

he introduction of the National Renewable Energy Policy (2017) under the Electricity Act 2007 (Act No.4 of 2007) and the Modified Single Buyer Model (MSB) has resulted in a rapid expansion in the number of renewable energy power generation projects in Namibia. The early renewable Energy Feed-in Tariff (REFIT) projects required substantial capital to be raised from the private sector in the form of loans or equity at time when the overall lending market was contracting due to uncertain future of renewables in the country and the recession in the world economy at the time. In addition, heavy loan losses due to over-ambitious lending against property in 2018/19 and increased capital requirements imposed by bank regulators caused further contraction in the bank market. While market factors have changed, raising finance is still a major challenge for renewable energy project developers.

Despite these difficulties, many renewable energy projects have succeeded in arranging a financing package. The industry has proven itself, with 27 projects at a total licensed capacity of 561.23MW operational under the Renewable Energy Policy as at June 2024, and a corresponding growth in lender confidence. As the number of lenders and investors taking serious interest in renewables has increased, competition has led to improvements in financing terms and an increase in local funding appetite.

The need to finance clean energy

Namibia imports on average 60% of the electricity it consumes from neighbouring countries. Some of this can be replaced by Namibia's own energy-producing capacity such as wind and solar energy, allowing Namibia to become energy selfsufficient. The government is in the process of introducing or revising policy with new market support mechanisms for new renewables projects, especially given Namibia's potential as a green hydrogen powerhouse. As a result, new power purchase agreements (PPAs) are likely to develop; however the essential features of arranging finance for renewable energy will remain to a larger extent the same.

Mergence Unlisted Investment Managers (Namibia) is an unlisted institutional asset manager which was launched in 2014 as a majority Namibian-owned and led investment house which focuses on unlisted/private markets investments.

Mergence Namibia aims to acquire assets that result in sound financial returns, while supporting the development of both social and economic infrastructure growth needs.

Our funds focus on mezzanine debt, equity financing of Previously Disadvantaged Namibians (PDN) and equity investments to support and enhance infrastructure development within Namibia. The aim is to address and support the outcome objectives of the Harambe Prosperity

Plan and the NDP4, in line with Vision 2030. We invest across a wide range of infrastructure sectors such as renewable energy, land servicing, transport, water, communication, education, and healthcare.

Our investments in Fund I were largely focused on renewable energy projects and made on behalf of the GIPF through the Mergence Namibia Infrastructure Fund Trust. The projects are based in areas with favourable solar irradiation and the Fund has taken up majority stakes to enhance localisation of the industry in line with the Fund's broader strategy to position itself as a strategic partner focused on addressing the acute power shortage and other infrastructure deficits in Namibia as

In Mergence's experience, arranging finance for a renewable energy project is not a task to be underestimated by the developer, especially those with no previous experience in raising finance or establishing successful power generation projects. It is important that the developers bear in mind that:

- The process of arranging financing is time consuming
- The technical, contractual and consent aspects of the projects all affect the financing
- Problems will emerge that require determination and often creativity to overcome
- Financiers will carefully scrutinise every aspect of the project. Attention to detail and anticipation of lender concerns are very important.
- For small projects, it may be difficult to attract the attention of lenders or investors. A developer may believe that the project will "sell itself" based on its own merits, but in reality, the developer will have to adhere to the strict terms and conditions applied to project
- Project lenders will have priority access to a project's cash flow, and the shareholders may not receive much of a return on investment until the project debt is substantially reduced.

Mergence believes that the technical difficulties of a project, which in themselves may appear dauting, are often exceeded by the complexities of raising the necessary finance. With the launch of our Fund II we will continue to participate in renewables and provide practical approach to private funding options for renewable energy projects which were limited in the past, but which have now changed.

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POWERING A BRIGHT **NAMIBIAN FUTURE**

Project by project, since 2018, Mergence Unlisted Investment Managers (Namibia) has been dedicated to enhancing the country's renewable energy capacity.

We actively involve local investors to drive the growth of Namibian infrastructure, create job opportunities, and evaluate the positive impacts of our projects on local communities.

For more information visit www.mergence.com.na

