

Investing in Africa energy - the carbon conundrum



Corporate and Investment Banking

MEET THE SPECIALISTS DRIVING STANDARD BANK CORPORATE AND INVESTMENT BANKING'S COMMITMENT TO SUSTAINABLE FINANCE, WITH A FOCUS ON RENEWABLE ENERGY PROJECTS ACROSS AFRICA



KENNY FIHLA
CHIEF EXECUTIVE OF CORPORATE AND INVESTMENT BANKING, STANDARD BANK GROUP

Energy prices have skyrocketed since early 2022, highlighting the strategic and moral dilemma facing Europe's most industrialised economies. As Germany is heavily reliant on Russia for more than half of its gas, it has found that its renewables are nowhere near enough to sustain its population's demands for electricity and fuel and power its economy. Like most of Europe, Germany is balancing its need for energy security and economic growth, even as it embarks on a decades-long transition to greener fuels and greater energy independence.

AFRICAN OPPORTUNITY

The need for Africa to follow a just transition to greener energy and advance the development of its people is imperative. The developed world has a significant head start; compare Germany and Uganda. According to the World Bank, GDP per capita in Germany was \$46 208 in 2020, while for Uganda it was a paltry \$822. In the same year, German life expectancy at birth was 81.4, while in Uganda, it was 63.7. Likewise, in 2018, Germany emitted 8.22 metric tonnes of CO2 per person, while Uganda's carbon footprint was just 0.143 tonnes per person. There are many statistics that reference this, and Uganda, like most other African countries, still has a long path ahead to catch up with the developed nations of the world.

It's against these disparities that Africa needs a multi-stakeholder and multinational approach to curb the climate crisis. Africa's growing urban populations will require a reliable and sustainable energy supply to power industrial production, electrify more households, and expand the use of transport to drive socioeconomic development. Certain countries — Nigeria, Angola, Ghana and Mozambique — produce oil and gas for international markets, thus providing foreign currency and tax revenues to develop their respective economies. It is important to objectively acknowledge the pressing need to balance all these realities as part of ensuring a just energy transition.

Having said that, Standard Bank Group's long-term goal is clear: it will achieve a portfolio mix that is net zero by 2050. This will entail reducing its financed emissions and simultaneously scaling up its financing of renewables, reforestation, climate-smart agriculture, decarbonisation and transition technologies, and supporting the development of credible carbon offset programmes. The bank is already a major funder of renewable energy projects in Africa. Since 2012, 86% of its new energy lending has been to renewable energy, and it has not financed any new coal-fired power stations since 2009.

Responsible investment means following globally accepted environmental, social and governance (ESG) best practices like those embodied in the Equator Principles (EP) and the International Finance Corporations (IFC's) best practice standards, both of which underpin Standard Bank's investment portfolio. Here, responsible investors can not only support development, but can work with carefully selected clients to ensure that carbon-based energy projects are responsibly developed with the lowest possible carbon footprint. This is how Standard Bank intends to play its role in Africa.



BRIAN MARSHALL
HEAD OF INVESTMENT BANKING

Please tell us about your journey to this position?
I am Head of Investment Banking and have been at Standard Bank for 16 years. I started my banking career at RBS, London. I also spent seven years with Deloitte, culminating with the Private Equity Transaction Services team in London.

How would you say the world of Investment Banking has changed since you began your career?

Since I started my career in Investment Banking, bankers have increasingly become more aware of the 'transmission' nature of their jobs — the capital they arrange and the advice they provide has an impact far beyond the immediate fulfilment of a transaction. The current focus on ESG is the next phase of that development and will increasingly determine stakeholder perceptions, investor interest and business outcomes.

With Standard Bank closing some key deals this year, do you predict this trajectory to continue over the next five years?

ESG (Environmental Social Governance) will eventually become embedded in the way arrangers and issuers do business, and in an inclusive and sustainable manner. We plan to mobilise a cumulative amount of between R250 billion and R300 billion for sustainable finance by the end of 2026. This target includes an additional R50 billion of financing for renewable energy and underwriting of a further R15 billion of renewable energy by the end of 2024.

How does Standard Bank Investment Banking plan to boost its sustainability profile?

Standard Bank Group's purpose is to drive Africa's growth, and we are committed to do so in a move in the right direction — now we all need to get involved on both sides to ensure the implementation of a just energy transition.

What is the biggest / most complex transaction you have worked on so far in your career?

I have been privileged to work on many big transactions in my career including large leverage and acquisition financing activities, and I have always enjoyed assisting clients to fulfil their strategic objectives.

What words of advice do you have for the next generation of bankers?

Do not underestimate the importance of the role of bankers in the economy and society — don't approach matters with a short-term outlook. Understand the role finance can play in unlocking sustained growth for the benefit of all, especially in a continent such as Africa.



AADIL CAJEE
HEAD OF GLOBAL ENERGY AND INFRASTRUCTURE

Please tell us about your role?

I head up Global Energy and Infrastructure Investment Banking at Standard Bank. I started my career in leverage finance and the BEE finance space. I now lead a team that is really contributing to a purpose.

Why is it considered difficult to fund infrastructure development in Africa?

Infrastructure development is generally driven by governments and sovereigns. Investment, progress and efficient deployment of infrastructure projects are intrinsically linked to a country's macro-economic circumstances as well as its government's decision making.

With the growth of ESG across Africa, how do you expect this will shape the infrastructure finance landscape in the next five years?

As much as ESG has become a catchphrase, it was always inherent in any infrastructure investment, because of the scale of the projects and their impact on the environment and people. The energy transition is an overarching theme globally, but in the context of 600 million people in Africa not having access to electricity, is energy security a bigger priority?

This is a question we need to ask. As an African bank, we need to be thinking about this and balancing these issues with our purpose to drive Africa's growth.

When you are not doing E&I what are you doing?

I love our continent and I fully identify as African. When I'm not working on energy and infrastructure transactions, I am overlanding in my 4x4 somewhere in Africa. I have just come back from a trip with my kids to Zimbabwe and it was heart-warming to tell my family that we were part of the Zimbabwe/South Africa border project, one of the busiest borders in the NorthSouth corridor of the continent. What used to take 7-hours took us 30-minutes!

What words of advice do you have for the next generation of bankers?

You need to think about your purpose first and that you have a contribution to make. Generational gaps are real and what was important to us when we started our careers may not be as important for the next generation of bankers. We are a very small part of the population on the continent that has been privileged enough to get the right education and opportunities, and we are in a position to make a difference. Before you think about making money, think about where your passion lies, and where you can give back to our continent.



ALEX DAVIDSON,
HEAD OF THE CLIENT SOUTH AFRICA BUSINESS, GLOBAL MARKETS

Please tell us about your position?

I am the Head of the Client South Africa Business for Global Markets at Standard Bank. My job is to ensure that we leverage the full Standard Bank franchise to deliver an impactful set of solutions to our clients.

What impact has Covid-19 had on the South African market, and how have you responded?

The Covid-19 pandemic was thrust upon us and created a completely new and uncertain environment, and with it the ability to realise that "complexity is a privilege" and an incredible opportunity to co-create solutions with our clients. We've worked hard to develop and hire the right skills and also cultivate the mindset that allows us to really own and embrace complexity.

What impact has the recent focus on ESG had from a global markets perspective, especially as we've seen Standard Bank GM advise on transactions with the likes of Scatec?

As a bank we are responding to this by ensuring that all our divisions are mindful of their impact and do the right business in the right way. Funding renewable projects is a key element of our ESG strategy. As a leader in the renewables space, we not only provide the finance but also hedging and risk mitigation strategies that ensure the financial viability of these crucial projects.



RENTIA VAN TONDER
HEAD: POWER, CIB

Please tell us about your journey to this position?

I am Head of Power, CIB at Standard Bank. In this role I lead the sector strategy and approach for the power sector, through strategic enhancement, opportunity development and identification in line with group objectives and commitments.

Standard Bank has recently announced a number of renewable energy deals, can you tell us more about how these deals help with ensuring energy security across the continent?

Since 2012, 86% of the bank's new energy lending has been to renewable energy. Most notably is the Kenhardt projects in South Africa, 540MW of solar PV combined with 1.1GWh of Battery Energy Storage System. Standard Bank was the sole mandated lead arranger, hedge provider and account bank for the R18 billion project. The project reached financial close in July 2022. Also worth noting is Standard Bank's role in initiating, facilitating and advising Seriti Resources in its acquisition of wind-powered renewable energy company Windlab Africa, through Seriti Green.

What do you believe is the role of governments and regulators in enabling the speed of implementation of these renewable projects?

The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) in South Africa is a clear example of how various government departments collaborated with the regulator (NERSA) in developing a programmatic approach to procure renewables in line with government commitments and the broader Integrated Resource Plan. The programme was launched in 2011 and has successfully procured more than 9GW, of which around 6GW is operational.

How can Public-Private Partnership deals benefit skills development/transfer and job creation in Africa?

A key objective in Africa remains development, support and social upliftment through project development and implementation to ensure sustainable long-term success. Through a public private partnership transaction, partnerships can be facilitated to support skills transfer, upskilling and development with impact. It will remain important to agree the framework and key deliverables in terms of skills development and job creation up front, followed through with a diligent monitoring system to track progress and impact.

What words of advice do you have for the next generation of bankers?

Commitment to making an impact, combined with hard work and passion will translate into success.



BRYAN ANTOLIK
EXECUTIVE ADVISORY

Please tell us about your journey to this position?

I am an Executive in the Standard Bank Advisory team, with a mandate to build out and grow the Advisory team's Renewables Advisory capability. My career in Investment Banking began at Standard Bank, and I have returned to the Group because of the bank's values and culture.

How is the bank adapting due diligence and valuation processes to consider ESG?

Due diligence processes must have ESG considerations built into them. It's what we believe is an essential component of current and future dealmaking. Integrating ESG thinking helps to formulate views on risk and risk factors throughout the diligence process, and equally in formulating opportunities and upside. We believe that clients who factor this kind of thinking into their deals are poised for sustainable, long-term returns, regardless of the sector in which they operate.

How do you believe the shift away from fossil fuels will shape M&A activity over the coming years?

We especially like the emergence of integrated energy as a theme, as evidenced by our landmark deal alongside Seriti in its acquisition of Windlab's South African and East African businesses to create Seriti Green. Standard Bank was a co-investor in the equity, as well as a funder and partner to Seriti and Seriti Green. This deal delivers on our very strong commitment to the Just Energy Transition.

We have witnessed a rise in ESG dealmaking, with Standard Bank closing some key deals this year; do you predict this trajectory to continue over the next five years?

This trend is now well established and strengthening, and we believe there are huge opportunities in deal making over the next five years. Specifically, we see the emergence of several integrated energy players providing scope for multiple deal angles, from secondary asset trades to structuring and creating capital and funding vehicles to deliver on those aspirations. Permanent vehicles and fund structures are becoming prevalent as solutions to delivering substantial pools of capital and liquidity into both REIPP and C&I (commercial and industrial) projects. Changes in investment strategies away from single assets into platforms, secondary trades by sponsors out of and into assets portfolios, and foreign investment into local and African power are all themes we are seeing with our clients.

What are the biggest risks facing South African clients, and what opportunities are clients and investors seeing in the country?

Investors see that South Africa has an incredibly healthy banking and savings industry and a young, upwardly mobile population. South Africans are energetic, innovative and entrepreneurs, but our country is in desperate need of infrastructure spending. There are great opportunities in renewable energy and digitisation. We also project that South Africa's technology, media and telecommunication sectors are expected to see the most M&A (mergers and acquisitions) activity in the foreseeable future, with investments in non-traditional sectors harnessed on digital infrastructure and ESG values.

What words of advice do you have for the next generation of bankers?

There will come a time that you will need to be comfortable with the fact that you must make decisions without all the information you require. Few leaders know absolutely everything about their business, but make sure you understand the important pieces, how these come together and most importantly, where to find the information you don't know!



SHERILL BYRNE
EXECUTIVE ENERGY AND INFRASTRUCTURE

Please tell us about your journey to this position?

I am an Executive in the Energy and Infrastructure Team in Investment Banking at Standard Bank. My focus in South Africa is on the Independent Power Producer Programmes (currently the Renewable Independent Power Producer Programme and Risk Mitigation Independent Power Producer Programme).

What are the current challenges facing the power/energy and the infrastructure space that you want to talk about?

Load-shedding. South Africa has a large existing coal fleet that is mostly older than 40 years, which is beyond the useful life of these assets. In effect, this impacts the availability and consistency of power from these plants. This has led to the decline in the Eskom fleet's Energy Availability Factor. Large portions of the existing coal fleet need to be decommissioned (18 000MW in the next 10 years) and Eskom needs sufficient capacity to take some of the plants offline to do necessary maintenance work.

What would you say are the five key trends we need to look out for in the renewable energy space?

I think the five key trends in this sector include:

- Private market use of renewables — behind the metre as a means of energy security or fuel saving, as well as wheeled as a means of green electricity or as a cost saver.
- Consolidation of market players — M&A activity in the renewable sector, as well as fewer players bidding.
- Smaller projects struggle to attract appetite from traditional players and are more difficult to finance, but this may lead to the emergence of niche players that are able to generate portfolios.
- Introduction of storage technologies to better manage the generation profile of renewables. • Hydro power to potentially play a bigger role in the region, with multilateral off-takers.

What words of advice do you have for the next generation of bankers?

The thing I love about my role is that you can make a difference and what you finance is tangible — it is a power project, a road, a port. It contributes to the wellbeing and lives of people. Some media tend to portray bankers in a negative light, but you can be ethical, make money and you can contribute to society!