PFAN
(Private Financing Advisory Network)

UNFCCC
TNA WORKSHOP

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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

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
PFAN – FLOW CHART

1. **Initial Project Concept Proposal**
   - To PFAN for initial screening

2. **Role for Private Sector?**
   - Yes: Support & Advice from PFAN
   - No: Alternate Sources

3. **Source Financing**
   - Fully Developed Project

4. **Post on TT: CLEAR**
   - Fund Project

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**Flow Chart Descriptions:**
- **Initial Project Concept Proposal**: Sent to PFAN for initial screening.
- **Role for Private Sector?**: If yes, seek support and advice from PFAN. If no, consider alternate sources.
- **Source Financing**: If financing is found, move to fully developed project.
- **Post on TT: CLEAR**: Project is funded and posted for public information.
WHO IS INVOLVED?

- Specialist Investment Funds / Institutional Investors
  - FE Clean Energy group
  - Fiorello 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
PFAN REVIEW PROCESS

1st Project Proposal

1st Review

2nd Review

3rd Review

4th Review

Financial Closing

Induction

PFAN Network

Developer / Sponsor

Updated Proposal

Updated Proposal

Updated Proposal

Contact Broking

Advice

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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
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

Positive reception / feedback from both public and private sectors

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

Considerable scope / potential to expand the Programme

- Efficiency & economies of scale
- Greater impact through more projects
CURRENT ACTIVITIES

Completion of Pilot Phase during 2007
- 2 – 3 financial closures on the back of PFAN work & advice during rest of 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
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
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

Promotes, enables & achieves successful Technology Transfer
- Plant & Equipment locally owned & operated
- Skills Transfer (operations / maintenance / commercial & financial)

Possibility for replication / combination with other (UNFCCC) initiatives
Expected confirmation of new / on-going resources will enable scaling-up

PFAN looks forward to expanding activities, receiving new project proposals and working with UNFCCC Parties in support of the implementation of TNAs and of other activities