



HERBERT
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AFRICA RENEWABLE ENERGY

DEVELOPMENT FUNDS: A GUIDE FOR MARKET
ENTRANTS AND SMALLER DEVELOPERS



Contents

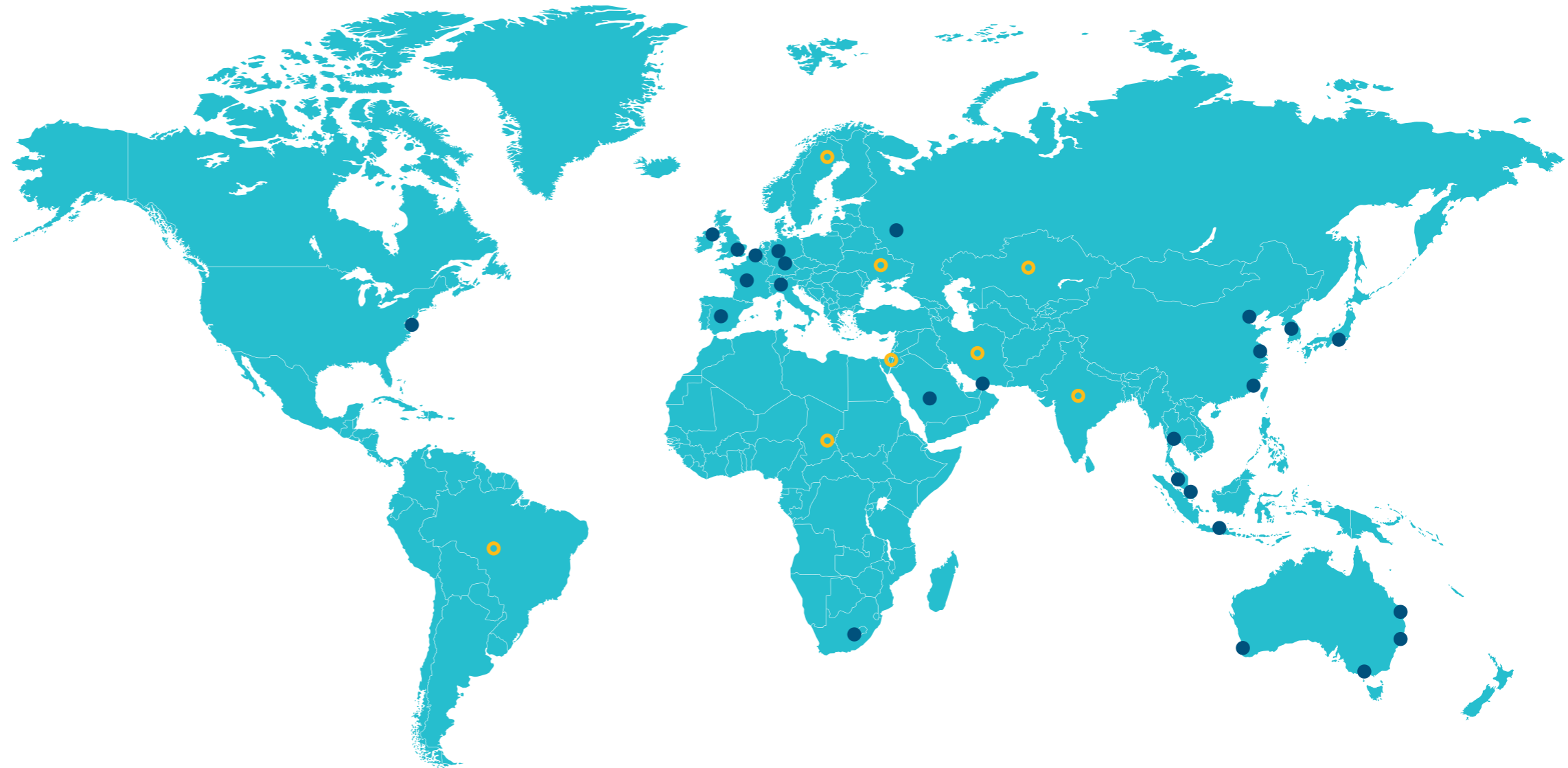
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About us

Herbert Smith Freehills is one of the world's leading professional services businesses, bringing together the best people, to meet clients' legal services needs globally.

Accessing our deep global sectoral expertise, as well as our local market understanding, we help organisations realise opportunities while managing risk to help them achieve their commercial objectives.

Operating as a single, globally integrated partnership, we work as a team, using innovative systems and processes to ensure client work is delivered intelligently, efficiently and reliably. When working with Herbert Smith Freehills, clients are assured world class, full-service legal advice and the best results.



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Our Africa practice

Our premium Africa practice has been built over 30 years and is serviced by partners from across our global network of offices, including Johannesburg.

We have one of the largest teams of common and civil law lawyers advising almost exclusively in relation to Africa, comprising lawyers from a diverse range of cultures and backgrounds.

With experience advising in all of Africa's 54 jurisdictions, we have an exceptional understanding of the continent's legal systems, business practices, local cultures and socio-political considerations, and of the issues and realities of doing business in Africa.

Our Africa practice achieved a major milestone in late 2015 with the opening of the firm's Johannesburg office – our first office in Africa. The combined strength of the Johannesburg partners and the firm's other Africa specialists located across our international platform enables us to provide a true on-the-ground pan-African offering, wherever you are doing business on the continent.

Our experience in Africa spans all key industry sectors and includes advising on:

- public and private mergers, acquisitions and disposals
- private placements and international public offerings
- project finance, asset finance, debt capital markets finance, structured finance and corporate finance (including complex structuring and a good knowledge of local security and exchange control issues in African jurisdictions)
- project structuring and development, including in the context of large scale integrated extractive and associated infrastructure projects
- risk mitigation (including political risk and trade credit insurance)
- international arbitration between parties or with governments (particularly where disputes involve renegotiation, expropriation etc)
- in country civil and criminal litigation
- compliance
- crisis prevention and management
- environmental, social and regulatory matters
- business and human rights
- black economic empowerment and indigenisation
- public international law, including international boundary disputes
- employment issues

Market commentators appreciate that “they go beyond the legal analysis to provide practical advice on working in Africa. It's a very complete service.”

CHAMBERS GLOBAL 2019

Introduction

For Africa-focussed developers and sponsors in the 'green' energy market, development funds (“DFs”) can offer a means to fast-track project development and enhance bankability. This handy guide profiles several DFs suited to Africa-based projects, summarising their respective offerings, eligibility and proposal criteria and the application process.

We hope that this guide provides you with a better understanding of the funding options available in the market.

We are keen to speak with you about your approach to accessing DF funding and how we can help you achieve your strategic goals in the Africa renewable energy space.

Please do not hesitate to get in touch with us.



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What is a Development Fund?

A DF often blends public and private sector financing, and is therefore willing to invest in projects with greater risk profiles, which may be in jurisdictions not usually favoured by commercial bank lenders or may involve newer untested technology, providing concessional financing or grants where required. DF financing is used to supplement developer equity injections and commercial financing, providing the project with the resources it needs to reach financial close.

Broadly speaking, DFs fall into two camps:

- funds which focus on small-to-medium size private sector developments (eg REPP and CIO), and
- large multi-donor UN and/or World Bank-mandated funds (eg CIF and GCF).

The former tend to have narrower eligibility requirements and greater rigidity in their financial offering. On the other hand, the

application process is likely to be faster, and private sector developers can apply to the DFs directly, without having to heavily rely on prior public sector engagement.

DFs such as GCF and CIF offer greater flexibility in their finance offerings (including concessional financing and grants), allowing the parties to tailor financing to individual developer needs. They have the ability to deploy higher levels of financing, making them better suited to larger projects. However, there is a greater focus on ensuring that the projects align with country-wide strategy, meaning developers will need to engage with public sector stakeholders (such as multilateral development banks and government institutions) from an early stage. As a result, the application process tends to be more lengthy and administratively burdensome.

In return for its investment, a DF will require projects to meet certain criteria regarding the host country's economic development and demand ongoing compliance with detailed environmental and social standards in addition to the customary commercial covenants. These additional compliance requirements complicate the application process for many, and so we intend this guide as a tool to assist developers in simplifying the process.

We have focused on the following DFs for the purposes of this guide, however there are many others which are available and may be of interest:



Supported by £148 million from the UK government, the **Renewable Energy Performance Platform** ("REPP") is managed by the Camco Clean Energy Fund. REPP exclusively provides funding to the private sector, and to-date, has committed US\$13.1 million.



Managed by Climate Fund Managers, **Climate Investor One** ("CIO") has a mandate to finance renewable energy projects in emerging markets. The fund comprises a US\$50 million development fund, US\$800 million equity construction fund and US\$800 million refinancing fund







Established in 2010, the **Green Climate Fund** ("GCF"), has mobilised approximately US\$5.6 billion in funding (of the US\$10.3 billion pledged) up to March 2020. This includes funding for 51 projects in Africa (both public and private sector).



The **Climate Investment Fund** ("CIF") acts as an umbrella vehicle for several funds and programs. The **Clean Technology Fund** ("CTF") and the **Program for Scaling Up Renewable Energy in Low Income Countries** ("SREP") are both mandated (albeit with differing requirements) to finance the development of renewable energy projects in Africa. While all CIF funds are currently fully committed, CIF remains a key player and will likely mobilise further funding in the near future.

Fund profiles

	RENEWABLE ENERGY PERFORMANCE PLATFORM	CLIMATE INVESTOR ONE	GREEN CLIMATE FUND	CLIMATE INVESTMENT FUND
				
LOCATION	sub-Saharan Africa with some exceptions (country list published on website).	Africa, Latin America and Asia (low, lower-middle and upper-middle income countries).	developing countries party to the UN Framework Convention on Climate Change.	CIF will only invest in countries which have an approved country-wide investment plan. SREP will currently invest in Benin, Ethiopia, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Rwanda, Sierra Leone, Tanzania, Uganda, Zambia, while CTF focusses on North Africa (and the Middle East).
TECHNOLOGIES	grid-connected and off-grid solar PV, run-of-river hydropower, wind, geothermal, biomass, biogas, waste-to-energy.	onshore and near-shore wind, solar PV and run-of-river hydropower.	broad mandate to invest in the development of renewable energy infrastructure (this includes funds and private equity as well as developers).	no requirements.
SIZE	1MW to 25MW (50 MW for wind projects).	25 MW to 75MW; minimum investment of US\$ 25 million.		no requirements.
KEY FEATURES	solely invests in private sector or community owned projects. It's offering comprises development phase capital and short-term gap financing to assist construction. It can also assist in sourcing risk-mitigation instruments, and long-term financing.	offers end-to-end full project lifecycle funding, combining three investment funds into one facility. Developers/sponsors are required to commit at least 25% of their equity contribution to construction costs.	the GCF offering includes a broad range of financial instruments including concessional finance and grants. GCF may also finance the entire project if it deems it to be justified. To receive money directly from GCF , entities need to be accredited as one of its "Accredited Entities" (see Q&A section for further details).	the CIF offering includes a broad range of financial instruments including concessional finance and grants.

Eligibility requirements

DFs commonly prescribe strict eligibility criteria relating to location, project size, and investment value. DFs will test eligibility as a first step in the application process, and developers should review the criteria carefully to ensure project compliance. Key eligibility requirements are summarised below.



Location:

- **REPP** and **CIF** limit funding to specific listed countries
- **CIF** will only consider projects which are part of its pre-approved country-wide development programme



Technology:

- **CIO** limits investments to solar, wind and run-of-river hydropower
- **REPP** limits investments to grid-connected and off-grid solar PV, run-of-river hydropower, wind, geothermal, biomass, biogas, waste-to-energy



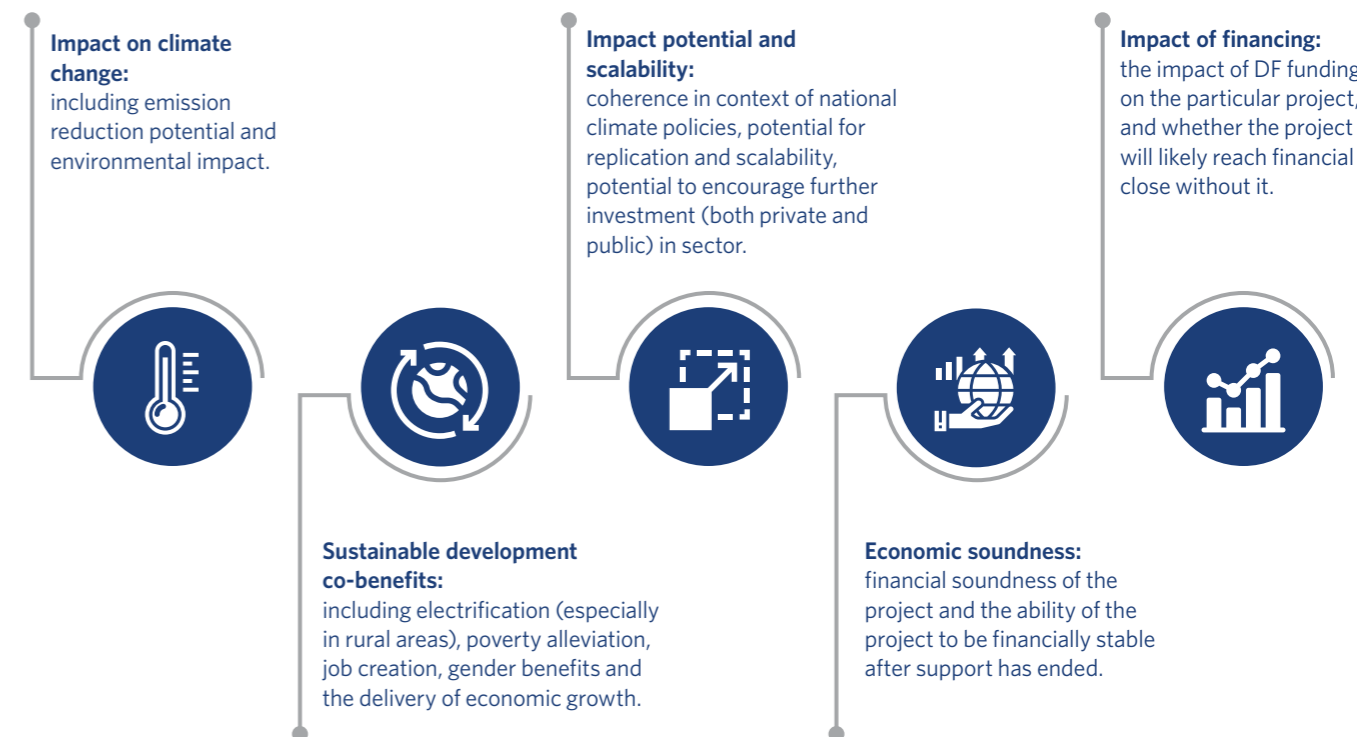
Project and investment size:

- **Small scale: REPP** projects, must have a projected capacity of between 1 and 25MW (and up to 50MW for wind)
- **Medium scale: CIO** targets projects between 25 and 75MW, and has a minimum ticket size of US\$25 million

Proposal criteria

While DFs will assess proposals according to their own specific criteria, all will look to assess the project's potential to impact climate change and in-country development.

Developers will need to make a detailed assessment of fund criteria before submitting an application, we have summarised below the types of issues which DFs will consider:



DFs commonly issue RFPs which focus on particular "sustainable development" goals (often to fill a perceived gap in funding).

GCF is particularly concerned over gender issues, and requires gender impact assessments as part of project proposals.

More recently, **REPP** has issued a gender-focussed RFP, inviting proposals for majority woman-owned or led entities, or entities focussing on promoting the economic empowerment of women.

DFs such as GCF and CIF offer greater flexibility in their finance offerings (including concessional financing and grants), allowing the parties to tailor financing to individual developer needs. They have the ability to deploy higher levels of financing, making them better suited to larger projects. However, there is a greater focus on ensuring that the projects align with country-wide strategy, meaning developers will need to engage with public sector stakeholders (such as multilateral development banks and government institutions) from an early stage. As a result, the proposal criteria is stricter and the application process tends to be more lengthy and administratively burdensome.

Financing structures

DF financing structures vary. Some DFs (such as **CIO**) are able to offer end-to-end full project life cycle funding, while others (such as **REPP**) focus on short-term financing to increase the bankability of the project and assist in bringing it to financial close.

DFs such as **GCF** and **CIF** offer a broad range of financing solutions, including loans, guarantees, equity and grants, tailored to the needs of the projects, whereas other DFs (including **CIO**) restrict their offering to a pre-packaged financing structure.

Developers will need to consider how their funding needs can be best met. We have summarised some of the offerings below.

CLIMATE INVESTOR ONE	REPP
<p>CIO offers financing across the development, construction and operation phases through three funds:</p> <ul style="list-style-type: none"> • Development Fund: provides a loan of up to 50% of a project development budget, to a maximum of US\$2.5 million. • Construction Equity Fund: to finance up to 75% of a project's construction stage funding requirement, to a maximum of US\$100 million through equity financing. • Refinancing Fund: to finance up to 50% of a refinancing long-term debt tranche, following successful construction and commencement of operations. 	<p>REPP's offering is designed to assist in bringing the project to financial close and includes development phase capital and construction phase gap financing, employing a range of financing structures, from equity to senior debt.</p> <p>REPP can also assist developers in accessing risk-mitigation instruments and long-term financing, as well as in terms of offering up its own technical expertise.</p>

Other key points to consider

Which DFs focus on private sector investment?

- **REPP** invests exclusively in a) majority private sector owned, managed and controlled entities, b) community-owned entities, or c) privatised or to-be-privatised entities. **CIO** primarily funds private-sector developers.
- While **GCF** and **CIF** predominantly invest in public sector projects, both have dedicated private sector programs, having invested US\$2.2 billion and US\$420 million into such programs respectively.
- However, both the **GCF** and **CIF** fund structures require private sector developers to work closely with national programs. **GCF** receiving entities must either be (or apply to be) an "Accredited Entity", or partner with an Accredited Entity for the purposes of the project.
- Accredited Entities are listed on their website and mostly comprise multilateral development institutions as well as some commercial lenders.
- **CIF**-funded private-sector projects must also form part of the national energy objectives and strategic plans as approved by the World Bank.

Does the DF have any specific developer/sponsor equity requirements and are there any co-financing requirements?

- Most DFs have developer/sponsor equity requirements. **CIO**, for instance has particularly rigid requirements, and in addition to financing limits, the developer/sponsor is required to allocate at least 25% of their equity contribution towards construction costs.
- **REPP** requires that the project delivers an equity rate of return to the developer/sponsor comparable to (but not exceeding) current market returns, depending on the nature of the project, and the maintenance of an (unspecified) minimum debt/equity ratio. Further, **REPP** requires that the developer/sponsor obtain additional private sector investment.
- **CIF** requires co-financing (but has no prescriptive requirements), while **GCF** does not. **GCF** has the flexibility to provide full financing for a given project if it deems it justifiable.

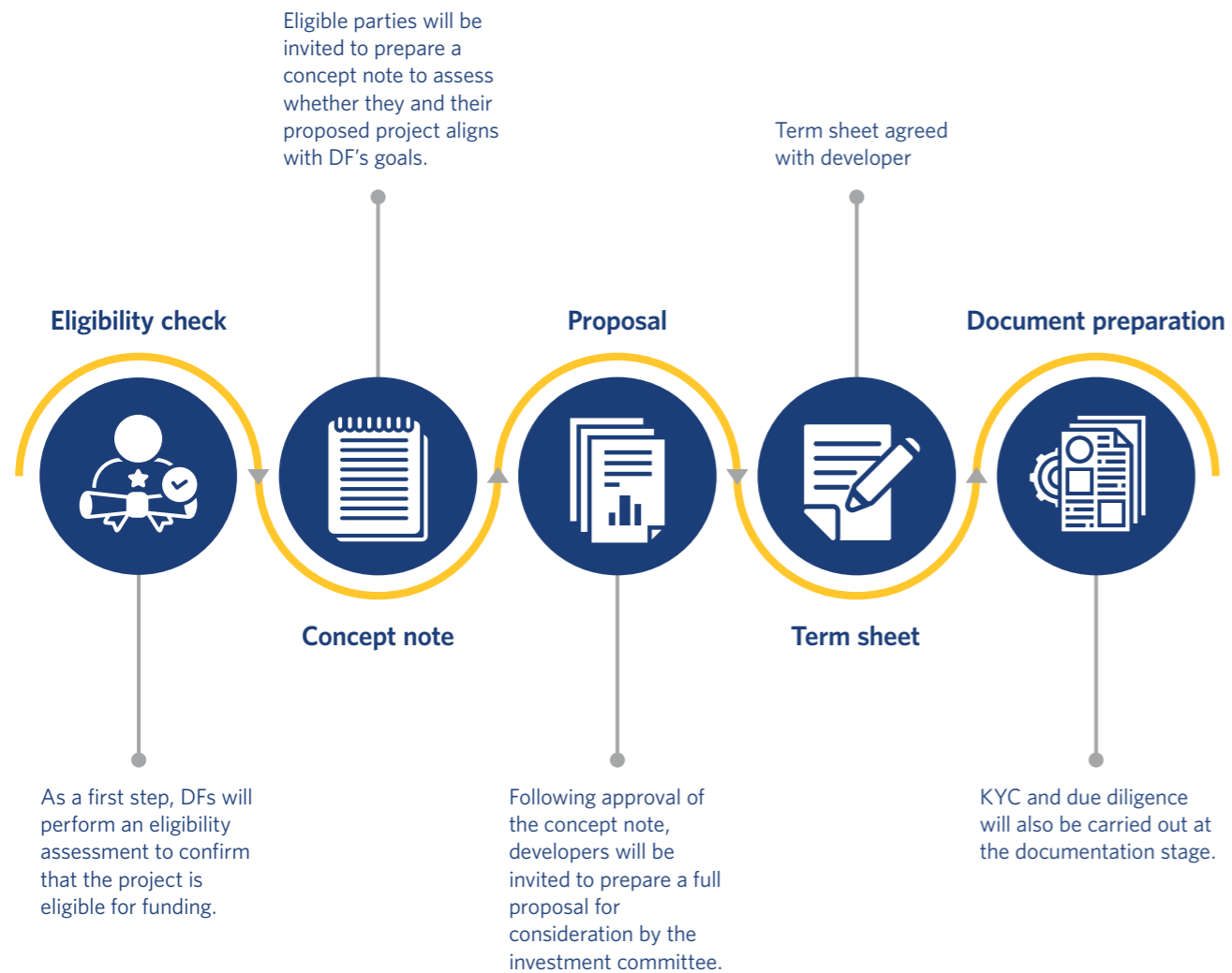
Application process

REPP, CIO and **GCF** all allow for direct applications from developers through their website. However, as set out above, **CIF** applicants may only obtain funding through approved national development plans.

While application processes vary from fund-to-fund, the example opposite illustrates the stages that developers should expect to see as part of the process.

As part of the **GCF** application process, developers are required to engage with an Accredited Entity (or seek accreditation), and seek confirmation from the beneficiary country that the project aligns with its needs and priorities.

Timelines vary, and while **REPP** envisages (approximately) a nine month process from submission to document execution, **GCF** applications can take up to two years (and a further two if approval of a country-wide investment plan is required first).



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