



How to encourage more Project Financing in renewables in Asia

Rabobank International

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Though renewables project finance (PF) is growing in Asia, Asia as a region delivers far less than potential:

- In China, state owned entities continue to install the bulk of Onshore Wind capacity, and appear to dominate the upcoming Solar and Offshore Wind. Small Hydro sees a slightly better presence of PF. Biomass PF is largely unknown.
- In India, project finance is picking up in Wind in the last 2-3 years, and has been in place for Small Hydro for longer (though not pure non-recourse). PF continues to be less available for Biomass. In Solar, several local and international banks still have reservations. On-balance sheet or parent company guaranteed / quasi-guaranteed transactions still are the norm.
- In Indonesia, activity in renewables still remains well below exploitation potential, and PF is also nascent in renewables. Upcoming geothermal transactions are a good way to Indonesia to establish renewables PF properly.
- Other Asian markets exhibit increasing PF, but again well below potential.

There are several reasons for this...

- Project sponsors often large and established state owned or private sector companies, who prefer to finance per their regular corporate arrangements. Also, many sponsors not familiar with the formalities and due diligence (time, cost, scope, requirements) that a PF requires.
 - Lack of familiarity of local banks in some countries with RE technologies and risks.
 - Asian countries often do not have the same level of contract structures, security structures, RPO obligations and enforcement, that western countries do, thereby leading lenders to be more cautious.
 - In some Asian countries, long tenor financings are either too expensive, or long term fixed interest rates not available or not common. RE projects are usually very sensitive to cost of debt, and therefore this risk is material.
 - Several RE projects are too small to justify fixed (technical/legal/other external) cost of PF, even if the bank is competitive on funding cost. Solar projects of 5MW, Biomass of 5-15MW, Small Hydro of 10-20MW, Wind projects of 10-20MW find costs of PF too high, even if they are prepared for the time it takes. Such fixed costs are a bigger issue than time.
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Some PFs have been tried but many have had difficulties...

- Some early PFs in Asia have had problems soon after closing, reminding banks of the need to structure deals properly.
- Typical western-standard external fee (technical, legal, insurance) have been too high for the typical RE project in emerging markets, thereby limiting the role of international banks.
- Market practice differs from western countries. Key contracts may be signed after financial close, security over assets and other rights are often different. Local lenders understand this, but not all the international ones can accept.
- There are the usual issues between intentions (of well selected counterparties), as well as track record, being fine, but not everything can be documented as per western standards. This is especially an issue where government organizations or authorities are involved.
- But banks and advisors who know their markets well, are able to take the right risks and differentiate real risks from theoretical risks, and develop secure but still workable structures that are acceptable to all parties.

Some developments that could help more PF in renewables in Asia

- RE industry associations should promote more transparency about existing projects – the story is often better than the perception, and more transparency at an industry level would help banks and advisors get more comfortable.
- Sponsors and industry associations should work with respective governments to help them understand how for example government owned offtakers would themselves benefit from structures like direct agreements, and how government authorities can themselves benefit by having clearly laid down rules as regards permits and authorizations and their timelines.
- Sponsors should budget enough time to close project financing. At present, several sponsors in Asia are accustomed to relationship banking / group balance sheet banking style of formalities and timelines.
- External technical / legal / insurance / other advisors should transfer skills quickly to Asia, and set up business models that enable them to deliver within costs that reflect local conditions. At present, the cost of such advice for 10 days can exceed the annual salary of the sponsor's project manager.

Some developments that could help more PF in renewables in Asia

- For countries and sectors in Asia where these are still lacking, clear renewable support policies would help. Governments should also work to get PPAs into a better form, especially when government owned offtakers are involved.
- Grids need to improve their management of renewables significantly in Asia. Grid constraints presently result in PF structures that are often sub-optimal for the sponsors / investors.
- Sponsors can make their own investments safer by going through a well structured due diligence process of established international PF banks. They should welcome the extra care and caution and due diligence.
- Finally, this is an exciting time for financing renewables in Asia, but its also important to understand that both local and international banks will be selective, and not everyone will get financed just because renewable energy is currently fashionable!

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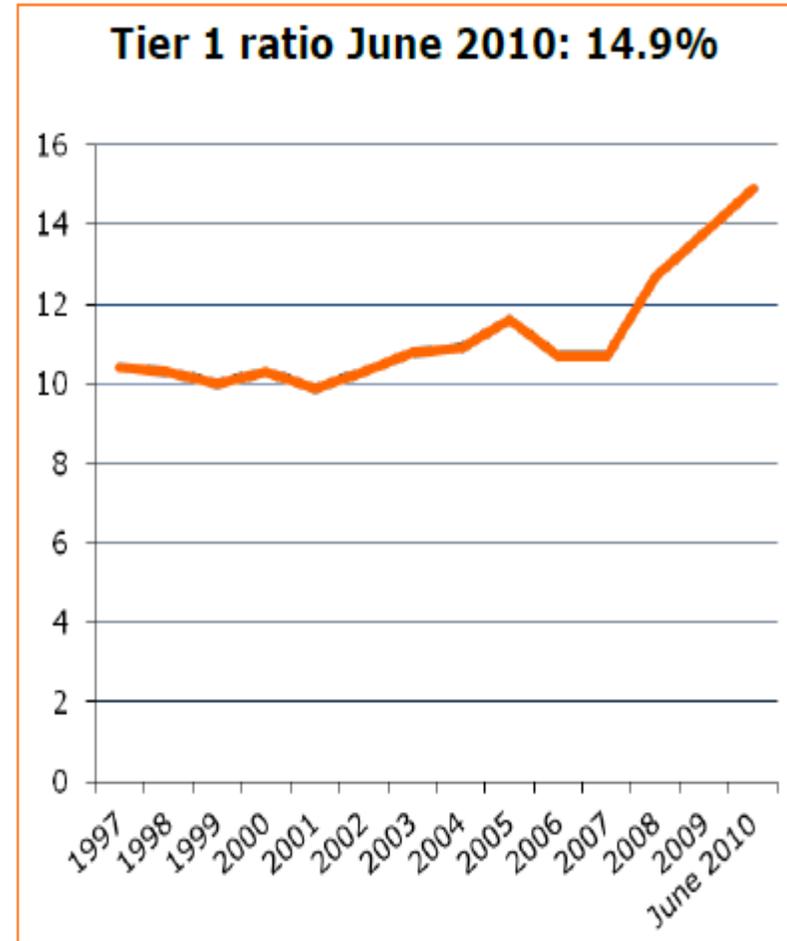
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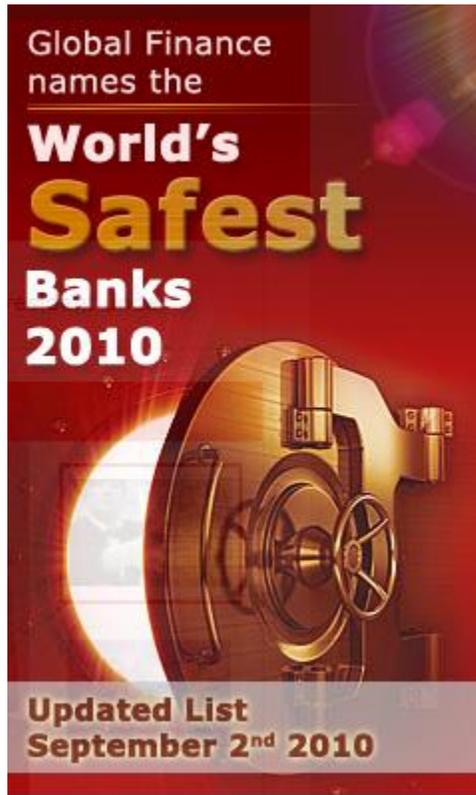


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Rabobank Group has mobilized Eur 20 billion in Clean Tech

Investment Vehicle / Type	Amount EUR Bln
Rabo Greenbank	€ 4.0
Rabo Clean Tech Ventures, Ampere	€ 0.2
Project Finance Renewable Energy	€ 1.2
Sustainable Asset Management (SAM)	€ 6.5
Robeco Clean Tech Funds I and II	€ 0.8
Sarasin (Private Banking)	€ 0.7
Low Energy Real Estate	€ 0.9
Robeco Sustainable Engagement	€ 5.4

Note 1: Excludes carbon and corporate RE and advisory transactions

Note 2: Rabobank has established a Clean Tech Research desk at Utrecht, with specific people covering each clean tech / clean energy area

Rabobank repeatedly awarded for 2009 transactions

Rabobank Renewable Energy & Infrastructure Finance (REIF) has been awarded repeatedly for its efforts in the global renewable energy markets in 2009. Rabobank and its deals have won no less than seven awards from reputable project finance judges.

Rabobank:

- IJ Infrastructure Awards 2009 – Global Arranger of the Year – Renewables



For Belwind transaction:

- Euromoney and Ernst & Young Global Renewable Energy Awards 2009 – Deal of the Year – Infrastructure
- PFI Awards 2009 – Power Deal of the Year
- IJ Infrastructure Awards 2009 – Deal of the Year – Renewables
- Project Finance Magazine Deals of the Year 2009 – Offshore Wind Deal of the Year



For Boreas transaction:

- PFI Awards 2009 – Portfolio Deal of the Year



For Acciona:

- PFI Awards 2009 – Renewables Deal of the Year



Thank you for your time