

Facilitating Renewable Energy Finance

Presenting your Project to Financial Institutions

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Financing Renewable Energy

One of the main issues - lack of bankable projects prepared in accordance with the requirements of the IFI's

EC and EBRD sponsored Guide for Preparation of Bankable Proposals (1996) and a Training Programme to assist specialists in the field to prepare and present their projects

UN ECE and UN ESCWA launched Renewable Energy Initiative to:

- (a) develop the skills of the private and public sectors at the local level to identify, develop and implement renewable energy investment projects;
- (b) provide assistance to national administrations to introduce economic, institutional and regulatory reforms needed to support investment projects; and
- (c) provide opportunities for international and commercial banks and companies to invest in these projects.

Main mechanisms for RE investments

Own equity

Internal Charges/Tax breaks

Bank lending

Guarantee facilities

Leasing arrangements

Export credit agencies

Capital markets based instruments like: Corporate bonds

Private placements

Public to Private Finance (Private Finance Initiative)

Country, Bilateral and Global Financial Mechanisms: ElectriFi, CDM, Scaling-up Renewable Energy investment Plan (SREP) etc.

Why a Proper Business Plan is necessary

- Accelerates the approval process and increases the chances for approval of your proposal
- Standard and comprehensive presentation of your projects, giving your potential financiers opportunity to make an easy evaluation of your proposal's commercial value and environmental benefits.
- Not every great idea becomes a good project
- Helps the project sponsor to analyse and value its own risks and commitments and compare them with the expected benefits, in order to evaluate its worthiness.
- Creates local expertise and commitment
- Business plan preparation is a valuable and transferable skill, applicable to the commercial and economic activities of many organisations and companies. Efforts spent on analysing and evaluating a project's risks and benefits create stronger commitments and reduce the risks associated with its implementation.

What is a Business Plan

A detailed and comprehensive analysis and description of the technical, environmental, social, economic and financial aspects of a project. A Business Plan is a structured presentation to decision makers facilitating them in determining a project's viability.

Business Plan Structure

- Nature of the Business
- Strengths of the Business, Risks, Current Situation, Future Plans
- Nature of the Project
- Background to the Project, Scope of the Project, Rationale for the Project,
- Benefits
- Savings and environmental improvements, Export promotion, Import substitution, Job creation, Technology transfer, Management development
- The Sponsors
- Background, Financial data, Proposed Financial Contributions and Exposures, Rationale for Involvement of Other Partners,
- Energy Audit, Feasibility studies
- Project Costs and Timescale
- Project costs, Energy and raw materials consumption, Basis for the cost estimate, Timetable of Implementation and Disbursements, Procurement Issues

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Business Plan Structure continued

- Products Services and Markets
- Description of products or services, Pricing and Costs, Market Description, Competitor's analysis, Financial Position of Buyers
- Regulations and Environment Information
- Key permit requirements and regulations required from the authorities, Environmental regulations, Status of public consultation
- Role of the bank, Description of the role of the bank or of the financier
- The Financing Plan, Current and Required Sources of Finance, Type of Financing Required

- Cash Flow Projections
- Deriving Cash-flows from Raw Data, Working Capital, Taxation, Operating Profit, Free cash-flow, Servicing of Finance, Ratios
- Pro-Forma Financial Statements
- Forecasted Income Statement, Forecasted Balance Sheet, Assets, Liabilities, Forecasted Cash Flow, Forecasted Ratios

Checklist of supporting documents typically required as appendices to a Project Agreement

- Project description and specification
- Necessary licenses, permits and approvals
- Description of and rights of way for the project
- Preliminary design criteria
- Procedures for government to approve the project's company's proposal for design changes
- Procedures for government to request design changes and additional work
- Energy Audit by independent auditor
- Feasibility studies by independent consultants
- Environmental impact assessment and environmental management system
- Quality management system
- Safety certification system
- Programme and procedures for testing

Checklist of supporting documents typically required as appendices to a Project Agreement continued

- Project operation parameters
- Operation and maintenance criteria
- Tariff or toll rates and tariff or toll revision formulae
- Specifications for tariff or toll collection system
- Training programme
- List of initial shareholders and percentage interests
- Insurance agreements
- List of pre-approved contracts
- Rights and obligations of the parties upon termination
- Form of bonds
- Form of guarantees
- Overseeing and monitoring rights of the government
- Form of legal opinion of counsel for project company
- Form of legal opinion of counsel for government (various relevant ministries)

Development of Financial Structure for Credit Rating Agency Approval

- An example of credit-rating criteria from **Standard and Poor's**:
 - Output sales contracts
 - Power costs
 - Fuel risk
 - Structure
 - Technology risk
 - Purchaser's credit strength, and
 - Projected financial results.
- For power producers the credit rating incorporates the above seven factors into the following five:
 - Regulatory and legal environment risk
 - Project and financing structure risk
 - Power market risk
 - Fuel market risk, and
 - Plant performance risk.