

Industrial Development Corporation

Driving Industrial Capacity Development

14 November 2017

FINANCING ENERGY SERVICE COMPANIES (ESCO'S) PROJECTS THROUGH IDC

Kofi Amparbeng – Industrial Infrastructure SBU, IDC



- **Overview of IDC**
- **Industrial Infrastructure**
- **IDC Funding Criteria**
- **IDC Processes in Assessing Clean Energy Projects for Investment**
- **Funding Structures**
- **Special Funding Schemes / Ring Fenced Funds**

Overview of IDC

- **Established:** 1940
- **Type of organisation:** Development Finance Institution (DFI)
- **Ownership:** State owned company, 100% owned by the SA government
- **Total assets:** R129.8 billion (31 March 2017 - group)
- **Total liabilities:** R41.5 billion (31 March 2017 - group)
- **Main business area:** Providing funding for entrepreneurs and projects contributing to industrialisation
- **Geographic activities:** South Africa and the rest of Africa
- **Products:** Custom financial products above R1m to suit project's needs including debt, equity, guarantees or a combination of these
- **Stage of investment:** Project identification and development, feasibility, commercialisation, expansion, modernisation
- **Number of employees:** 850 (December 2016)



- **Operational Footprint:**
- Head Office - Johannesburg
- 20 Regional and Satellite offices

Overview of IDC (continued)

The funding model of IDC is based on it being self-sustainable

IDC IS FUNDED THROUGH:

Internal profits

Divestment of mature investments

Borrowing in domestic and international markets

We use these to provide funding to business in the form of loans and equity investments



Interest repayments



Capital repayments



Dividend receipts



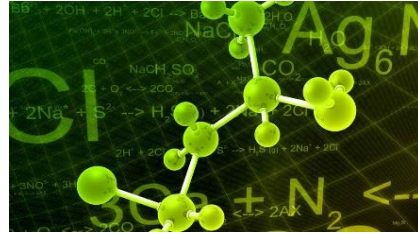
Capital growth and realisation

Proceeds from this funding are used to repay borrowings, cover our costs and grow our balance sheet to re-invest in future business



Metals Value Chain

- Basic Metals and Mining
- Machinery and Equipment
- Automotive and Transport Equipment



Chemicals Value Chain

- Basic and Specialty Chemicals
- Chemical Products and Pharmaceuticals

Special High Impact Sectors

- Clothing and Textiles
- Media and Motion Pictures



Agricultural Value Chain

- Agro-processing and Agriculture

Enablers

- New Industries
- Industrial Infrastructure



High Impact Sectors

- Heavy Manufacturing
- Light Manufacturing & Tourism

Value Chains are earmarked for special attention including proactive project development, whilst High Impact Sectors are exclusively reactive

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Industrial Infrastructure Strategic Priorities

ENERGY

CONVENTIONAL:

Coal, gas, nuclear

RENEWABLES:

Solar, wind, hydro, biomass, biogas

NON-CONVENTIONAL:

Co-generation, waste-to-energy, geothermal, wave, hydrogen/fuel cells

FUELS:

Liquid petroleum fuels, biofuels, natural gas

INFRASTRUCTURE:

Power transmission & distribution lines, energy storage, oil & gas

EXCLUSIONS

Electrification: Household

LOGISTICS

LAND:

Road, rail, rope-ways, shared storage (cold, silos), terminals, industrial hubs

MARINE:

Ports/terminals, shipping/cargo, waterways, offshore facilities, port facilities, marine storage

AIR:

Ports/terminals, cargo

EXCLUSIONS

PUBLIC TRANSPORT

Cars, taxis, trucks, trains

COMMERCIAL AIRLINES

COMMERCIAL SHIPS

Yachts, cruise-liners, boats

WATER

STORAGE:

Reservoirs, dams

TRANSPORTATION:

Pipelines

TREATMENT:

Desalination, waste water, fresh water

BULK SERVICES:

Irrigation systems, pump stations.

EXCLUSIONS

SANITATION: end-user infrastructure

TELECOMS

BROADBAND:

Fibre, wireless, transmission equipment, open access/shared

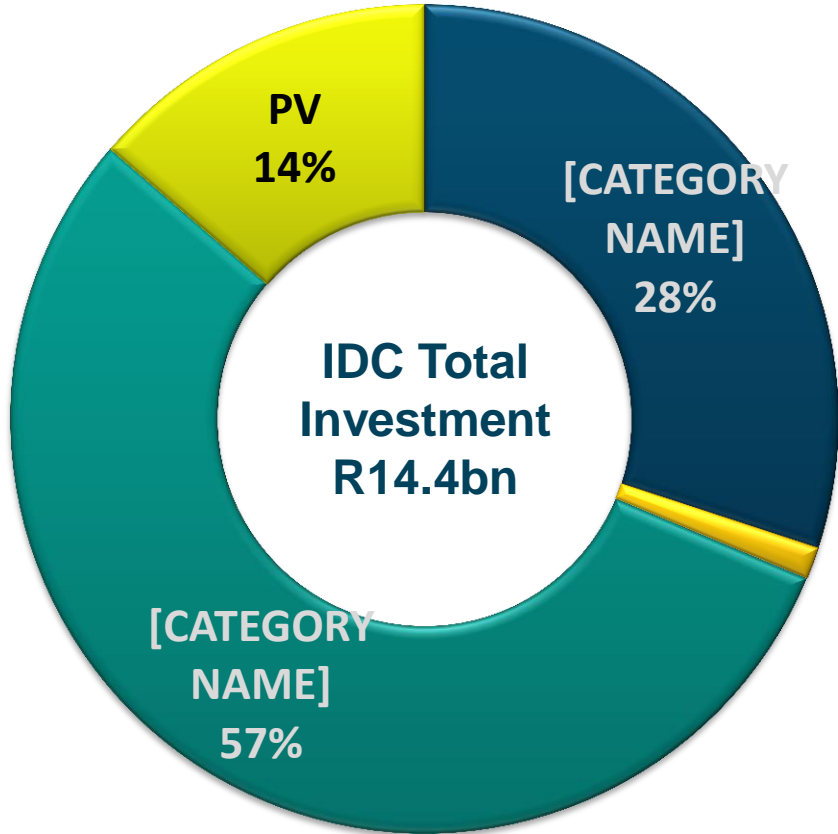
EXCLUSIONS

Internet services
Data centres



- 8 Projects, 213MW, R2.0bn

- 5 Projects, 450MW, R8.1bn

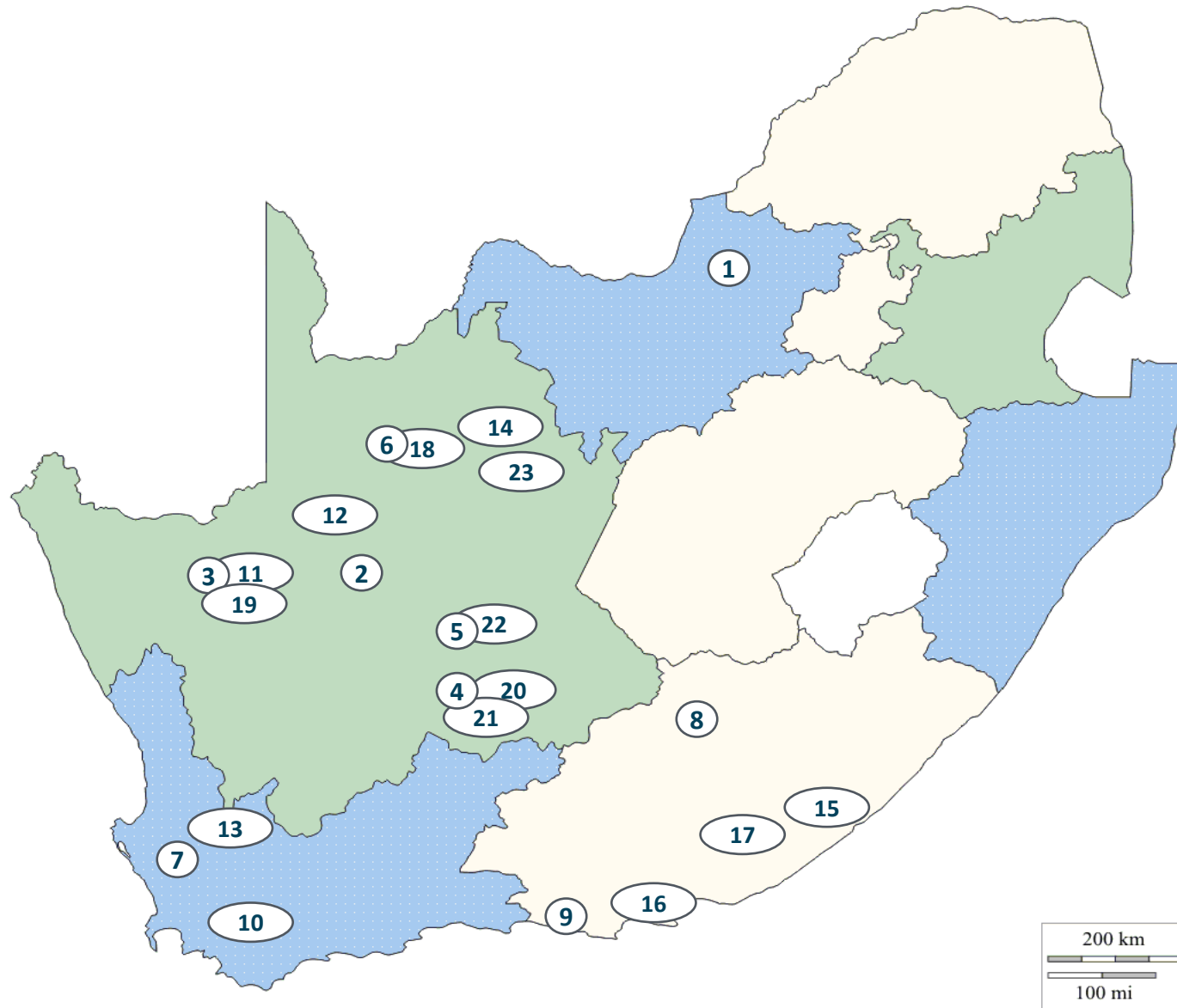


- 9 Projects, 679MW, R4.1bn

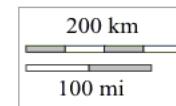
- 1 Projects, 10MW, R204M



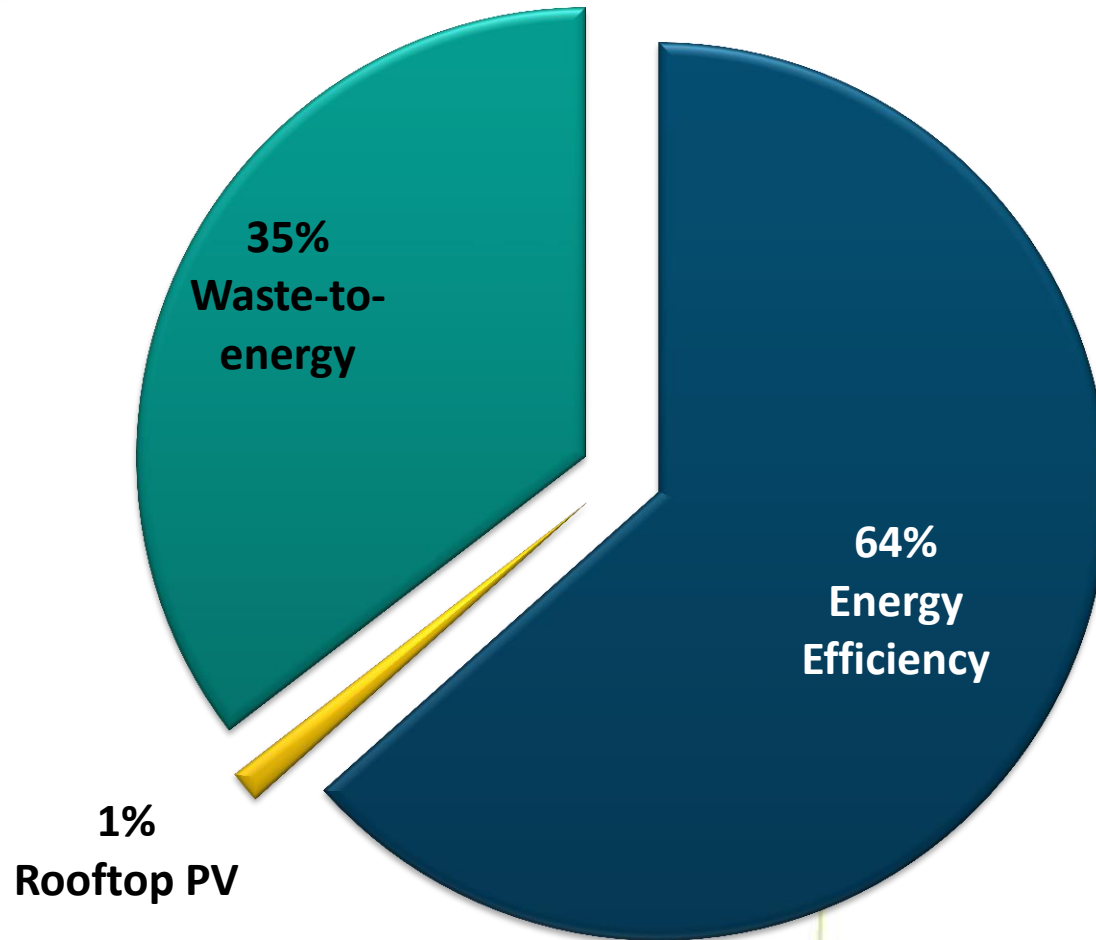
Location of 23 Funded Projects



1. Rustmo **7MW**; Rustenburg
2. Aries **10MW**; Kenhardt
3. Konkoonsies **10MW**; Pofadder
4. Mulilo **10MW**; De Aar
5. Mulilo **20MW**; Prieska
6. Khi **50MW**; Upington
7. Swartland **6MW**; Malmesbury
8. Dorper **100MW**; Molteno
9. Redcap **80MW**; Oyster Bay
10. Klipheuwel **27MW**; Caledon
11. Kaxu **100MW**; Pofadder
12. Kakamas **10MW**; Kakamas
13. Aveng **138MW**; Gouda
14. Aveng **75MW**; Sishen
15. Chaba **21MW**; Former Ciskei
16. Grassridge **60MW**; PE
17. Waainek **24MW**; Grahamstown
18. Karoshoek **100MW**; Upington
19. Xina **100MW**; Pofadder
20. Longyuan **101MW**; De Aar
21. Longyuan2 **144MW**; De Aar
22. Total **75MW**; Prieska
23. Redstone **100MW**; Postmasbg



IDC's Participation in Green Energy (ex REIPP) – R1bn



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- Funding is provided to projects (**NOT para-statal**s or **sovereigns**)
- Finance is available for the establishment of **new businesses**, and for the **expansion or rehabilitation** of existing businesses
- Business case must exhibit **economic merit** (*i.e. in addition to development impact, it must be profitable/ sustainable and capable of repaying its debt*)
- **Credible operator**/ technical partner
- Adequate financial structure / **debt-to-equity ratio** (*with reasonable contribution by promoters*)
- Strict **environmental compliance**
- Minimum **project size** (*SACU, SADC, RoA*)
- *Fall within one of the Value Chains*



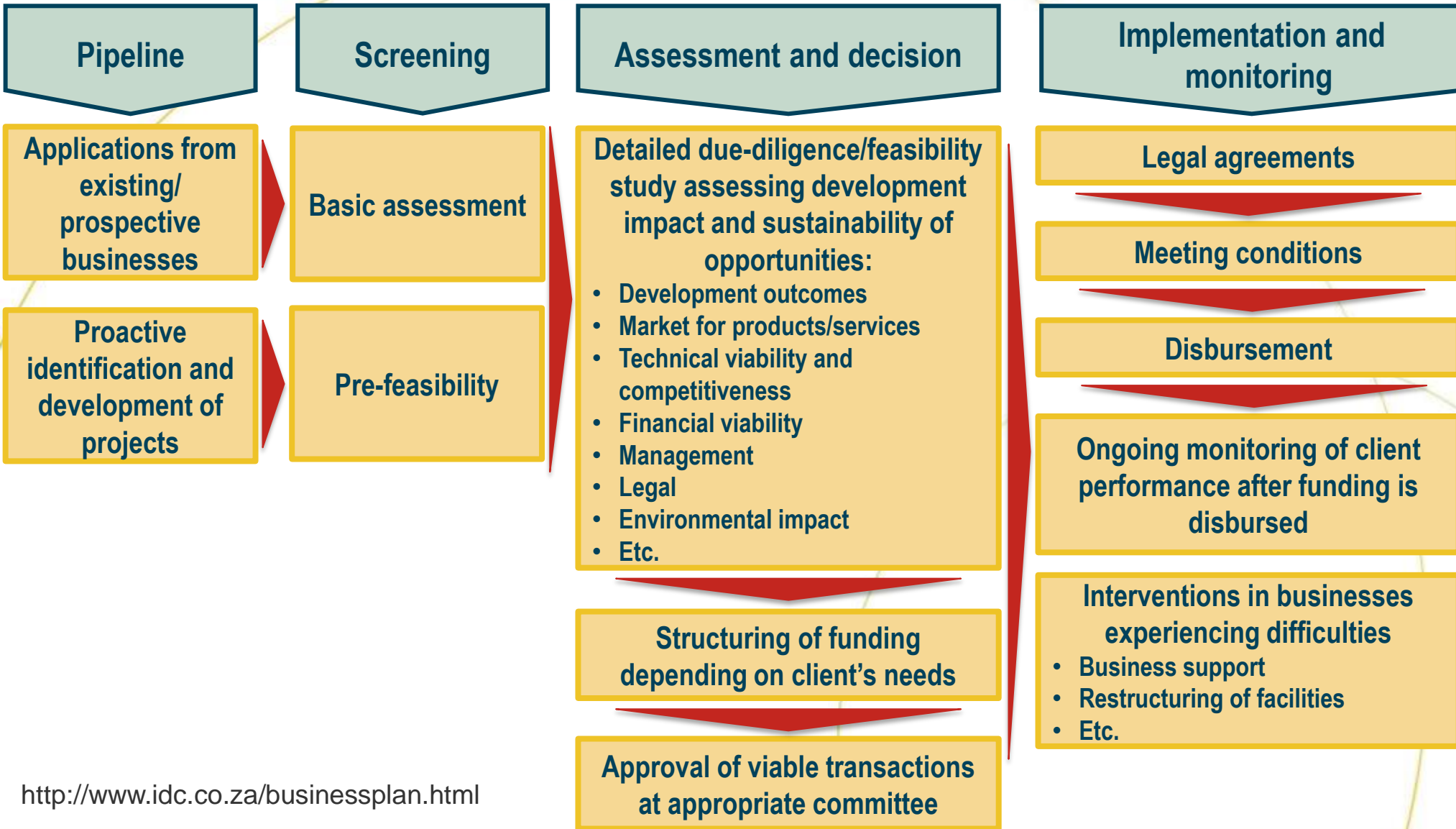
Other key factors:

- Assist Black Industrialists, Youth, Women, BEE and broad based/community equity
- Localisation of equipment
- Jobs focus
- Regional development
- Rural development



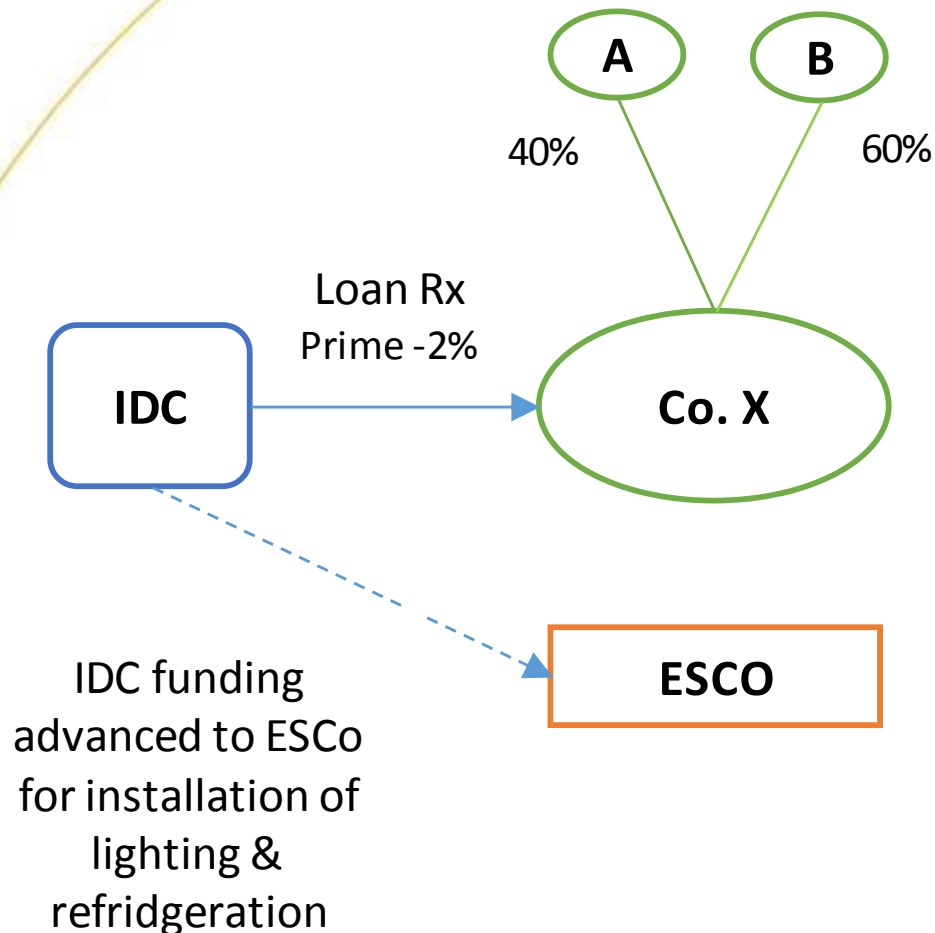
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Deal origination, assessment and post-investment



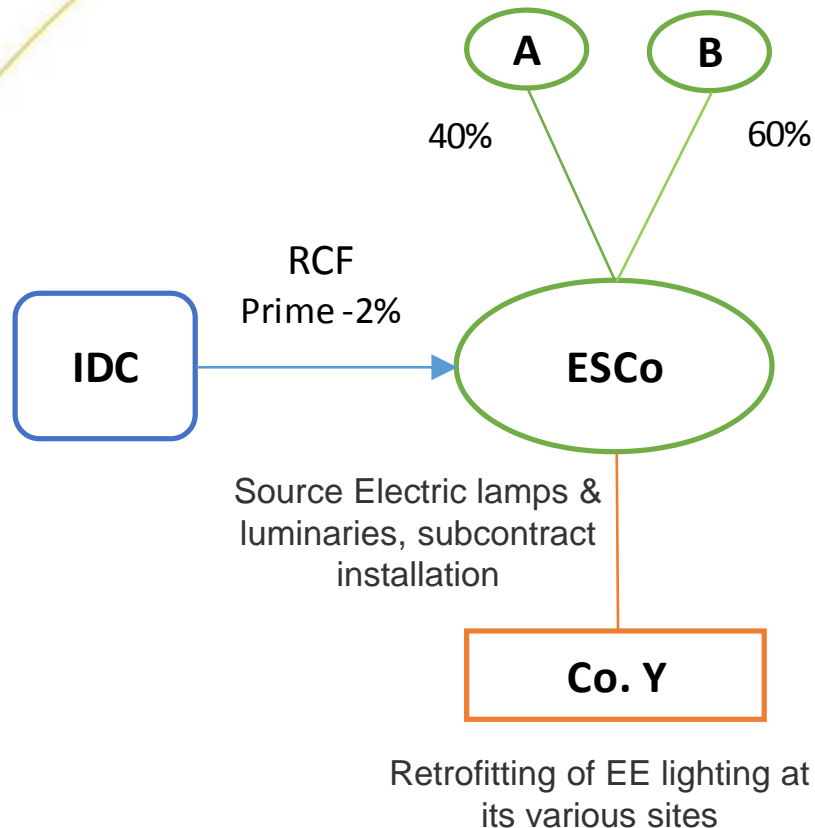
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REFRIDGERATION AND LIGHTING RETROFIT OF SUPERMARKET



- Energy efficiency retrofit enlisting the services of an ESCo
- ESCo experienced in the retail sector
- ESCo performed detailed energy audit => 30% savings
- ESCo to provide energy efficiency solution on a turnkey basis
- ESCo to enter into an energy management contract with the Supermarket - assurance regarding performance and maintenance of the solution
- IDC security includes SNB
- CP: Signed contract between Co X and ESCo for installation of energy efficiency equipment

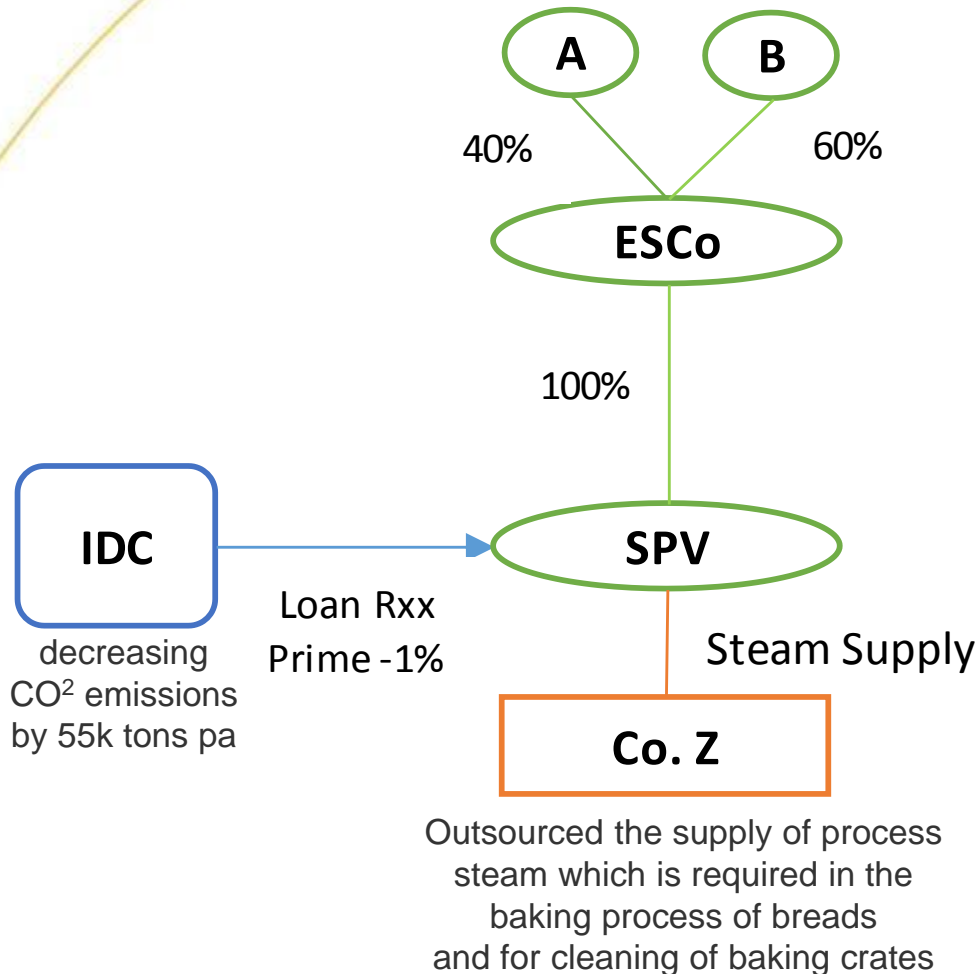
ENERGY EFFICIENT LIGHTING RETROFIT AT A HOSPITAL



- ESCo specialising in industrial and semi-industrial lighting
- WC/RC facility to fund implementation costs over 15 months; agreed payment terms with Co. Y (Recycle capital 3.3x)
- Basic Assessment: Appointment letter for installation
- CP: Signed contract with Co. Y for the installation
- Financial model prepared taking only Co. Y contract into account
- Isolate cashflows of the contract to determine profitability of the contract
- Light bulbs guaranteed by supplier subject to Forex

- Proof that Installation Company has adequate public liability insurance for the Installation contract
- Insurance for inventory in transit and inventory stored in warehouses
- Signed contract between ESCo and installation company
- Joint Bank Account with IDC as co-signatory
- Written consent from Hospital to cession of proceeds from contract to IDC
- Written confirmation from Hospital that it shall pay all amounts payable to ESCo in terms of the contract into the Joint Bank Account

BAKERY LOW PRESSURE STEAM SUPPLY



- 15 year steam supply agreement with bakery
- Optimising bakery's operations (traditionally, heavy fuels oils were used in owned and operated boilers to produce steam)
- Supply, install and operate a biomass fuelled boiler to raise the steam utilising discard wood
- Secured a 10 year renewable feedstock supply agreement
- 70:30 gearing
- 7 year door-to-door, inclusive of 9 month capital & interest moratorium
- CP: Bankable steam supply agreement
- Key agreements: EPC, O&M, Feedstock supply & waste

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Objective:

- To provide finance to renewable energy and energy efficiency projects of smaller scale and manufacturing of Green products in South Africa

Qualifying Criteria:

Renewable Energy (RE):

- Solar and biomass; and
- Other technologies are considered on a case by case basis.

Energy Efficiency (EE):

Instruments and Pricing

- Total investment cost not higher than ca R250 million;
- Normal risk pricing with a cap of Prime + 1.6% or an equivalent fixed rate;
- Minimum investment period of 3 years;
- Maximum payback based on energy savings of 8 years; and
- Standard IDC fees apply.

* Technical assistance available

R142.5 million over 3 years (grant)

Objective:

- Encouraging privately-owned tourism enterprises to move towards cleaner and renewable energy sources

Programme Approach:

- The grant will cover up to 90% (capped at R1 million) of the cost of the energy efficiency solutions;
- The grant will cover 90% of the cost for a new energy efficiency audit as well as the full cost for reviewing an existing audit; and
- Grant funding will be paid directly to service providers.

Eligibility Criteria:

- Existing and new privately owned tourism-specific accommodation, facilities and attractions providing services to tourists as its direct clients (i.e. not suppliers and intermediaries);
- Where applicable, applicants must have obtained an official star grading by the Tourism Grading Council of South Africa;
- Limited to Micro & Small Enterprises with Revenue below R45 million;
- Qualifying applicants should have undertaken (or commit to undertake) an energy efficiency audit or review of an existing audit by the National Cleaner Production Centre (NCPC); and

Qualifying Criteria:

- Extent of the grant based on a weighted scoring matrix against three key aspects:

Impact on energy saving	Scores progressively increase as the % projected energy savings increase
Transformation and ownership	Scores progressively increase as levels of compliance with the Tourism B-BBEE scorecard increase (Level 4 or better)
Financial strength and size of the enterprise	Scores progressively increase as the % projected energy savings increase



Thank you

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