

## **Red Cap Kouga Wind Farm and SCAF support**

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### **Introduction and overview of early stage development risk funding challenges**

Inspired Evolution Investment Management (Proprietary) Limited or Inspired Evolution is a boutique fund advisory company set up to lead clean technology (“cleantech”) investments in new energy and the environment in southern Africa. Inspired Evolution launched its fund raising efforts for its first fund Evolution One Fund on 5 June 2007 on World Environment Day. The Fund is a 10-year late stage venture capital and private equity fund with committed capital of US\$94 million. The Fund is the first mover specialized and dedicated to cleantech investments in the southern African development community (SADC) region.

Evolution One Fund has reviewed 250 deals to date since its first close on 14 July 2008. What has emerged as a clear trend in the clean energy and energy efficiency sectors is the aggregation of underlying projects to be developed via a project development company (DevCo) to financial close. These projects would subsequently be sold down to the market to longer-term asset holders interested in low-risk annuity-type cash returns from these cleaner energy infrastructure projects. The DevCo’s would thereby enjoy a development fee as a fair return for their early risk capital and project development value add, through to commercial operation date.

In such cases, the DevCo’s require early seed capital to conduct key elements prior to the bankable feasibility of the projects being developed. However, many funds cannot provide the requisite seed capital to develop start up projects, requiring a bankable feasibility, validation of market adoption, and signed power purchase agreements for investment approvals.

Inspired Evolution as advisor to Evolution One Fund was approached by a wind development company – Red Cap Kouga Wind Development Company – to co-finance a portion of the early stage development risk capital required to develop wind assets to permitted stage under the renewable energy feed-in tariff (REFIT) programme underway in South Africa. A crucial component of the investment approval advice by Inspired Evolution was the securing of concomitant funds from a third party funding source.

Afdb proposed that Evolution One Fund via it’s advisor Inspired Evolution, sign a cooperating fund agreement with SCAF to co-finance the costs and risks of instigating these early stage DevCo engagement models, commencing with the Red Cap transaction.

### **Red Cap Kouga Wind Farm Project and Deal Overview**

Red Cap Kouga Wind Farm Development Company (Red Cap DevCo) is a private South African company in an advanced stage of developing a wind farm in the Eastern Cape Province, South Africa. Red Cap DevCo’s Kouga Wind Farm will offer up to 300MW of wind assets in a phased approach. Red Cap DevCo requires additional seed financing to get it to financial close. The key activities that need to be undertaken include: security of land lease; securing access to the grid; wind data collection; EIA application; electricity generation license; PPA/IPP application; Civil Aviation Authority approval; and Security of debt providers.

## **Requested SCAF Support**

SCAF Support Line 2 cost-sharing has been provided for the Red Cap DevCo engagement, which involving the following Seed Investment Strategy:

1. For the development companies (DevCo's) that the Fund signs investment agreements with, SCAF makes funds available to cover some of the early stage soft costs associated with their project developments. For the first DevCo Red Cap, SCAF is making available seed capital to assist with a 50-100MW wind farm development in the Kouga region of the Eastern Cape, South Africa.
2. The SCAF co-investment support for RedCap is enough to cover the first 100MW of wind farm development.
3. Inspired Evolution manages the use of SCAF monies, made available to Devco as a non-redeemable project grant for funding project studies based on an agreed list of eligible activities.
4. SCAF supports a maximum of 50% of the costs of such activities, with the remainder coming from the DevCo itself, the Fund or other investors/supporters.
5. Evolution One's contractual engagement with the Red Cap DevCo fully commits it by obliging the Fund to invest a minimum floor in the equity project financing once a power purchase agreement (PPA) is signed and all other project approvals and agreements are in place for financial close.
6. The investment in RedCap Devco will be considered a failure if it does not convert the Project to permitted wind assets at financial close by 31 December 2012. If the investment fails Evolution One Fund will reimburse 50% of the SCAF monies.
7. If the Red Cap project achieves financial close, half the funds provided by SCAF shall be paid in contribution to RedCap's project development success fee. The Term Sheet obliges Evolution One to include this conversion as part of the Success Fee paid out to Red Cap on financial close.

## **Size of seed and subsequent project finance commitments**

R2,460,000 of SCAF support is provided to Evolution One Fund. Evolution One Fund is looking to commit up to a further R85,000,000 to R142,000,000 into the Red Cap Kouga Wind Farm as project equity finance, once the project secures all relevant permitting and achieves financial close.

## **Development Outcomes**

Assuming 100MWs permitted in 2011:

- Entrepreneurial support and upskilling for Red Cap team.
- Approximately 849,720MWh of cleaner energy production added to national energy mix from 2013 per annum through renewable wind energy production.
- CO<sub>2e</sub> mitigation of approximately 849,720 tons per annum from 2013 over the 20-year project life.
- Job creation of around 250 temporary jobs during 2-year construction phase and 25 permanent jobs.
- Sustained broad-based black economic empowerment and local economic development for the Kouga District Municipality via a funded interest in the Kouga Wind Farm where proceeds will go to a trust specifically ring-fenced for priority socio-economic projects and programmes in the district.

## **Take away message**

In conclusion, a small seed capital allocation from SCAF applied at the critical early stage of a clean energy project with credible partners and an appropriate deal signature and project risk-return profile, has the potential to create exponential leverage leading to a suite of positive development outcomes.