Sustainable Energy for Kosovo

World Bank Guarantees

A Risk Mitigation Instrument to Attract Private Investment

May 14, 2013

General Objectives

- Implement a Renewable Energy Strategy for Kosovo
- Incorporate renewable power generation capacity as a meaningful source of electricity supply
- Keep the Government's involvement and support to the minimum required level
- Attract the Private Sector
    - Developers
    - Equity investors
    - Construction companies
    - Equipment and service suppliers
    - Operators
    - Commercial Lenders

Attracting Private Sector Investment

Basic Investment Criteria

- Strong Government Support
  - Clear and solid Regulatory Framework
    - Detailed regulation
    - Long-term validity and applicability
    - Stable regulation (non retroactivity of changes)
- Sector strategy, expansion plan, transmission & distribution strategy
- Positive business outlook (potential for growth, market driven environment, transparency)
- Risk – Return balance

Critical Investment Risks

Two main categories:

- Typical Industry Risks controllable by investors (technical and commercial) – standard market mitigants

- Risks that are "Beyond the Investors' Control"
  - Stability and reliability of the regulation (and the subsidies)
  - Reliability and certainty of revenues (non-technical causes)

➢ The World Bank has financial instruments designed to mitigate these risks:

World Bank Guarantees

World Bank Guarantees

Intended to extend the reach of private investment by
<u>Mitigating Key Risks</u>

Two Basic Products

- <u>Partial Risk Guarantees</u>
- Partial Credit Guarantees

Four Main Objectives

- Support Government obligations
- Cover private investment (equity & debt) against a Government's (or government entity's) failure to meet specific obligations to a private or public project
- Improve the overall credit quality of projects via the partial involvement of a "AAA" guarantor
- Enable viability and bankability through strong risk mitigation

Partial Risk Guarantees (PRG)

Risks Covered

- Government (or Government entity) contractual payment obligations: monthly payments, termination, subsidies, minimum revenue guarantee
- Regulatory Risk: change in law, negation or cancellation of license, tariff adjustment (FIT)
- Currency Risk: convertibility, transferability
- Political Force Majeure: expropriation, war & civil disturbance
- Frustration of arbitration

PRG – Case Studies Uganda Bujagali Power Plant

- Project: construction of a 250 MW hydro power generation plant
- Sponsor: IPP - Sithe Global Power and Industrial Promotion Services
- Total Financing: $ 627 mio of which $115 mio is commercial debt.
- PRG: guarantees payment of debt service to commercial lenders in case of default triggered by breach of Government obligations under the concession agreement and/or Government guarantee with respect to payments under the PPA
- Result: participation of commercial banks enabling full funding of debt requirements

PRG Series for the Energy Sector in Kenya

	Thika Power Ltd	Triumph Power Generating Co. Ltd.	Gulf Power Limited	Orpower 4, Inc	Total
Project	87 MW HFO	82 MW HFO	80.3 MW HFO	36MW geothermal *	**285.3 MW**
Financial Close	August 2012	December 2012	March 2013	April 2013 (exp.)	
Total Project Cost	EUR 112.4 mio	$139 mio	EUR 82.8 mio	$212 mio	**$623 mio**
PRG	$35 mio + EUR7.7 mio	$ 45 mio	$35 mio + EUR 7 mio	$31 mio	**$166 mio**
IDA Allocation	$11.25 mio	$11.25 mio	$11.25 mio	$7.75 mio	**$41.5 mio**
Term	15 yrs	15 yrs	15 yrs	15 yrs	
Equity	$37 mio	$36 mio	$27 mio	$47 mio	$149 mio
Total Debt	$110 mio	$103 mio	$81 mio	$165 mio	**$474 mio**
IFC A	$36 mio	-	$22 mio	-	
IFC B	-	-	$27 mio	-	
IFC C	-	-	$5 mio	-	
AfDB	$37 mio	-	-	-	
Commercial Banks	$37 mio	$103 mio	$27 mio	-	
OPIC	-	-	-	$165 mio	
MIGA	$105	$118		$100 mio	

* Expansion to 48MW Olkaria III

Kenya PRG Structure

Focused on providing liquidity support

- KPLC's (Off-taker) payment obligations covered by the PRGs:
  - 3 months of capacity and energy payments*
  - 2 months of fuel payments*
  - Rolling cover

- Certain payment obligations of the GoK (on behalf of KPLC) are also covered

- Efficient cover through a Stand-By Letter of Credit issued by a commercial bank as per international market practice for Project Finance

**Four months of capacity and energy and no fuel cover for OrPower*

Benefits of World Bank Guarantees

For Governments…

- Attract private financing for key sectors such as power generation
- Reduce government involvement and risk exposure
- Open access to commercial bank financing
- Reduce cost of private financing to affordable levels
- Improve project sustainability & <u>replicability</u>

Benefits of World Bank Guarantees

For the Private Sector…

- Reduce risk of private transactions in new and untested sectors or business areas
- Mitigate risks the private sector cannot control
- Open new markets
- Improve project bankability, sustainability & replicability

Conclusion

- Risk Mitigation is key to the success of strong private sector involvement in infrastructure projects, particularly in renewable power
- Appropriate and solid credit enhancement tools can make the difference in terms of viability, bankability and profitability of certain projects
- The World Bank Group has a wide array of products to offer to the private sector to mitigate risks and improve financing conditions for all the parties

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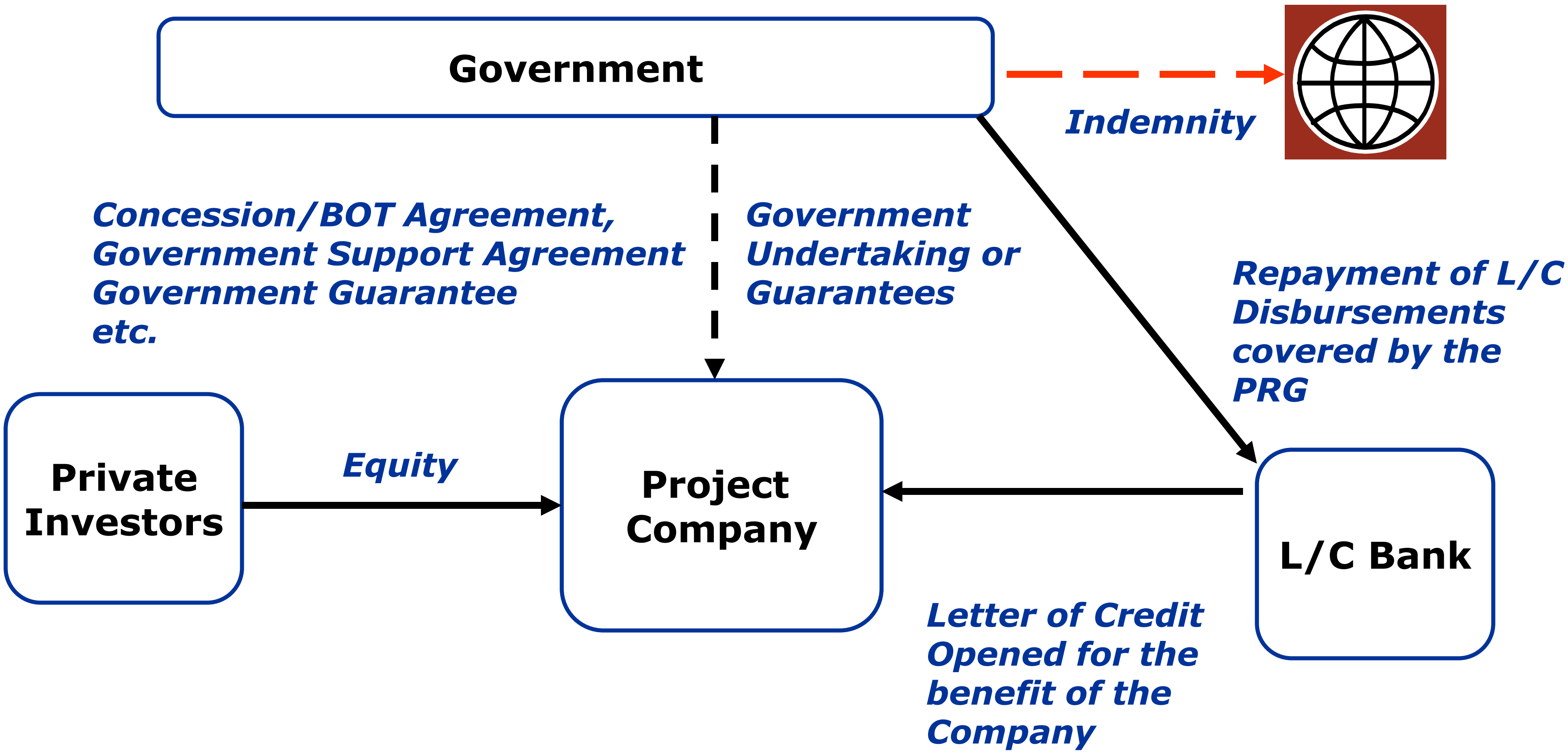
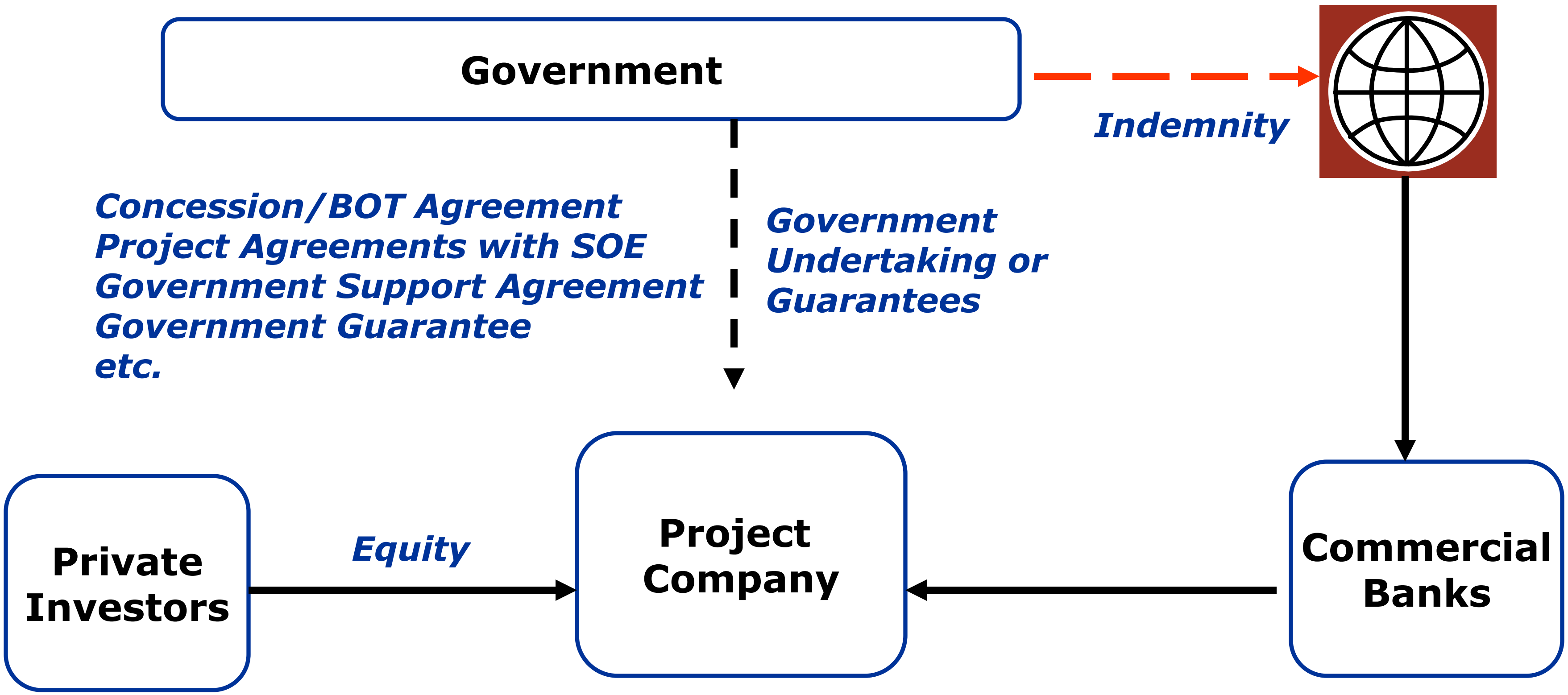
Further information on Guarantee Structures

PRG with Letter of Credit Structure (for Sponsor Financing)



Partial Risk Guarantee
(for Limited Recourse Financing)



PRG can also be offered to cover a sponsor loan to the project

Partial Credit Guarantees (PCG)

Risks Covered

- Non payment of Debt Service (principal and/or interest) regardless of cause
- Cover of specific amounts, or specific payment periods (such as latter payments on longer tenors)
  - First loss
  - Take-out/refinancing risk
  - Other tailored to specific risks & structures

PCG – Case Study
Botswana Morupule B Power Project

- Project: construction of a 600 MW coal-fired power plant and associated transmission infrastructure
- Sponsor: Botswana Power Corporation, state owned utility
- Total Financing: $ 1.21 Bio of which $825 mio is a commercial tranche arranged by ICBC. Initial 15 years are 95% covered by China Export & Credit Corporation (Sinosure).
- PCG: guarantees to the commercial lenders payment of principal and one accrued interest payment due after year 15. Amount: $242.7 mio
- Result: significant improvement of terms and conditions of the commercial loan available to Botswana Power Corporation extending the maturity from 15 to 20 years

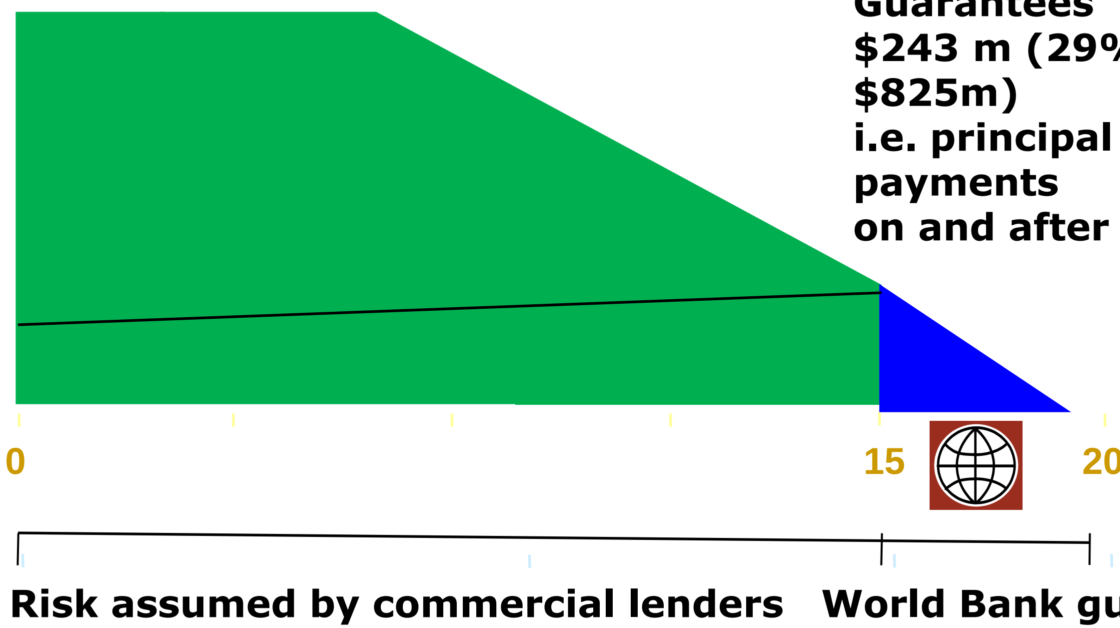
Partial Credit Guarantees can help access the loan market

Botswana Power Corporation (guaranteed by the government): Morupule B Power Project

World Bank PCG helped mobilize $825 million commercial loan with 20-year maturity

World Bank exposure under the PCG is $120m (present value of the PCG)

Only $30m (25% of $120m) to be charged to country exposure limit



World Bank Guarantees $243 m (29% of $825m) i.e. principal payments on and after year 15.5