



PROSPECTUS

One Climate Fund, an international initiative
to fund renewable energy

One Climate Fund South Africa (Pty) Ltd

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Background

One Climate Fund Southern Africa (Pty) Ltd emerged from an international initiative to fund renewable energy.

This initiative originates from the One Climate Club. The Protestant Church of Westphalia (EKvW) first facilitated the emergence of the Club. The Church founded the Club with Indian, East African and South African partners.

The Club advances ideas about using people's savings to reduce carbon emissions world-wide. The Club encourages investments in renewable energy products and projects. These investments will happen through international partnerships. TERI University (India) and Stellenbosch University (South Africa) including INSITE are the Church's first partners. Recently representatives of the members of the United Evangelical Mission (UEM) from East Africa also joined the Club.

The Club has representatives from TERI and Stellenbosch universities. A director of the Stellenbosch Sustainability Institute is on the board of the Club.

The Institute procured services to conduct a pre-feasibility and a feasibility study. These studies identified the demand for renewable energy in underserved market segments within the South African economy. The studies also identified structures for investment into renewable energy in Southern Africa.

There is a lack of finance for Southern African markets with demand for renewable energy. A financial intermediary needs to fill this gap. This is the function of the One Climate Fund Southern Africa.

Objectives

The goal of the Fund is to contribute towards addressing energy poverty.

The Fund intends to play its role in helping to transform the energy sector in Southern Africa and contribute towards the international goals.

The Paris Agreement to reduce carbon emissions Fund underlies this goal. The Fund identifies with social movements aimed at mitigating global warming.

The Fund finances projects that help broad-based economic development and generate employment.

International precedent

There is growing use of renewable energy all over the globe.

The challenge is to build on this. To speed up the energy transition. There are several funds dedicated to financing renewable energy.

One such fund is the African Renewable Energy Fund (AREF). AREF targets Independent Power Producers (IPPs) with 5 to 10 MW capacity. It focuses on funding projects with capital values of \$10 million to \$50million.

Eiffel Energy Transition Fund provides bridging finance for IPPs. Their repayment terms are from 6 to 36 months).

California Clean Energy Angel Fund (CalCEF) is a venture capital fund in the USA. CalCEF focuses on equity investments in renewable energy.

The Fund focuses on investing into areas of energy poverty in Southern Africa.

Market size and potential

The Feasibility Report identifies four market segments eligible for funding.

- A. Municipalities developing solar (or wind) energy projects generating less than 5 Megawatts.
- B. Companies installing and servicing renewable energy products for poorer urban and rural households;
- C. Retail companies supplying and maintaining small energy systems at the middle-income suburban household level; and,
- D. Companies manufacturing renewable energy components, including those supplying REI4P projects in terms of the localisation strategy

There is a growth in the renewable manufacturing and assembly sector. The Western Cape incentivises this through a green economy sector strategy. It also shows in other provinces. Manufacturing is a sector that requires labour. Investments in this sector will encourage the creation of employment opportunities. This is an important developmental consideration. **The Fund will invest R298 million (19 percent of the portfolio) in this segment.**

Suburban households have discretionary income and are bankable. Their bankability varies across different residential areas. They should be able to afford debt tailored to their needs for retrofitting. Suburban households tend to be middle class – or aspirant middle class. Their socialisation has sensitised them to the issue of climate change. There is likely to be less market resistance. There are already organisations operating within the suburban channel. They try to influence suburban households' energy usage patterns away from fossil-fuel reliance. **The Fund will invest R406 million (25 per cent of the portfolio) in this segment.**

Municipalities have a mandate to generate electricity. Those that meet the licensing requirements will need funding for projects. These projects are likely to be small-scale generation plants. The top-performing metropolitan and local municipalities can develop and install such projects. Here government grants fund Solar Photovoltaic (SPV) units and ongoing administrative costs. They need bridging funding for these projects. **The Fund will invest R708 million (44 per cent of the portfolio) in metropolitan projects.**

Several companies and NGOs have projects that target urban and rural poor households (often in informal housing). These are in urban informal

settlements that receive support from their local municipalities. These projects need bridging finance and structured loans in to expand outreach. **The Fund will invest R187 million (12 per cent of the portfolio) in this segment.**

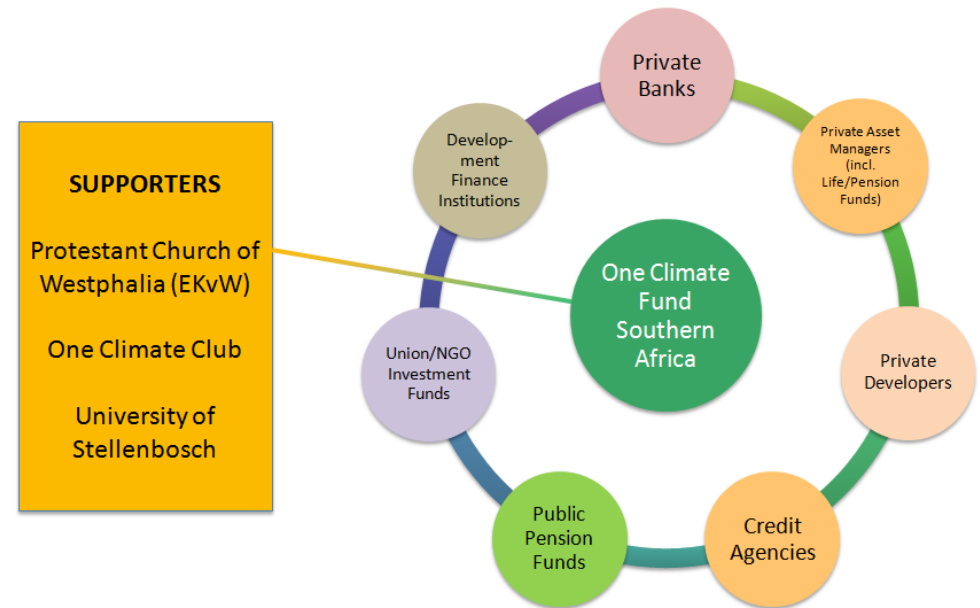
Institutions, flows and fund structure

The One Climate Fund (Pty) Ltd Southern Africa, is a funding intermediary. It sits at the centre of a network of institutional relationships.

There are three key institutional supporters of the Fund: The Protestant Church of Westphalia (EKvW), the One Climate Club and the University of Stellenbosch. Of these the Church and the Club are the founding contributors and sponsors of the Fund.

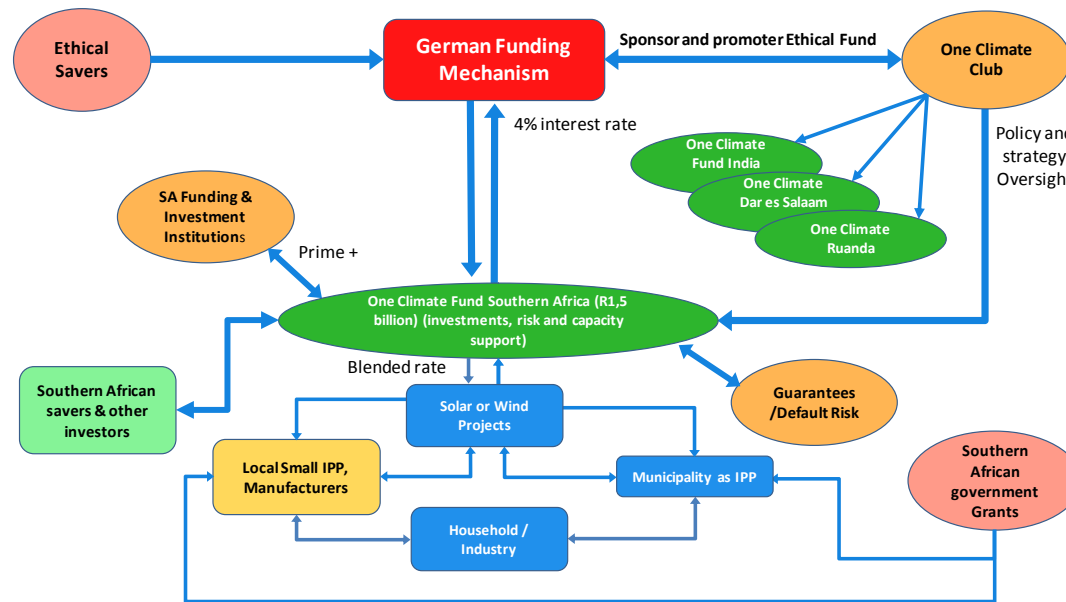
The Fund also interacts with and develops crucial relationships with prospective funders. This is necessary to build a pool of funding that will match German funding on an equal basis to invest in renewable energy projects. Within Southern Africa the most likely source of funding is from institutional savers. These are Public Pension Funds and Private Asset Managers (including Life/Pension Funds). The Fund will tap Public Development Financing Institutions and union/NGO investment funds. Banks will invest once the Fund demonstrates viability through effective risk management. Assessing the Fund's credit risk will be an important milestone e for bank investment. Thus, the Fund's interaction with Credit Agencies from the beginning is critical.

Manufacturers and developers of renewable energy products and projects are other crucial role-players. They represent the demand for loans from the Fund.



Climate Justice is an important concept. It is informed by science. It responds to science. It acknowledges the need for equitable stewardship of the world’s resources. Development in the North historically contributed the greatest proportion of current CO2 emissions. These are now at more than 400 ppm. Vulnerable people in the South are disproportionately impacted. Climate Justice is an ethical consideration. In practice it means developed countries that caused the problem support poorer countries that suffer disproportionately. These countries need energy for economic development. This energy needs to be from renewable sources. They cannot afford the costs attached to renewable energy generation and infrastructure. It is right that the First World supports them in covering these costs. This could be through financial transfers. Or through soft loans. It will depend on negotiations.

German investment and savings will be a critical source of funding. In this context these should match investments secured in Southern Africa on an equal basis. The Fund plans a total investment portfolio by 2027 valued at R1,6 billion. This is equal to about Euros 100 million.

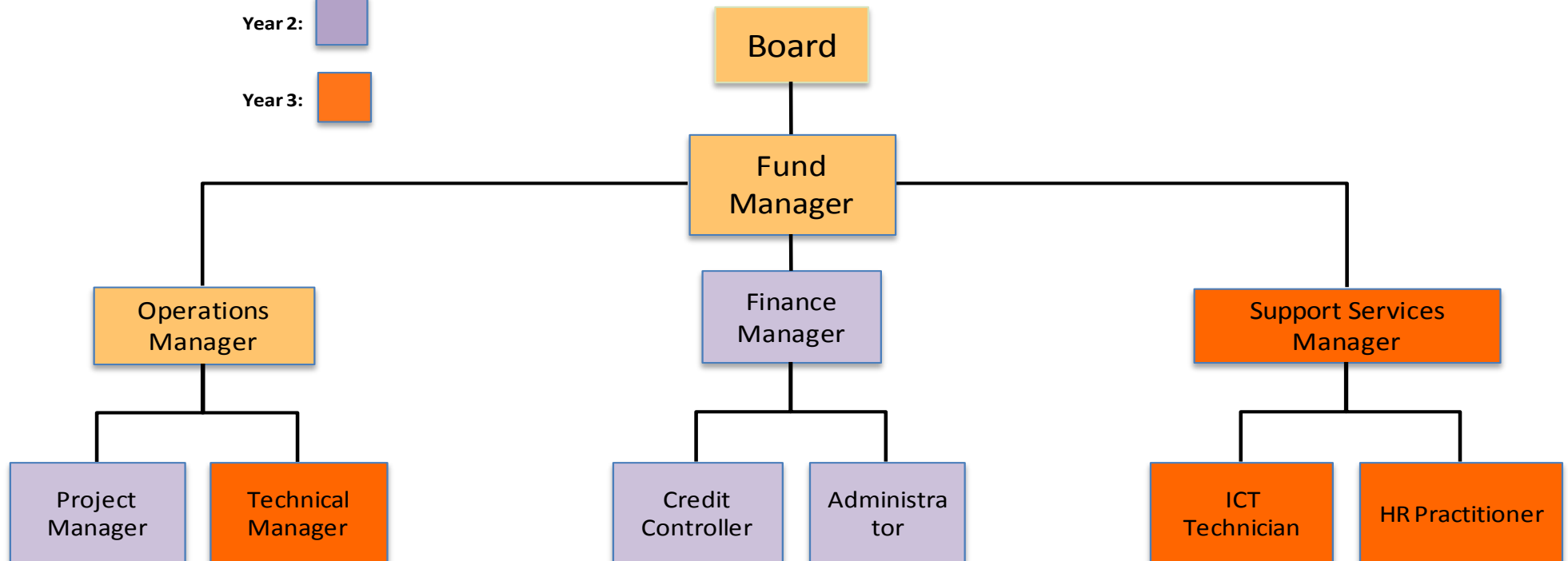


The German money will come at a lower interest rate than the Southern African money. The Fund will blend the two moneys and offer competitive interest rates on project loans. Government capital and recurrent subsidies will repay loans for energy poor communities. Loans for the other segments will be risk evaluated through due diligence.

The Fund will develop and put in place its company structure over a three-year period. During start up, a board of directors will manage risk and governance. In the first year a Fund Manager and Operations Manager will run the business. In the second year the company will appoint four more personnel. A Project Manager will assist the Operations Manager. A Finance Manager will assist the Fund Manager. A Credit Controller and Administrator will provide Financial Management capacity. In its third year the Fund plans to appoint a Technical Manager to further capacitate its operational side. It will also establish a Support Services Division with a Support Services Manager, ICT Technician and HR Manager.

KEY:

- Year 1:
- Year 2:
- Year 3:



Qualifying conditions

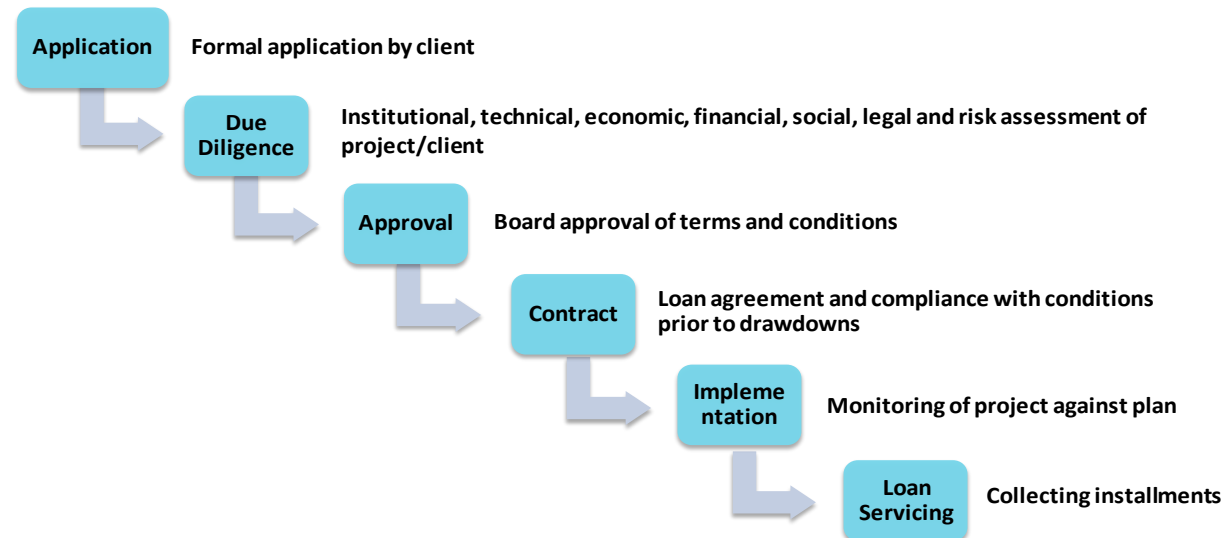
To qualify for loans borrowers will need to meet five broad conditions.

- Products or projects must involve generation of renewable energy through wind or solar rays
- Borrowers must be Southern African companies, municipalities and government
- The renewable energy products must incorporate required local content
- Each loan application must include a bankable project business plan
- Project and products must generate at least 1,5 Megawatts of electricity

How fund will make loans

There are six phases in the Fund making loans.

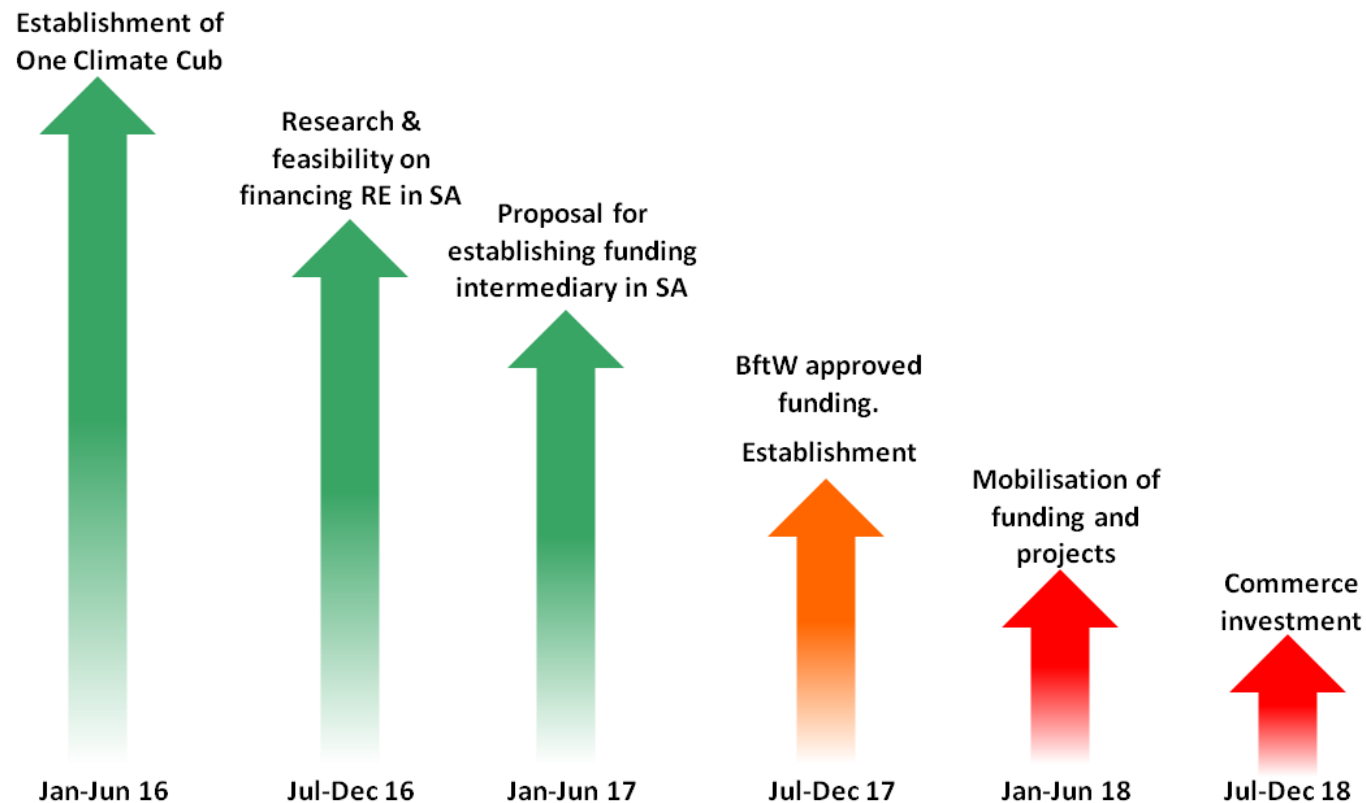
The prospective borrower will first apply for a loan. (Application). Following the application, the Fund will do a due diligence on the project for loan funding. The Fund might also do a due diligence on the company or municipality as applicant. (Due diligence). Once the applicant has fulfilled all requirements the Fund will approve the loan. (Approval). The conditions of the loan will be in a loan agreement. The Fund will sign a contract with the approved borrower. (Contract). The Fund will then disburse the loan to the borrower. The Fund will also collect instalments on a regular basis (Implementation).



Planned roll out

Between January and June 2017 South African partners developed a proposal.

This was for start-up funding for a Southern African financial intermediary. The Church in Germany and its development arm, **Bread for the World (BftW)**, approved this proposal. The Fund registered as a South African company in September 2017. The Fund will mobilise funding for prioritised projects between January and June 2018. Investments in these projects should start between June and December 2018.



Credentials of board and management

One Climate Club invited two members make up the interim board. These members are Dr. Ulrich Moeller and Dr. Arumugam Pillay.

Dr. Moeller is a high-ranking representative of the 2,4-million-member Church. He represents the Club that supported the founding of the Fund.

Dr. Moeller participates in energy initiatives in South and East Africa and in Europe. These related development of renewable energy based on climate justice. This means reducing energy poverty and just social development. Dr. Moeller provides strong, visionary leadership. He has been promoting collaboration amongst colleagues and partnerships with external parties, such as:

- The International Finance Committee of the European Council of Churches (CEC).
- The United Evangelical Mission (UEM), where he is Vice Moderator. UEM is a Communion of 35 Churches in Africa, Asia and Europe.
- The South African Trust Board of CHABAHIVA (Church and Business against HIV&AIDS). He is Vice President of CHABAHIVA.

Dr. Moeller has contributed to Programs and Projects. These include cooperation with the World Council of Churches and World Bank.

Dr. Pillay worked on the pre-feasibility and feasibility studies for the Fund. He has expertise in:

- Structuring funds for socially needed infrastructure, Financial services in infrastructure and micro-lending including the finance of affordable housing
- Managing infrastructure and equity funds.

He has led Infrastructure Development and Finance within the government and private sectors. These include projects in the SADEC region. He has experience as a wholesale lender to banks and non-banks that financed housing. He has studied local and international housing finance systems. He drafted legislation, structured finance and arranged lending instruments to low-income communities. His executive training in this field includes participation in:

- The Management of Development Programme (World Bank)
- The Public Private Partnership in Infrastructure Investment Course (Institute of Public Private Partnerships [IP3], in Washington)
- The Housing Finance Programme (Wharton Business School)

Dr. Pillay has been a Director of:

- The Micro-Finance Regulatory Council (Chairperson)
- Office of Disclosure, National Department of Human Settlements (Deputy-Chairperson)
- Cape Town Community Housing Company (Director)
- The National Urban Housing and Reconstruction Agency (Managing Director)
- Ekurhuleni Housing Company (Chief Executive Officer)

The Fund intends to recruit six more directors covering the following skills sets:

- Corporate Finance
- Audit and Risk
- Legal
- Human Resources
- Technical Engineering on Solar and Wind
- Social Development

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