

Finance & Banking

ALERT

31 AUGUST 2023



INCORPORATING
KIETI LAW LLP, KENYA

IN THIS ISSUE

Rooftop solar: Energy bounce back loan guarantee scheme

Professor Anton Eberhard estimates that as of June 2023, households and businesses have installed 4,412 MWs of rooftop solar. Not only is this double the capacity of Eskom under its four previous Renewable Independent Power Producer Programme (REIPPP) but nearly a 350% increase of the installed capacity by households and businesses since March 2022. Although households and businesses who have the means to install rooftop solar will continue to do so, there remains a funding gap that still requires government intervention.



FOR MORE
INSIGHT INTO
OUR EXPERTISE
AND SERVICES

Rooftop solar: Energy bounce back loan guarantee scheme

Professor Anton Eberhard estimates that as of June 2023, households and businesses have installed 4,412 MWs of rooftop solar. Not only is this double the capacity of Eskom under its four previous Renewable Independent Power Producer Programme (REIPPP) but nearly a 350% increase of the installed capacity by households and businesses since March 2022. Although households and businesses who have the means to install rooftop solar will continue to do so, there remains a funding gap that still requires government intervention.

On 8 August 2023, National Treasury launched the Energy Bounce Back Loan Guarantee Scheme (EBB). As discussed in a [previous alert](#), the EBB was first announced in the 2023 state of the nation address to “adjust the bounce-back loan scheme (BBS) to enable small businesses to invest in solar equipment”.

The EBB aims to alleviate the country’s existential power crisis that impact small and medium enterprises (SMEs) and households with the generation of 1000 MW of additional generation capacity over the coming year. The EBB provides for a government guarantee by the South African Reserve Bank (SARB) who will be liable for the initial losses up to 20%. This guarantee will be a contingent liability on the government’s account. The institutional lenders will incur the balance of the losses for SMEs and households’ rooftop solar of 80%. [The EBB will terminate on 24 August 2024](#). The EBB will run in parallel to the beneficial tax breaks of up to 25% for the cost of rooftop

solar for households and 125% for any renewable energy projects for businesses.

EBB mechanisms

The EBB will operate within three mechanisms:

- loan guarantee for rooftop solar to SMEs and South African households;
- loan guarantee for rooftop solar to Energy Service Companies; and
- working capital loans for South African businesses in the rooftop solar supply chain.

Mechanism 1: Loan guarantee for rooftop solar for SMEs and households’ investment

This mechanism will enable the disbursement of loans to both SMEs and South African households, intended for investments associated with rooftop solar. These investments encompass all the necessary aspects including solar panels, batteries, inverters, and other costs linked to installation.



Rooftop solar: Energy bounce back loan guarantee scheme

CONTINUED

Mechanism 2: Loan guarantee to Energy Service Companies

This mechanism will enable the disbursement of loans to South African Energy Service Companies (ESCOs) who “provide leasing, instalment sales, and power purchase contracts to SMEs and households”. For those SMEs and households’ who do not intend to purchase and own their own rooftop solar due to the high upfront capital requirements, ESCOs will be able to provide a reliable energy source to those SMEs and households. This mechanism will allow for such ESCOs to scale their services.

Any ESCOs who will make use of the EBB will be required to continue to:

- (i) assess the needs of the customer,
- (ii) implement a suitable solution for the customer; and

- (iii) conclusion of the necessary supply agreements such as a leasing, instalment sale and/or power purchase agreement with the customer.

Mechanism 3: Working capital loans for businesses in the rooftop solar supply chain

As part of an acknowledgement of the need for capital throughout the supply chain, government has also catered for working capital loans to suppliers of solar panels, batteries, inverters, and those installing the rooftop solar. As a result of the first two mechanisms, there will inevitably be an increase in the demand that such suppliers must meet. The purpose of this mechanism will be to ensure suppliers will be able to meet the demand with “*minimum delays*”.

In parallel to the EBB mechanisms, the Industrial Development Corporation of South Africa Limited will offer mezzanine finance to:

- (i) facilitate new ESCOs; and
- (ii) scale existing ESCOs.

The details of this mezzanine finance instrument as we understand will be made available in due course.

Participation

Commercial banks will facilitate in the EBB on an opt-in basis and on a first come, first served basis until the earlier of 30 August 2024 or until the EBB reaches 1000 MW. The National Treasury will thereafter assess the effectiveness of the EBB. The South African Reserve Bank will lend money to those commercial banks who are participating at the repo rate and a 0,5% once-off



Rooftop solar: Energy bounce back loan guarantee scheme

CONTINUED

charge of the amount disbursed. Those commercial banks and other commercial lenders will lend the money as well as their own funds for the balance, being the unguaranteed portion of 80% of the loan amount, to the SMEs and households at an interest rate of no more than the repo rate plus 6%.

As of the date of this article ABSA Bank Limited, First National Bank Limited and The Standard Bank of South Africa have indicated that they will participate in the EBB. SMEs will be required to comply with amongst others; the commercial banks' requirements, registration with Companies and Intellectual Property Commission and to be registered for Value Added Tax with the South African Revenue Service in terms of the Value Added Tax Act 89 of 1991. Institutional lenders that ordinarily provide loans to SMEs, will also have access to the EBB through

those participating commercial banks subject to standard tax, legal and regulatory requirements.

SMEs participation is capped at those that have a maximum turnover of R300 million. Similarly, development financial institutions and non-bank lenders can also access the EBB through a commercial bank up to a maximum of R300 million per entity.

The maximum amounts to be borrowed for, currently are anticipated to be as follows:

- an SME, will be R10 million. SMEs are also permitted to borrow a maximum of R30,000, for resilience measures, to provide access for micro, informal businesses that may require portable batteries or similar equipment to these assets;
- a South African household, will be limited to funding of R300,000 per household for the purchasing of rooftop solar; and

- for an ESCO, will be limited at R100 million. This threshold is also applicable to those installers of rooftop solar.

Conclusion

While Eskom wrestles with grid constraints which continue to limit the amount of capacity it can realistically add to the grid through REIPPP, the country has seen a large increase in the private sector's self-generation with little to no government intervention. South African Government has now provided incentives to SMEs, South African households, ESCOs and all participants throughout the rooftop solar supply chain to continue to assist to alleviate the grid capacity constraints and ensure a reliable energy supply for all role players in the South African economy.

**Mashudu Mphafudi, Kuda Chimedza
and Michael Bailey**



OUR TEAM

For more information about our Finance & Banking practice and services in South Africa and Kenya, please contact:



Mashudu Mphafudi

Practice Head & Director:
Finance & Banking
T +27 (0)11 562 1093
E mashudu.mphafudi@cdhlegal.com



Sammy Ndolo

Managing Partner | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E sammy.ndolo@cdhlegal.com



Sabelo Goma

Director:
Finance & Banking
T +27 (0)11 562 1602
E sabelo.goma@cdhlegal.com



Adnaan Kariem

Director:
Finance & Banking
T +27 (0)21 405 6102
E adnaan.kariem@cdhlegal.com



Mbali Khumalo

Director:
Finance & Banking
T +27 (0)11 562 1765
E mbali.khumalo@cdhlegal.com



Jacqueline King

Director:
Finance & Banking
T +27 (0)11 562 1554
E jacqueline.king@cdhlegal.com



Pitso Kortjaas

Director:
Finance & Banking
T +27 (0)11 562 1589
E pitso.kortjaas@cdhlegal.com



Phetole Modika

Director:
Finance & Banking
T +27 (0)11 562 1625
E phetole.modika@cdhlegal.com



Deon Wilken

Director:
Finance & Banking
T +27 (0)11 562 1096
E deon.wilken@cdhlegal.com

Kuda Chimedza

Senior Associate:
Finance & Banking
T +27 (0)11 562 1737
E kuda.chimedza@cdhlegal.com

Koketso Maake

Senior Associate:
Finance & Banking
T +27 (0)11 562 1618
E koketso.maake@cdhlegal.com

Ernest Maboko

Senior Associate:
Finance & Banking
T +27 (0)11 562 1771
E ernest.maboko@cdhlegal.com

Brian Muchiri

Senior Associate | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E brian.muchiri@cdhlegal.com

Stephanie Goncalves

Professional Support Lawyer:
Finance & Banking
T +27 (0)11 562 1448
E stephanie.goncalves@cdhlegal.com

Michael Bailey

Associate:
Finance & Banking
T +27 (0)11 562 1378
E michael.bailey@cdhlegal.com

Damaris Muia

Associate | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E damaris.muia@cdhlegal.com

Thato Sentle

Associate:
Finance & Banking
T +27 (0)11 562 1844
E thato.sentle@cdhlegal.com

BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

PLEASE NOTE

This information is published for general information purposes and is not intended to constitute legal advice. Specialist legal advice should always be sought in relation to any particular situation. Cliffe Dekker Hofmeyr will accept no responsibility for any actions taken or not taken on the basis of this publication.

JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa.

Dx 154 Randburg and Dx 42 Johannesburg.

T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.

T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

NAIROBI

Merchant Square, 3rd floor, Block D, Riverside Drive, Nairobi, Kenya. P.O. Box 22602-00505, Nairobi, Kenya.

T +254 731 086 649 | +254 204 409 918 | +254 710 560 114

E cdhkenya@cdhlegal.com

STELLENBOSCH

14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.

T +27 (0)21 481 6400 E cdh Stellenbosch@cdhlegal.com

©2023 12617/AUG