



FINANCING THE UNFINANCEABLE: Innovative Financing for New Technology Projects

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FINANCING THE UNFINANCEABLE?



Innovative Financing for New Technology Projects

Cleaner Fossil
Fuels Systems
Roundtable



World Energy Council

Financial
Strategies to
Accelerate
Deployment of
Cleaner Power
Systems

Determinants for financing
Case study of “unfinanceable”
project that WAS financed
Proposed mechanisms for
financing the unfinanceable

Determinants for Successful Project Financing

Sound investment environment

Sound project fundamentals

Proper project structuring



A collage of industrial images including a power plant, a construction site with a truck, and a refinery.

Sound Investment Environment

Framework

- Allow private sector investment
- Provide for swift conflict resolution

Tax Laws

Labor Laws

Transparency

Guarantees





Sound Project Fundamentals

Does project make sense?

Mature, proven technology?

How long before cash flow & completion?

Ample debt cover ratio?

Creditworthy buyer?



Proper Project Structuring

Well conceived agreements

Optimum distribution of risks

Adequate maintenance & overhaul reserves

Adequate debt service reserves





Case Study: The Project

320 MW natural gas-fired plant

One of Colombia's first true merchant plants

Located near Cartagena, Colombia

Financial close June 1999

Commercial operation June 2000





Anatomy of a Deal in Crisis

144a bond offering ready for market 1998

Brazilian currency devalued

Colombia hit particularly hard

Bond offering tabled, other options

investigated

Clock ticking on turbines



The Solution

NEEDED SOMEONE WHO . . .

Is comfortable with volatility

Has ability to deal with uncertainty

Is used to long-term strategies

**Is comfortable with absence of
long-term off-take agreement**

W H O ?



INSURANCE COMPANY





The Deal

Creative structure implemented to overcome unfavorable market conditions

\$175 million total debt

- \$90 million senior debt
- \$85 million subordinated debt

Senior debt

- Arranged by Bank of America
- Provided by Bank of America, Centre, Banco de Bogota and IFI



The Deal

Subordinated Debt

- Guaranteed by Centre**
- Funded by Bank of America**

First time insurance used as surrogate for capital in Latin American power plant deal





Proposed Mechanisms for Financing the Unfinanceable

ASSUMPTIONS:

Proven technology

**Host country willingness to
use technology**

**Private sector project in
emerging economy**



Barriers

Higher capital costs

Tariff not competitive

**Financing institutions aversion
to technical risk**



Overcoming the Barriers

**Long term bonds guaranteed by
multilaterals / bilaterals**

Subordinated debt guarantees

Senior debt guarantees

Technology backstop:

- Technology supplier
- Insurance
- Multilateral / bilateral guarantees