Financing of Power Projects

Project made possible through funding by:

In Partnership with:

Institutional Partners:
Project Finance

What is it? A type of financing in which sponsors/developers invest equity and lenders provide long-term debt to a project company based on:

- The calculated (contractual) cashflows of the project
- The underlying power asset value

Practice Note:
In Project Finance, a Special Purpose Vehicle (SPV) is created to own the assets of the project and enter into financing and project agreements.
CONSIDERATIONS FOR USING PROJECT FINANCE

Why use it? A power project can be financed by the host government; however, using large amounts of public capital may be politically unfeasible.

PRO: It does not require an upfront capital outlay from the host government.

CON: Securing debt financing may require significant coordination and a complex set of highly-tailored agreements.

Practice Note:
Blended Finance and Procurement Platforms: Certain DFI’s combine a limited-pool of below-market financing with a larger pool of market-priced financing. This reduces the cost of capital and offers lower cost lending in emerging markets.
STRUCTURE OF PROJECT FINANCE
**BANKABILITY**

- The ability to attract financing from a lender
  - Lenders: Commercial banks, Development Finance Institutions (DFIs), private equity funds, etc.

- A well-structured PPA is key to establishing bankability
  - Should clarify obligations and risks, including uncertainty in demand and power pricing

**RISKS TO BANKABILITY**

- Contract Term
- Tariff
- Changes in law and tax
- Offtaker creditworthiness
- Sponsor quality
- Billing and payment
- Currency/Calculation
- Termination
- Remedies upon Buyer Events of Default
- Lenders' rights
BANKABILITY OF RENEWABLE PROJECTS

• Development Finance Institutions (DFIs) are seeking to accelerate the deployment of renewable energy generation through blended, low-cost or concessional financing, including through climate funds.

• Some newer renewable energy technologies (concentrated solar, battery storage) may still require higher tariffs in order to achieve bankability.

Above is a photo of the 50MW Khi and 100 MW Kaxu solar project where they combined concentrated solar power technology with saturated steam and molten salt energy storage.
CREDIT SUPPORT

Why Credit Support?

Lenders are sensitive to the credit risk of the offtaker and their ability to make payments over the life of the PPA.

Two primary lender concerns that may require credit support:

- Liquidity support / ongoing payment capacity
- Termination support / capacity to pay upon project default

LIQUIDITY SUPPORT

- Escrow Accounts
- Liquidity letter of credit

TERMINATION SUPPORT

- Implementation or concession agreement
- Government guarantee
- Put and Call Option agreement
- Comfort Letter
PPA Direct Agreements

• The direct agreement provides comfort to the lenders that they will be notified in the event of a project company’s default and that they will have the right to intervene before the PPA is terminated.

• Under a direct agreement, lenders will have step-in rights which will allow them to take control of the project company in the event of a project company's default.
Key Terms

**Project Finance**
- Type of financing in which developers invest equity and lenders provide long-term debt to the project company based on a) the calculated cashflows of the project and b) the underlying power asset value

**Bankability**
- A project’s ability to attract funding, both in the form of equity investment or debt from development or commercial lenders

**Offtaker Credit Support**
- Support provided by the host government to the offtaker to improve the bankability of a power project