



# Innovative Energy Financing

## Infrastructure Project Development: Overcoming Barriers to Private Sector Finance

UN Commission on Sustainable Development  
(CSD-15)

May 1, 2007  
New York, New York



## Systemic Barriers

- Solvency/Creditworthiness of Purchasing Utility
- Affordability of Full tariff
- Currency Risk
- Clarity of Legal System
- Land Rights
- Regulatory Environment
- Political Stability
- Corruption



## Key Systemic Barriers to Overcome

- Solvency of Purchasing Utility
- Tariff Affordability
- Integrity of Cash Flow
  - Change of Law Protection
  - Currency Risk



## Project Bankability The Conventional Approach

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|---|--|
| <ul style="list-style-type: none"><li>• Long – Term PPA</li><li>• Purchaser: State Utility<ul style="list-style-type: none"><li>– Single Buyer Model</li></ul></li><li>• Tariff Structure<ul style="list-style-type: none"><li>– Capacity Payment</li><li>– Energy Payment</li><li>– Foreign Exchange Indexation</li><li>– Inflation Indexation</li></ul></li><li>• Term<ul style="list-style-type: none"><li>– 20-30 Years</li><li>– Termination Payment</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Sovereign Guarantee<ul style="list-style-type: none"><li>– Capacity and Energy Payments</li><li>– Termination Payment</li></ul></li><li>• Change of Law Protection<ul style="list-style-type: none"><li>– Integrity of Cash Flow</li></ul></li><li>• Exchange Controls<ul style="list-style-type: none"><li>– Convertibility</li><li>– Availability</li></ul></li><li>• Political Force Majeure Protection</li></ul> |
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## **Project Bankability Necessary Conditions**

- **Sector**
  - Reform in Place
- **State Utility**
  - Financially Viable
- **Sovereign Guarantee**
  - Issued by Rated Sovereign
  - Enhanced with PRG or Similar
- **Large Scale Project**
  - Power Generation



## **Absence of Conditions**

- **State Utility**
  - Insolvent
- **Sovereign Guarantee**
  - Limited Value
- **Project Size**
  - Small
- **Cash Flow Integrity**
  - Devaluation Risk
  - Change in Law



## Market Response

- Solvency of Purchasing Utility
  - Direct Access to End - Users
  - By-passing the State Utility
- Tariff Affordability
  - Integrated Project
    - Generation
    - Transmission
    - Distribution
  - Transition Subsidy
- Integrity of Cash Flow
  - Local Currency Financing
  - Limit Reliance on Sovereign Guarantee



## Projects

- Mtwara Project (Tanzania)
  - Integrated Utility
- West Nile Rural Electrification Project (Uganda)
  - Integrated Utility
  - Local Currency Financing
  - Subsidy Support
- ABA Power (Nigeria)
  - Integrated Utility
- Kpone CCPP (Ghana)
  - Wholesale Power to End-Users
- Kalangala (Uganda)
  - Integrated Utility
  - Local Currency Financing
  - Subsidy Support

