



# JREC “Patient Capital” Initiative

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Impax Capital



*ETAP Presentation*

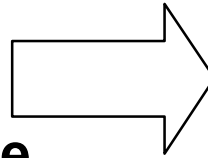
Brussels

3 May 2004

# JREC Commitment in Renewable Finance

## Barriers to Equity Investment

- Lack of successful business models
- Limited domestic equity capital
- International equity is expensive
- Energy-related FDI has drastically decreased over the last years
- Investment Return below 20-40%  
IRR Commercial Requirements



## JREC Response

An Investment Programme designed to...

- Provide “Patient Capital” to investments in emerging markets,
- “Buy-down” the IRR barrier to commercial equity funding.

# Investment Scope for a New Vehicle - “Uses of Funds”

## What --- New Energy Sector

Wind

Small hydro

SME businesses and services

Biofuels (transport and power)

Consumer finance (tech. Independent)

Solar module manufacture

Biomass/bagasse and CHP projects

Retail businesses (SMEs)

Geothermal

## Where – Initial Focus

**Africa:** Kenya; French West Africa;  
North Africa, South Africa, the Gambia

**E. Europe:** Poland, Bulgaria, Croatia

**S. America:** Argentina, Brazil, Chile

**Small Island States:** East and West

**Asia:** Thailand, Philippines, Indonesia,  
Turkey and others as they join

**Other/New JREC members states**

# Attractive Deals in the Renewables Sector

## Muramati Tea Growers Society, Kenya

- Co-operative of 14,000 tea growers in remote area
- Significant demand for power for business processes
- Proven business lending programme
- Euro 500,000 investment to seed “solar loans” and support new retail and service business in the area

## Small Local Wind Farm, Turkey

- 2 MW wind farm in Izmir with local developers at textile mill.
- Project sells power to the grid under new 6 year tariff (law to be voted this June) of €50-60/mwh
- Short tariff term reduces World Bank on-lending by TSKB to 50% of total costs, so equity and quasi-equity required is 50%
- Project cost of €2 million, with return of 18% IRR

# Renewable Energy Equity Market Potential

Sector		1999-2010 Needs (\$Bs)	Estimated 2005-2010	Private Projects	Equity	Net Estimated Equity Requirement (\$Ms)	
<b><u>Electric Generation</u></b>							
Regional Assessment	IEA Regional	\$206B	120,000	15%	40%	\$7,200	
	Hydro	BAU Case	\$199-273B	105,000	10%	20%	\$2,100
	Non-Hydro Renewables	BAU Case	\$16-22	12,000	75%	50%	\$4,500
	Total (weighted averages)	BAU Case	\$215-295	117,000	17%	34%	\$6,600
	<b>Consultant Preliminary Assessment</b>	<b>\$210 B</b>	<b>120,000</b>	<b>15%</b>	<b>37%</b>	<b>\$6,660</b>	
<b><u>Non-Generation Energy Use</u></b>	BAU Case					<b>\$1,998</b>	
<b><u>SME</u></b>							
All developing countries	Conservative top down estimate					<b>\$300</b>	
<b>Total "Business As Usual Case"</b>						<b>\$8,958</b>	

Sources: IEA and Consultants Estimates

# Existing Funding Programmes

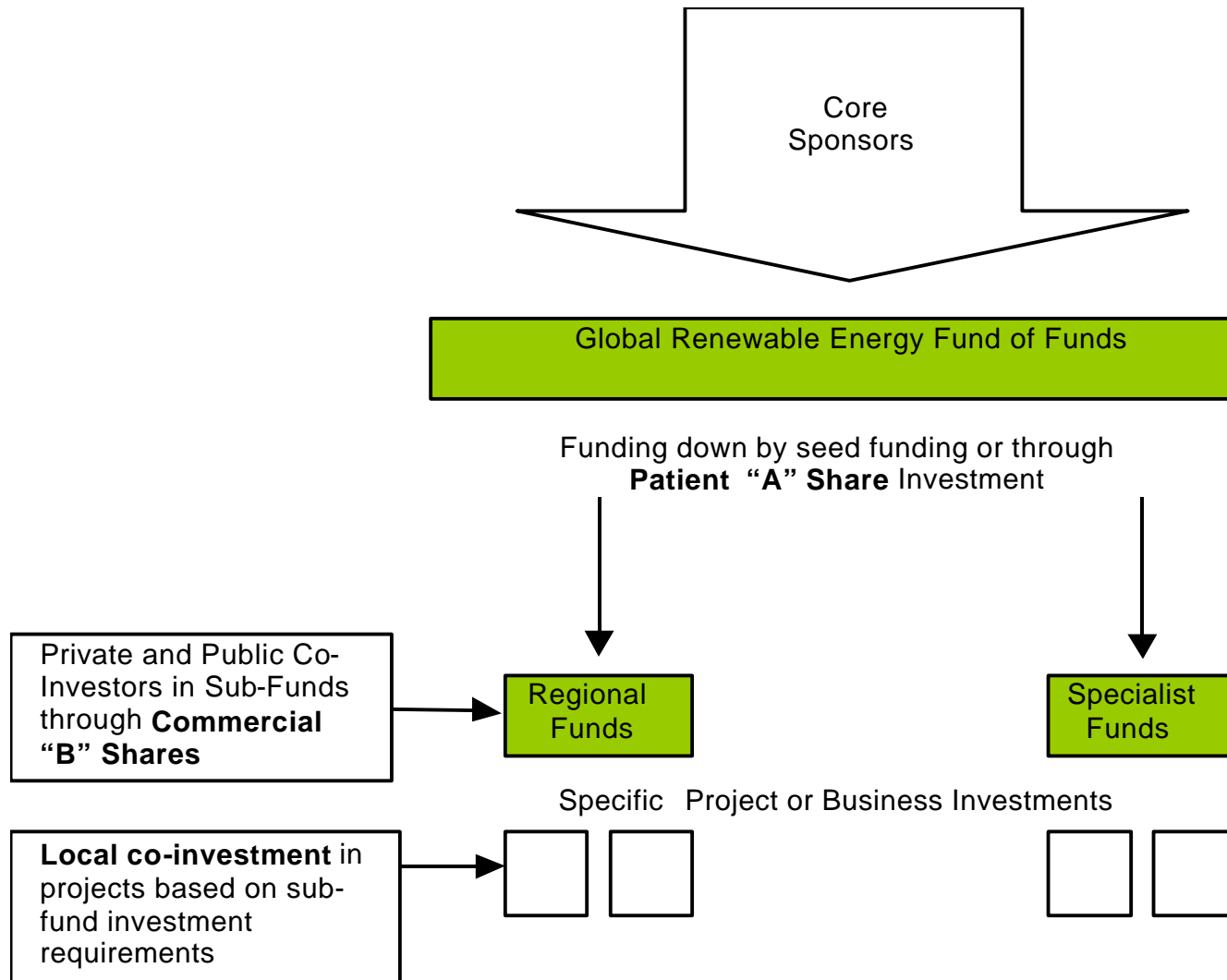
Developing Market Funding Sources		Type of Project	
		Public sector	Private sector
Type	Debt	World Bank (IBRD, IDA) Regional Development Banks (ADB, etc.) EIB Government Aid Ag'y/Development Banks	EIB, IFC Regional Development Banks Government Aid Ag'y/Development Banks: Export credit agencies KfW, FMO, JDA, etc.
	Equity	<i>Not applicable to public sector</i>	DEG, FMO and IFC * Few others except through funds (Former CDC – now private as “Actis”)
	Grant	KfW Government Aid Ag'ys/Dev.'t Banks World Bank	KfW Government Aid Ag'ys/Dev.'t Banks: Economic Cooperation Funding

\* DEG, FMO and IFC usually invest in minimums of €5-15 million, not in smaller deals.

# Merit of the PCI Fund of Funds

- **Separation of Strategic and Operational Roles**
- **Intermediation** – experts on the ground execute what policy oriented investors cannot achieve
- **Leverage** – commercial and other co-investment funds effectively multiply the funds committed by patient capital investors

# Structure of PCI Fund of Funds



# Innovative Funding Structure

The innovative aspect of the GREFF proposition is that different classes of shares in the subfunds be established in a manner that permits different application of dividends, subordination of returns and governance rights, along the following lines:

- Share capital be divided between “A” and “B” shareholder, with “A” shares being the more “patient” and “B” shares the more “commercial”, whether at the top or middle level of the fund of funds structure,
- “A” shareholders would invest on a “first in – last out” basis so that they are subordinated in their receipt of dividends to B shareholders, subject to certain hurdles or agreed parameters, and
- “A” shareholders would have certain governance rights, board appointments and veto rights separate from “B” shareholders.

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# Raising Capital – “Sources of Funds”

## Primary Funding

- EC
- EIB (ACP and Med)
- EU Member States
- Other JREC States
- Foundations
- Privates (on non-commercial basis)

## Secondary funding/ co-investment (Fund level)

- IFIs e.g. CAF, ADB, IFC, CABEL
- State Development Institutions e.g. Turkish Development Fund
- Foundations e.g. Shell, Soros, Rockefeller
- Industrial e.g. EDF, Enel
- Private equity investors

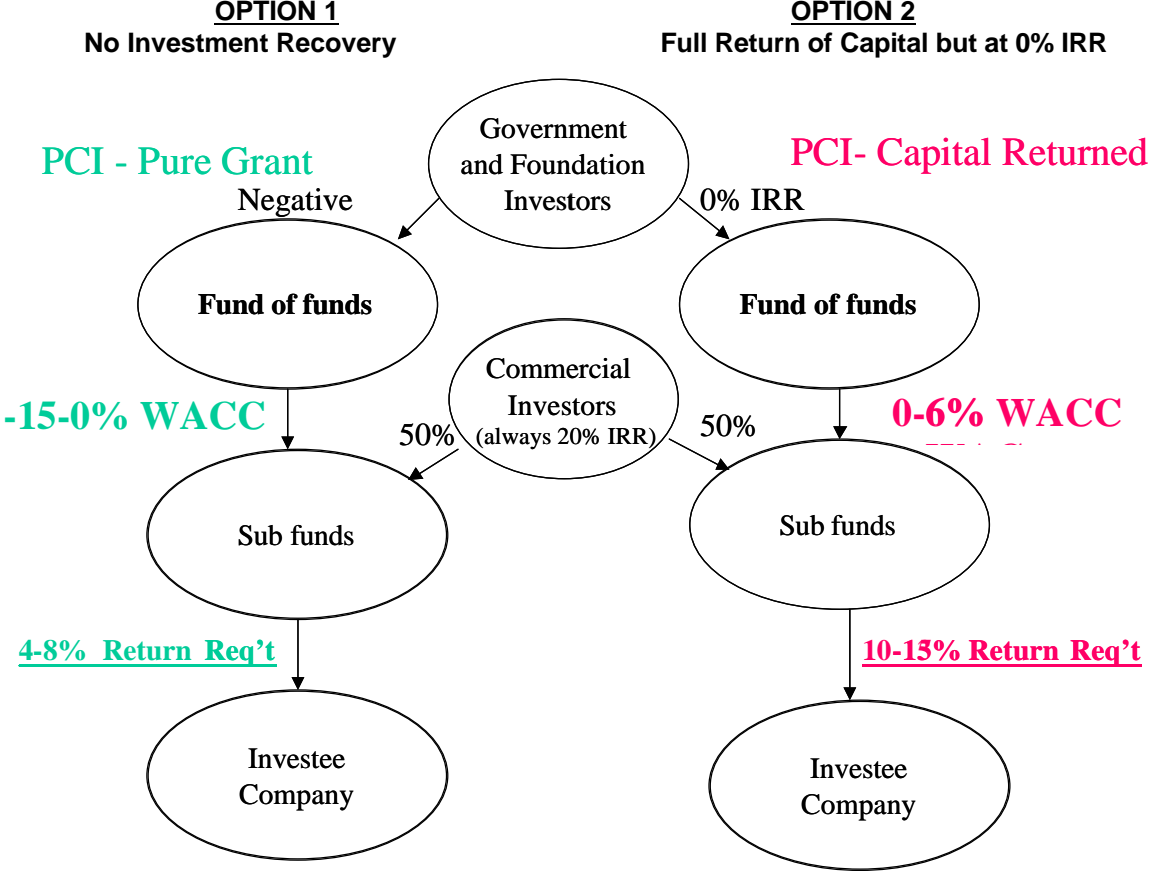
## Tertiary funding/ co-investment (Business level)

- Sponsor equity
- Equity/debt from local sources
- Equity/debt from international sources

# Example of Sources and Uses of Funds

GREFF Patient Capital Fund - Indicative First and Second Closing	
All funds in € millions	
Uses of Funds	Sources of Funds
<u>First Closing</u>	
Start-Up Costs	5
Technical Assistance	5
Pilot Fund 1 - LatAm	35
<u>Pilot Fund 2 - Turkey/Balkans/Med</u>	<u>30</u>
Total	75
<u>Second Closing</u>	
Technical Assistance	3
Start-Up Costs	2
Fund 3 - Special Projects Fund	25
Fund 4 - African SME Fund	25
<u>Fund 5 - ASEAN/AOSIS</u>	<u>20</u>
Total	75
Overall Totals:	150
<u>First Closing</u>	
Seed Capital	5
Special Reserve	5
Core Investor / Sponsor	20
Other Core Investors	30
<u>Other Investors</u>	<u>15</u>
Total	75
<u>Second Closing</u>	
Technical Support	5
Core Investor/Sponsor	10
Other Core Investors	20
Other Investors	25
<u>Investment on Commercial Terms</u>	<u>15</u>
Total	75
Overall Totals:	150

# Defining the “IRR Buydown Benefit”



Note: WACC means “weighted average cost of capital”

# Full Life Cycle Fund Flows

Uses of funds		Sources of funds	
Investments	65.0	Funds under mgmt	75.0
Operating/Technical expenses	11.6	Investment returns	42.1
<b>Total gross expenses</b>	<u><u>76.6</u></u>	<b>Total gross proceeds</b>	<u><u>117.1</u></u>
<b>Net retained cashflow for recycling</b>	<b>40.4</b>	54% return of initial funds under management	

# Time Frames

**Project launch - January 2004**

**Objectives for the Bonn 2004 JREC Conference**

- **Feasibility Study of “Patient Capital” Vehicle**
- **Deal Flow to substantiate the Investment Agenda**
- **Vehicle structure vetted with Stakeholders**
- **Management, Governance, Terms of Investment defined**
- **Private sector co-investment leverage targets set**
- **Launch plan for the engagement of management and closing first round of pledges!**

**Third Round of Feasibility Analysis – end April 2004**



# We need your Input!



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