

ESMAP – RENEWABLE ENERGY TRAINING PROGRAM

# Preconditions for Successful Financing

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### **Country Investment Climate**

- Political system and stability
  - Governance
  - Stability of policy framework and direction
  - Corruption
  - Support for foreign investment
- Macroeconomic environment that is based on sound fiscal policies
  - Public finances and debt burden
  - Credit risk and repayment record
  - Inflation rate
  - Record of dealings with commercial lender and international investors





### Country Investment Climate continued ...

#### Stability of legal system

- Upholding domestic law
- Contract enforcement
- Arbitration
- Investment laws

#### **Domestic banking and capital markets**

- Liquidity and depth of capital markets
- Appetite for longer-term investments
- Sophistication and capacity of banking sector
- Security and collateral practices





### **Sector Investment Climate**

#### Legal and Regulatory Framework

- Clear and coherent energy policy framework, particularly for integration of renewable energy
- Primary laws that promote private investments in the sector
- Stable and predictable regulatory framework (Regulation by Contract as an interim measure)
- Clear legal framework for contracting, land ownership, taxation, licensing, etc.

## Sector structure with clear delineation of responsibilities

- Who is responsible for what
- Minimum overlapping responsibilities
- Power sector market structure

#### Sector planning and approach

- Sector Master Plan or Integrated Resource Plan
- Demand/supply balance
- Grid stability and operating conditions







### **Project-Level Environment**

#### Market & Revenue

- · Insufficient tariff income
- · Payment/collection risk
- Dispatch

#### **Financing**

- · Availability of debt financing
- Interest rate risk
- · Foreign Exchange convertability
- · Repatriation

#### **Political**

- Expropriation
- · Changes in law or regulation
- Adverse Government action or inaction
- Access to essential utilities (fuel, roads, water, etc.)
- Increases in taxes



#### Construction

- · Increase in construction costs
- · Labor availability and disputes
- · Accidents or sabotage
- Contractor default
- Equipment availability and import risk
- · Force majeure

#### Legal

- · Property title/ownership
- · Security structure
- Insolvency of Project Company/Government Agency
- · Breach of contract

#### Operations

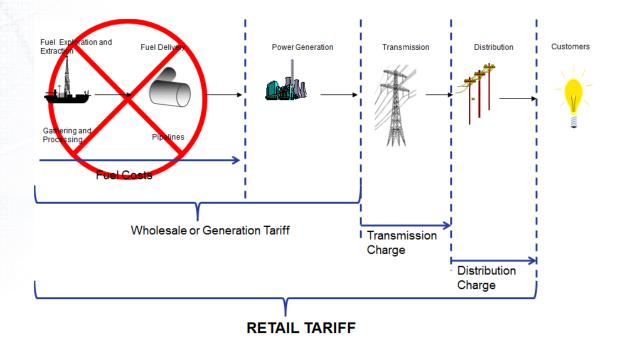
- Project Company default
- Fuel price fluctuations
- Fuel delivery
- Spare parts
- Technology risk
- Environmental risk





### Project-Level Environment continued ...

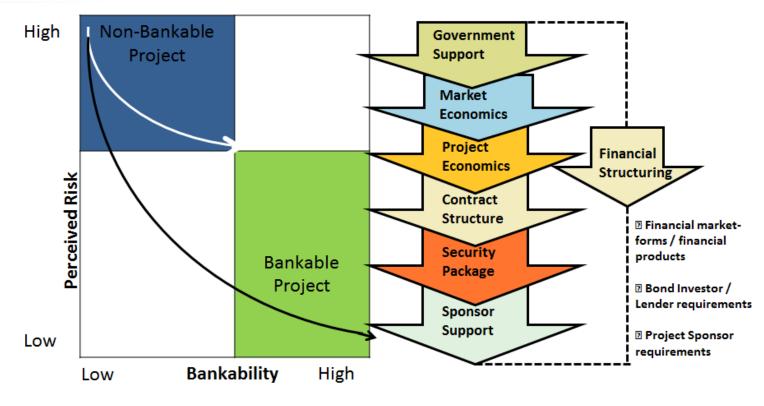
The most well-structured legal/contractual framework means very little if the underlying project economics do not work







### Project-Level Environment continued ...







### **Thank You**

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