

Watson, Farley & Williams

ASIA CLEAN ENERGY FORUM

18 June 2009, Manila

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Financing Clean Energy Projects in Troubled Times

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Financing Clean Energy Projects in Troubled Times

- Introduction
- Current State of the Financial Markets
- What Lenders and Investors worry about?
- Risk Mitigation
- Case Study

Current State of the Financial Markets

- Banks will focus on the best projects of known customers
- Projects will be picked on the grounds of economic viability, reliable partners and a firm contractual and legal framework
- Funding for North American and European clean energy projects has been slashed
 - investors are unwilling to take the risk on emerging markets
- Local banks and institutions to fill the void

Current State of the Financial Markets

- Estimates put the supply of renewable energy project finance of up to 40% less than last year
 - a lot of competition among projects for a limited amount of funding
 - lower risk projects will stand out from others when competing for funds
 - world is rapidly de-leveraging
- While it required around 4 weeks to obtain debt financing in 2008, today it takes 8-10 weeks on average
- The credit crisis has reduced banks' appetite and ability to lend
 - where debt is available, it is fragmented and more expensive

What concerns Lenders and Investors?

- The fundamental problem with clean energy generation is that it still can't compete with fossil fuels on its own
- It needs help from the state in the form of tax relief, direct support or other forms of encouragement
- Oil price does have an impact
- Investors have relatively short investment horizons

Ways to Mitigate Risk

- Project Risk Management
- Risk Assessment
 - Three main steps:
 1. Risk Identification
 2. Risk Analysis
 3. Risk Prioritisation
 - Types of Risk
 - Project risk
 - Political / Institutional Risk
 - Business Risk
 - Resource, Technology & Operational Risk

Ways to Mitigate Risk

■ Risk Control / Mitigation

- Identify the necessary actions that can be carried out in advance to reduce or eliminate the impact of risk
- Engage lawyers and other professional advisers at an early stage
- Risks should be properly identified, classified, monitored, managed and communicated to all relevant project stakeholders

Ways to Mitigate Risk

- Developers will need to ensure they are developing bankable projects
 - engage financiers who can advise what kinds of deals are being accepted by the market and which are not
- Developers can arrange staple financing i.e. arrange the project finance for the project before they sell it to investors
 - projects that secure debt finance will be worth substantially more than equivalent projects without debt finance

Case Study

- Indonesian Bio Fuel Project
- Banks willing to lend but perceived reputational risk
- Security checks and reputational due diligence report covering legal and commercial risks
- Full transparency given
- Importance of proper due diligence

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