

APP PLENARY SESSION

Financial Tools and Opportunities for Advancing APP Projects and Activities

April 19, 2006



Introduction -- Overview

- ❖ Ex-Im Bank Environmental Exports Program
- ❖ What Most Consider Important to Finance
 - Why That's Not So
- ❖ What Is Important
 - Sources of Credit
 - Market/Revenues
 - Business Environment

Environmental Exports Program (EEP)

❖ Charter duty to support environmental exports

❖ EEP Features

- Pro-active Approach
- Term Enhancements
 - Maximum OECD Payment Terms
 - 15 years for renewable energy and water
 - Other enhancements
 - Capitalization of Interest During Construction
 - Up to 15% Local Cost Support



Common Finance Misconceptions

What Most Consider Important

A good project or concept



High rates of return



Interesting technology



High level connections



May Not Be . . .

Projects are complicated – showing path to repayment is easier

Debt coverage is key – strong borrowers don't show off profits

Banks aren't buying technology – they want to see who IS buying

Connections can be fleeting



What IS IMPORTANT?

GETTING
THE
MONEY!

 WHEN THE U.S. EXPORTS
AMERICA WORKS

How to Get It?

Climbing the Steps to Finance

GOAL-Approved Finance

Step 3: Source of Credit

Step 2: Deal Environment

Step 1: Market /Revenues



A Word About Loan Approvals

- ❖ Credit is not the only consideration.
 - Especially for bilateral and multilateral lenders.
- ❖ Policy elements important
 - Especially environment
- ❖ Equator principles now govern most banks
 - Observations

Sources of Credit

Ability to Manage Complexity	Extensive ↑	Project Corporate with "help"
		Corporate Balance Sheet
	None ↓	Local Bank Sovereign
		Small → Large
Deal Size		

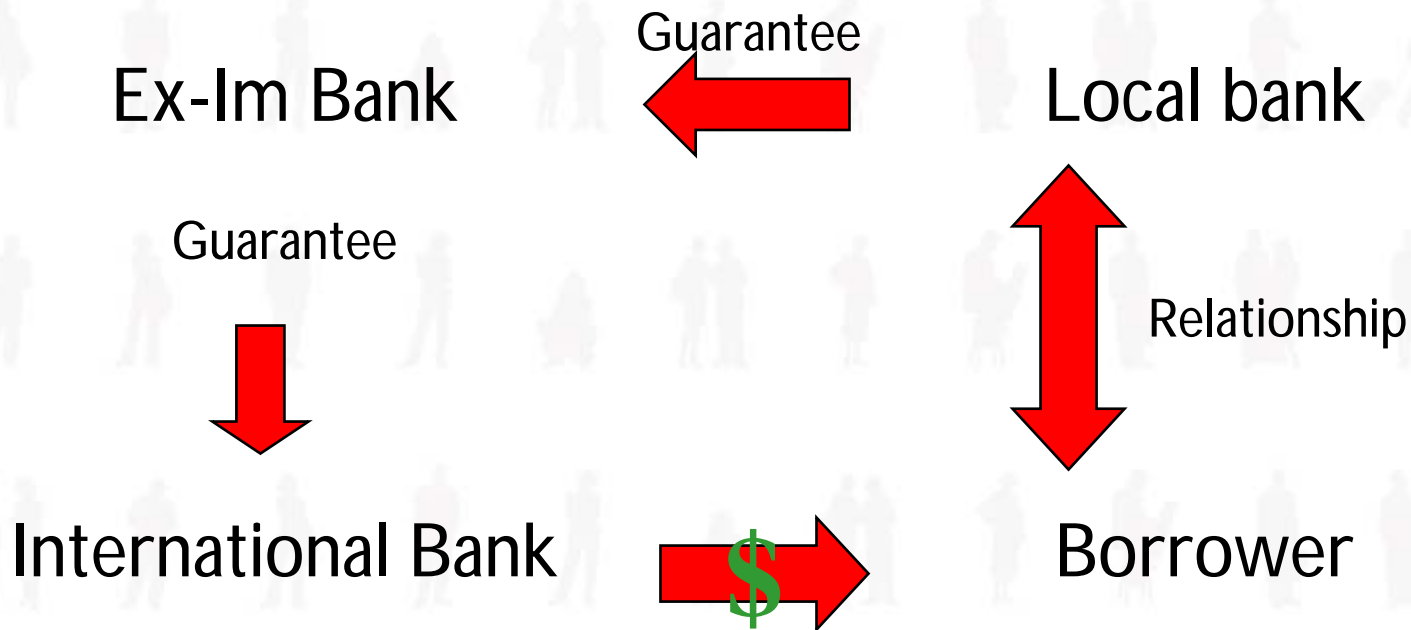


Sovereign guarantees

- ❖ Historically Ex-Im Bank's bread & butter
 - Old school, but a reliable old school
- ❖ Less prevalent today, but:
 - Still important to hydro & other deals with social importance to host countries
 - Sovereign support of off-taker payment performance important on many deal

Bank guarantees

International bank makes dollar loan with Ex-Im guarantee, backed by local bank guarantee.



- ❖ Same structure can work with other non-sovereigns with acceptable credit

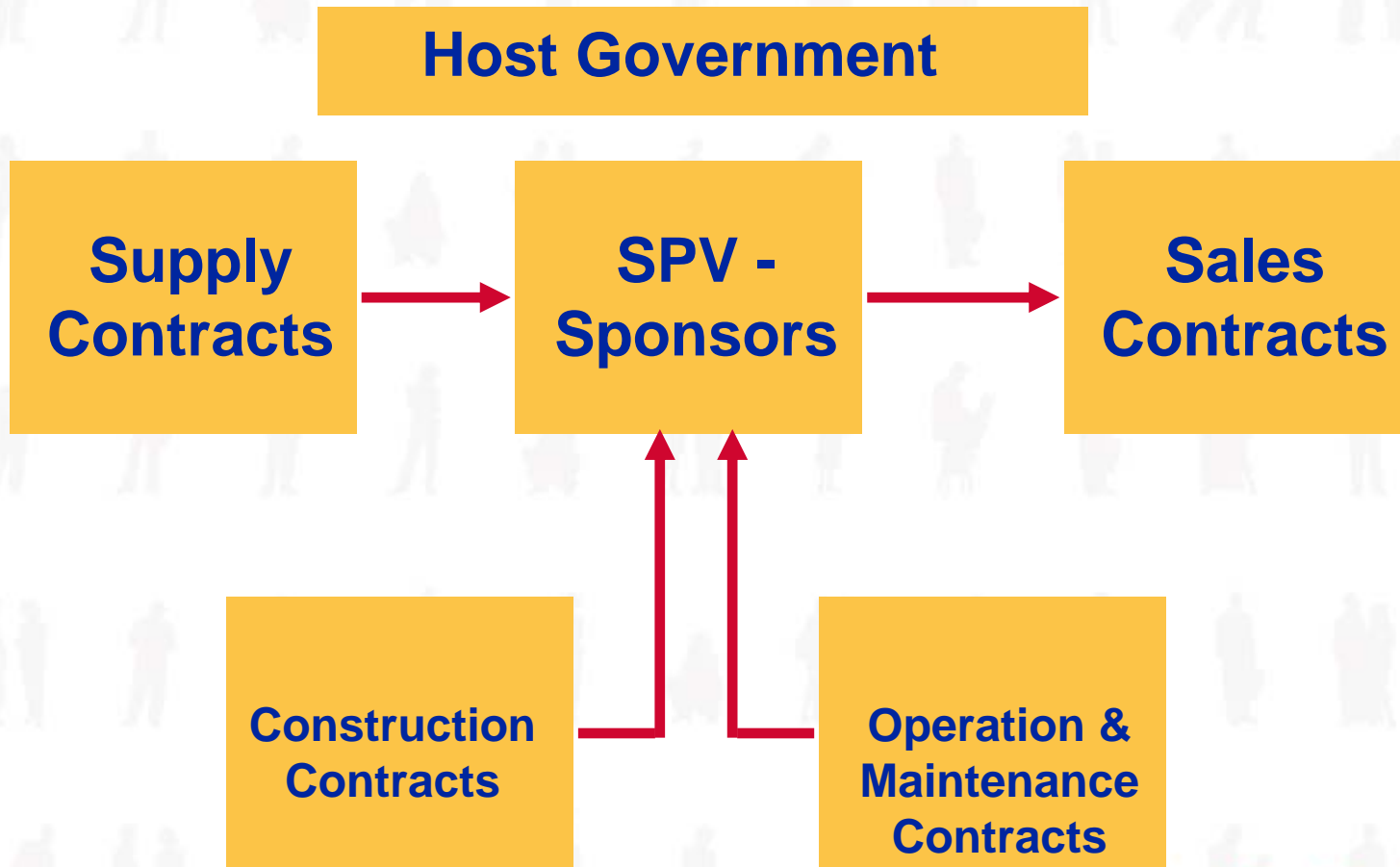
Corporate Finance

❖ Basis of credit is existing borrower's:

- Income statements (3 years)
- Balance sheet
- Track record
- Market position
- Country and deal environment
- Outlook

Project Finance

Basic structure can seem simple, but a contract should support each relationship.



What is Structured Finance?

- ❖ It depends . . .
 - Type & Extent of Structuring Varies by Deal.
- ❖ Elements tend to include:
 - Reserve & other accounts
 - Payment priorities & cash control
 - Funding tied to milestones
 - Dividend release conditions
 - Collateral security

Business Environment

❖ The Basics

- Country environment
 - Political stability
 - Macroeconomic policy
 - Accounting standards
- Business
 - Legal
 - Banking sector
 - Corporate governance

❖ No school like the old school

The Three “Legs” of the Market

1. Demand
2. Credit
3. Sustainability



The Three “Legs” of the Market

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2. Credit
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Lose one and . . .

The Three “Legs” of the Market

1. Demand
2. Credit
3. Sustainability



You've lost the deal

Demand

- ✓ Existence – demand
 - ❖ For product or
 - ❖ To comply with regulations
- ✓ Sufficient to:
 - ❖ Generate earnings
 - ❖ Meet social needs
- ✓ Currency
 - ❖ Same as debt payment or
 - ❖ Provisions for conversion and repatriation

Credit

- ❖ Ultimate buyers must be creditworthy
- ❖ Loan only as good as credit of:
 - Ultimate guarantors
 - Business's customers
 - Project's off-takers
- ❖ Can be loan's
 - Salvation
 - Or
 - Undoing

Sustainability – Good deals for both parties

Investor Outcome	Country Outcome	
	GOOD	POOR
GOOD	Merida III (Mexico)	Norte Fluminense (Brazil) Cana Brava (Brazil)
	Eastern Power (Thailand)	
	Quezon (Philippines)	Sidi Krir (Egypt)
		Uruguaiana (Brazil)
	Adapazari (Turkey)	Kondapali (Egypt)
POOR		Paguthan (India)
		Shaijao C (India) GVK Jegurupadu (India)
		Shandong Zhonghua (China)

Source: *A Political Economy of International Contracting: Lessons from IPP Experience*, Eric Woodhouse, Stanford University, September 30, 2005, Figure 2



Sustainability – Bad deals for both parties

Investor Outcome	Country Outcome	
	GOOD	POOR
GOOD		
POOR	PPN Power (India) Cavite (Philippines)	Elcho (Poland) Dabhol (India)

Source: *A Political Economy of International Contracting: Lessons from IPP Experience*, Eric Woodhouse, Stanford University, September 30, 2005, Figure 2



Sustainability – Few with Unequal Outcomes

Investor Outcome	Country Outcome	
	GOOD	POOR
GOOD		Trakya Elekrik (Turkey) Termoceara (Brazil)
POOR		Meizhouwan (China)

Source: *A Political Economy of International Contracting: Lessons from IPP Experience*, Eric Woodhouse, Stanford University, September 30, 2005, Figure 2



Sustainability – Summary

Investor Outcome	Country Outcome	
	GOOD	POOR
GOOD	Merida III (Mexico)	Norte Fluminense (Brazil) Cana Brava (Brazil)
	Eastern Power (Thailand)	
	Quezon (Philippines)	Sidi Krir (Egypt)
		Urugaiana (Brazil)
	Adapazari (Turkey)	Kondapali (Egypt)
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		PPN Power (India)
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Sustainability

❖ Drivers of sustainable outcomes

- Market competition
- Efficient companies with sustainable competitive advantages
- Competitive bidding
- Political stability
- Regulatory clarity

Conclusions

❖ Focus on

- Credit not projects
- The Basics
 - Sound, stable, and transparent regulatory environments
 - Sustainable earnings from creditworthy sources sufficient to pay debt