
Frequently Asked Questions on CTI's Private Financing Advisory Network (PFAN)

What is PFAN? – An activity under the Climate Technology Initiative (CTI) in cooperation with the UNFCCC Expert Group on Technology Transfer (EGTT) to provide coaching, technical assistance and guidance to project developers and other project proponents in developing countries and countries with economies in transition, to assist them in the preparation of project financing proposals meeting the standards of the international finance community. PFAN provides a means to identify projects that may be suitable for some portion of private sector international finance at an early stage and then acts as a free project financing consultancy service to guide these projects to bankability and financial closure.

What is the origin of PFAN? – In an effort to overcome the lack of sufficient public funds to make a meaningful impact on the technology needs of developing countries and countries with economies in transition, the UNFCCC Secretariat in cooperation with the EGTT and the CTI conducted workshops in Montreal in 2004 and Bonn in 2005 to explore innovative options to finance technology transfer with an emphasis on expanding the role of the private international finance community. From the candid exchanges among participants at these workshops emerged the important message that there was not a shortage of good projects and financing, but instead a shortage of good project financing proposals meeting the standard of the international finance community. Accordingly the idea of PFAN was developed to fill this critical skills and knowledge gap.

What is the goal of PFAN? – To get more clean energy and renewable energy projects financed in developing countries using predominantly private sector funds. To accelerate technology transfer under the UNFCCC as a result of this broader access to financing.

What is the PFAN Network? – The PFAN Network consists of a number of private sector companies and professional individuals assembled under the umbrella of the CTI. All PFAN Members share an expertise and interest in providing financing and financing services to climate-friendly and technology transfer projects in developing countries and economies in transition.

Who are the PFAN Members? - Current participants include specialist investment funds and institutional investors such as FE Clean Energy, Fiorenzo H. LaGuardia Foundation, and New Energy Capital, as well as financing advisory consultants such as PPL International, REEX Capital Asia, Wolfgang Mostert Associates and MSW Wirtschaftspruefung GmbH.

Who are the PFAN advisors / coaches? – Practicing private finance professionals experienced in project development and financing in developing countries, emerging markets and economies in transition. These finance experts are nominated on a project by project basis by the companies forming the PFAN Network. They are not only concerned with the economic returns from the projects, but the environmental and social benefits as well. Usually a nominated PFAN coach will accompany a project from its induction into the development pipeline through until financial close of the project.

What services are available through PFAN? – A variety of services are provided free of charge to project sponsors and developers to assist them in enhancing their access to (international) private sector finance. Depending upon the nature and status of the project, these services can include:

- Advice and Guidance on:
 - Overall project and commercial structure;
 - Financing structure;
 - Sourcing and procurement of financing;
 - Technical and engineering aspects;
 - Preparation and presentation of financing / investment proposals
- Contact brokering and introductions to financing sources (inside and outside the PFAN Network);
- Provision of money/financing sourced directly through the PFAN network (ie from an Investor Member of the Network).

What types and sizes of project are eligible for PFAN assistance? – There are currently few official constraints on project type and size. While smaller and larger projects will be considered, well defined, clean and renewable energy (mitigation and adaptation) projects in the range of USD 1 - 30 million (total investment volume) are given preferential treatment. The projects must be located in a developing country / economy in transition. Additionally PFAN support and services are only provided to projects and project developers that are not normally otherwise in a position to pay for financing advice and support.

What is the application process? How do project developers get their projects considered for PFAN support? – There is currently no formal application process. Application for PFAN support can be made at any time and in free form to the PFAN Coordinator and / or the CTI Secretariat (see contacts). This application should include the fullest possible description of the project based on information available (project rationale, location, involved parties, technology, development status, risk analysis etc) and in any event also the underlying economics of the project. A check list to help project developers in the preparation of the initial proposal is available on the CTI website. Developers may also wish to consult the UNFCCC publication *preparing and presenting proposals – a guidebook on preparing technology transfer*

projects for financing. This is available on the UNFCCC website in a number of languages.

How are new projects selected for PFAN support? – Based on the free form application / initial proposal (see above) project applications undergo a rigorous, but non-bureaucratic, review process. This initial review provides useful and timely guidance to project developers by sorting projects into three broad categories:

1. those projects with no hope of raising private sector finance; such projects are then targeted towards the public sector and donor communities;
2. those projects deemed definitely capable of raising private sector finance;
3. those with the prospect, but lacking certainty, of raising private sector finance or requiring elements of both public and private sector financing.

Once performed, this allows the public sector to focus its resources on those projects in the first category which may very well be worthwhile in fulfilling UNFCCC goals. Ideally, the public sector should not expend any further resources on projects falling into categories 2 and 3 which may accordingly be recommended for receiving PFAN support.

In all cases project developers are provided with the results of the review in a formal memorandum which provides critique and recommendations for the future development of the project. If the review is positive and the PFAN recommendation is accepted by the CTI management then PFAN support will be offered to the developer and a PFAN advisor will be assigned to the project to guide it through the further development stages. This offer includes the proposed terms of reference for PFAN support / work, the content and format of the subsequent development stages and the conditions of PFAN support.

How long does the initial review take? - Generally PFAN tries to complete the initial induction review with 4 weeks of receiving the application / proposal. This does however depend very much on the quality and quantity of information provided.

What are the conditions of PFAN support being provided? - The project developer is required to provide information as requested and is expected to act on the guidance and advice of the assigned PFAN advisor or other Network members. If the developer's support and cooperation for the PFAN process is found to be lacking then CTI reserve the right to terminate support of the project. The terms of reference of PFAN support together with the content and format of the subsequent development stages of the project and the PFAN services to be provided at each stage, and any special conditions pertaining thereto, are negotiated and agreed between the project developer and PFAN at the outset. These terms of reference are documented in a memorandum completed at the induction of the project into the development pipeline.

Who pays for the services PFAN provides? – Currently CTI meets the cost of providing PFAN services. There is **no** cost to the project developer, ie for the purposes of the project and the project developer the services are provided **free**. The services are paid according to a fee schedule agreed between the CTI and the PFAN Members and provided from the CTI budget allocated to PFAN activities. This in turn is funded by the CTI member countries. In 2008 it is envisaged that these CTI funds will be further supplemented by funding granted by USAID under their Global Climate Change and Asia Pacific Partnership Programmes. CTI and USAID signed a memorandum of understanding in this respect in late 2007. Management of the PFAN programme and allocation of funds thereunder will continue to reside with CTI.

How does the PFAN advisory / coaching process function? – Once accepted into the pipeline (see application and induction process above), a project is assigned a dedicated PFAN advisor or coach from the Network. This advisor, who stays with the project for the duration of the PFAN support, steers the project through 3 development review stages which are designed to guide the project and its developers through the financing process to financial closure. The dedicated advisor is responsible for coordinating the PFAN Network (and other) resources deemed necessary for progress and completion. The exact structure and content of each review stage is tailored to the individual project and agreed with the developer at the outset and reviewed again at the progression to each next phase. Broadly speaking, the 2nd stage (ie after induction) concentrates on the project economics and underlying viability; the 3rd stage focuses more on technical and engineering aspects, while the 4th and final stage is aimed at problem solving, fine tuning of the cash flows and commercial aspects and fulfilling the necessary conditions stipulated by the potential lenders / investors for converting financing offers into committed financing.

How are the PFAN reviews documented and controlled? – The initial review and each subsequent review stage are summarized in a formal written memorandum to the project developer which provides an analysis of the strengths and weaknesses of the project proposal, makes suggestions for future courses of action, identifies who needs to be involved, and specifies what needs to be done to take the project to the next stage and ultimately secure financing. At each review stage, CTI, in consultation with the assigned PFAN advisor, reserves the right to terminate work on the project if the project sponsor is not cooperating and / or if it is established that financing is not achievable for whatever reason.

Who is eligible for PFAN Membership? – Investors and consultants, whether in the form of funds, companies, partnerships, profit and non profit organizations, or professional individuals, all with an interest in providing financing and financing services to climate friendly and technology transfer projects can be considered for PFAN membership. Applicants need to demonstrate expertise and an appropriate track record in investment, financing and / or advisory disciplines in the clean / renewable energy sectors and accept the conditions of membership.

How can I become a PFAN Member? – PFAN is an informal network. There is currently no formal application procedure. Free form applications and enquiries can be made to the PFAN Coordinator and / or the CTI Secretariat (see contact details below). Applications / expressions of interest should include a brief description of the applicant, its areas of activities and expertise and a summary track record or CV in the case of individuals.

What are the conditions of PFAN Membership? – The main implications / obligations on PFAN Members are:

- To be visibly recognized and identified as a PFAN Member in all presentations and communications of the PFAN (ie also on the CTI / PFAN website);
- To make themselves available to provide advice and support, in accordance with the agreed fee schedule, to selected projects allocated to them in the PFAN development pipeline, with a view to helping such projects reach bankability;
- There is no obligation on any Member to work on any given project. However Members are expected to provide (in confidence) frank and open reasons for refusing an assignment, since in this process negative appraisal is deemed as valuable as positive feedback.

What are the benefits of PFAN Membership? – The main benefits of PFAN membership include:

- Access to a supplementary business development pipeline;
- Members of the Network have the *right of first offer* to provide financing and financing services to projects in the development pipeline.

What has been the progress of PFAN thus far? – PFAN started activities in early 2006 and until the end of 2007 was operating as a pilot programme to test the validity and use. During this pilot phase some 50 - 60 projects underwent initial review with 10 projects being selected for induction into the development pipeline. (A further 10 – 15 of these projects had potential for receiving PFAN support but initial selection during the pilot was highly selective.)

A first project reached financial close in July 2007 based on work performed by the PFAN and a further financial closure is imminent for the first quarter of 2008. 4 projects are in the 2nd / 3rd review stage and 2 projects have been recently inducted and are at early development stages. Support for 2 further projects was discontinued, in one case for lack of developer support to the PFAN process, in the other on the grounds of materially changed circumstances which rendered the project uneconomic.

A further 15 projects are currently undergoing initial induction review to ascertain their suitability for PFAN support.

A project list providing summary details of the projects in the development pipeline is available on the CTI website.

What are the near-term plans for the development of PFAN? – Based upon the positive reactions from both the public and private sectors, it is considered that the PFAN effort is worthwhile. PFAN is demonstrating that it can fill an important gap for smaller or medium sized projects in helping their project developers acquire some level of private sector financing.

Accordingly it has been decided to put the PFAN on a more permanent footing and expand its activities. This will be achieved by continued funding by the CTI and its donor countries and in the future also by new funding from USAID pursuant to a MoU which was signed in late 2007 between the CTI and USAID. The PFAN private sector members have also committed to provide matching funding in the form of contributions in kind and services to the PFAN. Negotiations with other potential funding sources are also continuing.

On this basis it is envisaged that the PFAN will be able to considerably expand its network and activities during 2008 as follows:

- Establishment of 4 broad regional sub-networks for Latin America, Africa and CIS & Eastern Europe and Asia. There will be dedicated networks in India & China within the Asian sub-network;
- Formalisation of the selection and induction process possibly through calls for proposals;
- It is planned that PFAN will have the capacity to handle up to about 100 - 125 projects spread evenly over the 4 regions. It is anticipated that this will lead to the leveraging of between USD 500 – 700 million of financing for technology transfer projects over a 3 - 5 year period.

Additionally various techniques are being investigated and tested with the aim of making the PFAN more self sustaining. One such measure under consideration is the introduction of a success fee payable out of any financing arranged / brokered by PFAN and which would be used to finance work on new projects coming into the PFAN Network.

Who do I contact for more information about PFAN? – For more information on any aspect of PFAN, to inquire about PFAN membership or to make an application for a new project to be considered for PFAN support please contact one or both of the following:

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