

PFAN

(Private Financing Advisory Network)

ASIA

CLEAN ENERGY FORUM

PPL
International



Peter Storey

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Introduction to PFAN

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INTRODUCTION TO PPL



Financing Arranger / Advisor

- Structured Finance / Project Finance
- Structured Trade Finance
- Fund Management (dedicated closed-end investment funds)

Exclusively for Developing Countries & Transition Economies

Special Focus on Clean / Renewable Energy Projects

- And other areas of specialisation / know how

Privately Owned / Independent

- Holding Co & Headquarters in Cyprus
- Companies / Offices in Vienna, Kiev, Johannesburg

Involvement with CTI since 2004

- Founder Member & Global Coordinator of PFAN

INTRODUCTION TO CTI

Climate Technology Initiative

Implementing Agreement under the IEA in support of UNFCCC Objectives. Currently 9 Member Countries:

- Austria, Canada, Finland, Germany, Japan (Vice Chair), Norway, South Korea, UK (Vice Chair) & US (Chair)

To promote more rapid development and diffusion of climate friendly and environmentally sound technologies through multilateral and international cooperation between the public and private sectors and between OECD Countries and Non-OECD Countries

CTI works with

- Governments
- IEA & UNFCCC Secretariats
- Export Group on Technology Transfer (EGTT / UNFCCC)
- International Organisations (WB / UNDP / UNEP / UNIDO)
- Business & Financial Sectors

RECURRING THEMES / FINDINGS OF CTI WORK & INITIATIVES

Importance of Partnerships (eg PPPs)

Presence of the necessary enabling environment that promotes sustained participation by the business and financial communities

- Clear and transparent rules & procedures
- Well functioning institutional settings
- Effective IPR protection

Need for Targeted Capacity Building

Absence of sufficient public monies to make a meaningful impact on technology needs of developing countries

Essential role of Private Sector

BIRTH OF PFAN

Brainchild of the Montreal (Sep 2004) & Bonn (Oct 2005) Workshops on Innovative Financing of Technology Transfer

- Organised by UNFCCC, EGTT & CTI
- Participants from Developing Countries & Private Financing Sector

Lessons Learned / Defining Premises for PFAN

- Finance is available: there is not a shortage of money
- The Question is then: HOW TO ACCESS IT?
- Shortage of good project / financing proposals that meet the standards & criteria of private sector financing communities

Early stage filter mechanism during TNA process would be beneficial to sort projects into broad financing target groups:

- Private Sector / Private & Public Sectors / Public Sector

WHAT IS PFAN?

Informal Network of Private Sector Companies / Individuals

- Under CTI Umbrella in support of UNFCCC
- Common interest / involvement in providing finance & financing services to climate friendly projects

Offers a **free** consulting service to project sponsors & developers to help them raise international private finance

Aims:

- Knowledge & know how transfer
- Technical Assistance
- Provide an interface between public sector policy goals and private sector commercial reality
- Increase the number of bankable renewable energy / climate friendly projects and help get them to financial close

WHO IS INVOLVED?

Specialist Investment Funds / Institutional Investors

- FE Clean Energy group
- Fiorella H. La Guardia Foundation
- New Energy Capital

Consultants / Advisors

- PPL International
- E & Co
- Private Consultants

Other Private Sector Companies to be included in the future

- Contractors / OEMs (?)
- Banks (?)
- Developers / Operators (?)

CTI / UNFCCC

Network Effect = Leverage

WHAT SERVICES DOES PFAN OFFER?

Pilot Phase

- Learning how and where we can add value

Advice & Guidance

- Overall Project Commercial Structure & Design
- Financing Structure
- Sourcing & Procurement of Financing
- Technical & Engineering Advice
- Achievement of Conditions Precedent
- Trouble Shooting

Technical Assistance (limited)

- Contribution to costs of technical studies etc

Contact Broking & Introductions

Money / Financing – directly from PFAN Members

HOW DOES IT WORK?

(4 Phase Framework / Process)

Initial Review / Programme Induction

- Rigorous vetting of Project Proposal / Economic Feasibility
- Selection / Rejection
- PFAN Member assigned to project as dedicated adviser / mentor

3 Further Reviews to guide project to bankability

2. Follow up to Initial Review: Commercial & Financing Structure
3. Engineering / Technical Studies / Certification / Equipment Supply
4. Fine Tuning: Cash Flows & Achievement of Conditions
 - Financial Close

PFAN Members have **Right of First Offer** to make financing offers

- Offered terms should be fully competitive / Not binding

PFAN support can be terminated if financing thought unachievable

HOW DOES IT WORK? (Approach)

■ Desk top, hands-off approach (virtual consultancy)

- Some hands-on ability in Phase 4

■ Formal written report is provided to the project developer / sponsor at the end of each Review Phase:

- Exchange & review of information
- Development status & prognosis
- Critical feedback & advice for continued development & structuring

■ Decision to proceed to next phase or terminate support at each review

- Recommendation of the assigned PFAN advisor in consultation with the Programme Coordinator and CTI Chair
- PFAN may terminate its support if financing thought unlikely and / or sponsor commitment is lacking

■ Control Function

- Enables CTI to manage & allocate resources

HOW DOES IT WORK? (Cost & Resource Allocation)

PFAN Services are provided **free** to the project developer / sponsor

- Subject to acceptance into pipeline & agreement of the conditions

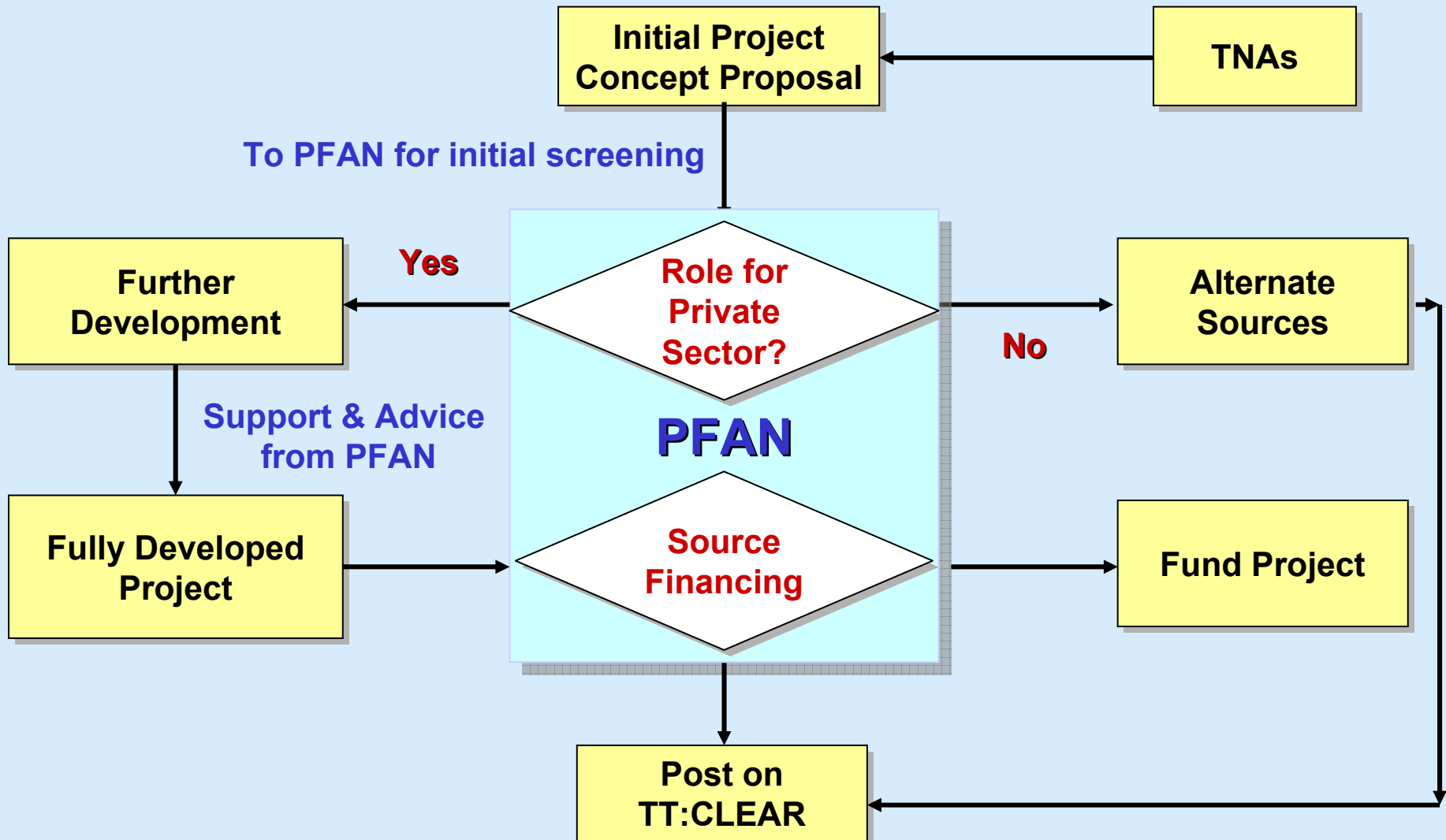
Cost of providing the PFAN Services is absorbed by CTI

- Nominal Fee paid to the PFAN Members / Consultants

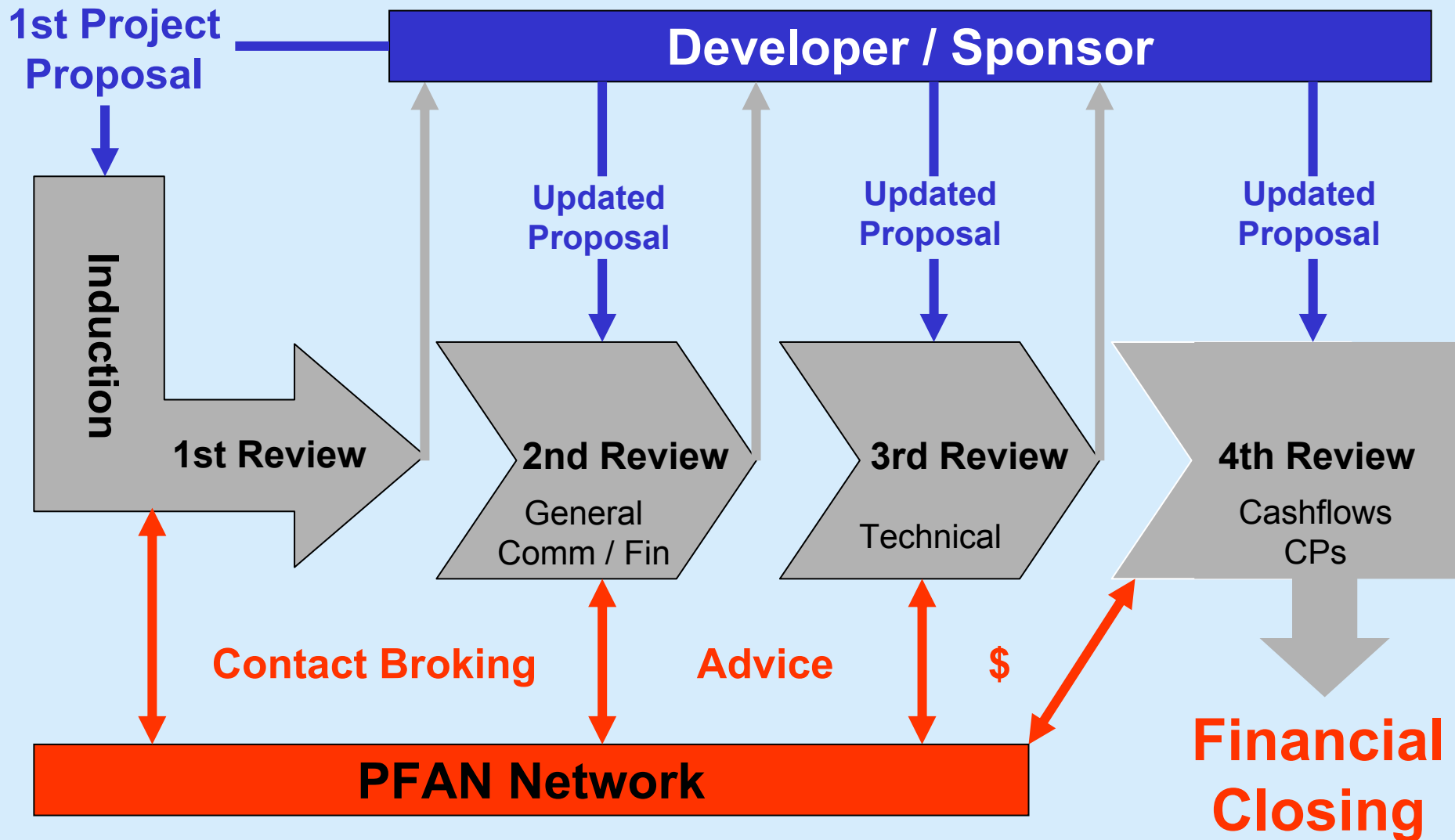
Provision of services subsidised by the PFAN members

- Trade-off: access to the project pipeline for business development
- Can not be a permanent solution

PFAN – FLOW CHART



PFAN REVIEW PROCESS



KEY SELECTION CRITERIA

Consistent regulatory, legal & commercial framework

- Ability to quantify, manage, mitigate and price risk

Commercially & technically experienced Project Sponsors

- Financially committed: Equity stake

Proven Technology: can still be new / state of art

Risk sharing & diversification

- Consortia (suppliers & contractors)
- Integrated project approaches & linkage

Repayment Ability

- Strong Cash Flows & Cover Ratios under worst case conditions

Adequate Return

- Also in consideration of all hard & soft factors and accruing socio-economic benefits: Tripple Bottom Line approach
- Different for each project

SAMPLE PROJECTS OF THE PILOT PHASE

8 Projects currently in the Programme (some 50 projects reviewed)

- 10 – 15 (of the rejections) would have been suitable for support
- 1st Project about to reach Financial Close in June-July 2007

3rd. – 4th. Review Phase

- Small Hydroelectric Power Station in Mexico (8,5 MW / USD 17 mio)
(Financial Close imminent)
- Bio Diesel Refinery in Brazil (66.000 tpa / USD 18 mio)

2nd. Review under way

- Small Hydro in Chile (5,6 MW / USD 5 mio)
- Biomass in Chile (8 MW / USD 14 mio)
- Wind Farm in Chile (20 MW / USD 30 mio)
- Small Hydro in Chile (6,3 MW / USD 10 mio)

Initial Review / Pipeline Induction Pending

- Photovoltaic Power Station, South Africa (10 – 20 MW)
- Clean Coal Powerstation, Botswana (400 MW / USD 600 mio)

INITIAL CONCLUSIONS

Integrated early stage project & financing development is crucial

- Financing is not a bolt-on extra

Other Learning Points

- Projects move slower than expected
- Problems of Language & Geography
- Requirement for intensive coordination among involved parties

Considerable scope / potential to expand the programme

- Positive reception / feedback from both public and private sectors
- There are a lot more good projects out there that could access private sector international financing
- PFAN can be a useful gateway to international finance especially for smaller / medium sized projects (USD 5 – 50 million)

CURRENT ACTIVITIES

Completion of Pilot Phase during 2007

- 2 – 3 financial closures on the back of PFAN work & advice during H2 2007
- 4 – 8 new projects (assuming existing resources & capacity)

Fund raising to secure future of PFAN beyond 2007 and expand activities

- CTI
- UNFCCC Parties
- Multilateral Agencies / Activities
- Private Sector

Benefits from expansion of the Programme

- Efficiency & economies of scale
- More focussed transfer of knowledge & knowhow
- Bigger & wider impact through more projects

PLANS FOR THE FUTURE (If new funding is available)

Expand PFAN Network & Processing Capacity

- Bring in new members – Investors & Advisors
- Increase resource allocation per project

Formalise Network organisation & coordination / administration

- Set up regional organisation / networks
- Latin America / Africa / Asia / Eastern Europe & CIS

Expand & formalise project identification & selection processes

- Call for projects (regional / global)
- Participate in & support TNA process

Examine / test mechanisms to make programme self-sustaining

- Success fees
- Others

CLOSING SUMMARY

PFAN is a worthwhile / valuable instrument

- **Supplementary source of financing & know how**
- **Access to networks**
- **Direct experience of what works**
- **Considerable Financial Leverage (small input ⇒ big result)**

Possibility for replication and / or combination with other programmes / initiatives

PFAN needs confirmation of new / on-going resources

- **PFAN anticipates continuing support of UNFCCC Parties & CTI**
- **Open to other Sources**

PFAN looks forward to expanding activities and receiving new Project Proposals