



GRANTS, INCENTIVES & OFF-BALANCE SHEET FUNDING

SOUTH AFRICAN INDEPENDENT POWER
PRODUCERS ASSOCIATION (SAIPPA)



28TH AUGUST 2014



CRESCO has a multi-skilled team to assist investors in securing and developing high quality businesses and projects

Concept

- Promoters do not have time and/or necessary skills to develop their projects
- Often project risks have not been adequately addressed
- Promoters have unrealistic expectations

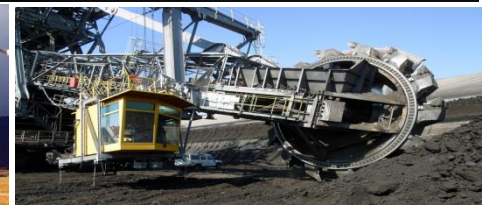
The logo for CRESCO PROJECT FINANCE, featuring a stylized blue and yellow circular graphic to the left of the company name in a serif font.

CRESCO
PROJECT FINANCE

**Helping
you bridge
the gap**

Viable

- A well structured and bankable project
- Efficient project implementation
- Skilled operational and financial management of project



KEY POINTS

CRESCO HAS THE NECESSARY RESOURCES AND SPECIALIST EXPERTISE TO SUPPORT THE ENTIRE PROJECT DEVELOPMENT PROCESS

CRESCO INITIAL FOCUS IS ON UNDERSTANDING THE CLIENT'S NEEDS AND EXPECTATIONS AND THE EXTENT OF INTERACTION WITH EXTERNAL SPECIALISTS

PROJECT FINANCE ADVISORY

FINANCIAL MODELLING

DISBURSEMENT & IMPLEMENTATION SUPPORT

DUE DILIGENCE

**PROJECT FINANCE & EXPORT CREDIT AGENCY
TRAINING & SUPPORT**

PRI ARRANGING (MIGA)

**VALUE ADDED SERVICES (TURNAROUND & DEBT
REFINANCING/RESTRUCTURING)**

THE PROJECT CONTINUUM

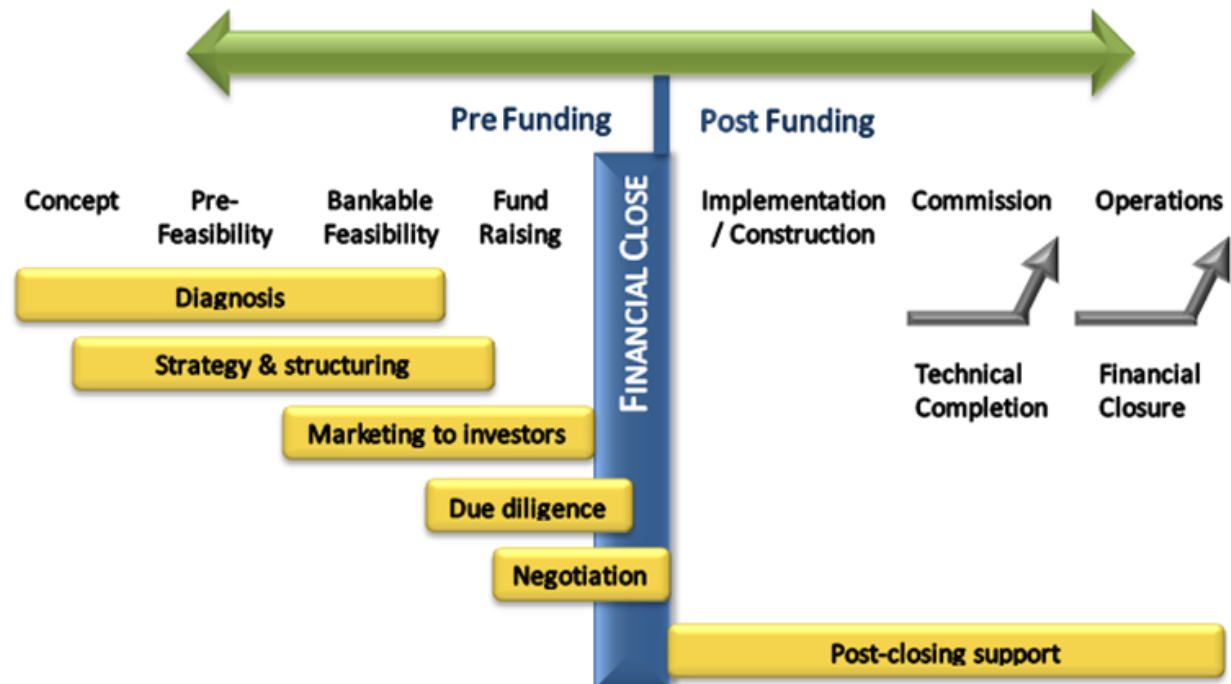
KEY POINTS

CRESCO PROVIDES THE SPECIALIST FINANCIAL, COMMERCIAL & PROJECT MANAGEMENT SUPPORT AND UTILISES ITS SPECIALIST EXPERTISE AND SKILLED RESOURCES TO SUPPORT THE ENTIRE PROJECT DEVELOPMENT PROCESS

BRIDGING THE GAP BETWEEN A CONCEPT AND A BANKABLE PROJECT

ASSISTING PROJECT DEVELOPERS, FINANCIAL INSTITUTIONS & CONTRACTORS, BY DRAWING ON A WIDE RANGE OF PROJECT DEVELOPMENT AND FINANCING EXPERIENCE

A typical project development process:



CRESCO builds dynamic, robust and accurate financial models to assist with making informed business decisions, steering your project on the road to the successful raising of finance.

Not spending enough time on early-stage analysis and structuring may mean re-visiting key issues

Power and Mining linkage– Outside of South Africa




300 MW Coal-Fired Power Project

Financial Advisory

Project Size:
>US\$700 Million

Zambia

Date Initiated: May 2011
Recent Tombstones by 




300 MW Morupule B Coal Fired Project

Financing Review and Funding
Option Assessment

Project Size:
Confidential

Botswana

Date Initiated: 2011
Recent Tombstones by 



300 MW Coal-Fired Power Project & Transmission

Transaction Advisory and Project
Development Support

Project Size:
US\$700 Million

Mozambique

Date Initiated: July 2012
Recent Tombstones by 



Gas Fired Project


Due Diligence for Strategic
Investor

Project Size:
Confidential

Mozambique

Date Initiated: November 2011
Recent Tombstones by 

Recent focus on renewable financing – South Africa





20 MW Solar PV Project

Financial Advisory and
REIPPPP Bid Support

Project Size:
R600 Million

South Africa

Date Initiated: June 2010
Recent Tombstones by 





10 MW Neusberg Hydro Project

Financial Advisory and
REIPPPP Bid Support

Project Size:
R500 Million

South Africa

Date Initiated: June 2010
Recent Tombstones by 





10 MW Solar PV Project

Financial Advisory and
REIPPPP Bid Support

Project Size:
R600 Million

South Africa

Date Initiated: June 2010
Recent Tombstones by 




Brown Field Expansion

Debt / Equity Arranger and
Support to Financial Close

Project Size:
R35 Million

South Africa

Date Initiated: January 2007
Recent Tombstones by 

CRESCO RECENT
FOCUS ON FINANCING
IN THE ENERGY
(THERMAL &
RENEWABLE) IN SA &
OUTSIDE

PROJECT SIZE
DEPENDENT ON
PROJECT AND VARIES
FROM R35M FOR
BROWNFIELD
EXPANSION TO
USD700MILLION
GREENFIELDS

KEY POINTS

THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA), A MEMBER OF THE WORLD BANK, IS THE LEADING PROVIDER OF PRI GLOBALLY

RESTORE MARKET CONFIDENCE

KEEP MIGA-SUPPORTED PROJECTS AND THEIR ECONOMIC BENEFITS ON TRACK

THE WORLD BANK SOLUTION

- MIGA provides **guarantees** to **investors** and **lenders** against **losses** caused by **non-commercial risk**
- MIGA insures **cross-border investments** made by investors from a MIGA member into a **developing** member country
- Guarantees act as a catalyst to **restore market confidence** for investors.
- The agency **resolves** disputes
- MIGA has provided more than **US\$24 billion** in guarantees for some **700 projects** in over **100 developing countries**



KEY POINTS

BEING USED MORE
FREQUENTLY AS A
MECHANISM TO
CREDIT “WRAP”
GOVERNMENT
COUNTERPARTIES

VERY RELEVANT IN
INFRASTRUCTURE AND
ENERGY PROJECTS
(GENERALLY HAS
GOVERNMENT
COUNTERPARTY)

A TOOL USED TO
ATTRACT LONGER TERM
REASONABLY PRICED
FINANCE

THE WORLD BANK SOLUTION

MIGA Coverages

- Inconvertibility and Transfer Restriction
- Expropriation
- War and Civil Disturbance
- Short-term Business Interruption – **NEW**
- Breach of Contract
- Non-Honoring of Sovereign Financial Obligations – **NEW**

Cross Border Coverage's:

- Equity
- Shareholder loans
- Loan guarantees
- Non-shareholder loans
- Non-equity direct investment

Why Investors Choose MIGA

- Expertise in complex projects and in challenging environments
- Credit enhancement
- Longer tenors (up to 15-20 years)
- World Bank Group “umbrella” of deterrence
- Track record in dispute resolutions
- Mobilization of reinsurance capacity
- Best practices in environmental and social management
- Prompt claims payment
- Access to World Bank Group expertise and resources

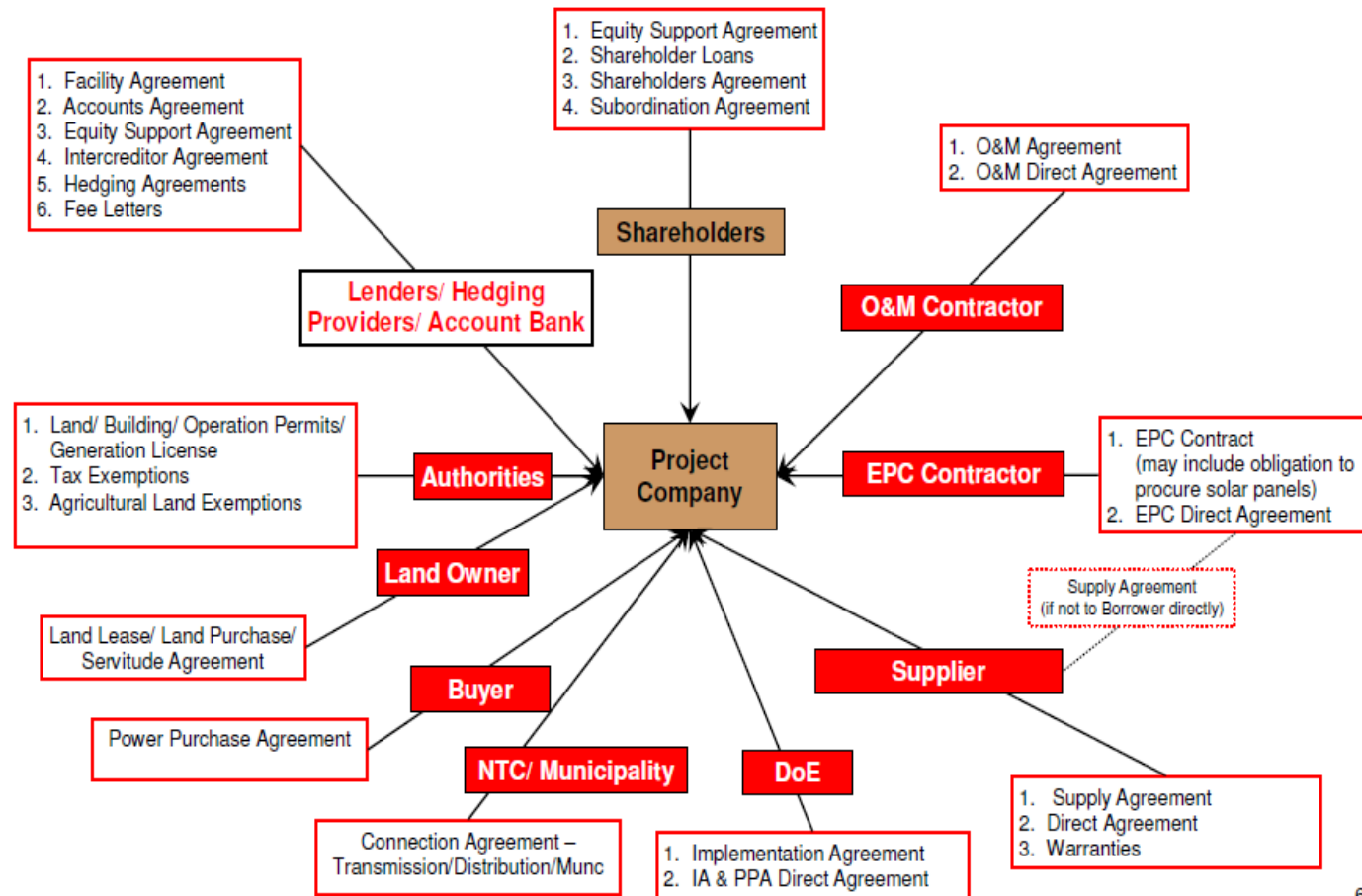
TYPES OF FINANCING COMMONLY SEEN

FINANCING ENERGY PROJECTS	
ON-BALANCE SHEET: CORPORATE FINANCE	OFF-BALANCE SHEET: PROJECT FINANCE
<ul style="list-style-type: none"> ▪ Subsidiary <ul style="list-style-type: none"> – Equity injection – Own resources – Local source with guarantees ▪ Security <ul style="list-style-type: none"> – Other cash flows from other operations – Company assets ▪ Other characteristics <ul style="list-style-type: none"> – Less complex than PF – Generally less expensive – Popular when companies are cash flushed – Opens other operations to additional risks of new operations 	<ul style="list-style-type: none"> ▪ SPV <ul style="list-style-type: none"> – Special purpose vehicle – Ring-fenced company ▪ Security <ul style="list-style-type: none"> – Cash flows – Limited recourse ▪ Other characteristics <ul style="list-style-type: none"> – Complex structure – Popular when funds are scarce – Generally more expensive – Risks are allocated to parties most suitable – No other operations affected by risks of new operations

- COMPLEXITY AND EASE OF PROJECT FINANCE, DEPENDS ON MITIGATION OF RISK AND GOOD PROJECTS WITH FIRM MARKET OFF TAKES
- ENERGY IS NOT DIFFICULT TO PROJECT FINANCE DUE TO AVAILABILITY OF MARKET OFF-TAKE; PPA AGREEMENT

TYPICAL PROJECT FINANCE ENERGY PROJECT

Typical project structure and contracts



SOURCES OF FINANCE

KEY POINTS

UNDER REIPPP STILL
LARGE APPETITE FOR
PROJECT FINANCE
ENERGY PROJECTS

IN AFRICAN
COUNTRIES REQUIRE
LONGER TERM TENORS
AND IMPROVED
PRICING THAN
NORMALLY
CONSIDERED

CURRENCY /
CURRENCY
INCONVERTIBILITY
(UTILITY OR PROJECT
LEVEL) KEY
CONSIDERATIONS

Promoters can seek finance in the following forms:

Equity:	Promoter's own funds; Strategic partners; EPC partner; DFI's
Senior Debt:	Commercial bank; DFI's
Mezzanine debt:	Commercial bank; DFI's
Grants:	DFI's; World Bank, [Chinese]
Incentives:	Trade & Industry Political institutions (e.g. DTI)
Project Bonds:	Linked to capital markets (one done to date)
Export credit:	ECA's promoting own country exports; Other benefits like favourable pricing (e.g. ECIC) Improve tenor and pricing – outside of RSA
Venture capital:	Often seen in development stage /new technology – not on larger IPPs
Private equity:	Increasing involvement but with developers less on specific projects – considering portfolio approach

KEY POINTS

ECIC IS OWNED BY
THE DTI AND
SUPPORTED BY THE
SOUTH AFRICAN
RESERVE BANK
FSB COMPLIANT

DEFINED AS AN
EXPORT CREDIT
AGENCY – SIMILAR TO
US EXIM, HERMES ,
INDIA EXIM

SOME CONTRACTORS
USING TO GREAT
BENEFITS

ECIC supports sale of goods and services cross border

Specific Cover provided under the ECIC schemes of arrangement:

- Banks:** Pre- and post- delivery **commercial** and **political cover** against non-repayment of loans;
- Exporters:** Pre-delivery political cover for costs incurred up to completion, and exchange risk cover against USD/ZAR fluctuations;
- Investors:** Political investment cover

Benefits for the cross border buyer:

- To obtain specific ("tied") financing from SA exporter/bank in USD or Rands at favourable interest rates
- Final pricing is country and transaction specific
- Provides precious liquidity and low cost finance to cross border buyers in markets where access to longer finance is limited / non-existent

Benefits for the South African seller (equipment / services / combination):

- Enables the SA Exporter to offer extended payment terms/finance to its qualifying cross border clients/buyer
- Reduces exporters risk of non-payment by foreign buyer
- Provides political risk insurance coverage for pre-delivery risk
- Offers simple & user-friendly exchange risk cover pricing in USD
- Provision of favourable, competitive financing terms to buyer

ECIC TYPICAL STRUCTURE

Use of this product successful for recent gas deals

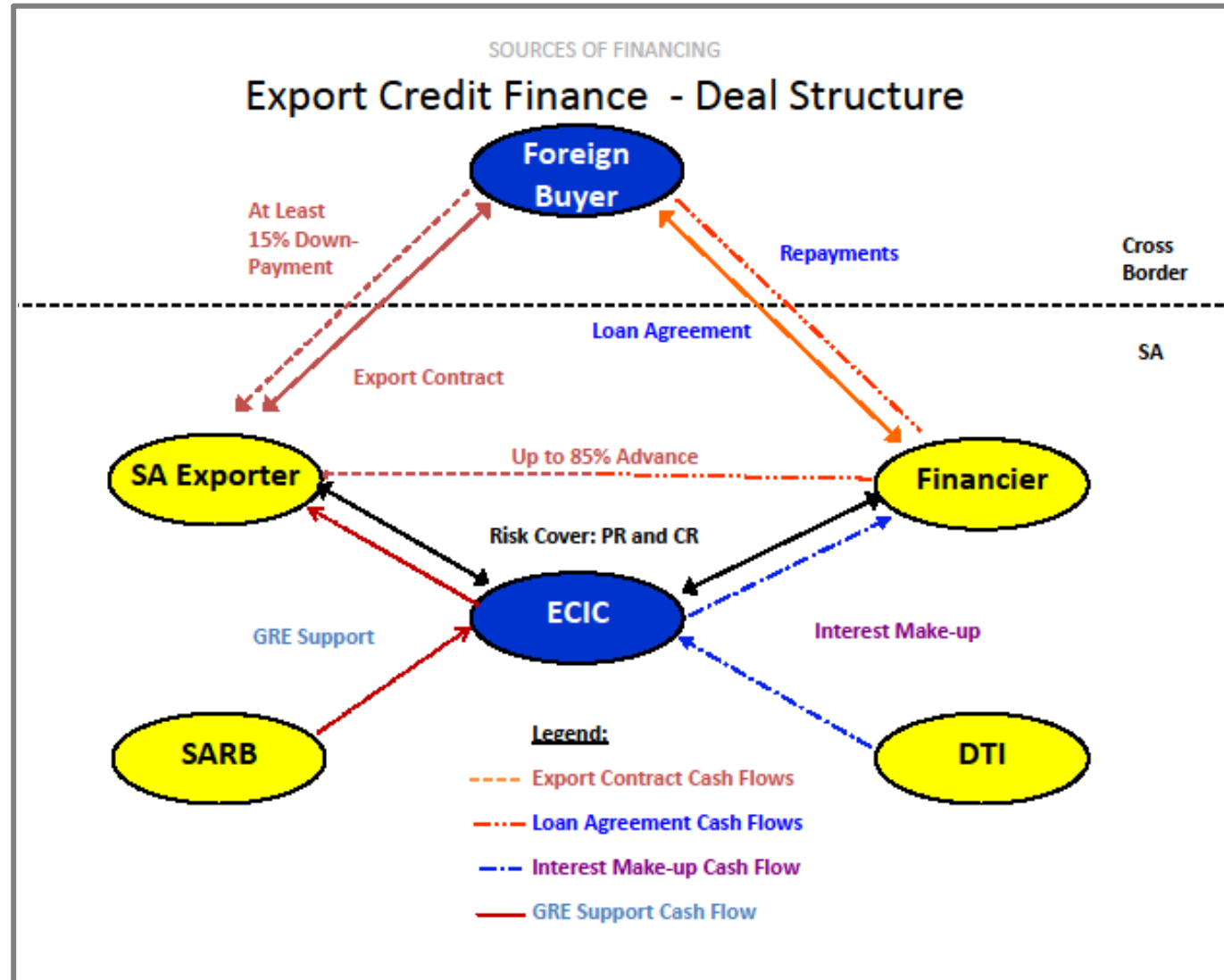
KEY POINTS

THE PRI RISK COVER ASSIST BANKS TO RISKS OUTSIDE OF CONTROL

CRI IS THE KEY DRIVER TO REDUCE COST OF FUNDING AND INCREASE TENOR

TYPICAL RATES ARE LIBOR + 2.5%+ 2.4% (EXAMPLE MOZ PRICING) 12 YEAR FINANCE

ALSO OFFERS A <USD20M FACILITY FOR CORPORATE DEALS



CRESCO RECENT
INTERACTION WITH
IPP'S ACROSS AFRICA

CRESCO IDENTIFIED
OVER 100 RENEWABLE
ENERGY PROJECTS IN
VARIOUS STAGES OF
DISARRAY

98% WERE
POTENTIAL PROJECTS
WITH SALES TO LOCAL
UTILITIES

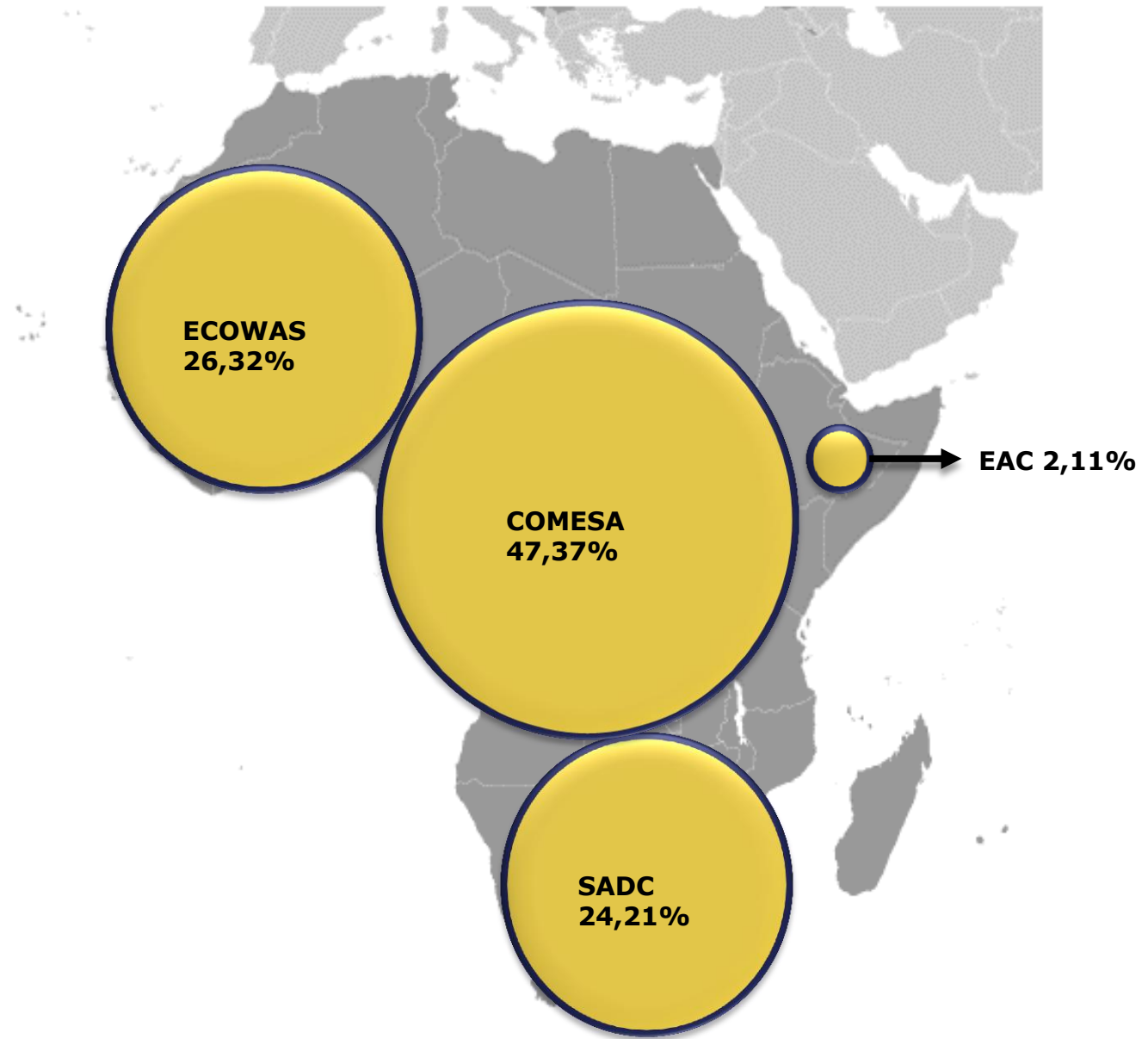
ALL CAPTIVE SALES
WERE FOR SMALL MWS



PROJECT FINANCE WAS
CONSIDERED FOR AT
LEAST 95% OF
PROJECTS IDENTIFIED
(EXCLUDING CAPTIVE)

CORPORATE FINANCE /
EQUITY CONSIDERED
FOR 80% OF CAPTIVE
PROJECTS BUT SIZE
MUCH SMALLER

CERTAIN COUNTRIES
HIGHER % OF
PROJECTS DUE TO
POPULATION,
ECONOMY AND
REGULATORY
FRAMEWORK FOR IPPS



EXAMPLE OF RECENT ENERGY PROJECT FINANCING IN AFRICA:

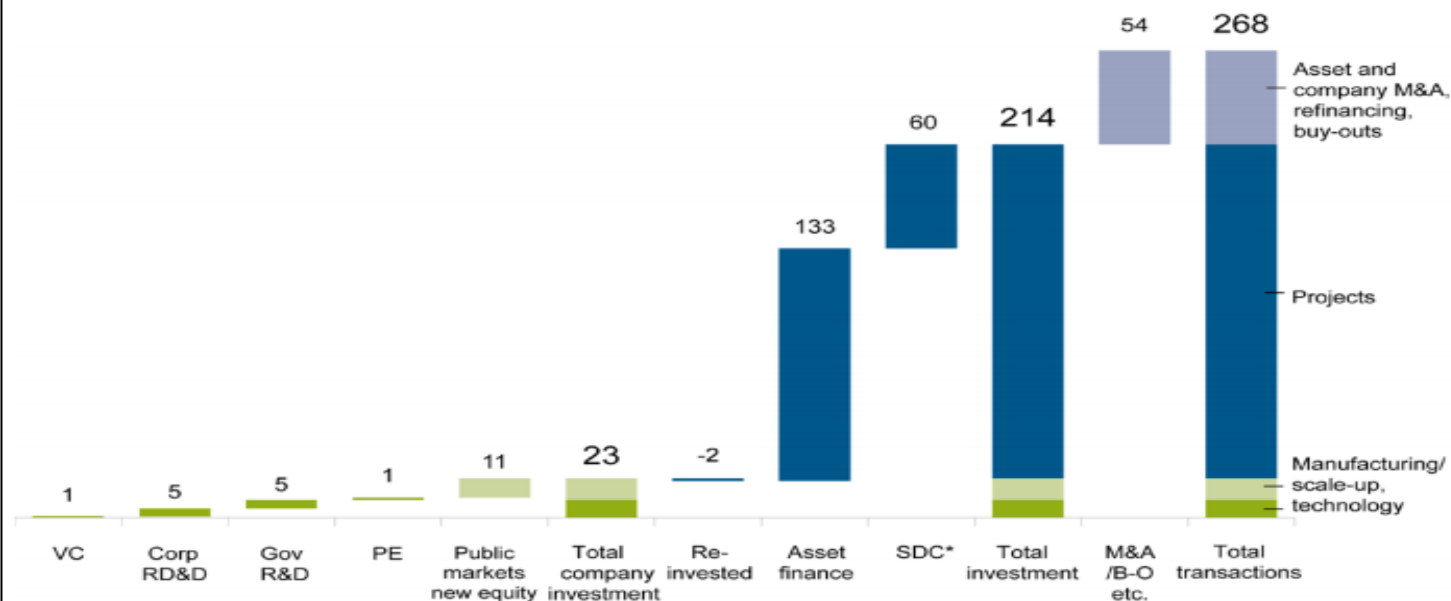
<i>Project Summary: Name Country Size</i>	<i>Funding Structure</i>	<i>Funding Sources</i>
GIGAWATT PROJECT MOZAMBIQUE 100MW @ \$214 000 000	80% DEBT	STD BANK / ECIC
MAAMBA PROJECT ZAMBIA 300MW @ \$800 000 000	70% DEBT	4 BANKS: 1 COMMERCIAL & 3 DEVELOPMENT
LAKE TURKANA PROJECT KENYA 310MW @ €620 000 000	75% DEBT	FAD / EIB
Tobene IPP Project SENEGAL 96MW @ €123 000 000	75% DEBT	IFC

RECENT TRENDS IN FINANCING ENERGY PROJECTS

SPLIT OF FINANCING IN ENERGY ACROSS THE SECTORS (IPPS, ENERGY EFFICIENCY ETC)

“Technology costs were a second big reason for the latest fall in investment. Although PV module prices bottomed out in early 2013 as the industry’s severe over-capacity eased, balance of plant for PV systems continued to fall.”

FIGURE 2. GLOBAL TRANSACTIONS IN RENEWABLE ENERGY, 2013, \$BN



SDC = small distributed capacity. Total values include estimates for undisclosed deals. Figures may not add up exactly to totals, due to rounding.

Source: UNEP, Bloomberg New Energy Finance

Source: Global trends in Renewable Energy Investment 2014; Frankfurt School of Finance & Management, Bloomberg New Energy Finance, UNEP.

USD133BN OF FUNDING THROUGH ASSET FINANCE (MOSTLY PROJECT FINANCE) WITH OTHER LARGE CONTRIBUTOR IN SMALL DISTRIBUTED CAPACITY

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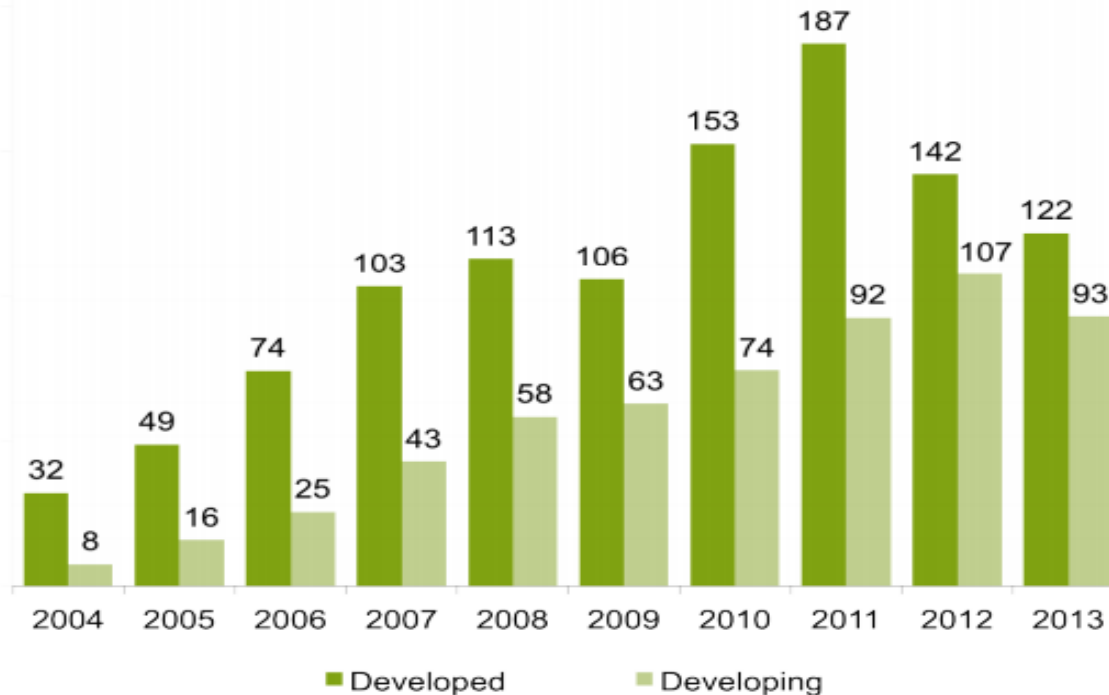
“New investment volume adjusted for re-invested equity. Total values include estimates for undisclosed deals.”

Category	Year Unit	2004 \$bn	2005 \$bn	2006 \$bn	2007 \$bn	2008 \$bn	2009 \$bn	2010 \$bn	2011 \$bn	2012 \$bn	2013 \$bn	2012-13 Growth %	2004-13 CAGR %
1 Total Investment													
1.1 New investment		39.5	64.5	99.6	145.9	171.2	168.4	226.7	279.4	249.5	214.4	-14%	21%
1.2 Total transactions		48.3	90.8	135.3	204.3	230.6	232.7	285.2	352.8	309.9	268.2	-13%	21%
2 New Investment by Value Chain													
2.1 Technology development													
2.1.1 Venture capital		0.4	0.6	1.2	2.2	3.3	1.6	2.5	2.5	2.4	0.8	-67%	9%
2.1.2 Government R&D		1.9	2.1	2.3	2.7	2.8	5.1	4.6	4.6	4.5	4.6	3%	10%
2.1.3 Corporate RD&D		3.2	2.9	3.1	3.5	4.0	4.1	4.2	5.1	5.0	4.7	-6%	4%
2.2 Equipment Manufacturing													
2.2.1 Private equity expansion capital		0.3	1.0	3.0	3.6	6.7	2.9	3.1	2.6	1.7	1.4	-16%	17%
2.2.2 Public markets		0.3	3.7	9.0	22.0	11.5	13.0	11.4	10.7	3.7	11.1	201%	51%
2.3 Projects													
2.3.1 Asset finance		24.8	44.1	72.3	100.9	124.3	109.8	144.2	180.3	154.2	133.4	-13%	21%
Of which re-invested equity		0.0	0.1	0.7	3.0	3.6	1.7	5.8	3.7	1.8	1.5	-18%	-
2.3.3 Small distributed capacity		8.6	10.3	9.5	14.1	22.3	33.6	62.5	77.2	80.0	59.9	-25%	24%
Total Financial Investment		25.8	49.3	84.7	125.7	142.2	125.5	155.4	192.4	160.1	145.3	-9%	21%
Govt R&D, corporate RD&D, small projects		13.7	15.3	14.8	20.2	29.0	42.9	71.3	87.0	89.4	69.2	-23%	20%
Total New Investment		39.5	64.5	99.6	145.9	171.2	168.4	226.7	279.4	249.5	214.4	-14%	21%
3 M&A Transactions													
3.1 Private equity buy-outs		0.8	3.7	1.8	3.6	5.5	2.2	1.9	3.2	3.2	0.6	-81%	-3%
3.2 Public markets investor exits		0.4	2.4	2.7	4.1	1.0	2.5	4.9	0.2	0.4	1.7	286%	19%
3.3 Corporate M&A		2.4	7.6	12.6	20.6	18.0	21.7	18.7	29.8	7.9	11.5	45%	19%
3.4 Project acquisition & refinancing		5.3	12.5	18.6	30.2	34.8	37.8	32.9	40.2	48.8	39.9	-18%	25%
4 New Investment by Sector													
4.1 Wind		14.5	25.1	32.1	56.6	69.3	72.0	94.8	85.9	80.9	80.1	-1%	21%
4.2 Solar		12.1	16.3	21.7	38.7	59.5	62.9	100.3	157.8	142.9	113.7	-20%	28%
4.3 Biofuels		3.7	9.2	27.6	29.3	19.2	10.4	8.9	9.4	6.6	4.9	-26%	3%
4.4 Biomass & w-t-e		6.2	8.0	10.6	13.2	14.1	13.6	14.2	15.5	11.1	8.0	-28%	3%
4.5 Small hydro		1.7	4.9	5.4	5.5	7.2	5.4	4.8	6.8	6.0	5.1	-16%	13%
4.6 Geothermal		1.3	1.0	1.4	1.9	1.8	2.7	3.5	3.7	1.8	2.5	38%	8%
4.7 Marine		0.0	0.1	0.9	0.7	0.2	0.3	0.2	0.3	0.2	0.1	-41%	11%
Total		39.5	64.5	99.6	145.9	171.2	168.4	226.7	279.4	249.5	214.4	-14%	21%
5 New Investment by Geography													
5.1 United States		5.5	11.7	28.2	33.6	35.9	23.5	34.7	53.4	39.7	35.8	-10%	23%
5.2 Brazil		0.6	2.6	4.6	11.0	12.2	7.8	7.7	9.7	6.8	3.1	-54%	21%
5.3 AMER (excl. US & Brazil)		1.4	3.3	3.2	4.9	5.8	6.1	11.5	8.7	9.9	12.4	26%	27%
5.4 Europe		10.7	29.4	29.1	61.9	72.4	75.3	102.4	114.8	85.4	49.4	-44%	10%
5.5 Middle East & Africa		0.5	0.5	0.9	1.6	2.3	1.4	4.3	3.2	10.4	9.0	-14%	37%
5.6 China		2.4	5.8	10.1	15.8	24.9	37.1	36.7	51.9	59.6	56.3	-6%	42%
5.7 India		2.5	2.9	4.4	6.3	5.4	4.2	8.7	12.6	7.2	6.1	-15%	10%
5.8 ASOC (excl. China & India)		6.8	8.2	9.0	10.9	11.4	12.9	20.7	25.3	29.5	43.3	47%	23%
Total		39.5	64.5	99.6	145.9	171.2	168.4	226.7	279.4	249.5	214.4	-14%	21%

Source: Global trends in Renewable Energy Investment 2014; Frankfurt School of Finance & Management, Bloomberg New Energy Finance, UNEP.

“...many of them in Latin America but others in the Middle East and Africa...without any subsidy support.”

**FIGURE 4. GLOBAL NEW INVESTMENT IN RENEWABLE ENERGY:
DEVELOPED V DEVELOPING COUNTRIES, 2004-2013, \$BN**



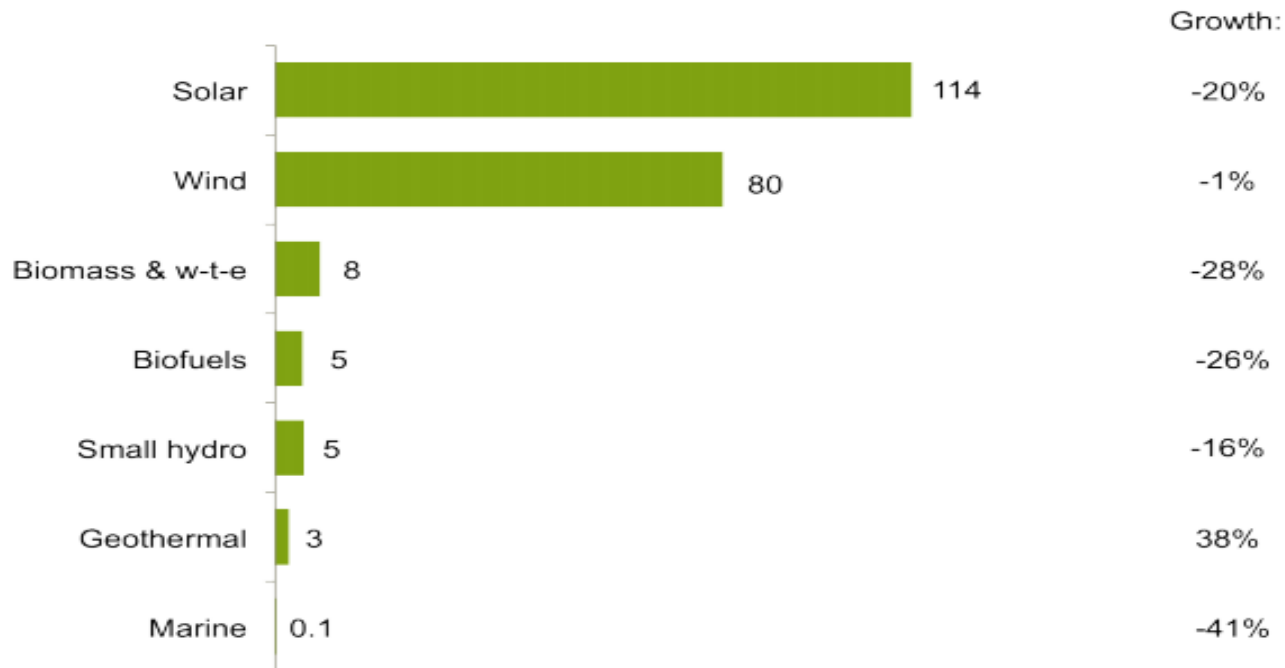
New investment volume adjusts for re-invested equity. Total values include estimates for undisclosed deals. Developed volumes are based on OECD countries excluding Mexico, Chile, and Turkey.

Source: UNEP, Bloomberg New Energy Finance

RECENT TRENDS IN FINANCING ENERGY PROJECTS

“There has also been a deepening in the involvement of long-term investors such as pension funds, insurance companies, wealth managers and private individuals in the equity and debt of wind and solar projects. This process is at a relatively early stage, and renewable energy still makes up only a tiny fraction of fund assets.”

FIGURE 5. GLOBAL NEW INVESTMENT IN RENEWABLE ENERGY BY SECTOR, 2013, AND GROWTH ON 2012, \$BN



New investment volume adjusts for re-invested equity. Total values include estimates for undisclosed deals.

Source: UNEP, Bloomberg New Energy Finance

Source: Global trends in Renewable Energy Investment 2014; Frankfurt School of Finance & Management, Bloomberg New Energy Finance, UNEP.

FUNDS FROM ASSET FINANCE VS FUNDS FROM VENTURE CAPITAL AND PRIVATE EQUITY

FIGURE 8. ASSET FINANCE OF RENEWABLE ENERGY ASSETS BY SECTOR, 2013, \$BN

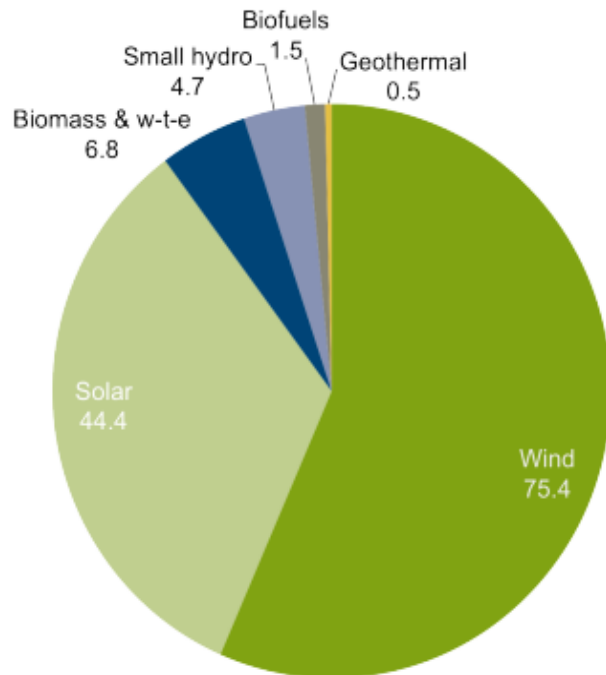
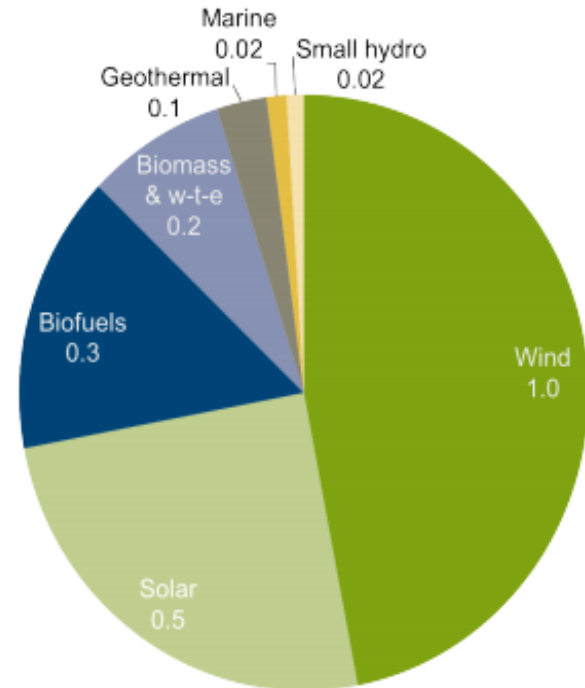


FIGURE 6. VC/PE NEW INVESTMENT IN RENEWABLE ENERGY BY SECTOR, 2013, \$BN



Source: Global trends in Renewable Energy Investment 2014; Frankfurt School of Finance & Management, Bloomberg New Energy Finance, UNEP.

Below is a list of grants and incentives available to support projects in South Africa at various stages of development

GRANTS	TAX INCENTIVES
<ul style="list-style-type: none"> ▪ Critical Infrastructure Programme (CIP) - The CIP supports the construction of the infrastructure that enables the investor to undertake a defined fixed investment. Infrastructure for co-generation of power facilities may be supported subject to availability of funds. ▪ Manufacturing Competitiveness Enhancement Programme (MCEP) - The program has a section for Green Technology and Resource Efficiency under which a co-generation project may fall. If the project can be motivated under the program the company can qualify for a grant of between 30% and 50% of the qualifying project cost (limited to R50 million). 	<ul style="list-style-type: none"> ▪ Industrial Policy Project (section 12I) Tax Incentive - This incentive programme in terms of section 12I of the Income Tax Act, No.58 of 1962 ("section 12I") allows for the claiming of an additional investment tax allowance (35% or 55% or a higher percentage based on the project location. Alternatively, if the project will be undertaken as part of another manufacturing expansion project the costs relating to the co-generation facility may potentially qualify for section 12I benefits. ▪ Section 12 L Allowance for energy efficiency savings - There is a possibility that the energy savings made by implementing the co-generation project can be claimed under this section when it comes into operation.

The South African government has a number of incentives for outside South Africa – always remember to consider tax implications

CPFP	DBSA FEASIBILITY FUND
<ul style="list-style-type: none">▪ Capital Projects Feasibility Programme (CPFP) - Incentive granted at 55% of costs for SADC projects and 50% for non-SADC with focus on Africa. Both capped at R8 million. The CPFP is a cost-sharing grant that contributes to the cost of feasibility studies (post PFS), outside of South Africa, with the primary objective being to assist projects that will increase local exports and stimulate the market for South African capital goods and services.	<ul style="list-style-type: none">▪ Infrastructure Investment Programme for South Africa (IIPSA) - The IIPSA a joint DBSA - EU fund, blending EU grants with long term DBSA finance, aimed at supporting infrastructure projects with high socio-economic benefits. It provides assistance to prepare projects to bankability. Key sectors include energy, transport, water and environment, ICT and social infrastructure.



JOHN STANBURY
PROJECT LEAD

Boutique Project Finance Advisory:

John is a founder member of CRESCO and provides solid backing in the mining, metallurgical, industrial and service sectors.

Corporate experience

Strong all-round leader with more than four decades' experience in the mining, ferro-alloy, fresh produce, manufacturing and consulting sectors. Wide business exposure with excellent negotiating skills

Specific Relevance

John was CEO of Foskor and initiated and caused the project development from concept to operation of the Partially Stabilised Zirconia plant at Phalaborwa,



ROBERT FUTTER
FINANCIAL ADVISORY

Boutique Project Finance Advisory:



Robert has worked for CRESCO for past 8 years across industries but strong focus on mining and infrastructure. Particular focus on financial modelling and finance structuring for cross border opportunities.

Corporate banking

Robert was involved with the Barclays / Absa acquisition, specifically with the potential sales of Barclays Africa operations.

Development Finance Experience

Robert worked at the IDC of South Africa assisting in financing large infrastructure projects in SADC with a developmental impact.

Directors contacts	Focus area
Robert Futter, Director  robert@crescopf.co.za  +27 (0) 83 704 0335	Projects / Financial
John Stanbury  john@crescopf.co.za  +27 (0) 83 704 4706	Portfolio

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Questions?

www.crescopf.co.za