News release from South African Venture Capital and Private Equity Association (SAVCA)

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**Private Equity could bridge financing gap for renewable energy**

The bulk of funds needed to finance renewable energy in South Africa will need to come from the private sector, drawn in through various mechanisms and incentives put in place by government. Private equity, in particular, could help fill the vast funding gap in the renewable energy industry in South Africa – and in Africa.

“Within the private financing arena, private equity and venture capital will play a pivotal role in responding to the various investment opportunities across emerging and maturing markets. This is true in South Africa and on the rest of the African continent,” says Erika van der Merwe, CEO of SAVCA, the industry body for private equity and venture capital in South Africa.

“Through making available this much-needed funding, the private equity industry will help drive the move towards a lower-carbon environment and contribute to environmental sustainability.”

Support for renewable energy – and energy in a broad sense – is particularly urgent across a continent where energy infrastructure has not kept pace with economic growth.

Gloria Mamba, a SAVCA director and MD of the Global Environment Fund, explains that the “robust economic performance across the continent over the past decade – growth in excess of 5% -- has outpaced energy supply. The continued growth in sectors ranging from mining and agribusiness to infrastructure implies the need for better access to energy – both in quantity and quality – as well as improved energy efficiency”.

The shortage of energy infrastructure and the move by policymakers and regulators towards alternative energy sources have created interesting prospects for private equity.

Christopher Clarke, Executive Director at Inspired Evolution Investment Management, says there is “a compelling opportunity for South African private equity funds across the spectrum of mandates to invest in the renewable energy sector. Funds with venture capital or early-stage mandates can invest in evolving technologies related to renewables, or could provide development risk capital or more traditional project equity finance for renewable energy assets that either have not yet secured the necessary licenses and permits, or have been fully permitted.

“Private equity funds with an infrastructure mandate are also well-positioned to provide project equity, some with an appetite for taking construction risk, and others acquiring lower-risk commissioned assets with twenty-year cash flows”.

Mamba, in turn, refers to the opportunity for private equity to “provide growth capital to companies that provide productivity-enabling products and services for the generation, delivery, management and re-use of energy and resources”.

Referring to some of the nuances in matching a private equity approach to renewable energy projects, Clarke points out that private equity investors require stability to commit to long-term investments and that this is particularly true of renewable energy schemes where returns are achieved over a number of years for equity providers.

“The private equity sector approaches investments in renewable energy in the same manner as any other investments. Renewable energy investments, however, have certain attributes that require an additional level of analysis and understanding. These include the influence of policy and regulation on the viability of an investment, including the legal basis and durability of any subsidies, grants, credit enhancement programmes, and carbon or tax credits. These factors overlay the basic financial analysis.”

Renewable energy is most typically attractive in a policy-driven market. This is because it has often only been marginally competitive, if at all, compared with conventional power, as economies of scale have yet to be realised.

And existing market structures may contain inbuilt systems or subsidies that favour conventional energy. However, times are changing.

“New build conventional energy in South Africa has become far more expensive, making a stronger case for lesser-cost generation alternatives from renewable energy plants,” Clarke adds.

“Financial institutions may have less familiarity with some of the technologies or sub-sectors of the renewable energy industry and therefore may overestimate the risk.

South African private equity houses are moving into the energy and renewable energy space in increasing numbers. “We expect the trend to continue and for a growing cohort of investors into the asset class to recognise the opportunity,” Van der Merwe says.

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**About SAVCA**

The South African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private

equity and venture capital in South Africa, representing about R120bn in assets under management

Its main objectives are to:

* Be a single voice with government, regulators and the public
* Promote the private equity industry to investors
* Educate stakeholders on the positive economic impact of private equity
* Provide high-quality research on the industry.

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