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REPOWER – KOSOVO

FOLLOW-UP REPORT ON CORPORATE FINANCING OPTION OF TPP KOSOVO B REHABILITATION

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BAT	Best Available Technology
BFI	Bilateral Financing Institution
BOT	Build-Own-Transfer
BOO	Build-Own-Operate
CABEI	Latin America and Caribbean, Central American Bank for Economic Integration
CAF	Corporacion Andina de Fomento
CCS	Carbon Capture and Storage
GHG	Greenhouse Gas
CDB	China Development Bank
C-EXIM	China Export Import Bank
CFB	Circulating Fluidized Bed
CIRR	Commercial Interest Reference Rate
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EDB	Eurasian Development Bank
EFT	Energy Financing Team
EIA	Environmental impact assessment
EPC	Engineer, Procure, and Construct
ERO	Energy Regulatory Office
FGD	Flue-gas Desulphurization
GE	General Electric
GoK	Government of Kosovo
HELE	High Efficiency Low Emissions
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICMM	Independent Commission for Mines and Minerals
IDB	Islamic Development Bank
IFI	International Financing Institution
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
JBIC	Japan Bank for International Cooperation
JICA	Japanese International Cooperation Agency
KEK	Kosovo Electricity Company
KEXIM	Korean Export Import Bank
KfW	Kreditanstalt für Wiederaufbau
KOSTT	Kosovo Transmission, System and Market Operator
KPI	Key Performance Indicator
K-Sure	Korea Trade Insurance Corporation
LIBOR	London Interbank Offered Rates
MED	Ministry of Economic Development
MESP	Ministry of Environment and Spatial Planning
MF	Ministry of Finance

MLSW	Ministry of Labor and Social Welfare
MTI	Ministry of Trade and Industry
NADB	North American Development Bank
NDB	New Development Bank
NEXI-Japan	Nippon Export and Investment Insurance
NIB	Nordic Investment Bank
O&M	Operation and Maintenance
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
PIU	Project Implementation Unit
PM	Power Management
PC	Project Committee
MDA	Multilateral Development Bank
SC	Super Critical
SOE	State Owned Enterprise
TWG	Technical Working Group
TA	Transaction Advisers
USC	Ultra Super Critical
WB	World Bank
WWF	World Wide Fund for Nature

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TERMS OF REFERENCE

Thermal power plant Kosovo B (TPP Kosovo B) is recognized as one of the most important and cost-effective options necessary for security of electricity supply in Kosovo. The plant currently produces around two-thirds of all the energy produced in Kosovo. Even though in the past few years over 56 mil.€ has been invested in TPP Kosovo B, in order to keep TPP Kosovo B in normal operation in the future it is necessary to make major rehabilitation with significant investment requirements estimated to about 300 mil.€. The most critical issue of this project is financing, with particular importance to bring the power plant up to current EU environmental standards.

In 2015 and 2016 the financing options for TPP Kosovo B rehabilitation were analyzed in detail by the USAID's REPOWER Kosovo project. The Study was prepared for the Ministry of Economic Development of Kosovo, the Government of Kosovo and other relevant state bodies.

Two main options for financing TPP Kosovo B rehabilitation were the central focus of the Study, namely:

- Option 1: Project Financing option and
- Option 2: Corporate Financing option.

Option 1 presumed involvement of the strategic partner who would be responsible for financing of the project and would rehabilitate TPP Kosovo B on the rehabilitate-operate-transfer ('ROT') or rehabilitate-operate-own ('ROO') basis. In this option the Government of Kosovo (GoK) could decide whether it will keep part of TPP Kosovo B ownership.

Option 2 presumed that the financing would be obtained by a state-owned company, supported with the GoK's guarantees. That state-owned company would be fully responsible for future rehabilitation, operation and maintenance of TPP Kosovo B.

The process related to Kosovo B power plant rehabilitation was then followed by the Feasibility Study for Environmental and other Measures on TPP Kosovo B, which was financed by the European Union Office in Kosovo (EUOK), and delivered in 2017. The beneficiary was Kosovo Energy Corporation (KEK).

Based on all relevant inputs, the Government of Kosovo in 2017 confirmed to keep at least 51% of TPP Kosovo B shares in public ownership in the upcoming 10 years. This implies the adoption of Option 2 – Corporate financing.

The GoK's decision to take the Option 2 approach was further boosted in 2018 by the EUOK's confirmation that the EU through its IPA 2018 program will finance a certain amount of investment related to environmental improvement measures. Based on the Feasibility Study mentioned above, around EUR 78 mil is allocated for reduction of dust and NO_x emissions to reach the emission limit values set in the IE Directive for both units of Kosovo B power plant.

Moreover, besides the co-financing obligations, co-financing through IPA 2018 program requires the Government to follow EU procurement procedures and financing rules.

Apart from the environmental part, the technical part of the rehabilitation measures, which according to the Feasibility Study amounts to around EUR 225 mil, needs to be covered from other financial resources. Thus, there is a need for definition of financial resources for technical and other remaining environmental improvement measures.

The scope of the work within this assignment is therefore to follow-up on the existing studies and new developments regarding possible financing options. The specific tasks of this assignment are:

1. to analyze potential sources for corporate financing
2. to propose project organization and activities necessary for corporate financing option
3. to analyze similar projects and financing experiences in the region
4. to address the issue of risks minimization for corporate financing option
5. to describe the potential as well as conditions for attracting minority shareholder(s)
6. to propose the best approach, next steps and related timeframe

EXECUTIVE SUMMARY

TPP Kosovo B, as one of the most important and cost-effective options necessary for security of energy supply in Kosovo in the near to mid-term period, needs to undergo a major rehabilitation with significant investment requirements in order to continue operations until 2030 or 2040. It is of particular importance that these investments bring the plant up to the current EU environmental standards.

This report is the follow-up to the reports submitted by Repower Kosovo team in 2015 that evaluate two principal options for financing rehabilitation of TPP Kosovo B to support the Government of Kosovo (GoK) as the decision maker for the future rehabilitation. The reports set out the key considerations and identified the drivers in any determination as to the transaction structure which the GoK might decide to pursue. It also elaborated different options of financing.

Current financing requirements are estimated below:

1. **Detailed Feasibility Study** has been developed with following key input:
 - Total investment needed is estimated to EUR 303.060.000, consisting of:
 - Environmental investments: EUR 165.690.000
 - Efficiency Recovery/Life Time Extension: EUR 137.370.000
2. **EU co-financing** obtained for the so-called Phase 1 of the rehabilitation with a total value of EUR 78.000.000 – prepared for financing
3. Phase 2 of around EUR 225.000.000 – needs to be financed

It is expected that GoK and the Parliament, respectively, will approve the EU grant, so this report puts emphasis on a number of assumptions and expectations related to certain main conditions incorporated in the contract with EU. The most important obligation arising from the contract with EU is about retaining TPP Kosovo B under the public ownership for at least 10 years, which is taken into account for elaboration of possibilities and access to financing for phase 2 of the rehabilitation.

This document provides analysis of two main options for financing of the Phase 2:

- Analysis of potential sources for direct financing
- Analysis of the potential and conditions for attracting minority shareholder(s)

Potential financing sources for direct financing

Given the fact that TPP Kosovo B must remain under public ownership for at least ten years, and having in consideration direct financing option, this report elaborates access to financing from **9 potential direct financing options** with different characteristics of each of these options summarized with a brief evaluation of a possibility of providing support with financing for each source as follows:

Table 1: Summary of financing sources

Institution/type of financing	Description/explanation	Possibility of providing support with financing
Loan provided directly by the Government of Kosovo	Government of Kosovo, through Ministry of Finance has already been providing loans to KEK for capital investments in KEK power plants.	The quickest and most realistic option. The main question will be regarding the ability of Kosovo to raise debt, and possibility of Kosovo B to repay its obligations.
Multilateral Development Banks (MDBs)	Owned by more than one country and subject to international law. Shareholders are mostly national governments with a different range of voting rights depending on their membership and funding structure. The members determine their energy policies and set the conditions that must be taken into consideration for lending for coal related projects.	MDBs support to coal-related projects has dropped significantly in recent years, and it is unlikely that they would provide any kind of support to the project of rehabilitation of Kosovo B plant.
Export Credit Agencies (ECAs)	An ECA's key objective is to support its homeland industry and commerce by offering funding or guarantees to facilitate trade, especially the export of goods and services. Its activities therefore serve national interests by offering national companies export credits which can help mitigate commercial and political risks of a project.	Recently a trend of increase of support of ECAs can be seen, replacing the diminishing contributions of MDBs. ECAs represent a realistic source of financing for the rehabilitation of TPP Kosovo B.
Bilateral Financing Institutions (BFIs)	The key difference between a bilateral and multilateral institution is that bilateral institutions are funded by an individual country, mostly through ECAs, or national development banks or guaranteeing agencies. BFIs provided support to coal related projects, especially the Asian ones that are described in more detail in the report. BFIs represent a significant contribution to financing coal related projects, replacing MDBs' decreasing support.	Examples of such Asian BFIs are the Japanese JBIC and JICA, which represent the biggest source of international financing, the Chinese CDB, C-EXIM, Sinosure, and Korean KEXIM and K-Sure. These represent another realistic source of financing for the rehabilitation of Kosovo B plant.
Commercial Banks	Commercial banks have an important role in financing energy projects and are commonly used for a direct financing through providing corporate loans, usually in cooperation with each other	They can also take a role of an agent for projects in financial markets, assisting with issuing and managing shares and/or bonds.

	forming a syndicate with other institutions such as BFI or ECAs.	
Lease financing	The debt comes from lease finance of the equipment financed and owned by the lender, which actually would represent a form of equipment purchase agreement.	Represents an option for equipment purchase.
Vendor Financing	The seller of the equipment, for example a manufacturer of boilers, turbines and generators provides financing. Such example is General Electric (GE) with its subsidiary GE Capital which provides financing. They can provide financing in the form of a loan, lease of equipment or by providing a guarantee to the bank. Vendors are often followed by Export Credit Agencies in providing similar access to financing.	One of the most important financing sources, in combination with ECA support.
Project Bonds	Project bonds represent a debt and can be issued for a specific project. The proceedings from bonds issuance can be used in two ways: <ul style="list-style-type: none"> - Proceedings used to collect capital that would be used for equity portion for getting additional debt from one of the other mentioned institutions – so called subordinated debt, or junior loan under which the obligations are paid after the senior debt that comes first in the priority - Proceeding used to finance the entire, or a portion of the rehabilitation 	This implies a project finance arrangement with involvement of private capital
IPO	Theoretically, there is one more direct financing option – initial public offering (IPO). IPO, also called as stock market launch, is a type of public offering in which shares of a company are sold to institutional investors and usually also retail, individual investors.	Since GoK will take the obligation of keeping the ownership of the TPP Kosovo B for 10 years, this option is currently not applicable for TPP Kosovo B case and it is not evaluated in this report.

Having in mind all the possibilities presented above, the **two most realistic options** are:

1. A loan provided to KEK directly by the Government of Kosovo
2. A combination of vendor financing supported by ECAs from countries where the equipment is being produced.

A loan provided directly by the Government would represent the easiest option. In such case, the Government would prioritize the project of rehabilitation with other projects that the Government would have to fund, subject to its ability to raise financing of such size (the total investment in the rehabilitation of Kosovo B is estimated at more than 300 mil EUR).

Vendor financing might be sought from the General Electric (GE), with their financing supported by Euler Hermes Aktiengesellschaft from Germany where production of parts of the equipment for coal-fired could be placed, or alternatively some other parts could be sought from France, after acquisition of Alstom by the GE.

Another example could be a Japanese producer supported by Japanese ECAs or BFI, such as JBIC, JICA and Nexi.

Similar examples of projects financed from the region are given at the end of the report, together with a draft Project Introductory Letter that has been prepared to be sent to financing institutions.

Risk mitigation and Guarantees

For any kind of financing, risks need to be evaluated and mitigation measures implemented, since Kosovo B rehabilitation presents substantial risks for lenders, as well as for potential investors in case of involvement of a private capital. Thus the key risk drivers are elaborated in the report in details, which are connected to the following topics:

- the immaturity of the energy market;
- a high likelihood of cost overruns;
- a high likelihood of increased operational costs once power plant is operational;
- risks regarding the plant operational availability;
- a high country risk and its low credit rating;
- lack of investor confidence in legal system and judiciary.

Project Organization

For successful implementation of the rehabilitation of TPP Kosovo B it will be necessary to follow best practices in procurement of engineering services according to FIDIC rules, with the active participation of key stakeholders.

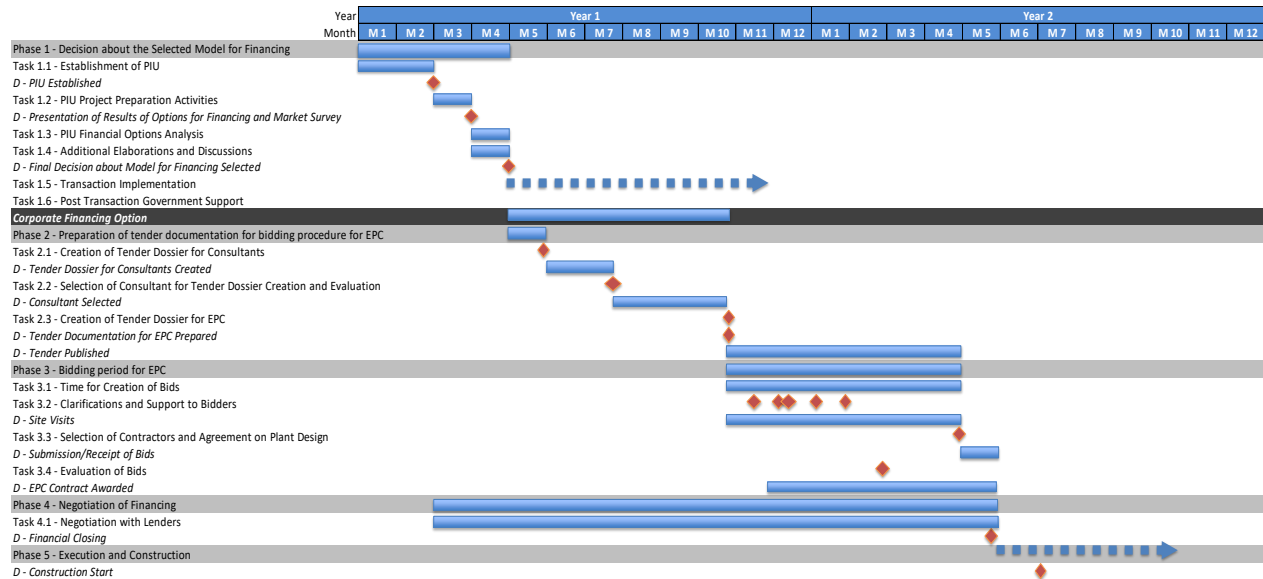
Government / KEK would need to establish a project organization that would be able to implement the project through the following steps:

1. Selection of external experts, owner's engineering company
2. In-detail creation of tender documentation

3. Procurement (bidding procedures, award)
4. Construction
5. Testing and handover

Corporate Financing Timelines

The timelines are shown at the following Gantt-chart.



1. INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

This report is the follow-up to the report submitted by REPOWER Kosovo team in 2015 that evaluated two principal options for financing rehabilitation of TPP Kosovo B to support the Government of Kosovo (GoK) as the decision maker for the future rehabilitation.

This report is now updated, taking into account progress and decisions made since completion of the earlier study.

Regarding the decisions made since completion of the earlier study, and based on all relevant inputs, the Government of Kosovo i confirmed n 2017 to keep at least 51% of TPP Kosovo B shares in public ownership in the upcoming 10 years. This implies the adoption of Option 2 – Corporate financing.

The GoK's decision to proceed with financing under Option 2 was further boosted in 2018 by the EU's confirmation that the EU will finance a total of 78 million Euros through its IPA programs for reduction of dust and NOx emissions to reach the emission limit values set in the IE Directive for both units of Kosovo B power plant.

Moreover, besides the co-financing obligations, the co-financing through IPA program requires the Government to follow the EU procurement procedures and financing rules.

The specific terms of reference for this report are:

1. to analyze potential sources for corporate financing
2. to propose project organization and activities necessary for corporate financing option
3. to analyze similar projects and financing experiences in the region
4. to address the issue of risks minimization for corporate financing option
5. to describe the potential as well as conditions for attracting minority shareholder(s)
6. to propose the best approach, next steps and related timeframe

Financial and technical inputs used in this report are taken from the final version of the “Feasibility Study for Environmental and other measures on Kosovo B Thermal Power Plant” submitted on 19th May 2017.

1.2 EU CO-FINANCING: FEASIBILITY STUDY FOR ENVIRONMENTAL AND OTHER MEASURES ON TPP KOSOVO B

A comprehensive 'Feasibility Study for Environmental and other measures on Kosovo B Thermal Power Plant' was funded by the European Union Office in Kosovo (EUOK) and implemented by Eptisa servicios de ingenieria, s.l. (Spain) in consortium with Ambiente s.c. (Italy), having the Kosovo Energy Corporation (KEK) as final beneficiary, and delivered in 2017.

The study assessed the environmental performance of the TPP Kosovo B (flue gas emissions and air pollution, waste water treatment and level of pollution of the surface water, ground water, soil, area, etc.), as well as, the efficiency and power output and the assessment of remaining life time of the existing TPP Kosovo B main components and facilities.

The study estimated a total investment of 303.060.000 EUR is needed for the complete rehabilitation, of which 165.690.000 EUR for environmental investments, and 137.370.000 EUR for the efficiency recovery/life time extension, as shown in the following tables:

Table 2: Environmental Investments

ENVIRONMENTAL INVESTMENTS	
Activity	EUR
WWP	6.740.000
ESPs upgrade	31.700.000
NOx reduction	32.700.000
Wet lime FGD	94.550.000
TOTAL ENVIRONMENT INVESTMENTS	165.690.000

Table 3: Efficiency recovery/life time extension

EFFICIENCY RECOVERY/LIFE TIME EXTENSION	
Activity	EUR
Boiler	93.300.000
Steam Turbine	7.820.000
Generator	10.400.000
Condenser	6.400.000
Feed Water Pumps	1.910.000
Electrical	10.400.000
Civil works	4.640.000
I&C	2.500.000
TOTAL EFFICIENCY RECOVERY / LIFE TIME EXTENSION INVESTMENTS	137.370.000

1.3 FINANCING OF THE REHABILITATION OF TPP KOSOVO B IN 2 PARTS

After the Feasibility Study finalization, GoK and KEK received an offer for EU grant under the Kosovo, EU support to clean air, through the Instrument for Pre-accession Assistance (IPA II) 2014-2020, for one part of the rehabilitation works that need to be done.

The main objective of EU grant is to support the energy sector by reducing its environmental impact. The action will support Kosovo's compliance with national legislation, its plan for reduction of emissions and with the acquis on environment, namely the Large Combustion Plants Directive¹ and the Industrial Emissions Directive² as required by the Energy Community Treaty for reduction of emissions (dust particles and NOx) at TPP Kosovo B.

Accordingly, the investment in TPP Kosovo B rehabilitation is divided into two parts:

Phase 1 – EU co-financed activities

Phase 2 – other financing sources

It is important to note that EU grant is offered for the Phase 1 of the rehabilitation, with the total cost of EUR 78 million.

Table 4: Phases of activities

PHASE 1	
EU CO-FINANCED ACTIVITIES	TOTAL AMOUNT
Activities regarding works needed for TPP B to operate in line with LCPD and IED requirements for dust and NOx emissions	€78.000.000

PHASE 2	
OTHER FINANCING SOURCES	TOTAL AMOUNT
Activities not currently co-financed by the EU, for additional environmental improvements, efficiency recovery and lifetime extension	Around €225.000.000

¹ Directive 2001/80/EC of the European Parliament and of the Council of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants

² Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control)

Kosovo's obligation arising from the contract for retaining TPP Kosovo B under the public ownership for at least 10 years is taken into account in analyzing access to financing for phase 2 of the rehabilitation.

The financing requirement discussed in this report is therefore the estimated €225 million not financed by EU.

2. ANALYSIS OF PRESENT AND FUTURE POTENTIAL SOURCES FOR DIRECT FINANCING

2.1 INTRODUCTION

The most realistic option for access to financing of the rehabilitation of TPP Kosovo B is for KEK to source funding directly, supported with government guarantees or with a loan provided directly by the government, with the debt put on its balance sheet. .

In this case the question that has to be addressed is Kosovo B power plant's (or KEK's) ability to repay its obligations. This question is additionally emphasized taking into consideration the obligations of KEK to the Thermal Power Plant Kosovo C with regarding lignite supply, and the possibility of restructuring of KEK in such a way that the existing company is split into two companies: coal mining and electricity generation. Resolving this question will require consideration of future lignite and electricity prices, including all levies and taxes.

The approach of financial institutions to lend for coal-fired power plants is driven by a number of factors, including their evaluation of risks, the ownership structure of the investment, as well as different guidelines of international institutions, treaties and agreements. Multilateral agreements related to the role of coal in power generation and its impact to climate changes are of crucial importance regarding gaining confidence of financing institutions for this specific project.

There have been lots of policy changes by government-backed financial institutions related to funding coal-fired power plants. Some leading American and European financial institutions have proclaimed strict measures to assess such projects. These include the World Bank Group, the European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD). These measures have determined that financial support for coal-fired power plants would only be considered under 'rare and exceptional circumstances'. While this limitation particularly applies to newly built plants, which does not apply in the case of Kosovo B, the banks' appetite for lending for any coal project remains low.

International support for financing coal projects could come in several forms, including:

- Direct project financing, mostly through MDBs and bilateral institutions (ECAs) who may provide direct financing for coal projects through loans, grants, and equity financing. Direct financing can support rehabilitation and upgrading of coal fired power plants, but also other types of coal projects, including exploration, mining, production, rail lines, ports, power generation, power transmission, distribution systems, etc.
- Guarantees for projects for obtaining project finance with MDBs, ECAs, and other public financial institutions providing insurance covering overall risk of an investment at a lower cost and longer tenor than commercial insurance, typically 12 to 20 years. Public guarantees help to extend the

tenors on project loans, which can be a key limitation for big coal fired projects. Guarantees from public institutions may cover the risks of currency transfer restrictions, expropriation, war and civil disturbance, and breach of contract. These government guarantees transfer private investment risks to the public.

- Policy lending and technical assistance, with MDBs and development agencies influencing policies, regulations, and institutions that alter the costs, benefits, and development preferences in favor of the coal sector.
- Financial intermediaries, under which institutions provide loans or equity financing to an entity such as a local bank, a private equity fund, or a special government-managed fund, who then pass on the original institution's funds to various investments, such as rehabilitation of a coal fired power plant.

An overview of some key institutions and agreements that have to be taken into account for assessment of access to financing is given as follows.

There are 9 potential direct financing options as follows:

1. Loan provided directly by the Government of Kosovo
2. Multilateral Development Banks (MDBs)
3. Export Credit Agencies (ECAs)
4. Bilateral Financing Institutions (BFIs)
5. Commercial Banks
6. Lease financing
7. Vendor Financing
8. Project Bonds
9. IPO

The different characteristics of each of these options are summarized below.

LOAN PROVIDED DIRECTLY BY THE GOVERNMENT OF KOSOVO

The Government of Kosovo, through the Ministry of Finance has already been providing loans to KEK for capital investments in KEK power plants. Several loans have so far been provided to fund the procurement, replacement, refurbishment, repair and rehabilitation of the equipment necessary for the operation of the Kosovo B Power Plant in order ensure adequate power generation for Kosovo.

MULTILATERAL DEVELOPMENT BANKS (MDBS)

MDBs are owned by more than one country, thus they are called multilateral, and are subject to international law. Shareholders are mostly national governments with a different range of voting rights depending on their membership and funding structure. The members determine the energy policies and conditions that they take into consideration when lending on coal related projects.

MDBs support to coal-related projects has dropped significantly in recent years, and it is unlikely that they would provide any kind of support to the project of rehabilitation of Kosovo B plant.

EXPORT CREDIT AGENCIES (ECAS)

An ECA's key objective is to support its homeland industry and commerce by offering funding or guarantees to facilitate trade, especially the export of goods and services. Its activities therefore serve national interests, with them been able to offer export credits which will help mitigate commercial and political risks of a project.

Recently a trend of increase of support of ECAs can be seen, replacing the diminishing contributions of MDBs.

ECAs represent a realistic source of financing for the rehabilitation of TPP Kosovo B.

BILATERAL FINANCING INSTITUTIONS (BFIS)

The key difference between a bilateral and multilateral institution is that bilateral institutions are funded by an individual country, mostly through ECAs, or national development banks or guaranteeing agencies.

BFIs provided support to coal related projects, especially the Asian ones that are described in more detail later in this report.

BFIs represent a significant contribution to financing coal related projects, again partially replacing MDBs decreasing support.

Some of such Asian BFIs are the Japanese JBIC and JICA which provide the biggest source of international financing, the Chinese CDB, C-EXIM, Sinosure, and the Korean KEXIM and K-Sure. These represent another realistic source of financing for the rehabilitation of Kosovo B plant.

COMMERCIAL BANKS

Commercial banks have an important role in financing energy projects and are commonly used for a direct financing through providing corporate loans, usually through the formation of a syndicate with other institutions such as BFIs or ECAs.

They can also take a role of an agent for projects in financial markets, assisting with issuing and managing shares and/or bonds.

LEASE FINANCING

The debt comes from lease finance of the equipment financed and owned by the lender, which actually would represent a form of equipment purchase agreement.

VENDOR FINANCING

The seller of the equipment, for example a manufacturer of boilers, turbines and generators provides financing. Such an example is General Electric (GE) with its subsidiary GE Capital which provides financing.

Equipment vendors can provide financing in the form of a loan, lease of equipment or by providing a guarantee to the bank. Vendors are often followed by Export Credit Agencies in providing similar access to financing.

PROJECT BONDS

Project bonds represent a debt and can be issued for a specific project. The proceedings from bonds issuance can be used in two ways:

- Proceedings used to collect capital that would be used for equity portion for getting additional debt from one of the other mentioned institutions – so called subordinated debt, or junior loan under which the obligations are paid after the senior debt that comes first in the priority
- Proceeding used to finance the entire, or a portion of the rehabilitation

IPO

Theoretically, there is one more direct financing option – initial public offering (IPO). IPO, also called as stock market launch, is a type of public offering in which shares of a company are sold to institutional investors and usually also retail, individual investors. However, since GoK will retain ownership of TPP Kosovo B for 10 years, this option is currently not applicable for TPP Kosovo B case and it is therefore not evaluated in this report.

2.2 LOAN PROVIDED DIRECTLY BY THE GOVERNMENT OF KOSOVO

The Government of Kosovo, through the Ministry of Finance has already been providing loans to KEK for capital investments in KEK power plants. Several loans have previously been provided to fund the procurement, replacement, refurbishment, repair and rehabilitation of the equipment necessary for the operation of the Kosovo B Power Plant in order ensure adequate power generation for Kosovo.

Having in mind questions over Kosovo B power plant's (or KEK's) ability to repay its obligations, some agreement clauses would have to be negotiated.

In the past , since KEK was not capable of repaying the loans under then current prices, and in order to ensure repayments and allow KEK to rehabilitate its power plants, loan agreements contained some additional obligations, such as a lignite royalty fee imposed on KEK mining which allowed a release of KEK's obligations to pay any interest on the outstanding principal, and to defer commencement of its repayment.

In the case of a new loan or loans provided for the rehabilitation, the Government of Kosovo will need to take into consideration other infrastructure projects needed for Kosovo, and would have to consider its own ability to raise debt.

The Government of Kosovo could provide a direct loan to KEK more readily than would commercial banks accepting the fact that under current conditions KEK most likely would not be able to make its repayment obligations in full, due to the size of the rehabilitation.. It is recommended that the Government in parallel with the Kosovo B rehabilitation approaches this problem in the way to solve it for a longer term. This is a sensitive topic since it is difficult to find the right measure between electricity prices, ability

of utilities to fund electricity infrastructure (including electricity generation and mining), market orientation in the electricity market and obligations taken from the Energy Community Treaty (including promotion of renewables in electricity generation).

Potential new agreements for the rehabilitation of the entire Kosovo B would in any case have to agree terms on:

- Financial covenants, including repayment and interests, prepayment terms and mechanisms and other
- Security interests and collateral, including security covenants and enforcement clauses
- Representations and warranties and remedies
- Collaterals and collateralized assets
- Potentially other imposed obligations, such as KPIs regarding operational costs and similar

2.2 MULTILATERAL DEVELOPMENT BANKS (MDBs)

OVERVIEW

MDBs are owned by more than one country, thus been called multilateral, and are a subject to international law. Shareholders are mostly national governments with a different range of voting rights depending on their membership and funding structure. The members determine their energy policies and conditions that they take into consideration for lending for coal related projects.

The best known MDB is the World Bank Group (WB) with its International Bank for Reconstruction and Development (IBRD), which is owned by a number of countries. The USA holds the most voting shares with 16.5% of voting rights, with Japan holding 7.1%, and almost all other major countries holding approximately 5% or less of voting rights.

The EIB is entirely owned by EU countries and promotes EU policies abroad.

The EBRD is owned by the EU, the EIB, and 65 other countries, including China as a shareholder. Unusually, the EBRD is led by the USA, while EU countries have a smaller share, but the combined European ownership creates a majority share. Mostly because of its wider ownership structure, EBRD even offers broader range of funding, including Japan, Korea, China, Australia as well as other non-European countries. EBRD is willing to work with Asian Infrastructure Investment Bank (AIIB) and cooperate with projects even from China.

These leading banks are joined by several others including:

- Asian Development Bank (ADB) – Japan, USA and 65 other countries, mainly OECD members
- African Development Bank (AfDB) – Nigeria (9% of shares) and 53 African nations; with significant number of shares held by non-African countries (mostly North America and Europe)

- Asian Infrastructure Investment Bank (AIIB) –China, India and Russia and other including European, African and Middle Eastern nations (without USA)
- Inter-American Development Bank (IADB) – led by the USA
- Nordic Investment Bank (NIB) – led by Sweden
- North American Development Bank (NADB) – led by USA and Mexico
- New Development Bank (NDB) – BRICS countries (Brazil, Russia, India, China, and South Africa)
- Other smaller development banks (Islamic Development Bank (IDB) led by Saudi Arabia, Eurasian Development Bank (EDB) – led by Russia, Corporacion Andina de Fomento (CAF) – Latin America and Caribbean, Central American Bank for Economic Integration (CABEI) – Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica etc.)

Multilateral development banks provide a small contribution to overall coal funding worldwide, but their participation influences the viability of projects that would otherwise be too risky for commercial banks alone, so the participation of MDB in projects can attract private sector funding as well. The same facts apply to the role of export credit agencies and national development banks.

MDBs adopted stricter rules for financing energy projects and have hugely decreased their financial support for coal related projects in the past years.

MDBs also influence the plant performance standards adopted by other lending institutions. For example the UK Export Finance (UKEF), which is the UK's export credit agency and a government department, follows the guidelines set by the World Bank. Similarly, French bank BNP Paribas has also adopted World Bank guidelines.

Most MDBs, apart from the World Bank Group, operate regionally, but can extend funding elsewhere.

MDBs have adopted social and environmental safeguarding policies, with environmental impact assessments (EIA) fully integrated into their principles, which consider plant emissions and discharges. Almost all of them have principles that apply specifically to power generation and supply and demand management. Because of the high impact and output of CO₂/kWh coming from old, subcritical coal-fired power plants, they treat coal power as one of the fuels of the last resort, mostly considering financing coal power projects only under rare and exceptional circumstances.

One interesting example is the creation of AIIB, with China playing a key role within the MDB due to its limited influence in other MDBs. They set an ambitious role for lending to larger scale projects, with most likely easier conditions for lending for coal-fired power projects.

More details about MDBs is given in the Annex 1 of this report.

MDB ROLES AND CONDITIONS

It is unlikely that MDBs would provide financing to coal related projects, since they adopted more strict policies for financing coal related projects and are decreasing support for such projects. Despite this, we give below the most probable financing terms for MDBs:

For sovereign borrowers

EURIBOR+1% for invested funds

EURIBOR+0,5% for reserved but not invested funds

For private borrowers

Usually higher interest rates than for sovereign

Depending on their credit rating and guarantees received (can be treated as quasi-sovereign)

Companies with expertise in the energy sector would present a lower risk profile

Recommended application procedure

No strict application form or procedures, although an example of an introductory application form for EBRD can be found on-line at <https://www.ebrd.com/eform/contact/1390580844322>. Applications must include the following:

- Project main data
- Country of investment
- Brief description of the business
- Ownership structure
- Investment plans
- Explanation how the investment program would generate returns for repayments of the debt
- Other business relevant data

The most effective way is that President of Republic of Kosovo writes a letter directly to the President of an MDB.

The application has to address all the issues described under the criteria for financing coal power, such as:

- the infrastructure being financed must be the least carbon-intensive of the realistically available options;
- the infrastructure must use best available technologies (BAT), as defined in the EU Industrial Emissions Directive; and
- the plant must comply with the EU Industrial Emissions Directive requirements in relation to carbon capture and storage readiness

The procedure would have to pass two hurdles:

- expert group related to project evaluation and financing conditions
- decision of the MDB's decision making body (politically appointed)

2.3 BILATERAL FINANCING INSTITUTIONS (BFIs)

The key difference between a bilateral and multilateral institution is that bilateral institutions are funded by an individual country, mostly through ECAs, or national development banks or guaranteeing agencies.

Some examples of the major BFIs are given here, while in the Annex 2 they are elaborated in more details.

KfW

KfW is a German state-owned development bank founded in 1948, with a history of lending to coal-related projects. It provides direct loans, co-finances with commercial banks and assists governments with Commercial Interest Reference Rates (CIRR). In the past, KfW financed modernizations of coal-fired plants. Currently, priority is given to HELE³ technology and the modernization of existing plant to leverage a reduction in CO₂ emissions without compromising security.

The current KfW Group policy on coal-fired power investments is strict and is outlined in the KfW Group guidelines on the financing of coal-fired power plants with reviewed and strengthened financing criteria:

- Projects will only be pursued in countries which have a national climate mitigation policy and strategy which is supported by a targeted policy to expand renewables and/or enhance energy efficiency. The projects must be compatible with this climate change mitigation policy.
- BAT must be deployed in line with the EU Industrial Emissions Directive (IED-RL 2010/75/EU).
- Financing for new coal-fired plants is only possible in the case of unit sizes larger than 500 MWe (fitted with FGD and wet cooling) with a planned electrical efficiency of 43% for lignite and 44% for hard coal. The criteria are based on lignite stations fitted with FGD. If plants are smaller than 500 MWe they should achieve a relative improvement in efficiency compared with the regional average and rank amongst the best 25% of the regional plant portfolio in this category.
- Technical and spatial preconditions are examined with the view to install Carbon Capture and Storage (CCS) when possible.
- In the case of new coal-fired facilities, which cogenerate heat and power, or generate heat, a planned fuel efficiency of at least 75% must be attained.

³ High-Efficiency, Low-Emissions Coal Plants (HELE): With coal-fired power plants achieving an average 33 percent efficiency, it's crucial to build advanced HELE plants to reduce global carbon emissions. With low carbon a priority in energy generation, it is imperative to develop a more efficient, lower-emissions technology for coal

- In the case of improvements or modernization of existing coal power plants, the measures funded must result in substantial improvement in the environmental footprint of the power plant.
- All projects must be in strict compliance with the national rules on preventing and minimizing any negative environmental and social effects and risks.
- Financing in countries which are not EU or OECD members must also be subject to an environmental and social impact assessment which, in addition to the relevant national rules, must be based on internationally recognized standards at least. For development financing, in terms of climate mitigation policy, the emphasis should be on expanding renewables and boosting energy efficiency.

ASIAN BILATERAL FINANCING INSTITUTIONS

Although the commercial banking sector is big in Asia, interest of credit agencies from Asia is growing, and should not be neglected. The development banks have similarities to both MDBs and ECAs, with national development banks having obligations to promote development in low-to-middle income countries. Funding is provided to support economic development, transfer technical expertise, improve services and similar using either low cost loans or even grants.

2.4 EXPORT CREDIT AGENCIES (ECAs)

An ECA's key objective is to support its homeland industry and commerce by offering funding or guarantees to facilitate trade, especially the export of goods and services. Its activities therefore serve national interests, with them been able to offer export credits which will help mitigate commercial and political risks of a project.

This includes protection against potential cash flow problems coming from the insolvency of project participants, or cover in case a buyer defaults on repayments, or where there are any kinds of disruptions. In this way, the involvement of an ECA (or an MDB) is very important for projects which would not be financed by private commercial banks alone.

ROLE OF EXPORT CREDIT AGENCIES (ECA)

One way to manage the process of raising finance is to use organizations like export credit agencies (ECAs). If the project contract signatories are two governments with sovereign guarantees included, it can additionally improve the project's risk profile, as well as providing confidence of the project's future.

ECAs or other bilateral financing institutions are important in managing the process between the two countries. For example, JBIC and NEXI usually work together to promote Japanese exporters. Similarly, the Chinese EXIM bank and China Development Bank (CDB) promote Chinese exporters. Such organizations exist in most of the countries worldwide.

Their approach is to combine lending with pre-approved EPC (Engineer, Procure, and Construct) contracts from the country. For example, financing from Japanese firms will be arranged together with conditions and contracts that favor Japanese equipment and exporters for most of the power plant. The same approach will be used by Chinese and Korean financing institutions, and by other nations as well.

Involvement of an ECA would help project be less expensive, and allow it to be done much faster, but with the requirement that the selection process includes the ECA's domestic companies for a larger proportion of the deal.

Some equipment manufacturers, such as GE, even have their own financial subsidiaries such as GE Capital. In this report it is referred to as Vendor Financing and is discussed in more detail in the next section.

As OECD rules are generally accepted for providing financing by ECAs, thus it is very important to understand them in more details.

OECD (ORGANIZATION OF ECONOMIC CO-OPERATION AND DEVELOPMENT) RULES

The OECD is the key negotiating body where officially supported export credit rules are agreed and implemented. It enables governments to co-operate in developing and implementing different financing standards, to establish equal policies and opportunities for all exporters while trying to eliminate financial subsidies.

Their policies and international agreements define the terms on which ECAs can provide support for export credits in the form of direct loans, interest rate subsidies or credit insurance for lenders.

In 2015, the members agreed on new rules for the support of coal-fired power plants, published by the Trade and Agriculture Directorate in the documents TAD/PG (2015)9/FINAL, subsequently revised several times, with the last version of agreement published on 2 January 2019⁴.

The rules do not eliminate financial support for coal power projects but remove support for large subcritical coal-fired power plants. The rules permit the support for supercritical (SC) and ultrasupercritical (USC) coal-fired power stations, provided that all other alternative methods of power generation have been investigated. Countries where at least 10% of the population lacks access to electricity can receive backing for some new plants. Smaller plants in low-income countries can still use subcritical technologies as deemed appropriate. The restrictions will not apply to any plants equipped with operational CCS. The development of commercially viable CCS will be critical to the acceptance of greenfield coal-fired power amongst some western funding agencies.

⁴ [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg\(2019\)1](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2019)1)

In Annex 2: Sector understanding on export credits for coal fired electricity generation projects, a set of financial terms and conditions is given that apply to officially supported export credits relating to contracts for coal-fired electricity generation projects, for:

1. The export of new coal-fired electricity generation plants or parts thereof, for grid and industrial use, located in plants without operational carbon capture and storage or carbon capture and utilization technology, comprising all components, equipment, materials and services (including the training of personnel) directly required for the construction and commissioning of such plants. The addition of a new coal-fired electricity generation unit to an existing plant is deemed to be a new coal-fired electricity generation plant.
2. The modernization of, or supply of equipment to, existing coal-fired electricity generation plants, for the grid and for industrial use.

The rules have added limits to the repayment conditions to new coal-fired power plants and distinguish between:

- the size of the plant;
- the design steam pressures and temperatures; and
- the level of poverty and electrification in the country.

REPAYMENT

The maximum repayment terms are also provided by OECD, and are as follows:

Table 5: Maximum repayment terms for ECAs

PLANT UNIT SIZE (gross installed capacity)	Unit >500MW	Unit =300MW to 500MW	Unit >300MW
Ultra-supercritical (i.e. with a steam pressure >240 bar and = 593 °C steam temperature), OR Emissions < 750 g CO ₂ /kWh	12 years	12 years ⁵	12 years
Supercritical (i.e. with a steam pressure >221 bar and > 550 °C steam temperature), OR Emissions between 750 and 850 g CO ₂ /kWh	Ineligible		10 years, and only in IDA-eligible countries ^{4,5,6}

⁵ Where eligible for official support, an additional two years repayment term is allowed for project finance transactions consistent with paragraph d) below, subject to the maximum repayment terms in Article 2 of Annex VII.

		10 years, and only in IDA-eligible countries ^{4,6,7}	
Subcritical (i.e. with a steam pressure <221 bar) OR Emissions > 850 g CO ₂ /kWh	Ineligible	Ineligible	10 years, and only in IDA-eligible countries ^{4,6}

2.5 VENDOR FINANCING

Vendor financing is commonly used in financing projects: almost all manufacturing companies that offer EPC (Engineer, Procure, and Construct) or supply major parts to projects include vendor financing in their offer. In some cases vendors participate as equity participants, but more typically they provide subordinated debt. For example a manufacturer of boilers, turbines and generators may provide financing. Mostly they provide financing in the form of a loan, lease of equipment or by providing a guarantee to the bank. Vendors are often followed by Export Credit Agencies in providing similar access to financing.

In this text both models, vendor debt and equity models, are both referred as to vendor financing models.

As already previously briefly explained, some equipment manufacturers, such as GE, even have their own financial subsidiaries such as GE Capital. In this report, it is referred to as Vendor Financing, under which the seller of the equipment, for example a manufacturer of boilers, turbines and generators provides financing. Mostly they provide financing in the form of a loan, lease of equipment or by providing a guarantee to the bank. Vendors are often followed by Export Credit Agencies in providing similar access to financing. In the case of GE, their production of equipment for coal-fired power plants is placed in Germany, so support from German ECA, Hermes, can be expected as well.

There is a clear trend toward more vendor financing, and in some cases vendor financing has become a requisite for a sale. Because of that fact, it becomes more important for vendors of the equipment to consider which models they want to offer to their customers, and which would add most value and ensure sufficient liquidity in order to be able to continue to offer vendor models to their customers.

⁶ To help address energy poverty, ten-year export credit support may be provided in all countries where the National Electrification Rate (as per the most current IEA World Energy Outlook Electricity Access database) is reported as 90% or below at the time the relevant completed application for export credit is received.

⁷ Export credit support may be provided in non-IDA-eligible countries for geographically isolated locations, where, (1) the alternatives analysis referred to in Article 4 b) 1) of this Sector Understanding deems that less carbon intensive alternatives are not viable and (2) the physical/geographic and existing grid features (including inability to connect to a larger grid) justify the proposed project's efficiency category as the best available technology. In cases where the project is not located on a physical island, the interested Participant shall seek the consent of all Participants through the use of a Common Line procedure in accordance with Articles 58 to 63 of the Arrangement.

It has also become more important that vendors are trying to understand their customers' motivations, how they can optimize their positions and how vendor financing would fit with a regular, senior debt for project financing.

In this way, vendors are trying to increase their sales by offering vendor financing as additional sales tool. This offer helps them reduce the focus on price, and ensures them higher profit margins; it also ties customers to them, for example through long-term service contracts.

Vendors will also look at the risks that must be taken into consideration when evaluating projects. Some of key risks will be development, political, market and operational risk.

Development risk will depend on the development stage at which the vendor would decide to enter the project. A vendor's obligations will be different at the different stages in the development of the project. A tendency is that vendors are involved as earliest possible in order to guide the development of the project and secure that their equipment fits with the project design.

Regarding political risk, although vendors will always have be exposed at least to indirect political risk, this risk drops down at later stages of the project, especially after the completion of the construction when the power plant becomes operational.

Market risks can have a big impact on a power plant's ability to generate sufficient cash-flows to meet repayment obligations of the project, and that is the risk that vendors will try to avoid completely. It will typically mean that long term and fixed price agreements for full debt repayments would have to be backed by guarantees.

Operational risk is a risk which vendors can handle because it relates, at least in part, to the operation of the equipment delivered by the vendor. Vendors will most likely try to ensure some level of operational control, e.g. through a service agreement. The vendor is likely to price this specific risk lower than the operating company, so would be the best risk taker.

2.6 COMMERCIAL BANKS

Commercial banks have an important role in financing energy projects. They can fund directly through providing project financing, or indirectly by providing corporate loans.

They can also take a role of an agent for projects in financial markets, assisting with issuing and managing shares and/or bonds. Commercial banks usually cooperate together with each other and can form a syndicate with Multilateral Development Banks (MDB) or ECAs.

It is estimated that in 2014, the top 20 commercial banks have provided funding of US\$100 billion to companies for coal power or coal mining activities⁸. However, today's trends in coal-fired power projects in Europe and North America have almost stopped and this has even led western commercial banks to participate in coal projects in other regions through their international offices, for example in Asia. These funding trends are determined by business strategies of different banks and adaptation of their policies to environmental regulations and market conditions from country to country, which bring lots of uncertainties.

The largest financiers of coal power projects appear to be western banks, namely JP Morgan Chase, Citigroup, Barclays, BNP Paribas, and the Royal Bank of Scotland.

Unexpectedly, Asian banks, mostly from China and Japan, did not appear in the top 20, but they are generally more open to financing coal projects.

Most commercial banks have policies with restrictions on financing coal mining activities, but some have restrictions on coal power investments as well. Some banks have strict restrictions on financing coal power plants, such as some of France's largest banks and HSBC of the UK.

Some large banks, such as Morgan Stanley, headquartered in the USA, are reducing its exposure to coal activities, but at the same time have stated that coal could remain part of solution, because of high improvements in HELE coal-fired technologies, for which they state that they believe that carbon emissions can be reduced by over 20%. In all statements Morgan Stanley does not exclude participation in coal power investments in low to middle income countries, with no specific technical criteria guidelines.

2.7 PROJECT BONDS

Project bonds represent a debt and can be issued for a specific project. The proceedings from bonds issuance can be used in two ways:

- Proceedings used to collect capital that would be used for equity portion for getting additional debt from one of the other mentioned institutions,
- Proceeding used to finance the entire, or a portion of the rehabilitation.

In the case of proceeding from bonds issuance being used as equity contribution, project bonds would represent a form of so called subordinated debt, or a junior loan. Such issuance would mean that additional debt would be taken from other sources in the form of senior debt. The repayments of the obligations derived from project bonds issuance would come after the repayments of the senior loan.

⁸ http://ieefa.org/wp-content/uploads/2019/02/IEEFA-Report_100-and-counting_Coal-Exit_Feb-2019.pdf

Issuance of project bonds for financing the entire rehabilitation would represent a classical form of debt.

There are some cases of even MDBs issuing project bonds in the form of so called green bonds. Such bonds are issued around the world for example by EIB and World Bank's IBRD.

But since the parameters for eligibility of green projects are not clear, there is no clear definition of green bond. This leaves room for subjective assessments, usually at the discretion of the issuer of the green bond. In some cases, even coal technologies were presented through issuance of green bonds, for example by the Chinese banks, with the rationale of definition of clean coal, claiming even simple techniques of coal quality improvements, such as coal washing, or gasification, as a "cleaner coal" initiatives.

For such reasons a program called the Climate Bond Initiative was formed which monitors and certifies such projects, which makes all fossil fuels ineligible for green bonds.

2.8 EVALUATION OF FINANCING SOURCES

The different characteristics of each of these options are summarized in the following table. A brief evaluation of a possibility of providing support with financing for each source is evaluated in the table.

Table 6: Summary of financing sources

Institution/type of financing	Description/explanation	Possibility of providing support with financing
Loan provided directly by the Government of Kosovo	Government of Kosovo, through Ministry of Finance has already been providing loans to KEK for capital investments in KEK power plants.	The quickest and most realistic option. The main question will be regarding the ability of Kosovo to raise debt, and possibility of Kosovo B to repay its obligations.
Multilateral Development Banks (MDBs)	Owned by more than one country, thus been called multilateral, and are a subject to international law. Shareholders are mostly national governments with a different range of voting rights depending on their membership and funding structure. The members determine their energy policies and conditions that they take into consideration for lending for coal related projects.	MDBs support to coal-related projects has dropped significantly in recent years, and it is unlikely that they would provide any kind of support to the project of rehabilitation of Kosovo B plant.
Export Credit Agencies (ECAs)	An ECA's key objective is to support its homeland industry and commerce by offering funding or guarantees to facilitate trade, especially the export of goods and services. Its activities therefore serve	Recently a trend of increase of support of ECAs can be seen, replacing diminishing contributions of MDBs.

	national interests, with them been able to offer export credits which will help mitigate commercial and political risks of a project.	ECAs represent a realistic source of financing for the rehabilitation of TPP Kosovo B.
Bilateral Financing Institutions (BFIs)	<p>The key difference between a bilateral and multilateral institution is that bilateral institutions are funded by an individual country, mostly through ECAs, or national development banks or guaranteeing agencies.</p> <p>BFIs provided support to coal related projects, especially the Asian ones that are described in more details in the report.</p> <p>BFIs represent a significant contribution to financing coal related projects, replacing MDBs decreasing support.</p>	Some of such Asian BFIs are a Japanese JBIC and JICA providing the biggest source of international financing, or Chinese CDB, C-EXIM, Sinosure, or Korean KEXIM and K-Sure, and represent another realistic source of financing for the rehabilitation of Kosovo B plant.
Commercial Banks	Commercial banks have an important role in financing energy projects and are commonly used for a direct financing through providing corporate loans, usually in cooperation with each other forming a syndicate with other institutions such as BFIs or ECAs.	They can also take a role of an agent for projects in financial markets, assisting with issuing and managing shares and/or bonds.
Lease financing	The debt coming from lease finance of the equipment financed and owned by the lender, which actually would represent a form of equipment purchase agreement.	Represents an option for of equipment purchase agreement.
Vendor Financing	The seller of the equipment, for example a manufacturer of boilers, turbines and generators provides financing. Such example is General Electric (GE) with its subsidiary GE Capital which provides financing. They can provide financing in the form of a loan, lease of equipment or by providing a guarantee to the bank. Vendors are often followed by Export Credit Agencies in providing similar access to financing.	One of the most important financing sources, in combination with ECAs support.
Project Bonds	<p>Project bonds represent a debt and can be issued for a specific project. The proceedings from bonds issuance can be used in two ways:</p> <ul style="list-style-type: none"> - Proceedings used to collect capital that would be used for equity portion for getting additional debt from one of the other mentioned institutions – so called subordinated debt, or junior loan under which the obligations are paid after the senior debt that comes first in the priority 	It would mean having the entire project financing structure, because it would mean involvement of private capital. Not likely to be considered.

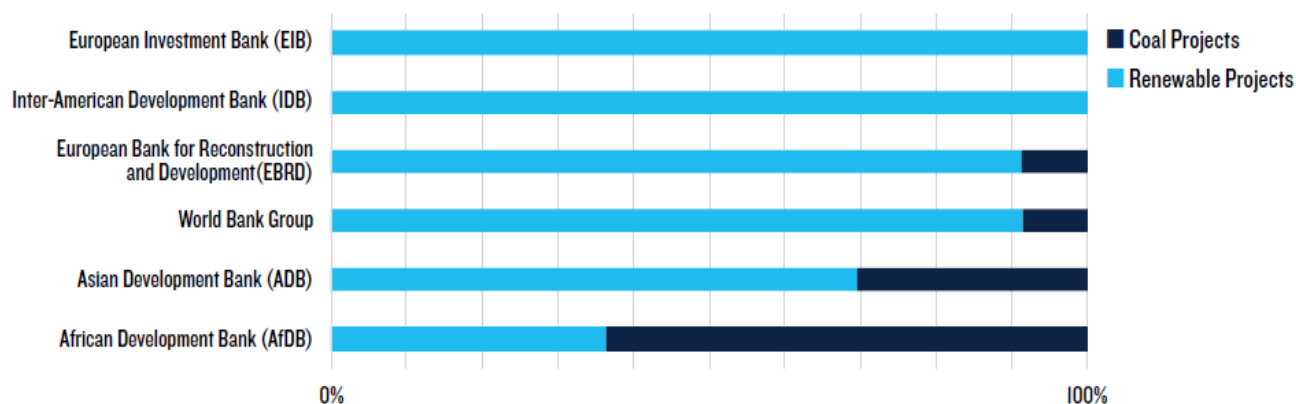
	- Proceeding used to finance the entire, or a portion of the rehabilitation	
IPO	Theoretically, there is one more direct financing option – initial public offering (IPO). IPO, also called as stock market launch, is a type of public offering in which shares of a company are sold to institutional investors and usually also retail, individual investors.	Since GoK will take the obligation of keeping the ownership of the TPP Kosovo B for 10 years, this option is currently not applicable for TPP Kosovo B case and it is not evaluated in this report.

2.9 COMPARISON AND EVALUATION OF OPTIONS

A summary of most realistic options for financing is given at the end of this section. It is done having in mind evaluation of possibility of providing financing for each different source, backed-up with the statistical data provided in this section.

MDBs have adopted stricter rules for financing energy projects and are hugely decreasing financial support for coal related projects in the past years, which can be seen from the data given in the following 2 figures.

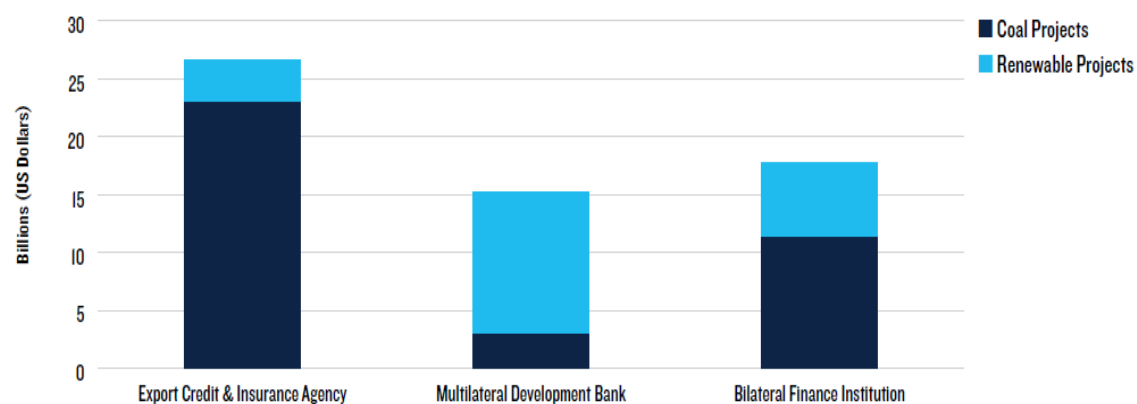
Figure 1: Ratio of coal to renewables investments by MDBs (2013-2016)



Source: Power shift: Shifting G20 international public from coal to renewables

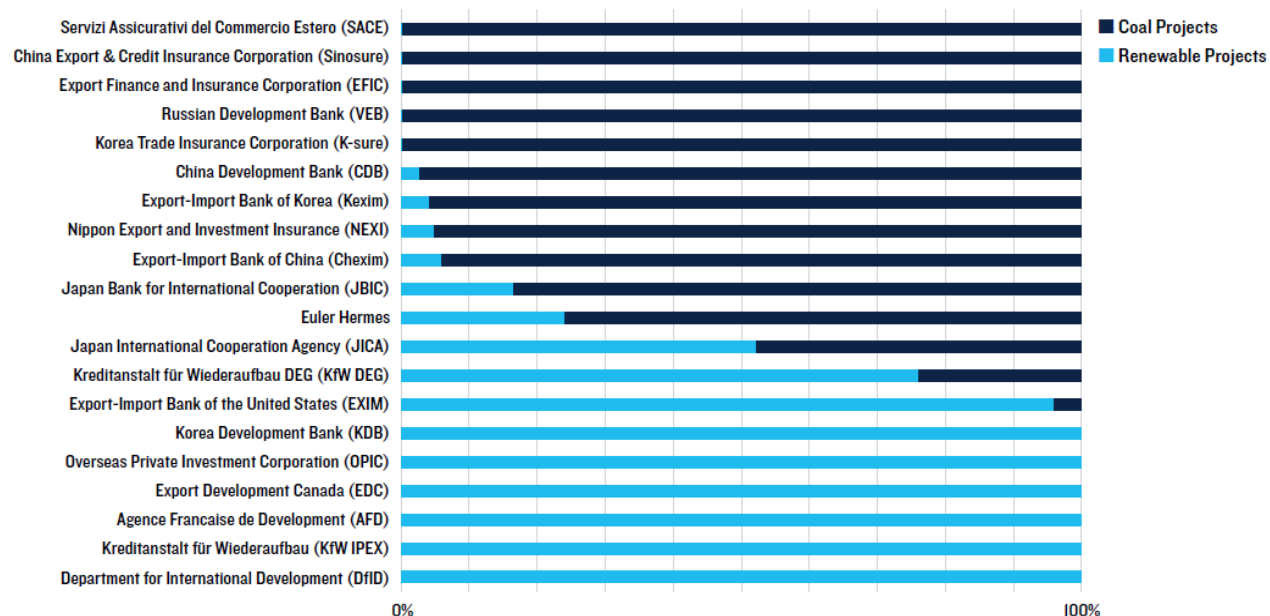
The trend for financing by MDBs is more turned into financing renewable projects, which can be seen from the following figure. Financing of coal project is recently more turned into ECAs and BFIs that took over financing coal projects, which can be seen in the following 3 figures.

Figure 2: Renewable vs. Coal financing by different types of financial institutions



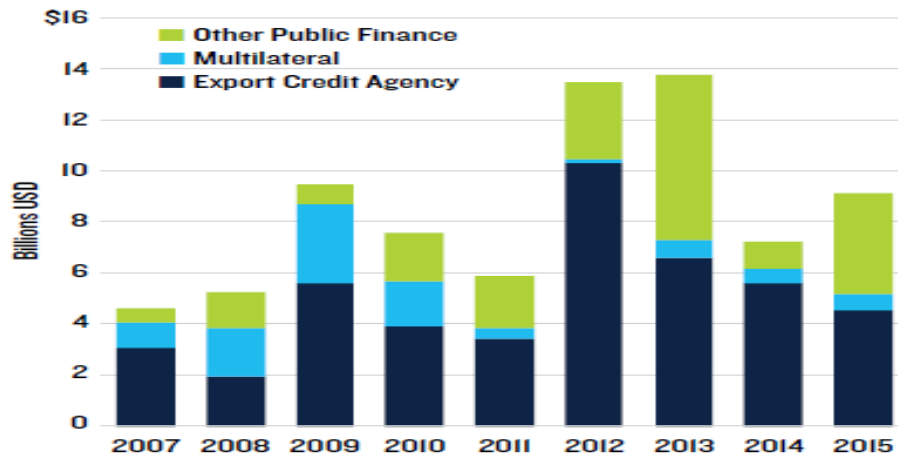
Source: Power shift: Shifting G20 international public from coal to renewables

Figure 3: Ratio of coal to renewables investments by Bilateral Finance Institutions (2013-2016)



Source: Power shift: Shifting G20 international public from coal to renewables

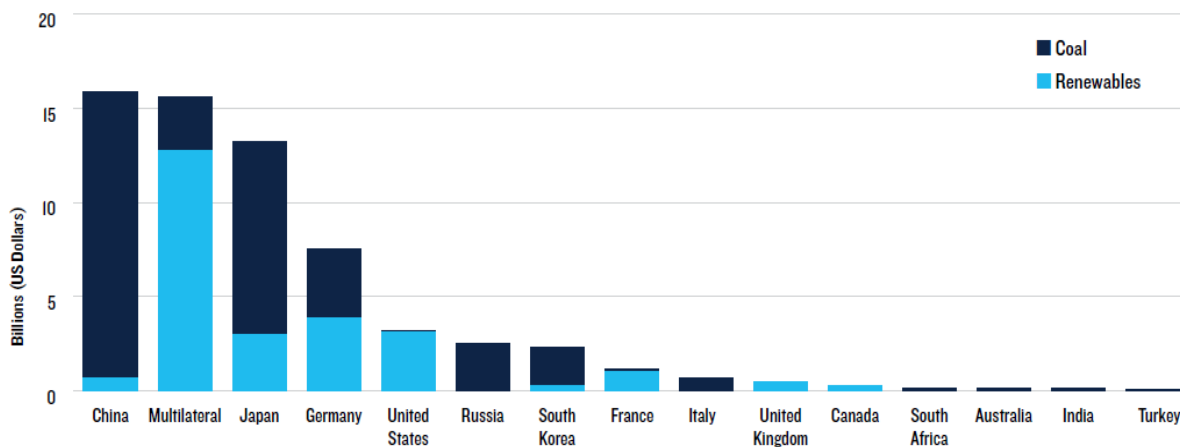
Figure 4: Coal finance, 2007-2015



Source: Carbon trap: how international finance undermines the Paris agreement

Most of the financing regarding coal finance go to coal-fired power plants, but since part of the financing goes for mining and other coal related activities, breakdown of investments is given on the following figure.

Figure 5: Financing by G20 for coal and renewable energy projects provided abroad (2013-2016)

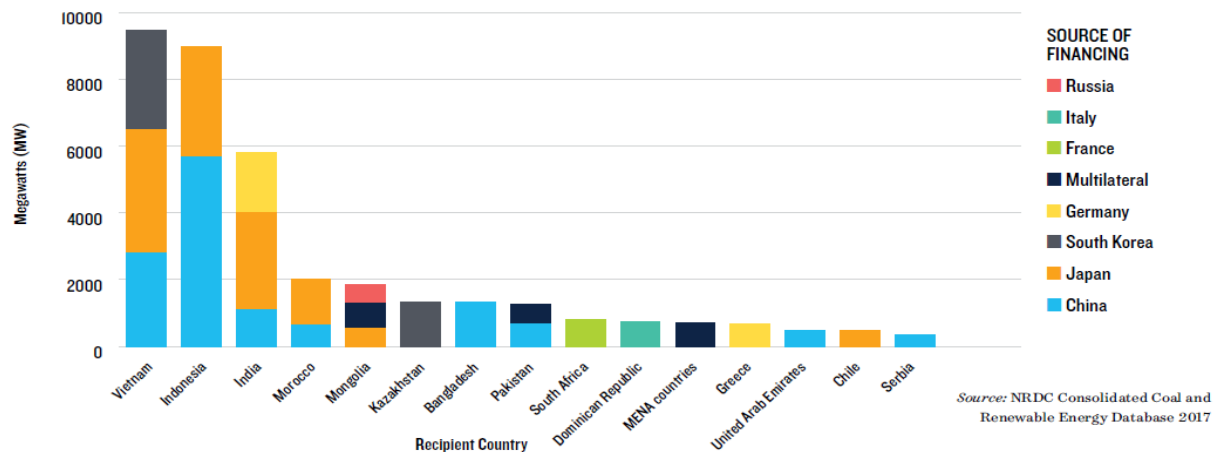


Source: Power shift: Shifting G20 international public from coal to renewables

Since the 1990s, JBIC was involved in a number of projects and gained huge experience worldwide. They financed more coal projects than the World Bank, the Asian Development Bank (ADB), and the US EXIM bank, and JBIC was the top public financier for coal-fired power plants, providing US\$8.1 billion between 1994 and 2009, with strong cooperation with commercial banks.

As bilateral financing institution, they financed mostly middle-to-low income countries, which can be seen from the following figure.

Figure 6: Top recipient countries of financing for coal projects (2013-2016)



Source: Power shift: Shifting G20 international public from coal to renewables

3. RISK MITIGATION

For any kind of financing, risks will have to be evaluated and mitigation measures will have to be implemented.

Although most of the common issues regarding the risk profiles are equal for both corporate financing and project financing (or in different words, in public ownership vs. the involvement of private capital), the approach to risk mitigation is different in each case.

Potential investors will need confidence that they will collect enough cash through selling their output for the repayment of debt and to earn a return on their investment. The project structure could, for example, provide that in the event of higher than expected revenues, cash be set aside to pre-pay parts of a debt that has not yet fallen due. This effectively means front-loading the amortization of the debt.

One additional major risk for a minority shareholder would represent the fact that the investor would have to accept the position under which he would have substantial risks of having minority stakes in the power plant.

The Kosovo B rehabilitation presents substantial risks for lenders, as well as for potential investors in case of involvement of a private capital. The key risk drivers are:

- the immaturity of the energy market;
- a high likelihood of cost overruns;
- a high likelihood of increased operational costs once power plant is operational;
- risks regarding the plant operational availability;
- a high country risk and its low credit rating;

- lack of investor confidence in legal system and judiciary;

These risks are discussed in more detail in the following sections.

3.1 100% PUBLIC OWNERSHIP VERSUS INVOLVEMENT OF A MINORITY PRIVATE SHAREHOLDER

Public ownership represents a simple option which is much easier for government to handle, since there is no risk of being outvoted over the decisions important for the company and the power plant. Control rests solely with government.

In case of minority shareholder involvement, the minority shareholder would insist in closing a shareholder agreement under which they would try to cover all the risks about major decisions that could be of importance for the power plant's operations and results. It is clear that the choice of experienced transaction advisors is essential to develop and negotiate flexible project structures, through experience of different types of political risk insurances. Some compromise on the part of the government is therefore likely.

Although a minority shareholder would carry more risks, a majority shareholder would carry certain obligations as well. Such obligations are related to the laws and regulations that serve to protect minority shareholders, meaning a majority shareholder cannot overvote minority shareholder in some decisions (i.e. for some decisions minority shareholders would have a veto rights).

For example, majority shareholders, unless having more than 75% of voting rights at the assembly meeting, cannot bring the decisions on closing the company, changing its head office address, or a merger or acquisition decisions. Minority shareholders would for sure want such protection, while they would want to more protection on other topics as it is explained further.

Some of such risks for a minority shareholder are put here:

- **Management of the power plant**

A minority shareholder would not have rights to appoint the management of the power plant, nor be able to decide about major day-to-day based operations of the power plant, since the majority owner, in this case the Government of Kosovo, would be appointing majority of Supervisory Board Members, and thus controlling most of the policies.

- **Construction costs**

A minority shareholder would want to pre-agree their role in the construction that could affect the total costs of construction, quality of the works done, as well as involvement of preferred suppliers or the decision about the process of their selection. This would as well most likely be related to the financing that could be brought by vendors, or export credit agencies. The

agreement would encompass the investor's involvement in the selection of owner's engineer who would have a major role regarding the future rehabilitation process.

- **Operational costs**

A minority shareholder would want to pre-agree the decisions about operations costs, such as a lignite supply agreement, shared facilities and shared services agreements, ash disposal and similar. In the absence of such agreements, a minority shareholder would be put in a position in which he cannot have a control over for example transferring more profits to the mining company (by purchasing coal for a higher price).

- **Control of revenues**

A minority shareholder would want to pre-agree a sales price of energy through a long-term power purchase agreement (PPA). This would involve creation of different policies that would involve the regulator ERO as well, since it is hardly to expect that there would be a credible supplier that would guarantee the off-take of the energy on a longer term.

For all the agreements a minority shareholder would insist in defining remedies and indemnification clauses.

3.2 IMMATURITY OF THE ENERGY MARKET

Under either option for financing, the transaction will result in an increased energy cost for the output of the rehabilitated Kosovo B plant. Risks related to the immaturity of the energy market are related mostly to the possibility to sell the energy at the market for an acceptable price that would allow the repayment of the debt raised for financing, as well as for achieving targeted returns on equity invested. This risk is referred to as merchant risk and is of different impact under the direct, or corporate finance compared with minority shareholding, as described below.

DIRECT FINANCING OPTION

Merchant risk under this option is much easier to handle, because Government would not necessarily have to insist on a long-term PPA to be agreed upfront. This would shorten a period for the rehabilitation, since lengthy negotiation of such agreements are absent from the process.

MINORITY SHAREHOLDER INVOLVEMENT OPTION

A minority shareholder would insist to cover the merchant risk over a longer period, in order to be sure that the project will have enough of cash to cover its obligations and gain desired dividends. This would mean long-lasting negotiations about a long-term power purchase agreement (PPA), or some other kind of off-take agreement, all backed-up by Government guarantees.

A need for a well-defined PPA with a duration of 15+ years would be an absolute minimum to support any potential for attracting private investors.

3.3 COST OVERRUNS

The total cost of construction would encompass the procedures needed to construct the power plant, as well as a detailed financial and technical analysis. Procedures would include a procedure for hiring an expert, owner's engineer company that would lead and manage the entire process, bringing with it experienced experts for cost control.

In the case of Kosovo B rehabilitation, the investment costs are lower, but the contingency requirements (i.e. the amount budgeted for the unexpected) are much higher than for a new power plant, since the project carries a substantially higher probability of cost overruns.

Although in reality, it is almost inevitable that some cost overruns will occur, the company responsible for the Kosovo B rehabilitation will need to protect Kosovo interests by managing as effectively as possible a fixed price turnkey EPC contracting. This will be done according to international commercial practice (for example following the FIDIC rules) applying liquidated damages for any slippage from the contracted rehabilitation deadlines. A fixed price turnkey approach is not essential, but given the significance of the investment to be made, and KEK's relative inexperience in handling the contracts of this size, it offers a substantial safeguard. The risks of are passed here to the EPC contractor, who will value those risks and price his offer accordingly. The fixed price approach is therefore more expensive in terms of direct cost, but avoids government facing the risk of substantial indirect costs in the event of overruns or other problems.

DIRECT FINANCING OPTION

Under this option Government would still have to make detailed calculations, having in mind all the costs that would occur during the construction, and bring the decision accordingly. Some of the costs that the attention would have to be paid to are the ones regarding the total cost of construction, including the costs of financing, including interests accumulated during construction, as well as contingency reserves.

MINORITY SHAREHOLDER INVOLVEMENT OPTION

Minority shareholders would want to agree on all the details about costs and responsibilities upfront. The agreement would encompass the investor's involvement in the selection of owner's engineer who would have a major role regarding the future rehabilitation process.

3.4 OPERATIONAL COSTS

Once under operation, control of operational costs will have a major role for the performances of the project. It would include a control of lignite costs, cost of staff, but other operational costs as well.

In the example of lignite supply, the lignite off-taker will not want to have any risk regarding the availability of the lignite needed to run the power plant, so a secure and reliable long-term lignite supply agreement is a prerequisite for securing the deal. This is equally important for KEK generation, as for a private generator. The lignite supply agreement would need to be backed by all the warranties and guarantees necessary for a reliable and stable lignite supply at the contract price. Special attention will need to be given to the quality of lignite delivered, such as its calorific value, moisture content, ash, sulfur, clump sizes, but also to the International and Kosovo environmental, health and safety standards and legal requirements.

DIRECT FINANCING OPTION

Regarding the decision process of the rehabilitation and the duration of the process, the operational cost issues would be much easier to handle under the direct financing option, since the operational cost issues would be handled only after the power plant is already rehabilitated.

MINORITY SHAREHOLDER INVOLVEMENT OPTION

As already mentioned, a minority shareholder would want to pre-agree the decisions about factors likely to impact operational costs, such as a lignite supply agreement, shared facilities and shared services agreements, ash disposal and similar. In the absence of such agreements, a minority shareholder would put himself in a position in which he cannot have a control over for example transferring more profits to the mining company (by purchasing coal for a higher price).

3.5 OPERATIONAL AVAILABILITY

Availability to run is one of major drivers of power plant' profitability. Availability will depend on the quality of both technical execution of the rehabilitation and on O&M (operation and maintenance) and overhauls during the lifetime of the rehabilitated power plant. Obligations for achieving higher availability should be connected with operator decision making, meaning management of the company.

DIRECT FINANCING OPTION

Under the direct financing option, this topic will need to be addressed before the power plant becomes operational. The decision itself will not be time consuming.

MINORITY SHAREHOLDER INVOLVEMENT OPTION

Under this option, obligations and rights would all have to be pre-agreed. It would depend highly on the management selection process, and the minority shareholder would want to mitigate this risk and may want management participation.

If all or part of the management team is appointed by a minority shareholder, this would need to be defined in the shareholders agreement. In such case rewards to the minority shareholders would be directly linked to the operational availability of the power plant.

3.6 COUNTRY CREDIT RISK

A required investment in Kosovo B rehabilitation represents a big burden to the Government of Kosovo budget, and represents a big percentage of the total external debt of the country.

Kosovo credit rating represents an obstacle to financing Kosovo B rehabilitation in both cases. While different theoretical structures can be considered, realistically the structuring options must be driven by the extremely limited availability of capital.

Also, in both cases, a Government guarantee would have to be provided.

DIRECT FINANCING OPTION

Realistically, it is highly questionable whether it will be possible to raise foreign investment to fund the rehabilitation. In considering the structuring options, it is therefore important to consider where potential financing is likely to be secured. This is most likely to come from couple of different sources, including a credit from key export credit agencies, Bilateral Financial Institutions (BFIs) and vendor loans. These loans will most likely only be available to the Government or a Government guaranteed entity.

MINORITY SHAREHOLDER INVOLVEMENT OPTION

In order to successfully secure a minority shareholder's involvement under the project financing option, the project structure needs to be developed so as to use all possible tools to increase investor confidence. Government guarantees and most likely a political risk insurance will need to be offered by way of back-up guarantees.

3.7 LACK OF INVESTOR CONFIDENCE IN LEGAL SYSTEM AND JUDICIARY

This issue is linked to political risk and represents an issue only for the minority shareholders.

DIRECT FINANCING OPTION

Since under this option the government Kosovo is the only shareholder, there is no need to mitigate this risk.

MINORITY SHAREHOLDER INVOLVEMENT OPTION

Under this option, Minority shareholder would carry all political risks. It is mandatory that such investor would look for all available options to mitigate this risk. It would certainly involve lengthy negotiations on all the terms in the shareholders agreement, and all other agreements between the two parties as well. Mitigation measures would include government guarantees, if possible include other available political risk insurances, and would require involvement of a team of legal experts. The agreements would have remedies and indemnifications incorporated for a different set of events, that would protect a minority shareholder against political decisions, as well as the decisions that could go against the interests of minority shareholders.

3.8 GUARANTEES

In either case, whether TPP Kosovo B is financed directly by KEK or by a private equity partner, government/sovereign guarantees will need to be provided. It is usual that for such projects, sovereign guarantees are issued by the Government in order to financially promote projects of the public interest, such as TPP Kosovo B rehabilitation.

Such guarantees are considered as Government debt and are treated as financial products. The guarantee would mean that the Government or some other guaranteeing party would accept the responsibility of debt repayment in the events of project failing to repay its obligations.

International institutions may provide political and economic guarantees as well when trying to attract lenders to projects in less stable regions of the world. For such cases roles of Multilateral Development Banks (MDBs) or Export Credit Agencies (ECAs) can be important.

The guarantees would have to cover most of the risks for the lenders, such as merchant risk, political risk, technological risk and other risks, depending on the lenders' rules, as well as on the negotiations and agreements achieved with the lenders.

The guarantees are used as economic incentives for the capital market to finance the power projects and would have to be provided even in the case of involvement of private investors.

4. PROPOSAL OF PROJECT ORGANIZATION AND ACTIVITIES NECESSARY FOR CORPORATE FINANCING OPTION

For successful implementation of the project of the rehabilitation of TPP Kosovo B it will be necessary to follow best practices in procurement of engineering services according to FIDIC rules, with active participation of key stakeholders.

The process would involve the following steps:

1. Creation of the project organization
2. Selection of external experts, owner's engineering company
3. In-detail creation of tender documentation
4. Procurement (bidding procedures, award)
5. Construction

PROJECT ORGANIZATION

In 2015 REPOWER submitted a document "Governance Documents for TPP Kosova B rehabilitation" in which in detailed project organization with rules of conduct is presented and elaborated, from which a brief summary is given here.

The proposed Project Management and Reporting structure intends to provide for a professional and transparent management of all stages of the Project. Such structure should be established based on Kosovo Laws, standard practices for similar transactions and the lessons learned during implementation of similar transactions in Kosovo.

Taking in consideration the complexity and the content of the Project as well as the Kosovo laws, the Project shall be managed by: Project Committee (PC) and Project Implementation Unit (PIU), supported from local Technical Working Group (TWG), Transaction Advisers (TA) and External Experts.

In general, the PC shall be responsible for the overall management and supervision of the Project. The PC shall be supported in its duties by a duly qualified PIU that is responsible for coordinating activities and implementing decisions made by the PC.

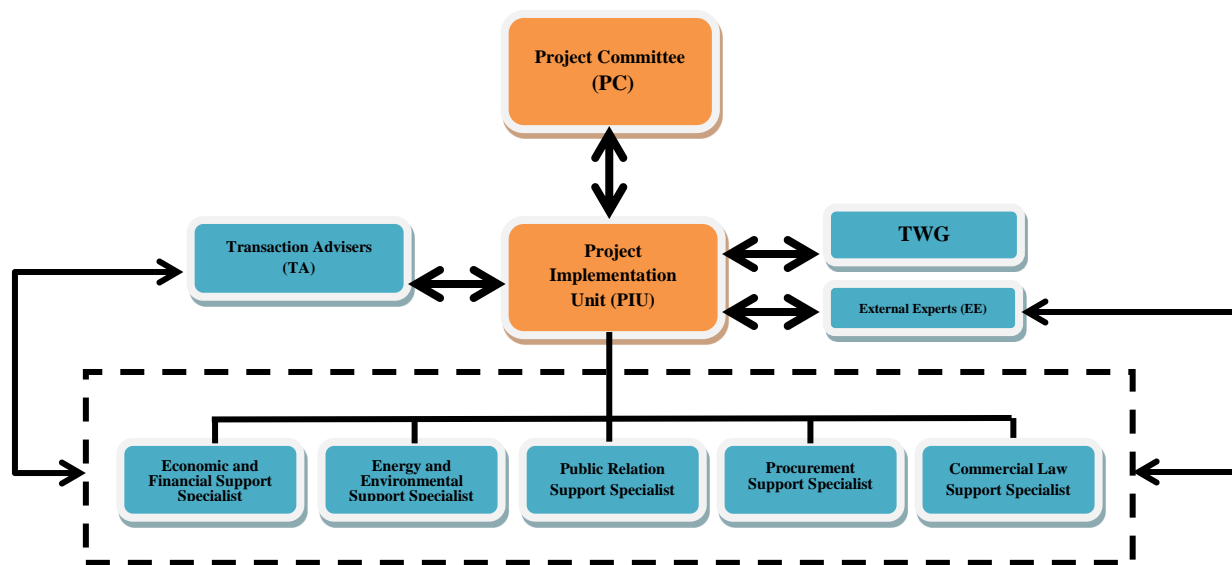
Both the PC and PIU shall be supported by a qualified and experienced TA who provide technical, financial, legal, regulatory and other requested assistance to ensure that the Project meets the Government's identified goals. PC and/or PIU may temporarily engage qualified and experienced external advisors to provide directed technical assistance in specific competencies related to the Project.

Based on lessons learned during the implementation of similar projects we recognize that the TWG is extremely important for implementation of similar projects.

TWG members are designated to protect the Government interests/ rights and obligations in commenting, providing recommendations for editing and initial approving of all project transaction documents, contract and side contracts.

Projected Project Management and Reporting Structure is presented below:

Figure 7: Projected Project Management and Reporting Structure



PROJECT COMMITTEE (PC)

The PC will be responsible for the Project implementation. PC will take all necessary measures to guarantee that the Project is executed in a consistent manner with the Governmental decisions, objectives and instructions as well as in accordance with the Kosovo Energy Strategy and Kosovo Assembly decisions.

The PC should establish policies, make policy decisions and ensure coordination of all stakeholders during all phases of the Project. In general, it should oversee the timely and open, transparent and competitive transaction procedure.

The PC may consist of five members. The Minister for Economic Development shall act as the Chairperson, the Minister for Finance and the Minister for Trade and Industry as member. Other two Ministers shall be appointed by the Government.

Due to this requirement the PC may consist with the following members:

- 1) Minister of Economic Development (MED) – Chairperson;
- 2) Minister of Trade and Industry (MTI) – Member;
- 3) Minister of Environment and Spatial Planning (MESP) – Member;
- 4) Minister of Finance (MF) – Member;
- 5) Minister of Labour and Social Welfare (MLSV) – Member
- 6) To be decided if needed.

The PC shall be chaired by the Minister of Economic Development (MED).

Due to the complexity of the Project it may be necessary to have also other bodies and independent authorities as observers in the PC, without the right to vote. Participation of Kosovo Energy Corporation (KEK), Energy Regulatory Office (ERO) and any other body may be of high benefit for successful implementation of the Project. The Government of Kosovo on the decision of establishment of the PC may also appoint observers.

PROJECT IMPLEMENTATION UNIT (PIU)

The intention is to establish a functional organization structure and technically qualified PIU team, with a capacity to oversee the overall process, review tender documents and specifications, based on the Kosovo Legislation, as well as support the procurement selection process.

PIU is a temporary body and it will be active until the completion of the Project.

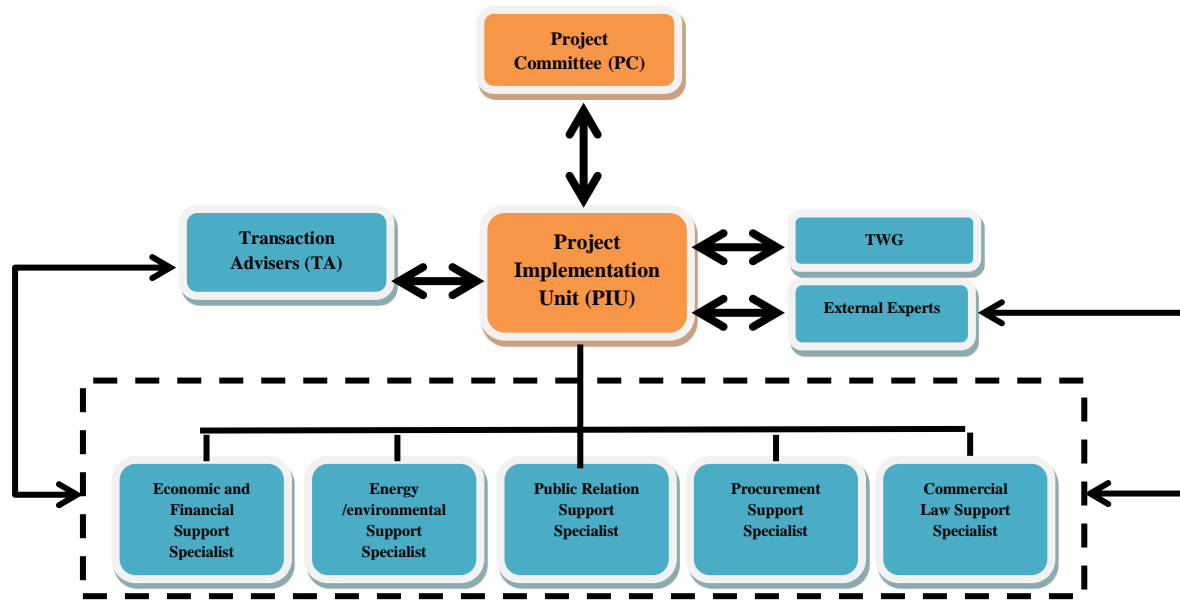
PIU team through PIU Manager should be directly accountable to the PC and should be supported by professional the TA and external advisors, as the PC may consider necessary.

PIU team should work closely with local TWG, TAs and external experts/advisers.

Main task of the PIU is to coordinate all main actors within the Project and implement the Project in accordance with the PC stated policy directives and decisions.

Based on project complexity, PIU team needs to have technical, commercial, financial, legal and commercial capability, with the organizational structure as follows:

Figure 8: PIU organizational structure



TECHNICAL WORKING GROUP (TWG)

The TWG is a group of experts designated by PC members and other observers (potentially by KEK, KOSTT, ERO, KEDS etc.), with main objective to provide technical, legal, environmental, regulatory, financial and other advices to the PC through PIU and to support the development and implementation of Project.

TWG members are designated to protect the Government interests/ rights and obligations in commenting and initial approving of all Project transaction documents, contract and side contracts.

Members of the TWG shall be designated by PC members and other observers. TWG officially will be appointed by the Chairperson of PC, following consultation with the respective Ministers and chief of representing organizations in PC and would consist of the following members:

- 1) Designated expert by MED;
- 2) Designated expert by MTI;
- 3) Designated expert by MESP;
- 4) Designated expert by MLSW;
- 5) Designated expert by MF;
- 6) Designated expert by Energy Regulatory Office (ERO);
- 7) Designated expert by KEK Managing Director;
- 8) Designated expert by Kosovo Transmission, System and Market Operator (KOSTT) Chief Executive Officer;
- 9) Designated expert by Independent Commission for Mines and Minerals (ICMM) Director;

- 10) PIU Project Manager, Chairperson of TWG;
- 11) Other members (if PC required);

The TWG will be chaired by the PIU Manager. PIU Energy and Environmental Support Specialist shall act as TWG secretary.

TRANSACTION ADVISOR (TA)

The TA will be selected through transparent and international tender procedure.

The TA shall provide strategic, legal, technical, regulatory and financial advisory services to the PC and to the PIU regarding the structuring and implementation of the Project. The TA will also be responsible for drafting of all transaction documents, in accordance with terms of reference of the contract signed between the Government of Kosovo and TA.

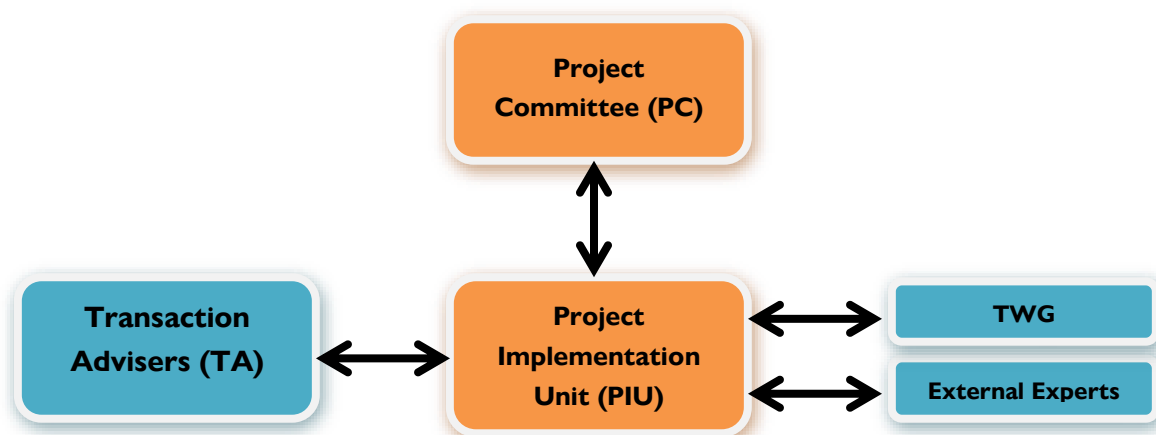
EXTERNAL EXPERTS

During the Project implementation if the PC requires for any specific expertise where Government officers or PIU team do not enclose, the PC may request additional advisory services. The PC and/or the PIU may temporarily engage qualified and experienced external advisors to provide directed technical assistance in specific competencies related to the Project.

These external experts/advisors have to be appointed by the PC and shall be required to act in accordance with the Code of Conduct.

Diagram below presents a chain of command and advisory lines between main participants during Project implementation.

Figure 9: Chain of command and advisory lines between main participants during Project implementation

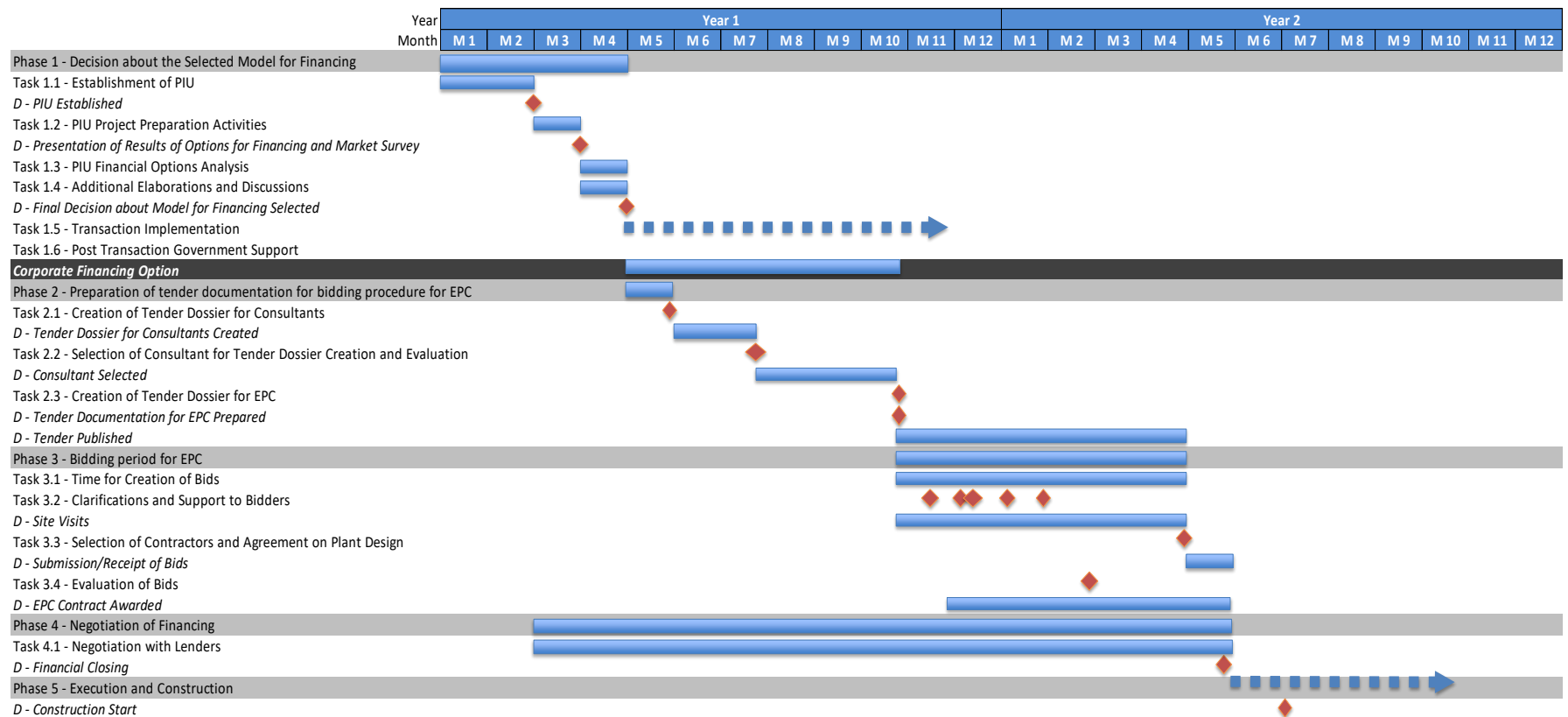


During the Project implementation, External Experts shall work totally independently from Transaction Advisers.

CORPORATE FINANCING TIMELINES

The timelines are shown in case of the decision that the Rehabilitation of Kosovo B Power Plant will be remain in the government ownership, with the Government providing all the guarantees for financing the rehabilitation.

Figure 10: Corporate financing timelines



5. EXAMPLES OF SOURCES OF FINANCING IN REGIONAL PROJECTS

5.1 BiH: LIGNITE-FIRED POWER PLANT STANARI (300 MW)

300 MW Stanari power plant in Bosnia, owned by EFT (Energy Financing Team) was supported with a US\$391 million loan from the China Development Bank. The project was supported by the EBRD at the beginning, but the EBRD withdrew later. The project used China's Dongfang Electric Corporation as a key equipment supplier, with the lignite-fired station originally designed as a supercritical 410 MWe plant, but it was later redesigned as a 300 MWe subcritical plant, resulting in a drop in the design efficiency from 43% to 34.1%.

Despite the redesign of the Stanari plant to a smaller and less efficient unit than the original proposal, it is possible that the design was scaled down to a smaller atmospheric fluidized bed combustion unit due to plant economics and the need to handle difficult fuels. As plants size decreased, the benefits of SC or USC plants become marginal. However, the plant was equipped with FGD and PM controls, as well as being dry air cooled. The power plant is completed and put in operation in September 2016.

Financing institution: China Development Bank, EBRD at the beginning (withdrew later)
Project objective : Construction
Project sites : Stanari
Duration : Set in operations in 2016
Executing Organization : EFT
Expected Result: Fully operational power plant since 2016

5.2 BiH: LIGNITE-FIRED ACFB PLANT UGLJEVIK (300 MW)

Thermal power plant, built in 1985, is not adjusted to the EU environmental standards regarding the emissions of SO₂. Significantly large amount of Sulphur in flue gases causes large air contamination and has very bad impact on peoples' health as well as on the environment.

All Balkan countries have obliged to decrease SO₂ emission in thermal power plants to the acceptable level of 200 mg/Nm³ by 2023. This goal can be achieved by installation of flue gas desulphurization facilities in existing thermal power plants.

Financing institution: JICA
Project type : ODA Loan
Project objective : Lower SO ₂ emission to EU level
Project sites : Ugljevik

Duration : From 2009 to 2019
Executing Organization : Ugljevik Thermal Power Plant
Expected Results: <ul style="list-style-type: none"> 1. Flues gas desulphurization installed 2. EU standard for SO₂ emission achieved 3. Health condition of people and environment improved

5.3 SERBIA: THERMAL POWER PLANT NIKOLA TESLA (1650 MW) FLUE GAS DESULPHURIZATION CONSTRUCTION PROJECT

Thermal power plant Nikola Tesla located in Obrenovac, 40 km from Belgrade, built in 1970, does not adjust to the strict EU environmental standards regarding the emission of SO₂. Significantly large amount of sulphur in flue gases causes large air contamination and has very bad impact on peoples' health as well as on environment.

All Energy Community Contracting Parties have obliged to decrease SO₂ emission in thermal power plants to the acceptable level of 200 mg/Nm³ by 2023. This goal can be achieved by installation of flue gas desulphurization facilities in thermal power plants.

Financing institution: JICA
Project type: ODA loan
Project Objective: Lower SO ₂ emission to EU level
Project Sites: Obrenovac
Duration: From 2011 to 2022
Executing organization: Elektroprivreda Srbije
Expected Results: <ul style="list-style-type: none"> 1. Flues gas desulphurization installed 2. EU standard for SO₂ emission achieved 3. Health condition of people and environment improved

6. ANALYSIS OF THE POTENTIAL AND CONDITIONS FOR ATTRACTING MINORITY SHAREHOLDER(S)

Since the financing of the Phase 1 is co-financed by EU, that fact carries obligations of keeping majority state ownership of TPP Kosovo B. This reduces the headroom for involvement of private capital, since no controlling rights can be offered to the potential investors. For this reason we give here a brief analysis of minority shareholders' involvement.

MINORITY SHAREHOLDER RIGHTS

The presence of a minority shareholder would add an additional complexity to financing projects and to corporate governance methods and challenges in KEK, because the Government could have goals that are different from the goals of the classic private shareholder who would only seek for returns on their investment.

There is one major difference between the position of a minority shareholder in State owned enterprise (SOE) in comparison to the position of a minority shareholder in a regular business company, meaning that there is a conflict of interest between the State that would look so called broader or "national interest", while minority shareholders would have business interests only. This often leads to different objectives and a number of problems that would need to be solved along the way. This would mean a number of agreement agreed upfront, in order to ensure that both shareholders would be in line.

However, since the State is providing minority shareholders with an almost monopolistic position, an important question is to what extent a new minority shareholder would have rights on the value behind the project, and to what extent the State, as the majority shareholder, would be able to protect its own broader social interests.

Although these factors decrease possibility of finding private investors, there are some examples with similar companies in the region. One of such examples is Montenegro and involvement of A2A company from Italy as minority shareholder (at the time of entrance, A2A held 43,7% of shares of Montenegrin power utility EPCG).

However, very few investors would be willing to invest under such conditions, especially given the risks that investing into coal-fired power plants carry a number of other risks that would have to be mitigated. All this would require costly and lengthy process with uncertain results, what would decrease willingness of involvement of private capital.

PROCEDURE AND CONDITIONS FOR ATTRACTING PRIVATE SHAREHOLDERS

In the event of a decision to involve private capital, it is suggested to proceed with the following two steps/activities:

Activity 1 – Consideration and contacting suppliers that could bring public financing source (IFI, ECA, Commercial banks etc.; e.g, export banks willing to support export with providing loans and guarantees taking part of the risk away from the suppliers)

Activity 2 – Simultaneously considering private financing sources – including development of teaser for potential investors and road show organization

To recap, it is assumed that finding a minority shareholder would be harder to achieve. It would mean most likely that the minority shareholder would have to provide financing, in return to certain promises provided by KEK and GoK. That would mean that certain procedures would be needed, and would have the following consequences:

- The procedure would last longer with uncertain results
- It would be more expensive since in detail negotiations would take place, with all the contracts agreed and signed before the investment decision

In case of the decision to go for the option of trying to involve minority shareholders in the project of rehabilitation of TPP Kosovo B, some key decision would have to be brought.

1. TPP Kosovo B would have to be transferred into a separate special purpose vehicle or SPV, the project company
2. SPV would be the main borrower of finance and would oversee project development
3. SPV would enter into contractual agreements with all the other parties involved regarding the agreed risk allocations and rewards

The contracts would have to be agreed with the potential investor, and made between the SPV and other related parties, that would secure creation of flow of funds between the lenders, SPV, equipment suppliers, construction companies and other suppliers. The direction of financial flows varies through the phases of construction and operation. During construction, the funds to build the plant are taken from accounts of the project, loan interest usually accrued during the construction phase, which means asset to the overall debt. The repayment of debt is usually deferred until the plant is fully commissioned.

Sovereign guarantees and guarantees of multilateral development banks and export credit agencies are used to participate in adding assurances to commercial banks for those payments as well.

The contracts for the power plant itself will involve different companies for:

- asset transfer and land use agreement for all the parts of the power plant;
- construction and operation;
- engineering procurement and construction (EPC);

- O&M;
- power offtake agreement;
- coal procurement, and other materials and commodities;
- connection to the grid agreements.

When the plant becomes operational, offtake agreements, capacity payments and other government support mechanisms, provide cash flow from which the debts are serviced with regular payments over the agreed period.

SUMMARY OF THE STEPS FOR ATTRACTING PRIVATE SHAREHOLDERS

In case of the decision to search the minority shareholders for the project, the following steps would be recommended:

Table 7: Recommended steps in search of minority shareholders for the project

Step 1	Decision by GoK and KEK Board about involvement of the strategic partner with EOI (Expression of interest)
	- Decision on the budget, allocation of resources, timelines and goals
Step 2	Creation of the project implementation team consisting of the project implementation body
	- The body would consist of experts from KEK, participants from relevant ministries, outsourced experts for specific areas (international lawyers, strategic and technical support)
Step 3	Project structure definition and decision
	- Creation of the SPV - Definition and creation of all necessary agreements (asset transfer and land use, construction and operation, EPC, O&M, power offtake, coal procurement and other materials and commodities and connection to the grid) - Definition of the guarantees to be provided
Step 4	Creation of the documentation needed
	- Teaser - Project description - Description of the project structure (with the description - Feasibility study - Invitation for the Expression of Interest (EOI)
Step 5	Roadshow organization

7. CONCLUSIONS

Thermal power plant Kosovo B (TPP Kosovo B) is recognized as one of the most important and cost-effective options necessary for security of electricity supply in Kosovo. The plant currently produces around two-thirds of all the energy produced in Kosovo. Even though in the past few years over 56 mil.€ has been invested in TPP Kosovo B, in order to keep TPP Kosovo B in normal operation in the future it is necessary to make major rehabilitation with significant investment requirements estimated to about 300 mil.€. The most critical issue of this project is financing, with particular importance to bring the power plant up to current EU environmental standards

In 2015 and 2016 the financing options for TPP Kosovo B rehabilitation were analyzed in detail by the USAID's REPOWER Kosovo project. Two main options for financing TPP Kosovo B rehabilitation were the central focus of the Study, namely:

- Option 1: Project Financing option and
- Option 2: Corporate Financing option.

Based on all relevant inputs, the Government of Kosovo in 2017 confirmed to keep at least 51% of TPP Kosovo B shares in public ownership in the upcoming 10 years. This implies the adoption of Option 2 – Corporate financing.

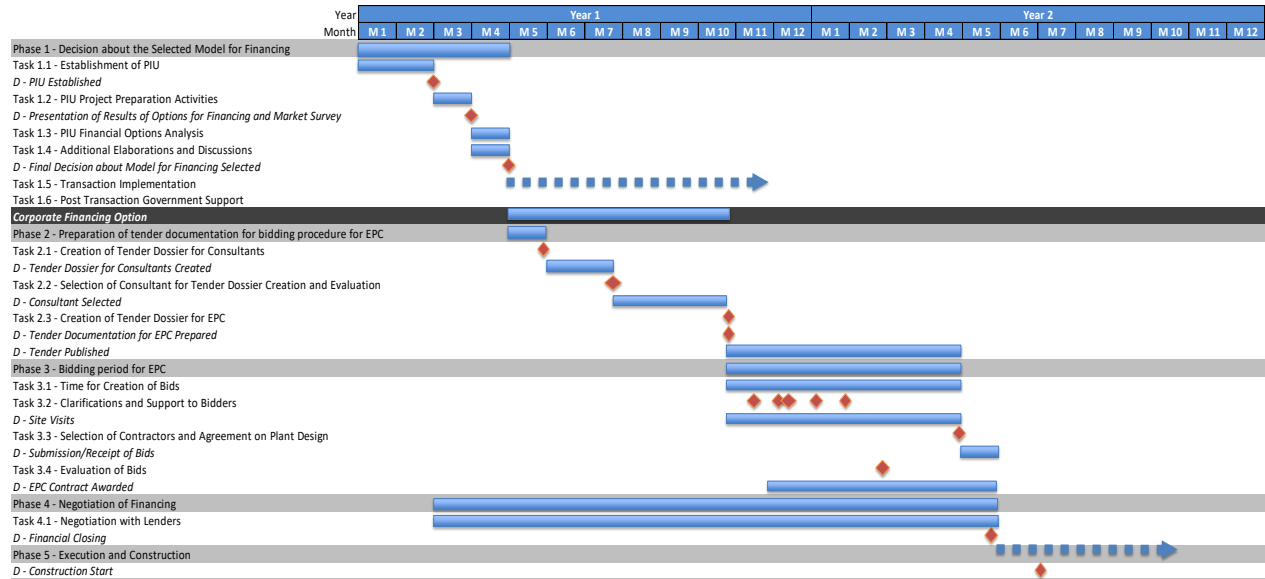
This report has evaluated the different options available to Government and has analyzed potential sources for financing of the rehabilitation of TPP Kosovo B, to address the issue of risks minimization as well as propose the best approach to move forward.

Based on the findings of the report, REPOWER considers that the most realistic option for access to financing of the rehabilitation of TPP Kosovo B is for KEK to source funding directly, supported with government guarantees or with a loan provided directly by the government, with the debt put on its balance sheet.

It is also clear that public ownership represents a simple option which is much easier for government to handle, since there is no risk of being outvoted over the decisions important for the company and the power plant. Control rests solely with government.

Corporate Financing Timelines

The timelines are shown at the following Gantt-chart.



LITERATURE

1. „Financing Options“ study, 2015
2. „Feasibility Study for Environmental and other measures on Kosovo B Thermal Power Plant“, 2017
3. Letter from 20th October 2017 from Government of Kosovo, Mr. Ramush Haradinaj with subject: „Confirmation of public ownership of Kosovo B Thermal Power Plant“
4. Letter from 18th January 2018 from Head of EU Office Ms. Nataliya Apostolova with subject: „IPA 2018 – Environmental improvement measures at Kosovo B power plant“
5. Letter from 22th January 2018 from Ministry of Economic Development of Kosovo, Minister Mr. Valdrin Lluka, respond to the „Confirmation of public ownership of Kosovo B Thermal Power Plant“ letter
6. IEA Clean Coal Centre “International finance for coal-fired power plants”, April 2017
7. NRDC “Power shift report”, October 2018
8. WWF “How G7 Nations Conceal Public Financing for Coal Around the World”, May 2016
9. OECD “Agreement on officially supported export credits”, January 2019

ANNEX 1 – MDBs and BFIs Additional Facts

EBRD

European multilateral development banks, such as EBRD, showed declining willingness to finance coal investments. The Sustainable Energy Initiative of the EBRD states that it will actively invest in projects that move away from coal to lower carbon alternatives including natural gas and renewables. EBRD published a document entitled 'Methodology for the assessment of coal fired generation projects'.

EBRD also brought a new Energy sector strategy 2019-2023, approved by the Board of Directors on the 12 December 2018. The strategy is focusing on scaling-up renewable energy, and clearly states that EBRD will not finance thermal coal mining or co-fired electricity generation capacity.

The activities of the EBRD are limited to the highest performance designs, and then after all other options have been considered and deemed insufficient on economic and development grounds. Plants that are unabated with respect to CO₂ emissions, will be financially supported only under 'rare and exceptional circumstances'. If such circumstances occur, the following key criteria for coal power apply:

- the infrastructure being financed must be the least carbon-intensive of the realistically available options;
- the infrastructure must use best available technologies (BAT), as defined in the EU Industrial Emissions Directive; and
- the plant must comply with the EU Industrial Emissions Directive requirements in relation to carbon capture and storage readiness.

At the core of the analysis is the levelized cost of electricity (LCOE) assessment for different technologies, with a number of external costs for pollutants and CO₂. Combined heat and power plants (CHP or cogeneration), operating fuel costs and O&M, costs of greenhouse gas emissions etc.

In the period 2007-13, the EBRD provided US\$660 million of funding for coal, roughly two thirds of which went to coal power projects and a third to mining. Of the major MDB, the EBRD has provided the least funds for coal related projects.

EUROPEAN INVESTMENT BANK (EIB)

The EIB is the European Union's bank with shareholders comprising of 28 EU Member States. EIB is active in over 150 countries where it supports projects which contribute to the EU's external cooperation and development policies. In 2012, some 90% of the EIB's total financing of €52 billion was for projects located within the EU.

The EIB is guided by EU policy. Since its activities are mainly within the EU, its lending policies are probably some of the strictest in the world. This is evident in the cumulative coal funding in the period 2007-13 which was just US\$1.58 billion, of which US\$40 million was invested in emission controls for coal plant, the rest was used for power generation funding. The EIB coal policy is set and can be seen in the document Energy Lending Criteria, with no apparent support for coal power. There is a recognition of technologies that can partially decarbonize coal plants. EIB aims for a drastic reduction in carbon emissions from fossil fuel generation but can support that goal through the usage of for instance clean technologies, like CCS or biomass co-firing.

The Bank's uses cost benefit analysis methods based on international practices. Coal investment decisions must first pass a general screening criteria, and once passed, the project then goes through a set of sector specific criteria. Similar to the EBRD, the EIB includes comprehensive costs of externalities in the LCOE calculations for fossil fuel generation. The EIB also examines the GHG impact of proposals using the following set of screening criteria:

- EIB will screen out projects whose carbon footprint benchmark – or the emission performance standard (EPS) in g/kWh – is above a threshold level of 550 gCO₂/kWh. Exceptions may be made for projects which contribute to the security of supply of isolated energy systems, such as small islands with no mainland energy connection, where there is no economically viable alternative.
- Fossil fuel plant operators must demonstrate that they comply with the CCS Directive. The Bank will continue to support projects in research, development and deployment of clean fossil fuel technologies, including CCS demonstration projects.

ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

Recently, China has been active in creating two global development banks, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). The two institutions have strategies to fund development and objectives of non-OECD countries and to complement banks such as the ADB and AfDB. The AIIB is the youngest of all major MDB, inaugurated in January 2016 and is potentially the most important of these new institutions. Unlike the World Bank Group and International Monetary Fund (IMF) that are led by the USA, no country member has powers of veto over decisions at the AIIB.

However, China holds more than 25% of the voting rights, sufficient to block decisions involving structure membership, capital increases and other significant issues.

The new bank also comes in the times when Chinese President Xi Jinping promotes the One Belt, One Road plan to finance and build new infrastructure throughout Asia.

The AIIB allows bidding for funding to any country and is not restricted to Asia (for the comparison, ADB restricts contracts exclusively to member countries). It aims to be a 'green' bank, which would include HELE plants and other clean coal technologies.

AIIB according to its strategies would be able to address the infrastructure needs of developing countries and help empower emerging markets in the global economy. However, the AIIB's also imposed higher standards for providing financing, in collaboration with the WB and EBRD, but will not force borrowers to adopt the free-market conditions that are favored by the IMF and World Bank.

It is possible that a coal power or mine project could be financed, but a proposed coal plant would have to be in line with the rules and due diligence that would have to be carried out for projects.

ANNEX 2 – ECA Funding Details and a List of Suppliers

Table 8: List of major ECAs in the world

Country	Name of the agency	Internet link
Australia	Export Finance and Insurance Corporation (EFIC)	http://www.efic.gov.au/
Austria	Oesterreichische Kontrollbank AG (OeKB)	http://www.oekb.at
Belgium	Credendo	https://www.credendo.com/
Canada	Export Development Canada (EDC)	http://www.edc.ca
Czech Republic	Export Guarantee and Insurance Corporation (EGAP)	http://www.egap.cz
	Czech Export Bank	http://www.ceb.cz
Denmark	Eksport Kredit Fonden (EKF)	https://www.ekf.dk/en/Pages/default.aspx
Estonia	KredEx	http://kredex.ee/en/
Finland	Finnvera	https://www.finnvera.fi/eng/
France	Bpifrance Assurance Export	http://www.bpifrance.com/
Germany	Euler Hermes Aktiengesellschaft	https://www.agaportal.de/en
Greece	Export Credit Insurance Organisation (ECIO)	http://oaep.gr/index.php/en/
Hungary	Hungarian Export Credit Insurance Ltd and Hungarian Export-Import Bank plc (EXIM)	http://www.exim.hu/en/
Israel	The Israel Export Insurance Corp. Ltd. (ASHRA)	http://www.ashra.gov.il/eng
Italy	Servizi Assicurativi del Commercio Estero (SACE)	http://www.sace.it/GruppoSACE/content/it/index.html
Japan	Nippon Export and Investment Insurance (NEXI)	http://nexi.go.jp
	Japan Bank for International Cooperation (JBIC)	http://www.jbic.go.jp
Korea	Korea Trade Insurance Corporation (K-SURE)	https://www.ksure.or.kr/en/index.do
	The Export-Import Bank of Korea (KEXIM)	http://www.koreaexim.go.kr
Latvia	Latvian Guarantee Agency (LVA)	https://www.altum.lv/en/
Luxembourg	Office du Ducroire (ODL)	http://www.ducroire.lu/en
Mexico	Banco Nacional de Comercio Exterior	http://www.bancomext.gob.mx
Netherlands	Atradius	https://atradiusdutchstatebusiness.nl/en/
New Zealand	Export Credit Office (ECO)	http://www.nzeco.govt.nz
Norway	Export Credit Norway	https://www.eksportkreditt.no/en/
	Garantiinstituttet for eksportkreditt (GIEK)	https://www.giek.no/frontpage/?lang=en_GB
Poland	Korporacja Ubezpieczeń Kredytów Eksportowych (KUKE)	http://www.kuke.com.pl/en/
Portugal	Companhia de Seguro de Créditos	http://www.cosec.pt/en
Slovak Republic	Export-Import Bank of the Slovak Republic (Eximbanka SR)	https://www.eximbanka.sk/en/english.html?page_id=93
Slovenia	Slovenska izvozna in razvojna banka, d.d. (SID)	http://www.sid.si/en
Spain	Compañía Española de Seguros de Crédito a la Exportación (CESCE)	https://inglaterra.cesce.es/
Sweden	Exportkreditnämnden (EKN)	http://www.ekn.se/en
	AB Svensk Exportkredit (SEK)	http://www.sek.se/en
Switzerland	Swiss Export Risk Insurance (SERV)	http://www.serv-ch.com/en
Turkey	Export Credit Bank of Turkey (Türk Eximbank)	http://www.eximbank.gov.tr
United Kingdom	UK Export Finance	http://www.ukexportfinance.gov.uk
United States	Export-Import Bank of the United States (Ex-Im Bank)	http://www.exim.gov

A list of major manufacturers of the equipment of coal-fired power plants.

Table 9: List of major suppliers of equipment in the world

Dongfang – China
Harbin – China
Shanghai – China
Wuhan – China
Beizhogn – China
Fuji – Japan
Hitachi – Japan
IHI – Japan
Melco – Japan
MHI – Japan
Toshiba – Japan
Skoda – Czech
Siemens – Germany
BHEL – India
Ansaldo – Italy
Doosan – Korea
ABB – Switzerland
BBC – Switzerland
Babcock & Wilcox – US
Babcock-Hitachi – US-Japan
GE (including Alstom) – US
Westinghouse – US
Foster Wheeler – US

GE has is the leading provider of coal plant equipment worldwide with its acquisition of Alstom. Other significant manufacturers of boilers and turbine and generator capacity include Babcock and Wilcox (US), MHI (Japan), Toshiba (Japan), and Siemens (Germany), with Chinese producers becoming increasingly important.

JAPANESE ECA FUNDING

Japanese HELE technology is becoming more efficient and cost-effective. That facts, together with the fact that they have access to financing to Japanese ECAs and bilateral financing institutions is creating opportunities to access to both, technology and financing.

Two main agencies are Japanese Bank for International Cooperation (JBIC) and Japanese International Cooperation Agency (JICA) that have roles of ECAs, providing loans and guarantees for Japanese exporters, and promoting development projects. They have access and cooperate with major commercial banks from Japan, such as Mitsubishi, Mizuho, Sumimoto Mitsui and other. They are the biggest providers of financing in the world. Mostly, they will request that big large proportions of EPC contract are awarded to Japanese exporters.

JBIC usually funds a little more than 60% of the debt for the project by providing buyer credits for projects to purchase Japanese goods. These credits are co-financed with commercial banks and import loans to Japanese exporters. JBIC can also provide grants and untied loans as part their aid program.

NEXI is the export credit guaranteeing agency that partners with JBIC, that insures up to even 100% of lenders' commercial and political risks.

As a member of the OECD, these loans must adhere to the Commercial Interest Reference Rates (CIRR) system that sets minimum variable interest rates.

JBIC can also participate in equity ownership, but in a very small amount.

In order to compete with the lenders from China, JBIC changed its rules in order to allow the acceptance of higher risk. That can relate for example to the longer repayment periods, even including the acceptance of some political risks and similar.

JICA has mandate to help industrialization through building local capabilities through financing infrastructure and community projects, including power generation projects. It is active globally in Eastern Europe, Latin America, the Middle East and Asia. They provide financing through export credits and direct investment, including private sector loans, and have approach for funding energy projects prioritized according to the following rules:

- low life cycle cost and minimal external costs;
- lower carbon solutions, including high efficiency thermal plants, hydropower, geothermal and other sources of renewable energy, reducing transmission grid losses and promoting energy conservation;
- low risk for stabilizing and securing primary energy supply, realizing an optimum mix of energy and power grid stabilization.

JICA is more transparent about its financial products and terms than almost any other financial institution, offering loans with a variety of repayment terms ranging from 15 to 30 years with grace periods of up to 10 years. Interest rates on its general loans are 0.01–1.7% (fixed rates) depending on the economic status of the borrowing country (based on gross national income per capita).

Preferential rates are offered to socially and environmentally aware projects. Variable rates are offered with loans that track the Japanese yen LIBOR (London Interbank Offered Rates). JICA provides loans of

up to 70% of the total project cost. Equity ownership is limited to no more than a 25% stake, and it does not have a majority shareholding in any project.

JICA looks for funding opportunities across the world and sees coal as an area to extend its funding assistance, but with the view of promoting HELE technologies in low income countries.

CHINESE ECA FUNDING

China, together with Japan and Korea, holds nearly US\$4 trillion worth of foreign exchange reserves, two-thirds of which are in US dollars, which they are looking to invest in projects, such as power plants. China is active in more than 30 countries, with guidance established on exploring infrastructure developments in foreign countries, intended for use by Chinese exporters.

The government set several examples of support for funding including syndicated loans, export buyers' credit and insurance, commercial loans, and equity investments through their development funds.

Projects supported by Chinese finance are more likely to succeed due to the facts that Chinese companies provide lower bids, so projects are less likely to be cancelled for financing reasons, they are fully-backed by the Chinese government and Chinese lenders took over the financing of multiple projects from other financial institutions when the latter committed to cuts.

CDB (China Development Bank) is founded in 1994 and is one of China's three leading state owned policy banks, operating domestically and overseas in infrastructure development projects. Its foreign activities are similar to that of a bilateral finance institution. It has total assets in excess of US\$1500 billion supporting policies from the State Council Five-Year Plan involving electricity generation and coal production.

The China Export Import (C-EXIM) bank focuses on large-scale projects in oil, gas, mining, and telecommunications, extending loans in the form of export buyers' credits as well as issuing guarantees to foreign project developers to support the purchase of equipment, with loans approved on a LIBOR plus margin. They have published "Guidelines for the Environmental and Social Impact Assessment of China Export and Import Bank's Loan Projects" and set requirements for the approval of loans and implementation of all C-EXIM bank funded projects, which include that overseas projects must complete social and environmental impact assessments before any loan is approved, assessments must continue during the loan period and monitoring of impacts should occur after the loan approval; and the project implementer is required to abide by host country laws and regulations and acquire all the necessary environmental permits.

Sinosure is established in 2001, and is another important institution and has been active in many coal power projects abroad. They offer short, medium and long term export credit insurances, bond, and guarantee facilities, investment insurances and credit information, playing an important role in managing risks posed to export credit agency loans.

In 2011, Sinosure provided medium to long-term buyers' credit insurance for a total insured amount of US\$11 billion and guarantees of up to 85% of the amount of the EPC contract, with short term export credit insurances representing 80% of the business.

China's commercial banking sector works together with export credit agencies and development banks.

Chinese funding agencies intend to increase even ownership in power projects, and to boost equity to more than 20% of total Chinese financing.

China's finance institutions are asking for a substantial involvement of Chinese stakeholders, usually more than US\$2 million. The buyer must provide at least 15% down payment, and the policy banks will lend the remaining 85% (or less) of the value of the contract to the project developers.

Chinese EPC contractors can often get access to low-rate loans from the Chinese policy banks and self-arrange low-cost financing from China without the additional time and cost that is required to arrange syndicate loans from other countries. China also supports domestic EPC companies with a wide range of tax reduction programs. Since 2013, the project design phase does not have to pay value-added tax, while the supply of equipment and raw materials receive an export tax rebate, and construction under an EPC contract is exempt from business tax. Also, China has signed agreements with 99 countries and regions to avoid double taxation. These agreements also include tax treaty benefits. For example, EPC projects are exempt from income tax for a limited period (in the host country) and project staff are exempt from personal income tax while working abroad.

In order for power project to secure Chinese lending, the government could provide sovereign guarantees for these projects, or designate a supply of natural resources as the form of repayment (or as collateral) in contracts with Chinese companies. For example, Chinese loans-for-oil generally combine a loan agreement with an oil-sale agreement.

China's lending agencies are seen as highly competitive, and capable of undercutting financial institutions from elsewhere.

In some examples, HSBC was offering loans at 9% interest while China's banks offered rates as low as 0.5%. Usually, China's loan rates were 1–2% below the rates offered by the US EXIM bank.

Chinese financing will come with their suppliers, such as large equipment manufacturing firms in China that have the capacities to produce power station boilers and turbine generator systems. Most of the steam boiler systems were exported by just three large equipment manufacturers in China:

- Dongfang Electric Corp;
- Harbin Electric International; and
- Shanghai Electric Corp.

KOREAN ECA FUNDING

The Korean Export-Import Bank (KEXIM) and Korea Trade Insurance Corporation (K-Sure) are large sources of public funding, with KEXIM providing export credits on a CIRR basis, and loans for investments, debt finance where Korean companies have an equity stake, plus guarantees to foreign banks making loans to Korean companies abroad. They established internal policies that contribute to sustainable development compliant with the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence 'the OECD Common Approaches'.

While Korea is planning to shut its ageing domestic coal-fired power plants, the country is using its expertise and manufacturing capabilities to develop coal projects abroad through its export credit agencies.

ANNEX 3 - FINANCING INQUIRY FORM

Financing institutions usually do not provide official forms for submitting requests for providing financing for projects, with no strict application forms.

An example of introductory application form for EBRD can be found on-line at <https://www.ebrd.com/eform/contact/1390580844322> and is used to create the Project Introductory Letter.

The most effective way is that relevant high-level authority of Kosovo writes a letter directly to the relevant authorities of MDBs.

The application itself will have to address all the issues described under the criteria for financing coal power, such as:

- the infrastructure being financed must be the least carbon-intensive of the realistically available options;
- the infrastructure must use best available technologies (BAT), as defined in the EU Industrial Emissions Directive; and
- the plant must comply with the EU Industrial Emissions Directive requirements in relation to carbon capture and storage readiness.

The procedure would have to pass two hurdles:

- expert group related to project evaluation and financing conditions,
- political decision of the MDBs decision making body (politically appointed).

Financing inquiries are usually accepted only from commercial companies or by intermediaries authorized to act for them and are treated as strictly confidential. The information provided is given in order for financing institutions to have a better idea their role in the project, and explanation of how they would be involved in the project.

Below is a proposal for Project Introductory Letter, or as it is also known as a Request for Project Finance, which can be addressed to financing institutions.

ANNEX 4 REQUEST FOR PROJECT FINANCE

Request for Project Finance

Company name: Kosovo Energy Corporation Joint Stock Company (KEK J.S.C.)

Country of investment: Kosovo

Project name and brief description:

Kosovo B Thermal Power Plant rehabilitation, phase 2 with a total of around EUR 225m.

Brief description of our business:

KEK JSC is a Government owned power utility operating in two main business area, coal mining and electricity generation. Electricity generation consists mostly of two old lignite-fired power plants, so called Kosovo A and Kosovo B power plants, producing 97% of total electricity production in Kosovo.

Ownership structure: 100% owned by the Government of Kosovo

Summary of our investment plans:

TPP Kosovo B has 678 MW of installed power, consisting of two units, 339 MW each, put in operations in 1983 and 1984, and is located in Obiliq, Kosovo.

It is recognized as the most important and cost-effective option necessary for increasing security of supply in Kosovo in the near to mid-term, currently producing around 2/3 of electricity produced in Kosovo. However, if Kosovo B is to continue operations until 2030 or 2040, it is necessary that the power plant undergoes major rehabilitation with significant investment requirements. It is recognized by KEK and Government of Kosovo that it is of particular importance that these investments bring the plant up to current EU environmental standards. For those reasons, a detailed “Feasibility Study for Environmental and other measures on Kosovo B Thermal Power Plant” is completed in 2017.

In the study it is shown that the rehabilitation of TPP Kosovo B will need a total investment of around EUR 303m, split into two main categories: Environmental Investments with total of EUR 165.690.000 and Efficiency Recovery/Life Time Extension with total of EUR 137.370.000 required.

Regarding financing requirements, rehabilitation is divided into two phases: Phase 1 for which EU has already provided co-financing and Phase 2 for which additional funding is needed.

Phase 1 is valued to EUR 78m, while for Phase 2 additional EUR 225m is required.

As a project of public interest, Government of Kosovo will promote the project in several ways. It will provide the rehabilitation with government/sovereign guarantees, additional working capital if needed and will give a full support for the project.

Explanation how the investment program will generate the returns necessary to repay the financing provided:

KEK is already producing most of the energy for around 400.000 consumers in Kosovo through supplying electricity supply company (KESCO) through regulated prices.

To ensure the security of supply and ensure financial and economic viability of the project, Government of Kosovo will fully support the project and impose all available measures that are in line with EU directives and Energy Community Treaty obligations.

Other relevant information:

KEK main business results are shown in the following table:

Table 10: KEK main business results

in EUR 000	2015	2016	2017
Total Sales	154.929	169.353	172.217
Total Expenses	(144.912)	(147.871)	(145.509)
Profit before tax	8.044	13.859	23.826
Net Profit	7.369	11.035	20.983

As already indicated earlier, KEK is a publicly owned enterprise and its assets are fully owned by the Government of the Republic of Kosovo. The main function of the company is coal production and electricity generation. To fulfill these two functions, KEK is organized into two core divisions, the Mining Division and the Generation Division. The company operates with the lignite surface mine, namely the

Sibovc South-west mine, two power plants, TC "Kosova A" and TPP "Kosova B". The Corporation employs around 4,800 employees in various operating areas.

U.S. Agency for International Development
www.usaid.gov