEBINAR TOPIC
17th September 2020	Understanding the REIPPPP RfP
22nd October 2020	The Legal Outlook: Contracts and Agreement
12th November 2020	The Financial Outlook: Bankability to Financial Close
10th December 2020	The Socio-Economic Impact
21st January 2021	Fundamentals of RE Project Development
18th February 2021	Commissioning Projects: Engineering Procurement Construction
18th March 2021	Operating Projects: Operations & Maintenance and Asset Management

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DEVELOPING DEVELOPERS
LIVE WEBINARS

THE FINANCIAL OUTLOOK: BANKABILITY TO FINANCIAL CLOSE

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