

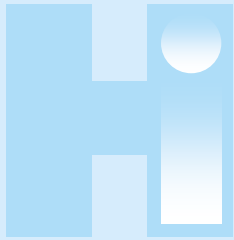
**HERA**  
INTERNATIONAL

**UNFCCC**  
Climate Technology Initiative (CTI)  
Side Event  
**18<sup>th</sup> May 2006**

# **BROADENING THE BASE OF FINANCING FOR TECHNOLOGY TRANSFER**

## **Private Sector Financing Requirements**

**Peter Storey**



# INTRODUCTION TO HERA

## Project Developer & Financing Arranger:

- Holding Co & HQ in Vienna
- Operating Co's / Offices in Cyprus, Moscow and Johannesburg

## We develop, structure, finance & implement Infrastructure Projects for Governments and / or Companies

- Power & Energy
- Transportation & Communications

## Exclusively for Developing Countries & Transition Economies

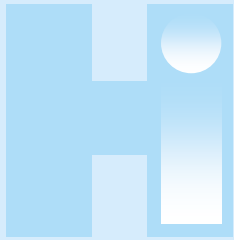
- Sub-Saharan Africa
- Russia & CIS / Balkans / Middle East & Central Asia

## Privately Owned / Independent

- Neither Equipment Supplier nor Contractor
- No political / commercial vested interests

## Ability & Willingness to assume (some) Development Risk

- Not main project sponsor / investor



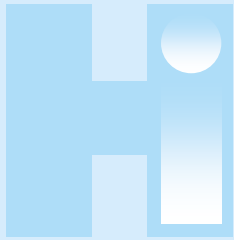
# BACKGROUND TO INVOLVEMENT IN CTI

Participation in the Montreal (2004) & Bonn (2005) Workshops

Evaluation of a number of Project Proposals before and during the Bonn Workshop

Support and Advice to Project Proponents from various countries in preparation of the Bonn Workshop

HERA has agreed to become a member of the Private Finance Advisory Network which is being established by CTI (see slides 6 & 7)



# LESSONS LEARNED

Considerable interest & funds available from the Private Sector

Whole range of underlying “technicalities”:

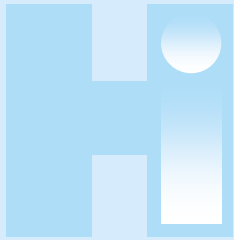
- Communication – need for both sides to learn each other’s language
- Regulatory Environments / Price of Carbon etc.
- Issues are understood by policy makers & generally manageable

*Financial Innovation* in itself is not (necessarily) the solution

- Money / Financing is a commodity delivered by a variety of ways (financing instruments) which may be more or less innovative
- Each Project will in any case break new ground

The actual problem facing us is more fundamental: is Project at all suitable for external / private sector financing?

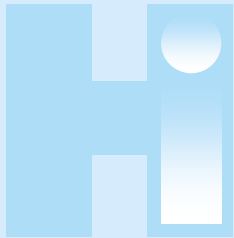
- Basic criteria of Risk vs Reward
- If yes how and when do I get the private sector involved?



# WHAT DO WE LOOK FOR?

## The Private Sector Financier's Ideal World

- Consistent regulatory, legal and commercial frameworks
  - Ability to quantify, manage & price risk
- Commercially & technically experienced Project Sponsors
  - Financially committed (Equity stake)
- Proven Technology (can still be new / state of art)
- Repayment Ability / Security
  - Strong Cash Flows & Cover Ratios under worst case conditions
- Risk Sharing / Diversification
  - Consortia (suppliers & contractors)
  - Integrated project approaches & Linkage
- Adequate Return
  - In consideration of all hard & soft factors / Triple Bottom Line
  - Different for each individual project case



# LOOKING FORWARD

## Where Do We Go From Here?

There are a lot of “good” / “valid” projects out there that could access private financing

- Country Project Proponents are often not best positioned or able to optimise this potential
- How then?

Integrated early stage project & financing development is crucial

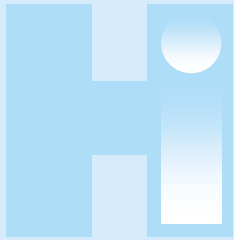
- Financing is not a bolt-on extra but an integral project element

Some Useful Existing Tools

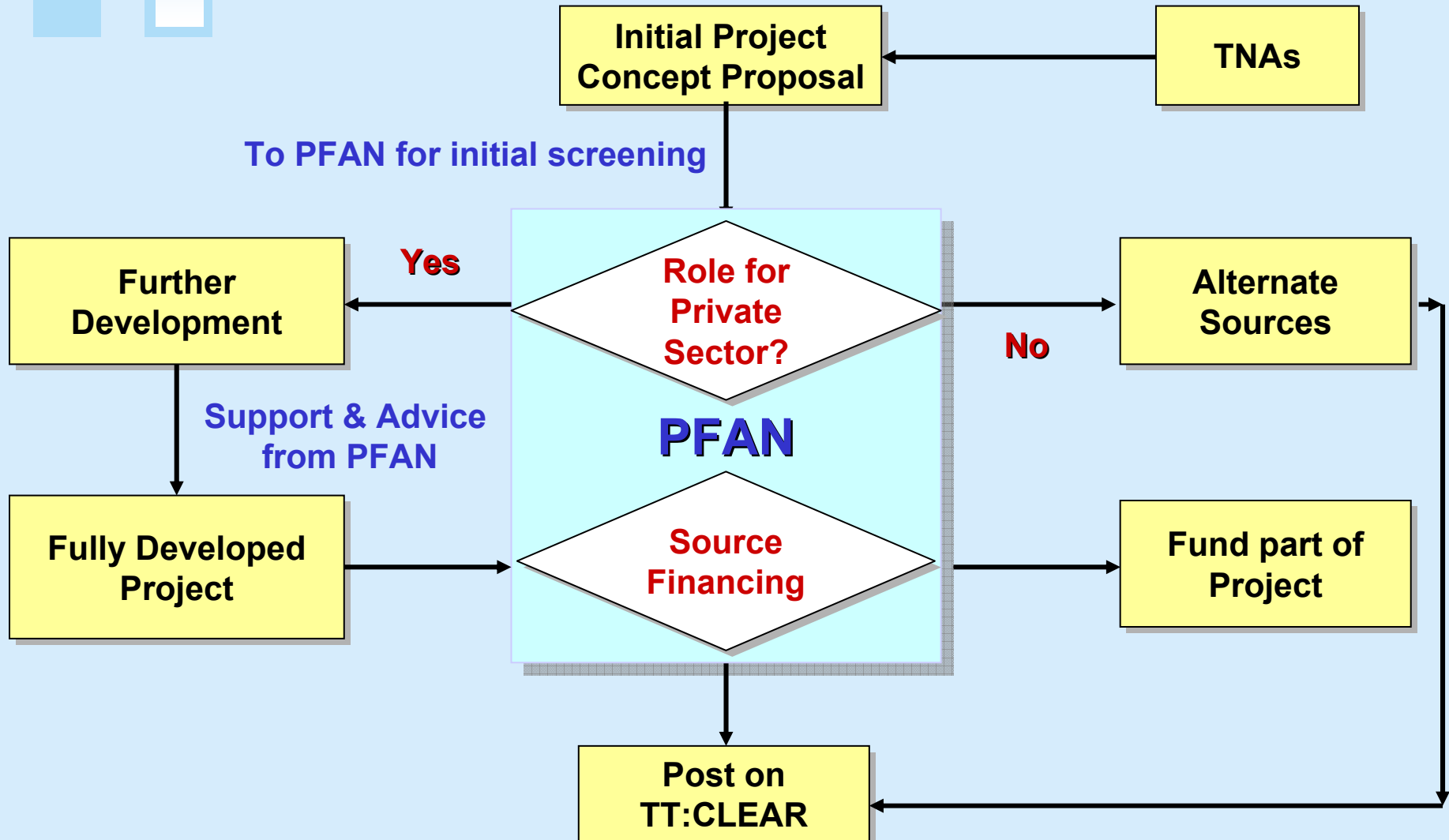
- EGTT / UNFCCC sponsored “Practitioner’s Guide Book”
- Specialist Project Developers & Professional Advisers
  - Cost Factor may be limiting / still potentially high failure rate

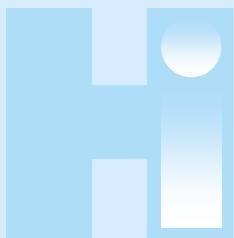
Private Financing Advisory Network - CTI sponsored Initiative

- The Network is envisaged to provide coaching / technical assistance to developing countries’ project proponents with the aim of securing private sector financing for project proposals where possible



# PFAN – FLOW CHART





# EXPECTATIONS & CONCLUSIONS

The key to success will be to sort projects according to 3 broad categories as early as possible in the development process

- Pure Public Funding (some)
- Full Private Sector Financing (few)
- Some sort of mix / Public Private Partnership (many / majority)

This should be the major impact of the CTI Private Financing Advisory Network

- Optimisation of existing public sector resources (concentrate on projects in Category 1 only)
- Mobilisation of new private sector resources (If it can be done by the private sector, the public sector should not be directly involved)
- Bringing the projects in Categories 2 & 3 to bankability

Important to ensure that organisations which take development risk in early stages share in project success if & when it happens and do not fall foul of procurement procedures