The Seed Capital Assistance Facility at a glance

The facility

A number of gaps and barriers inhibit private sector equity financing of renewable energy projects and ventures in developing countries. Early stage investments carry a significant risk which is only reduced once the project´s legal, operational and financial viability have been demonstrated. Although the investment requirements are modest at this stage, third-party financing remains almost non-existent.

Structured as a new type of public-private engagement modality, the Seed Capital Assistance Facility ("SCAF") co-finances with private equity ("PE") and venture capital ("VC") fund managers, and project development companies ("DevCos"), the development of new investment vehicles and, once operational, the origination, development and seed financing of early stage low carbon projects. The Facility has built experience under Phase 1 that has been running since 2009. Working with and through commercial fund managers has proven to be an effective way of channelling support to the right project developments, an approach that will be continued under Phase 2 and extended to internationally active, well capitalised development companies.

SCAF provides support through the following three instruments:

- **Support Line (SL) 0** supports first time fund managers in achieving financial close that have secured a reputable anchor investor.
- **Support Line (SL) 1** supports PE/VC funds and DevCos in increasing their project pipeline while at the same time delivering capacity building at local developer level.
- **Support Line (SL) 2** co-finances alongside PE/VC funds and DevCos the development costs of getting seeded projects to full financial close.

The support instruments

SCAF provides co-financing of eligible activities of up to 50%. The partners enter into an agreement for either Support Line 0 for a duration of up to 18 months, or a framework agreement covering both Support Line 1 and 2, usually for a duration of between two and four years. SL0 and SL2 are reimbursable in case of successful financial close of the fund (for SL0) or the project (for SL2).

	Amount of support	Support type	Examples of co-financed activities
SL0	USD 300,000 - USD 500,000	Conditional grant*	• Fundraising support (e.g. travel expenses) • Support for fund legal set up costs

	Amount of support	Support type	Examples of co-financed activities
SL1	USD 2,000,000 - USD 2,500,000 (over 2-4 years)	Grant	• Training, coaching and workshops for local project developers • Conference participation • Pre-investment feasibility studies
SL2		Conditional grant*	• Independent technical and project assessments • Feasibility studies • Financial risk analysis • Regulatory compliance and framework reviews • Independent valuation of projects • Environmental, social and governance risk analysis

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Eligibility

In general fund managers and DevCos are eligible for SCAF support if they are active (or intend to be active) in low carbon frontier markets (see attached list for eligible countries) in Asian or Africa, having at least 70% of their activities in eligible sectors (see attachment for eligible sectors).

Under SL 0, SCAF only supports fund managers that have not in the past raised or managed any kind of low carbon related fund in the target region. In addition, fund managers must have secured a commitment from a reputable development finance institution. DevCos are not eligible for SL0.

SL 1 and 2 are available to PE and VC funds as well as project development companies. In addition to the geographic and sectoral focus, eligible partners have to demonstrate that they are sufficiently funded. For PE or VC funds, this means that they need to have reached first financial close and a minimum early stage investment window of USD 2.5 million. A potential DevCo has to show that at the time of signing the agreement with SCAF, it has at least USD 2.5 million of liquid financial resources at its disposal for early stage project development. Finally, interested parties have to demonstrate a track record of successfully having developed small to medium scale renewable energy or other low carbon projects to financial close and having a viable deal pipeline of projects in their target regions.

The engagement process

The engagement process is divided into four steps:

1) First discussion: Interested partners are encouraged to contact the SCAF Agent for an initial call. Once it has been clarified whether a potential partner is eligible in principle,

2) Proposal: As a next step, the potential partner, - in cooperation with the SCAF Agent – prepares a SCAF proposal.

3) Due Diligence: After the Programme Management Unit has endorsed the proposal, the SCAF Agent proceeds to an on-site due diligence.

4) Cooperating agreement: If the due diligence is completed successfully, the Programme Management Unit asks the SCAF Agent to complete a cooperating partner agreement.

The entire process from first discussion to final decision is expected to last 5-7 months.

Contacts

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Eligible countries

Asia	Africa	
Afghanistan	Angola	Madagascar
Bangladesh	Benin	Malawi
Bhutan	Burkina Faso	Mali
Cambodia	Burundi	Mauritania
India	Chad	Morocco
Indonesia	Comoros	Rwanda
Kyrgyzstan	Congo	Sao Tome Principe
Lao People's Democratic Republic	Ethiopia	Senegal
Mongolia	Côte d'Ivoire	Sierra Leone
Myanmar	Cabo Verde	Mozambique
Nepal	Cameroon	Niger
Timor-Leste	Dem. Republic of Congo	Somalia
Pakistan	Djibouti	South Sudan
Philippines	Egypt	Sudan
Sri Lanka	Equatorial Guinea	Swaziland
Syrian Arab Republic	Central African Republic	Nigeria
Tajikistan	Eritrea	Tanzania
Viet Nam	Gambia	Togo
West Bank and Gaza Strip	Ghana	Uganda
	Guinea	Uzbekistan
	Guinea-Bissau	Yemen
	Kenya	Zambia
	Lesotho	Zimbabwe
	Liberia	

Eligible sectors

Renewable Energy Generation

- Wind power.
- Solar energy, including photovoltaics (PV) and Solar Thermal in all of their forms.
- Hydropower, run of the river.
- Sustainable biomass.
- Geothermal.
- Hybrid systems (including biomass/fossil fuel co-firing systems).
- Includes the development, installation and operation of both off-grid and grid-connected systems.

Energy and Resource Efficiency

- Energy service companies (ESCOs).
- Efficiency improvement to existing systems, including:
    - Efficient lighting;
    - Efficient heating and cooling (including solar water heating);
    - Cogeneration or combined heat and power (CHP) implementations.
- Efficiency improvements to existing energy generation, transmission and distribution systems.

NB: For the finance of energy efficient investments the net improvement must be more than 15%

Renewable Energy and Energy/Resource Efficiency Supply Chains

- Wind turbine manufacturing and assembly.
- PV and Solar Thermal manufacturing and assembly.
- Manufacturing of specialized equipment and components for renewable energy and energy/resource efficiency products (including specialized software solutions).
- Manufacturing of energy/resource management, monitoring & control equipment.
- New materials to improve energy and resource efficiency such as nanotechnology, bio materials and bio-chemicals.
- Greenhouse gas reducing waste management (including methane capture).

Forestry

- Eligible sectors in the area of REDD will be determined by the Executive Committee.

Others

- Waste-to-energy.
- Fuel switch to renewable fuels at existing facilities.
- Manufacturing and/or distribution of advanced energy storage solutions (excluding conventional batteries).

SCAF requires that Support Line 2 funding be restricted to projects in eligible sectors. For Support Lines 1, SCAF support can be provided to partners operating also in other sectors as long as a minimum of 70% of their capital is allocated for investment in eligible sectors.

1.1 Ineligible technologies

Support agreements with Cooperating Partners will include a negative list of ineligible technologies, based on the level of commercial maturity of each technology in the target country and in some instances additional concerns such as environmental impact. In Low Income Countries most technologies will be eligible, other than those included in the all-country negative list below. In Lower Middle Income countries only the 'second wave' of technologies will be eligible, not the first wave that today are considered fully commercial. For example wind, solar and hydro generation projects in China and India, or geothermal projects in the Philippines or Indonesia, would not qualify for SCAF support.

Technologies ineligible for support <u>in all countries</u>:

a. For the avoidance of doubt, non-renewable fossil fuel power plant construction, extension or operation
b. The finance of switching from one non-renewable fossil fuel to another
c. Landfill methane
d. Natural gas (including fracking)
e. Bio-fuels projects, unless they can be clearly shown to meet sustainability criteria (non-food crop with minimal impact on food security, biodiversity impacts, etc.)
f. Vehicle efficiency – in the transport sector only modal shift and bio-fuel projects that meet condition (b) above are eligible
g. Large hydro (>25 MW)
h. Nuclear energy
i. The production of nitrous oxide or the production of hydro fluorocarbons
j. Any Financing of Prohibited Activities as defined by the Asian Development Bank Prohibited Investment Activities List[1]

[1] *Please see ww.adb.org for more details*