



# INTERNATIONAL CONFERENCE ON ALTERNATIVE ENERGY

## FINANCIAL INSTITUTIONS

CONSIDERATIONS FOR  
RENEWABLE ENERGY PROJECT  
DEVELOPERS

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# FINANCING ARRANGEMENT: DIFFICULTIES

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## Why is it becoming difficult to Arrange Financing for Alternative Energy Projects?

Delay in Planning

Non compliance with  
Lenders' Requirements

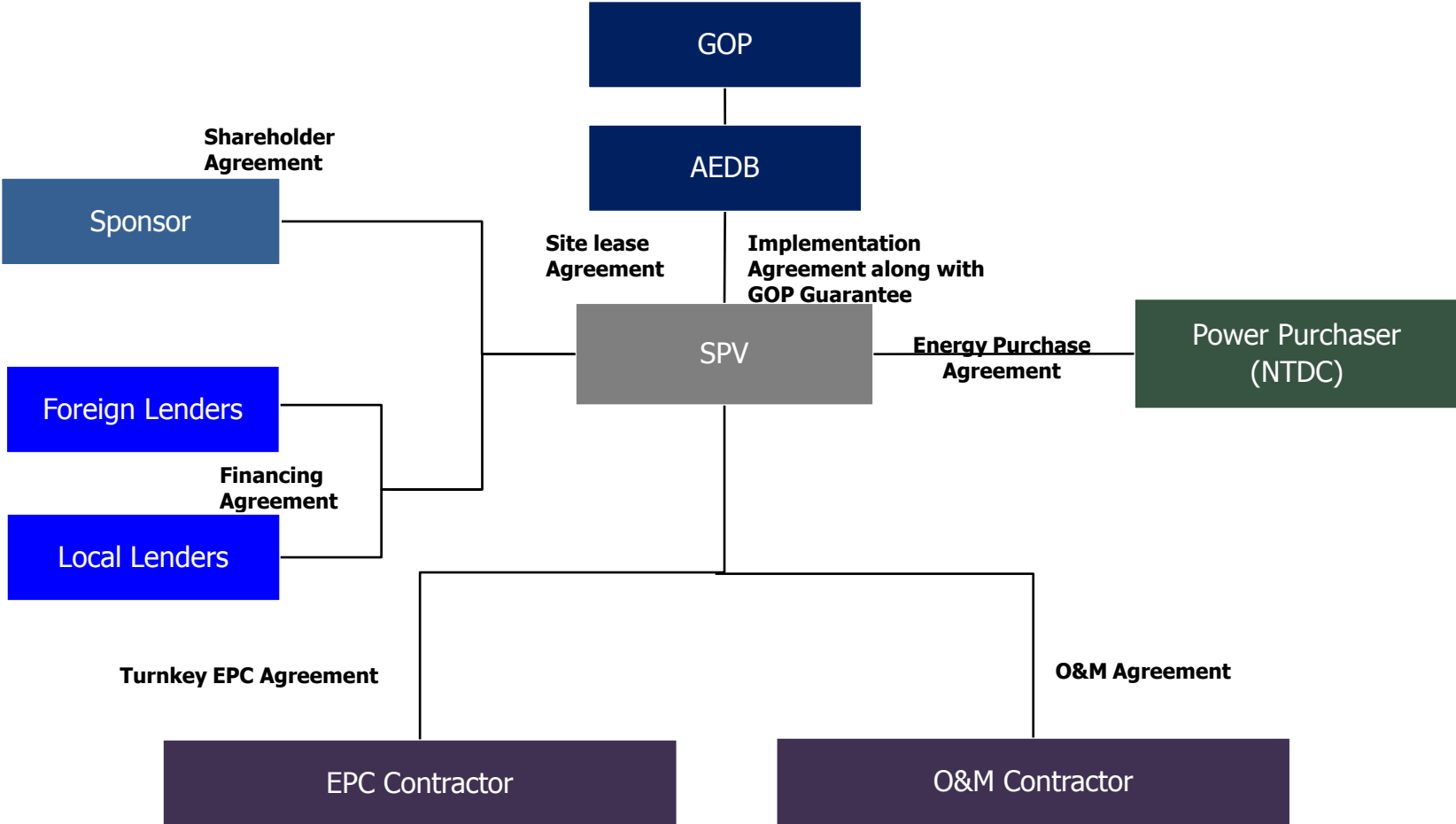
Weakening Support to  
Energy Sector by Lenders  
due to sector crises & over  
exposure

Financial Close is dependent on the financial plan, structure and arrangement

**Key to successful achievement of FC is Timing & Strategy Adopted**

# PROJECT FINANCE STANDARD STRUCTURE

All Project Documents are assigned to the Lenders



# LENDERS' REQUIREMENTS

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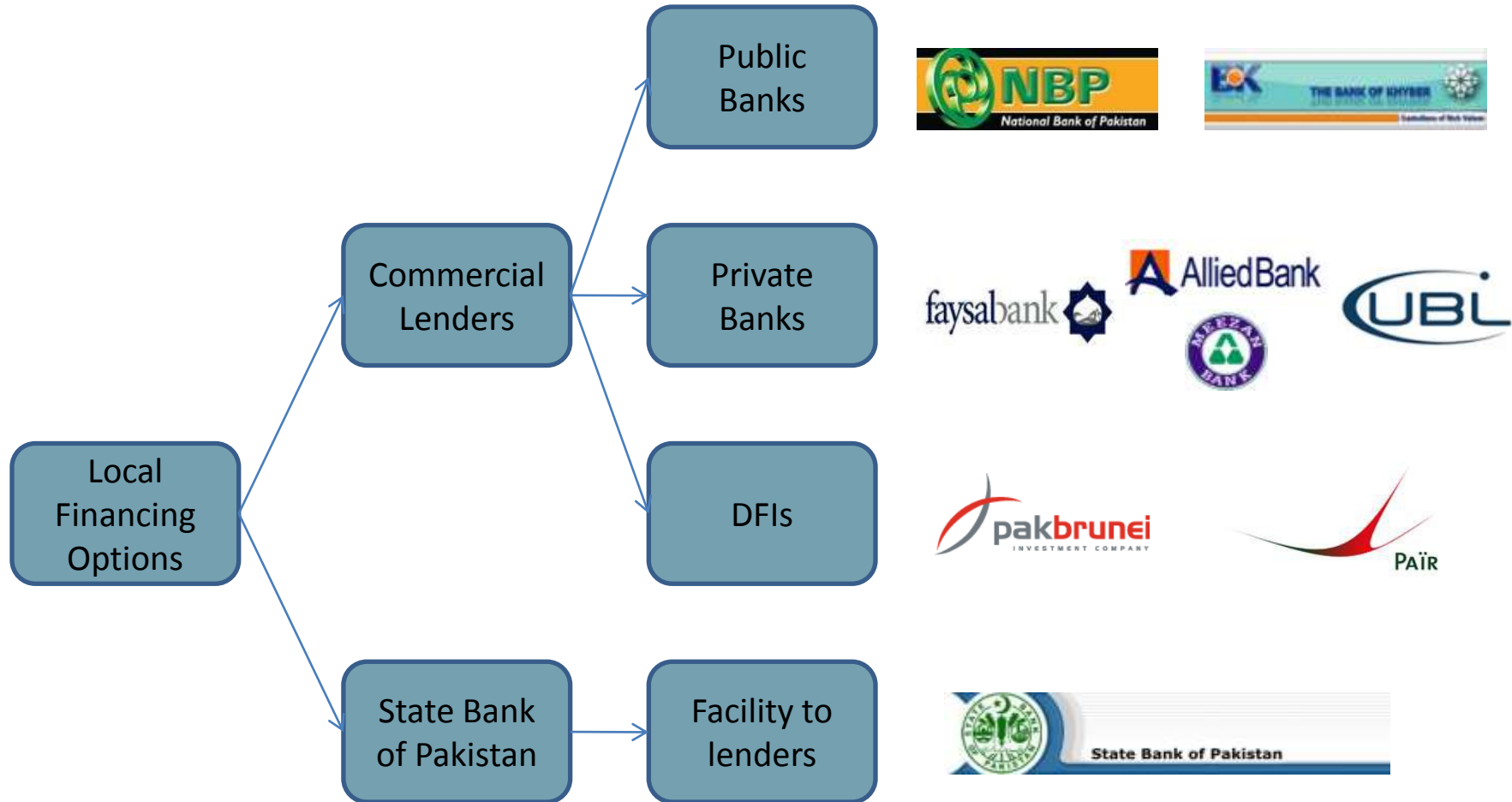
**Project Developers need to be aware of key lenders considerations**

## **What do lenders' look for in a Project?**

- Sponsor Strength – Technical know how, previous experience & financial strength
- Project Team – Consultants & Advisors
- Bankability of the project contracts
- Project Dynamics & technical suitability
- Project Cash flows Coverage/ Viability

# LOCAL FINANCING

## Options for Project Developers in Local Financial Market



# LOCAL FINANCING

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## Issues faced by Local Financiers

### Circular Debt

- Imbalance energy mix – mainly comprising of oil based IPPs
- Oil import bill increased to PKR 1.4 trillion in FY12
- Circular Debt increased to PKR 398 billion by the end of June, 2012
- Delayed Payments to the IPPs and consequently to the lenders

### Government Borrowing

- Government Borrowing stands at PKR 2 trillion as of FY12
- Local banks have to lend more money to the Government in an effort to curtail Circular Debt and receive timely repayments from the IPPs
- Continued Increase in oil imports, circular debt, government borrowing to fulfill budget deficits

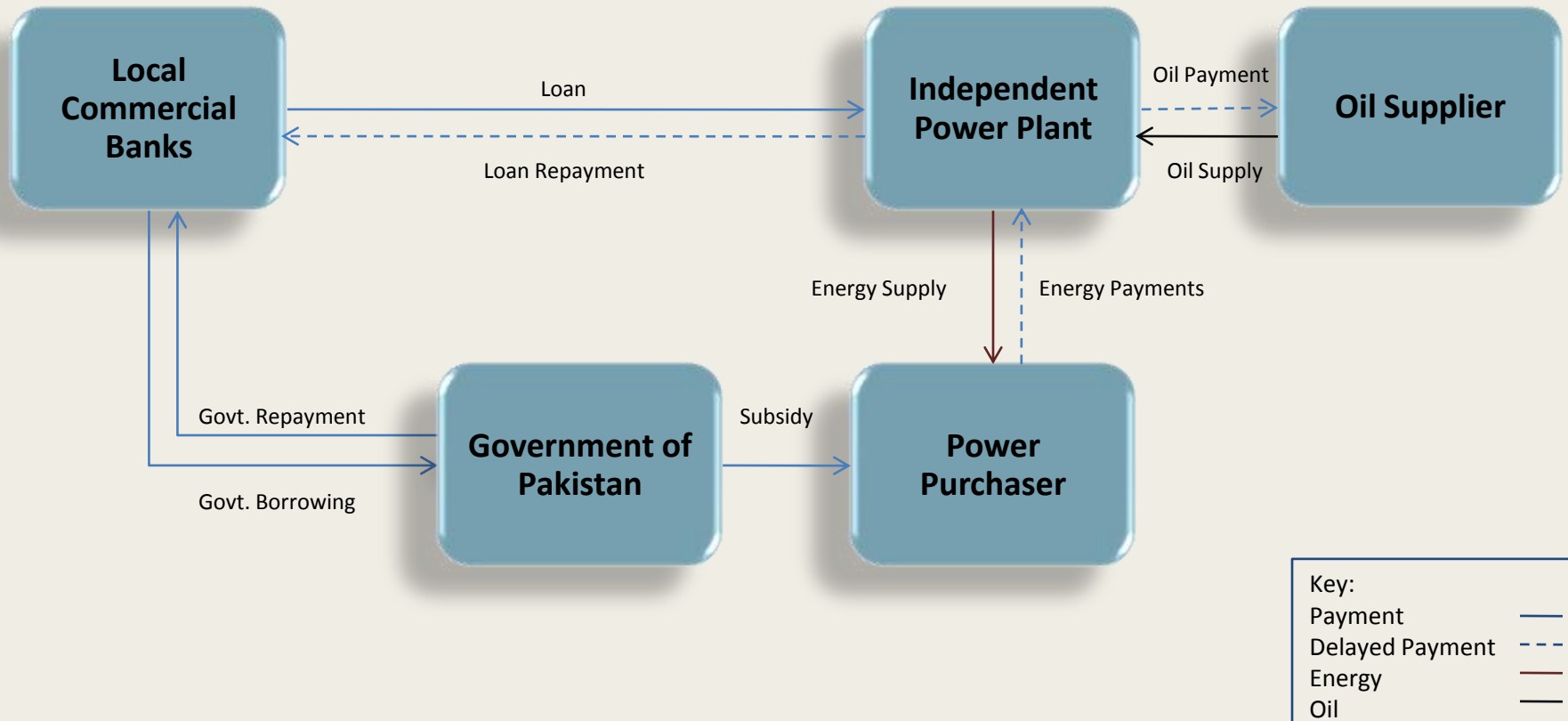
### Exhausted Energy Sector Caps

- Increasing exposure to energy sector has burst the local banks' sector specific cap
- Average exposure of top 10 banks: 12.2% of their gross advances

# LOCAL FINANCING

## Circular Debt and Local Financiers

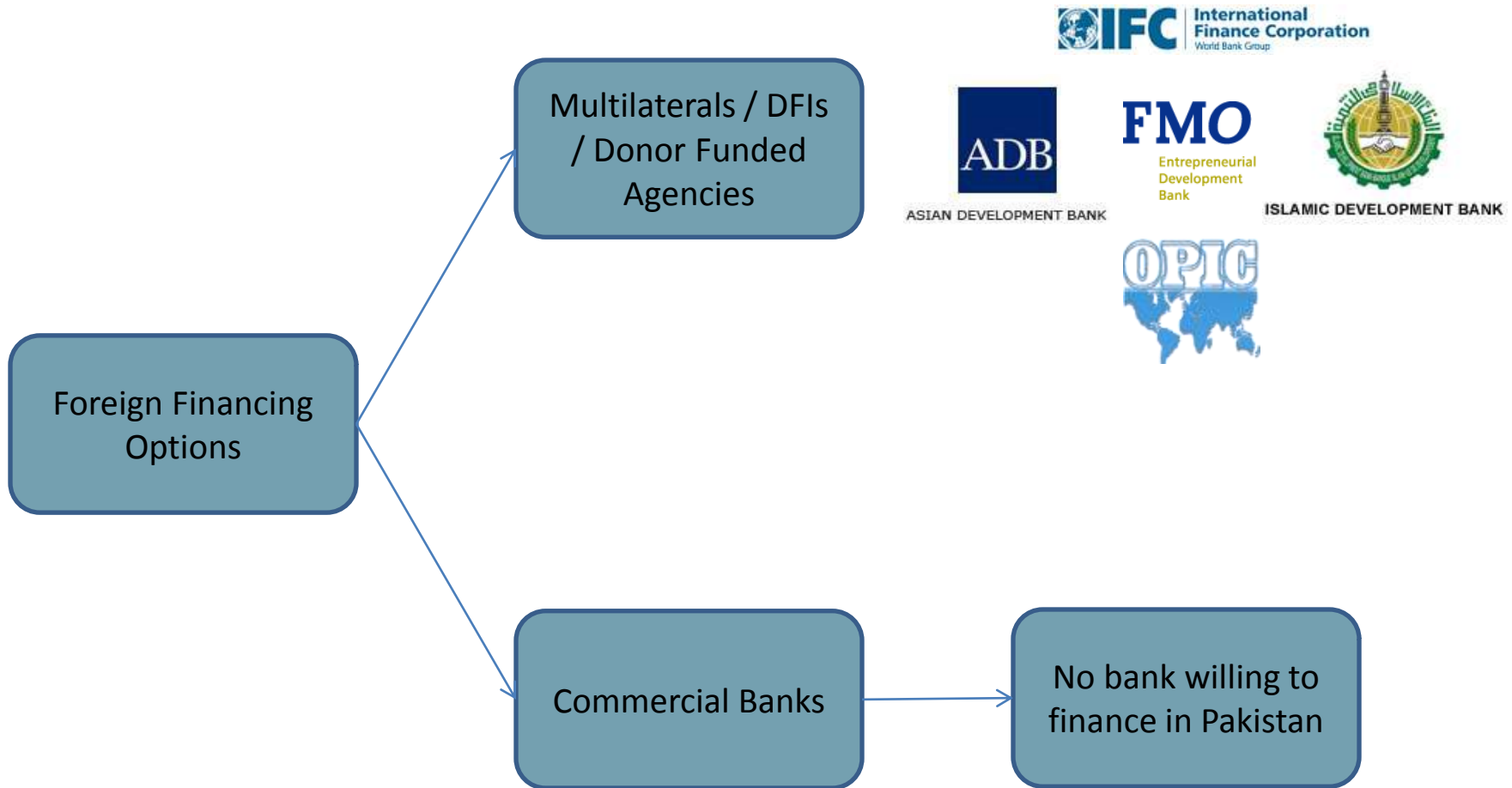
### The Debt Cycle – Oil based IPPs





# FOREIGN FINANCING

## Options for Project Developers in Foreign Financial Market



# FOREIGN FINANCING

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## Constraints faced by Foreign Financiers

### Increasing Political / Country Risk despite a steady economic growth

- Negative Balance of Payment – PKR 3.3 billion in FY12
- Budget Deficit of PKR 1.37 trillion in FY12
- US\$ Reserves – US\$ 12.8 billion (March, 2013) from PKR 18.3 billion (July, 2011)
- Currency Devaluation

### Circular Debt

- Rising Circular Debt resulting in delay in payment in existing exposures

### Energy Sector Exposure

- Multilaterals have reached their caps on Energy Sector exposure and are not willing to finance more

# RECOMMENDATIONS

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**Financing is Possible – Project Developers need to realize the constraints faced by financiers and adopt a proactive approach**

**Planning should begin on day 01 & Build a Definitive & Strong Strategy**

- Identify potential lenders and financing mix for the Project
- Determine the structure of financing
- Understand lenders' requirements & structure project accordingly

**Approach Potential Lenders in early Project Development stage**

- Proactive approach with accurate timing as to when to approach potential lenders

**Strong Project Team**

- Build a strong Project Team from DAY ONE comprising of:
  - PROJECT FINANCIAL ADVISORS
  - LEGAL CONSULTANTS
  - TECHNICAL CONSULTANTS

# RECOMMENDATIONS

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## Negotiate Strong Contracts

- Negotiate and sign bankable EPC Contract with guaranties, warranties and LDs built in to support the Sponsors and Lenders

## Remove Lenders' Misconceptions Regarding Circular Debt

- Power Purchaser has never defaulted on its payments to the IPPs
- Circular Debt largely impacts the oil-based IPPs
- RE Projects can reduce reliance on oil imports and help curtail Circular Debt