



Project Finance and Incentives

Clay Brick Association Regional Meeting
Midrand
16 February 2017

February 2017



Agenda

- Background to Cova
- Energy Efficiency Finance Guideline
- Key Findings from Interviews
- Incentive value chain
- The missing middle
- Project finance available
- Incentives available
- Case Study Examples

Background to Cova

- We are an advisory consulting firm specialising in Government Grants and Incentives.
- We also advise on matters related to green finance, as well as carbon and energy policies and strategies.
- We are a SANAS Accredited Measurement and Verification Inspection Body (EEMV0007)
- Cova has secured over R1 billion in after tax grants and incentives (R5 billion before tax) for clients in the last three years.

Energy Efficiency Finance Guideline

- Interviews with Brick Makers to understand barriers to access finance or incentives for energy efficiency projects
- Develop business case examples using Energy Efficiency Projects proposed in the Energy Efficiency Guidelines
- Develop guidelines of available options as well as indicative list of all options available for all energy efficiency projects listed in Energy Efficiency Guidelines



Available From: <http://www.claybrick.org.za/energy-efficiency-guidelines>

Key Findings from Interviews

- Brick makers are on the whole continuing to invest in their operations
- Primary investment drivers appear to be the need to improve efficiency and address bottlenecks within operation
- **Energy efficiency appears amongst the drivers, but isn't a primary concern**
- **Investments are almost universally made from brick maker's own financial resources as and when cash becomes available**
- Businesses typically assess different projects on a payback basis, but are not necessarily able to develop business cases
- Brick makers are struggling to access bank finance due to risk concerns, and the way that banks assess affordability and projects
- Financing is typically limited to asset based on certain pieces of machinery

Key Findings from Interviews

- Brick makers are not accessing grants or incentives due to both lack of ability, and structural barriers
- As a consequence, the market is unable to contemplate any large scale investment
- Finance is a barrier to the implementation of energy efficiency projects
- All interviewees see the need for some form of intervention, including demystifying the Carbon Tax

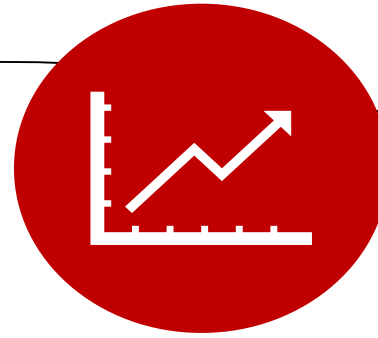
The Business Cycle



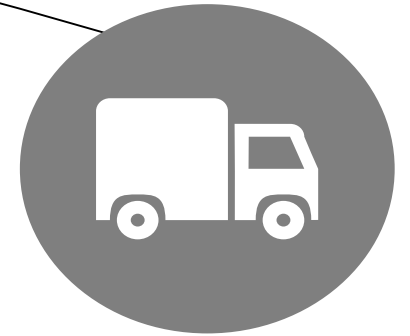
- R&D
- S11D
 - SPII
 - Thrip
 - PII
 - Innovation Fund
 - Green Fund



- Enterprise Development
- APDP
 - NIPP
 - S12I
 - MCEP2
 - CIP/MIG
 - SEZ
 - SPP
 - EIP
 - BI



- Competitiveness
- NIPP
 - BBSDP
 - MCEP2
 - S12L - energy
 - Carbon Credits and S12K
 - DSM/IDM
 - Green Fund
 - Jobs Fund
 - BI



- Export
- EMIA
 - SEZ
 - CPFSP
 - NIPP
 - Drawbacks

The Missing Middle

- Grants and Incentives are typically available for either large projects or corporations or for small business
- Lack of grants and incentives for middle sized projects and companies
- Larger focus on black business

Finance Options

- Typically through asset-based or non-asset based option through financial institutions
- It is important to consider banks that have been given credit lines expressly for energy efficiency offering preferential products for energy efficiency projects
- Typically most energy efficiency projects above a certain capital investment can apply for finance – often easier to link it to asset-based finance options



SUNREF Phase II / AFD Finance

- Continuation of Sunref Phase 1 – interest rate, longer payback, matching cashflows
- Supposed to be focussed on smaller sized projects – **project limit €15 million**
- Technologies include renewable energy technologies, emission reduction projects, and energy efficiency projects
- **Total Credit Line Available €120 million**
- Currently – IDC agreement has been signed, other partner bank will be Nedbank
- IDC is used to dealing with larger projects and larger corporates and typically follow the evaluation criteria of the IDC
- If the investment value of the project is not large enough for banks – it would be possible to group projects OR have a large supplier apply for loan to finance group of smaller projects
- Also provide assistance on technical expertise and regulatory issues
- Can apply and submit projects to the Technical Assistance Facility based at SANEDI

IDC Funding Energy Efficiency and Small-Scale Renewables



Roof top solar PV



Biomass/Biogas



Lighting



Solar Water Heaters & Commercial Water Heating



Refrigeration



Variable speed drives, Energy efficient plant and machinery, Other

IDC Financing Options

Characteristic (Feature)	Limited Recourse <u>Project Finance</u>	Hybrid (<u>Financing of a Project</u>)	Corporate Finance (<u>Balance Sheet</u>)
Core business	Outsourced to specialised power company – Sponsor/SPV	Combination of host operating, but may outsource	Create new capacity in possible non-core activity, but may be “tail-of the dog”
Capital availability	Developer/ Sponsor raises and provides	Can be linked to project and may not have corporate guarantee, or limited	All capital from cash reserves or corporate borrowing, and guarantee repayment from other business
Cost of debt	Depends on structure and security of project cashflows	Depends on host & offtakers guarantees (security) as well as cashflows	Depends on balance sheet strength (& security) Generally lower
Debt term	Aligned to project cashflows eg. 10 years	Combination, so can look at project and/or host ability to repay debt	Depends on balance sheet strength and ability to pay debt
Balance sheet impact	On Sponsor’s/SPV balance sheet	Can be ringfenced as project cashflows	On own balance sheet

Finance Options

- Finance can also be offered through corporate development funds, typically targeting SMMEs – an example of this is Massmart Supplier Development Fund.
- In 2014, Massmart funded five different brick making companies: R19 139 591 in approved grants, R8 332 046 in finance
- Energy Service Companies offer finance through energy performance contract agreements
- Original Equipment Suppliers may offer finance through financial institutions they bank



Grant and Incentive Options

- Grants programmes generally require high capital investment and high levels of black ownership
- The current grant programmes that are currently available (more applicable to brick makers)
- The Black Industrialist Scheme
 - Minimum 51% Black Ownership
 - Capital Investment Minimum R30 million
- Critical Infrastructure Programme
 - Must invest in infrastructure supporting a manufacturing investment
 - Minimum Level 4 B-BBEE status – recently waived – just compliant
 - Cost Sharing Grant
- Manufacturing Competitiveness Enhancement Programme (MCEP)
 - WC - Finance Option available for now – 4% blended, Level
 - Expect a MCEP grant programme to re-open - underspent



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Grant and Incentive Options

- A tax incentive is a tax allowance or a deduction on your taxable income. Company must be tax paying / profitable to benefit
- Section 12L: Energy Efficiency Tax Incentive
- 12L applies up to years of assessment ending before 1 January 2020. This means that your project must be implemented by December 2018. Extension?
- The rate has been increased to 95 cents per kilowatt-hour effective from 1 March 2015. Previously 45c per kilowatt-hour for project implemented after November 2013.
- Incentive is administered by SANEDI, High costs to access as it requires SANAS accredited M&V body and high data accuracy
- **SANEDI are currently working on a M & V “Lite” option, could be very useful for smaller projects**

After Tax Benefit	Fuel
R0,27 /kWh	Electricity
R1,85 /kg	Coal
R2,82 /litre	Diesel
R2,67 /m ³	Natural Gas
R2,04 /litre	LPG

Grant and Incentive Options

- Section 12I: Capital Infrastructure Incentive for Manufacturing
- Incentive on the Capital Investment of a Manufacturing Project
- Minimum capital investment R30 mill (brownfields) and R50 mill (greenfields)
- Section 12I was brought into effect in July 2010 with a sunset clause of 31 December 2015, which was extended to 31 December 2017.
- The budget allocation for the additional allowance benefit was R20 billion.
- To date, approximately R20 billion Additional Investment Allowance as been allocated to about 80 approved projects
- Waiting list – projects withdraw

Grant and Incentive Options

- Section 12I: Capital Infrastructure Incentive for Manufacturing
- Incentive on the Capital Investment of a Manufacturing Project
- Minimum capital investment R30 mill (brownfields) and R50 mill (greenfields)
- Section 12I was brought into effect in July 2010 with a sunset clause of 31 December 2015, which was extended to 31 December 2017.
- The budget allocation for the additional allowance benefit was R20 billion.
- To date, approximately R20 billion Additional Investment Allowance as been allocated to about 80 approved projects

Grant and Incentive Options

- Research and Development

- Incentive options available for R&D include Section 11D (tax allowance) and the Support Programme for Industrial Innovation (Grant Programme)
- Typically for brick makers, this would include for example running a pilot project to test a new type of kiln

- Carbon Offsets

- It is possible to obtain carbon credits for project which reduce carbon emissions
- It is expected that through the implementation of the Carbon Tax in 2018 and the promulgation of the Carbon Offset Regulations

Business Case Examples

- Project Eligible for Section 12L Allowance – Installation of Vertical Shaft Brick Kiln
- Section 12L Tax Benefit Calculation

	Clamp Kiln	VSBK
Production	101 000 tonnes	120 000 tonnes
Energy	2,44 MJ / kg	0,84 MJ/ kg
Energy Saving	53 267 093 kWh	
Section 12L Benefit (before Tax)	R50 603 738	
Section 12L Benefit (after Tax)	R14 169 047	



Business Case Examples

Example of matching the project with the criteria of potential options

Project Details						
Kiln type	Energy Saving Opportunity	Ease of Implementation	Capex (Rand)	Energy Saving (kWh/ annum)	CO ₂ Saving (t/yr)	Payback (Years)
Fixed & Clamp	Replace Current Clamp Kiln with Fixed Kiln Type (e.g. VSBK, Zig-Zag, TVA or Tunnel kiln etc.)	Difficult	R18 000 000	70 000 056	24 700	2.30

Kiln Type	Energy Saving Opportunity	Capex (Rand)	Energy Savings (kWh/yr)	Finance					Grants			Tax Incentives		R&D		Carbon Offsets
				Asset Based	Non-asset	Development	OEM	ESC	MCEP	CIP	BI	12I	12L	SPII	11D	
Clamp	Replacement of Clamp Kiln with a Fixed Kiln	18 000 000	70 000 560	✓	✗	✓	✓	✗	✓	✓	✗	✗	✓	✗	✗	✓

Contact Us

Duane Newman

dnewman@cova-advisory.co.za

082 783 5057

Zelda Burchell

zburchell@cova-advisory.co.za

082 4100 750