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Renewable Energy (RE) Independent Power Producers (IPP) Finance Facilitation Project

**Regulatory School,
Training on Integration of RES in the Market**

**Energy Community Secretariat,
Vienna, November 2019**



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Agenda

- Introduction to MFK / MCC;
 - Reliable Energy Landscape Project;
- Renewable Energy Independent Power Producers Facilitation Project;
 - Renewable energy credit guarantee product
 - Kosovo Project Accelerator
 - Market standardization
- Summary



Millennium Foundation Kosovo (MFK)



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- Millennium Foundation Kosovo is the legal entity established by the power of the Threshold Agreement signed and ratified in 2017, between Kosovo and US governments;
- MFK is an autonomous entity with independent legal authority to oversee, manage, and implement the 49 million USD Threshold Program funded by Millennium Challenge Corporation on behalf of the U.S. Government;
- The Board of Directors consist of seven members: 4 ex officio members from Kosovo institutions; 2 from civil society; and 1 from private sector;
- MFK has a total of 23 staff.



Millennium Foundation Kosovo (MFK)



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\$49 M Threshold Program

- September 2017 – September 2021

Reliable Energy Landscape Project

- Pilot for Investing in Energy Efficiency
- Pilot for District Heating Metering
- Support for Financing Independent Power Producers

Transparent and Accountable Governance Project

- Access to Judicial Information
- Environmental Data Collection
- Open Data Challenge



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Reliable Energy Landscape Project (RELP)

Pilot Incentives for Energy Efficiency

Estimated Scope:

- USD 21 Million;
- 2,500 individual households throughout Kosovo;
- 25 Multi Apartment Buildings / 7 Municipalities selected;
- Women Entrepreneurs and employment support throughout Kosovo;

Scope of Work:

- Incentive design and deployment;
- Behavior Change and Outreach;
- Gender and Social Inclusion Requirements and Activities;
- Monitoring, Evaluation, and Learning
- Environmental, Social, Health, and Safety Compliance;
- Technical Assistance:
 - Capacity building (GoK/KEEA, ERO, etc);
 - Training and support to private sector (installers, service providers).



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Reliable Energy Landscape Project (RELP)

District Heat Metering Estimated Scope:

- USD 10-12 Million;
- 12500 apartments
- Termokos network technical and regulatory support;

Scope of Work:

- Assessment and Installation of DHM equipment
- Technical Assistance
 - Procurement support
 - Training & Capacity building (Termokos, ERO, etc)
- Behavior Change and Communications
- Environmental, Social, Health, and Safety Compliance
- Gender and Social Inclusion Requirements
- Monitoring, Evaluation, and Learning

MCC's core mission is to reduce poverty through economic growth

Key pillar of MCC's model	Description
Policies matter	MCC partners only with countries that demonstrate commitment to good governance on the premise that aid should build on those practices and reward countries already pursuing policies conducive to private investment and poverty-reducing growth.
Results matter	MCC seeks to increase the effectiveness of its programs by identifying cost-effective projects and investing only in those that promise to deliver positive development returns. MCC tracks the progress of its investments and has committed to measuring project impact through rigorous evaluations.
Country ownership matters	MCC works in partnership with eligible countries to develop and implement an aid program on the premise that investments are more likely to be effective and sustained if they reflect the country's own priorities and strengthen the partner government's accountability to its citizens.

In Kosovo, MCC has committed USD 49M towards the Kosovo Threshold Program, which provides programmatic support to address key binding constraints to economic growth in Kosovo: an unreliable supply of electricity and real and perceived weakness in the rule of law, government accountability, and transparency.

A lack of reliable energy supply is a binding constraint to economic growth in Kosovo

MCC's evidence-based approach to its investments begins with a mutual understanding of a country's main growth challenges. MCC and Kosovo have jointly conducted a constraints-to-growth analysis, **which identifies the binding constraints to private investment and entrepreneurship that hold back economic growth in Kosovo the most**

Constraint to growth	Description
Weak rule of law	The international community has an excess perception of rule-of-law issues in Kosovo that prevents investment , although investors face real challenges with poor implementation of the law
Environmental services	Kosovo faces high levels of environmental contamination from a variety of sources ; Kosovo is not expected to meet requirements for EU accession without investments to strengthen implementation of environmental laws
Lack of reliable energy supply	Businesses in Kosovo report comparatively high losses due to outages . Demand currently outstrips supply, and transmission losses in the network are high.

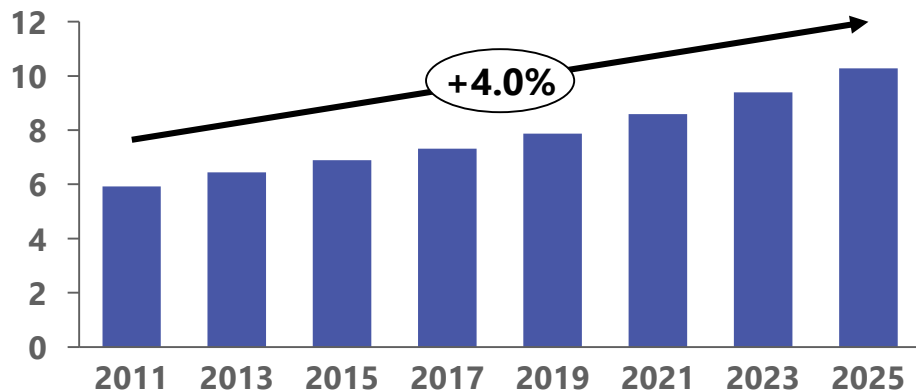
Reliable energy is key to Kosovo's economic growth, but lack of financing limits its potential

- **Energy production in Kosovo is massively polluting**, and existing power plants pose concerns to water security and the health of citizens. At the same time, **demand for energy is rapidly growing** – more than 90% between 2000 and 2010, and is projected to increase 5% per year from 2013 to 2020^{1,2,3}.
- Furthermore, the MCC Kosovo Constraints Analysis found the **unreliable supply of energy is the main constraint to economic growth. This is particularly true for SMEs**, especially those in agriculture and manufacturing.¹
- Kosovo successfully implemented the policy and institutional reforms necessary to allow private sector participation in the electricity market, **but the amount of outside investment to date has remained limited.**¹
- Within Kosovo, **numerous barriers prevent banks from providing project financing to the renewable energy sector**, despite the many independent power producers interested in pursuing renewable energy projects.⁵

To better understand the constraints, opportunities, gaps, and create a practical path forward, MCC commissioned a study of barriers and opportunities in the RE market

Not only is energy demand increasing, but Kosovo's commitment to renewable energy is apparent

Energy demand forecast (10K GWh)¹



Renewables, as percentage of gross energy consumption (%)²



Other considerations

- Despite the clear rise in demand for energy, access to finance is not keeping up; every RE IPP developer interviewed in Tasks 1-3 **cited access to finance as the key bottleneck to project development**
- This challenge is especially true for SMEs and in the RE space, where banks have no RE project financing experience
- Recognizing the demand for energy and the need to increase supply sustainably, **Kosovo made a commitment to renewable energy** – setting a target of 29% of gross consumption of energy in 2020 to be renewable³
- However, **RE as a percentage of gross energy consumption has remained relatively static since 2009**, highlighting the opportunity and urgency for Kosovo to pursue RE³



Renewable Energy Credit Guarantee Window

NOVEMBER 2019

Two-Part Solution Rationale



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RE IPP Guarantee Window

- Guarantees cited as largest need by banking sector
- Leverages existing and successful KCGF model
- Catalyzes a projected €200MM – 350MM lending market

KPA Program

- Establishes consensus for RE project financing framework
- Develops pipeline of bankable IPP projects for RE Window
- Builds model for catalyzing project financing in other sectors

I. Total Projected Installed MW of RE Technology

RE Technology	Licenses Issued	Final & Pre-Authorized
Hydro	240.0	84.9
Solar	30.0	24.7
Wind	150.0	137.4
Total	420.0	247.0

II. Total Project Investment Required (MM Euros)*

RE Technology	Licenses Issued	Final & Pre-Authorized
Hydro	336.0	118.9
Solar	24.0	19.8
Wind	225.0	206.1
Total	585.0	344.7

*Hydro: Assumes €1.4MM per installed MW

*Solar: Assumes €0.8MM per installed MW

*Wind: Assumes €1.5MM per installed MW

III. Total Projected Debt Required (MM Euros)**

RE Technology	Licenses Issued	Final & Pre-Authorized
Hydro	201.6	71.3
Solar	14.4	11.9
Wind	135.0	123.7
Total	351.0	206.8

**Assumes 60% of total project costs financed by debt

**How did MCC and MFK
work with existing
stakeholders to catalyze
renewable energy project
financing in Kosovo?**



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FONDI KOSOVAR PËR GARANCI KREDITORE
KOSOVSKI FOND ZA KREDITNO JEMSTVO
KOSOVO CREDIT GUARANTEE FUND

Kosovo Project Acceleration

MCC commissioned Resonance to understand how to improve energy reliability by supporting RE projects



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Kosovo Threshold Program

resonance

Frontier Market Solutions

Task 1:
Understand IPP
finance context

Task 2:
Select effective MCC
interventions

Task 3:
Outline
implementation




Objectives

- Understand why successful renewable energy (RE) project financing is limited
- Identify roles MCC can play to address barriers to RE IPPs
- Share findings with relevant stakeholders to solicit feedback and iterate
- Determine the optimal structure to finance and provide capacity building
- Identify enabling and risk factors
- Provide an outline of the opportunity for KCGF to expand its mandate and the structure of the Kosovo Project Accelerator

The primary objective of this work was to understand the financing constraint to IPPs and identify high-potential interventions

The root cause analysis pointed to demand-side (developer) and supply-side (bank) barriers...

Root cause analysis



Stakeholder	Assessment	Sources	Outstanding issues
Regulatory Environment i.e. government agencies that influence private sector activity	<ul style="list-style-type: none"> • Conductive • Govt actively working to resolve any concerns 	<ul style="list-style-type: none"> • IPP developers • Commercial banks • Govt officials 	<ul style="list-style-type: none"> • Aligning land use permit timing periods • Further streamlining licensing and permitting process • Issuing licenses only to committed developers • Standardizing project technical documents • Certifying renewable energy origin
 Demand Side i.e. project development companies that develop, finance, construct IPPs	<ul style="list-style-type: none"> • Capable but would benefit from assistance 	<ul style="list-style-type: none"> • IPP developers 	<ul style="list-style-type: none"> • Obtaining quality source data • Verifying required technical studies • Understanding PF contractual/legal reqs • Preparing PF application docs/models • Accessing additional equity capital
 Supply Side i.e. local/regional commercial banks, as well as international financiers	<ul style="list-style-type: none"> • Significant barriers • Project financing is extremely limited in Kosovo (<i>only one project financing completed in the energy sector</i>) 	<ul style="list-style-type: none"> • Commercial banks • IPP developers 	<ul style="list-style-type: none"> • Lack of RE and PF underwriting expertise • Kosovo country risk • Concerns regarding the RE FIT • Small renewable energy market size • Conservative banking sector • <i>Every interviewed RE IPP developer cited access to finance as the key bottleneck to project development</i>
 Facilitation Factors i.e. TA providers, DFIs, NGOs, industry associations	<ul style="list-style-type: none"> • Conductive • Kosovo energy sector is well-served by a range of DFIs 	<ul style="list-style-type: none"> • World Bank • Country Partnership Framework • MCC Kosovo 	<ul style="list-style-type: none"> • See gap analysis on next page

Med priority

High priority

...which can be addressed through a combination of a financing facility and technical assistance

Gaps/opportunities analysis

	<ul style="list-style-type: none"> ✓ Streamlining regulatory process ✓ Issuing licenses to committed developers ✓ Certifying RE 	USAID (Repower), IFC, KfW	<ul style="list-style-type: none"> ✓ Standardizing technical docs ✓ Centralizing technical data sources 	Technical assistance	<ul style="list-style-type: none"> • Standardized templates for technical documents • Centralized data warehouse of source technical data
 <p>Med priority</p>	N/A	N/A	<ul style="list-style-type: none"> ✓ Source data ✓ Quality technical studies ✓ Understanding PF requirements/docs ✓ Accessing addn equity 	Technical assistance	<ul style="list-style-type: none"> • TA to IPP developers to meet project financing requirements
 <p>High priority</p>	<ul style="list-style-type: none"> ✓ Provide RE project financing underwriting training 	USAID (Repower), IFC, KfW	<ul style="list-style-type: none"> ✓ Kosovo country risk ✓ REFIT stability risk ✓ Small mkt size ✓ Conservative banks 	New guarantee product	<ul style="list-style-type: none"> • Credit guarantee window → catalyze Kosovo banks to extend project finance to RE IPPs

We can catalyze the development of RE projects through three complementary interventions

	Context and objectives	Conclusions
Develop RE credit guarantee product	<ul style="list-style-type: none"> • Collaborate with KCGF to develop a partial risk credit guarantee product to increase access to finance for renewable energy IPPs and accelerate project development • MCC's potential investment in capacity building (technical and operational) will allow KCGF to underwrite / monitor projects • Separating capital for MSME credit enhancement products and capital for RE IPP guarantees will ensure KCGF's institutional sustainability and limit risk 	<ul style="list-style-type: none"> • There is strong potential for collaboration between KCGF and MCC/MFK to develop this product • KCGF is well positioned to pursue RE guarantees with support from MCC and MFK, and could do so with limited risk
Project screening and development (Kosovo Project Accelerator)	<ul style="list-style-type: none"> • Though there is demand for RE financing, banks are not confident that IPPs meet best practices (both technical and financial) • The KPA (through MFK) provides technical assistance to IPPs to ensure RE projects are delivered against a clear timeline 	<ul style="list-style-type: none"> • Supporting IPPs is critical to create demand from banks for KCGF's RE guarantees • IPPs are willing to fulfill KPA requirements to access and close non-recourse funding
Market standardization	<ul style="list-style-type: none"> • Project finance and energy finance are generally new to Kosovo, so additional training is required to ensure banks and market regulators can effectively support IPPs 	<ul style="list-style-type: none"> • Banks are willing to extend PF to IPPs, but would like support to ensure maximal effectiveness

These interventions will address key supply-side and demand-side barriers to IPP access to project finance

	Credit guarantee product	Project screening and development (KPA)	Market standardization
Description	Collaborate with KCGF to design a partial risk credit guarantee product for RE projects	Create the Kosovo Project Accelerator (KPA) to provide technical assistance to IPPs to improve the pipeline of bankable RE projects	Provide direct technical assistance to financial institutions and regulators to improve their ability to extend PF to RE IPPs
Supply-side barriers addressed	<ul style="list-style-type: none"> • New option to de-risk project finance deals for a funding-constrained energy sector, by compensating for, e.g., perceptions of Kosovo sovereign risk or uncertainty surrounding the RE FIT. • Improved RE and PF underwriting expertise 	<ul style="list-style-type: none"> • Ecosystem development, including secondary markets 	<ul style="list-style-type: none"> • Capacity building of financial institutions, for credit appraisal • Technical assistance and capacity building for better balance-sheet and loan structuring • Ecosystem development, including secondary markets
Demand-side barriers addressed	<ul style="list-style-type: none"> • De-risking through sector development • Reduced risk perception through catalyzing successful transactions 	<ul style="list-style-type: none"> • De-risking through sector development • Improved project planning by developers • Professionalization of the pre-feasibility process • Better financial structuring, project packaging, and project development by developers based on bank needs 	<ul style="list-style-type: none"> • De-risking through sector development • Promotion of a friendly regulatory and market ecosystem, including improvement in financial structure of off-taker, and market linked pricing

KCGF would be an ideal partner to offer a credit guarantee product for RE projects

KCGF provides...	Description
Significant expertise with guarantee products and key relationships with local financial institutions	<ul style="list-style-type: none">• The proposed RE window utilizes the existing KCGF guarantee product with an increase in loan tenor and ticket size• Would leverage existing guarantee agreements with banks, with minor modifications
Key relationships with partner banks, who provide diligence, underwriting, and liquidation expertise	<ul style="list-style-type: none">• As an institution that solely serves as a guarantor, it can leverage key loan origination and liquidation expertise in local financial institutions rather than needing to develop that capacity in-house
A corporate structure that allows for capital segregation from other KCGF products	<ul style="list-style-type: none">• The proposed RE window would be supported by new, dedicated capital that would be segregated from other KCGF windows to minimize risk



Kosovo Credit guarantee Fund

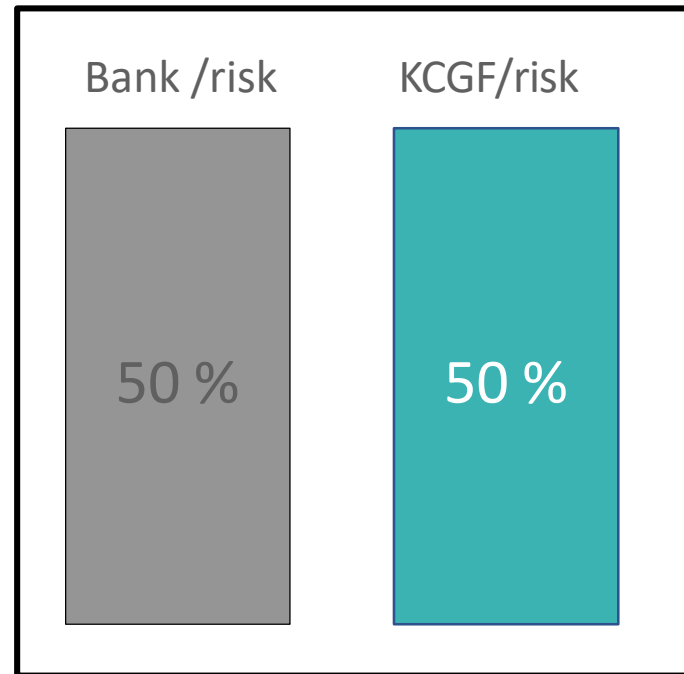
- Kosovo Credit Guarantee Fund (KCGF) is a local, independent Legal Entity that is established under the Law on January 2016.
- The aim of the KCGF is to support the private sector in Kosovo by increased access to finance for MSMEs, thereby creating jobs, increasing local production, improving the trade balance and enhancing opportunities for underserved economic sectors.
- Mobilize underutilized liquidity of the banks through loans to MSMEs in order to increase local production, exports and jobs.



Guarantees

- KCGF absorbs a portion of Financial Institution losses on loans issued to MSMEs in cases of default, by providing guarantees.
- By reducing the risk of lending to MSMEs, KCGF expects partner banks to lend more to MSMEs by increasing the amounts of lending, expanding products and services available to MSMEs and improving the terms and conditions for lending.

MSME Loan

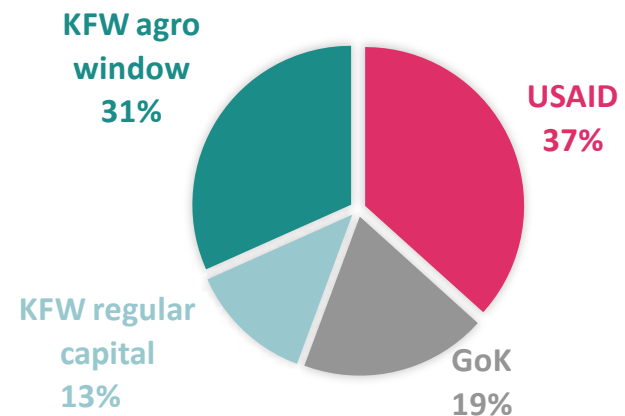




Structure of Capital

- KCGF operates and issues credit guarantees based on the guarantee capital provided by USAID, KfW, and the Government of Kosovo (GoK).

Capital Source	Existing Capital
USAID	5,790,921
Government of Kosovo - MTI	3,000,000
KfW Regular Capital	2,000,000
KfW Agro –Window	5,000,000
Retained Earnings	495,880
Total Capital	16,286,801
Guarantee Balance	33.987.915





KCGF Partners

DONORS

Government of Kosovo

United States Agency
for International
Development (USAID)

German Development
Bank KfW

PARTNERS

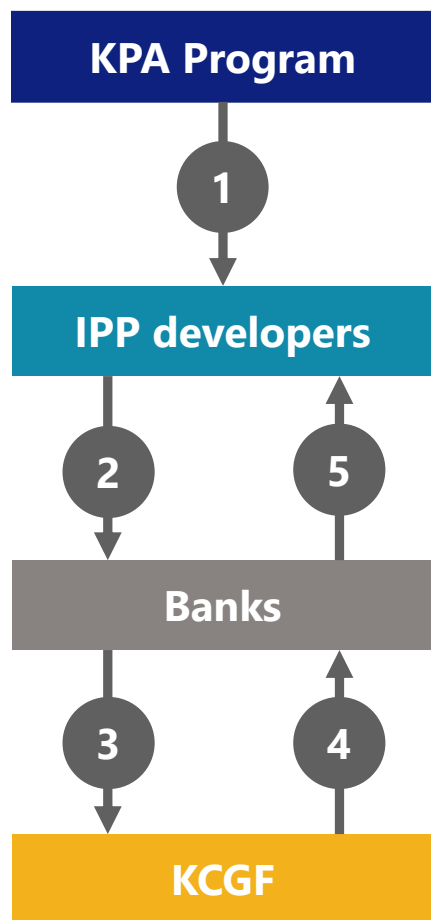
The Swedish International
Development Cooperation
Agency - SIDA
represented by the Swedish
Embassy

European Investment Fund

PARTNER FINANCIAL INSTITUTIONS

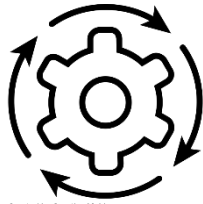
Banka Ekonomike
Banka Kombëtare Tregtare
Banka për Biznes
NLB Banka
ProCredit Bank
Raiffeisen Bank
Raiffeisen Leasing Kosovo
TEB

The IPP guarantee window would operate in a similar manner to existing KCGF guarantee products



1. The KPA program works with IPP developers to **prepare their project financing applications**
2. RE IPPs developers **submit applications and documents directly to banks** using standardized templates.
3. Banks **perform own due diligence** and submit approved loans electronically to KCGF to obtain guarantee.
4. KCGF **reviews each loan for risk and pricing determination** on a project by project basis and issues guarantee on all qualifying loans.
5. Upon receiving guarantee from KCGF, **banks issue project financing** to IPP developers and service loans directly.

Although MFK cannot provide capital, it is willing to provide TA and overhead to support the product



Operations

- Funding for **in-house experts** in project financing, energy finance, risk management, and Environmental and Social (E&S) for 3 years.
- Funding for **incremental operational expenses** related to establishing the RE IPP Guarantee Window for 3 years.
- Funding for **MIS upgrade** for monitoring and analysis of RE IPP Window.
- Funding for **legal and accounting support** for establishing the product



Training

- Training to **KCGF management and staff** in project finance, energy finance and risk assessment and management.
- Assistance with **development of projections, risk model, and guarantee fee** determination.

Because of statutory constraints, neither MCC or MFK can provide grant capital to support the new guarantee window. However, both entities will support KCGF during the capital raise.

Potential donors of guarantee capital have already expressed interest in RE projects in Kosovo

Donor

Prior involvement with RE projects



Provided a USD 31M IDA credit to (i) reduce energy consumption in public buildings through **investments in renewable energy** and (ii) **enhance the policy and regulatory environment for renewable energy** and energy efficiency¹

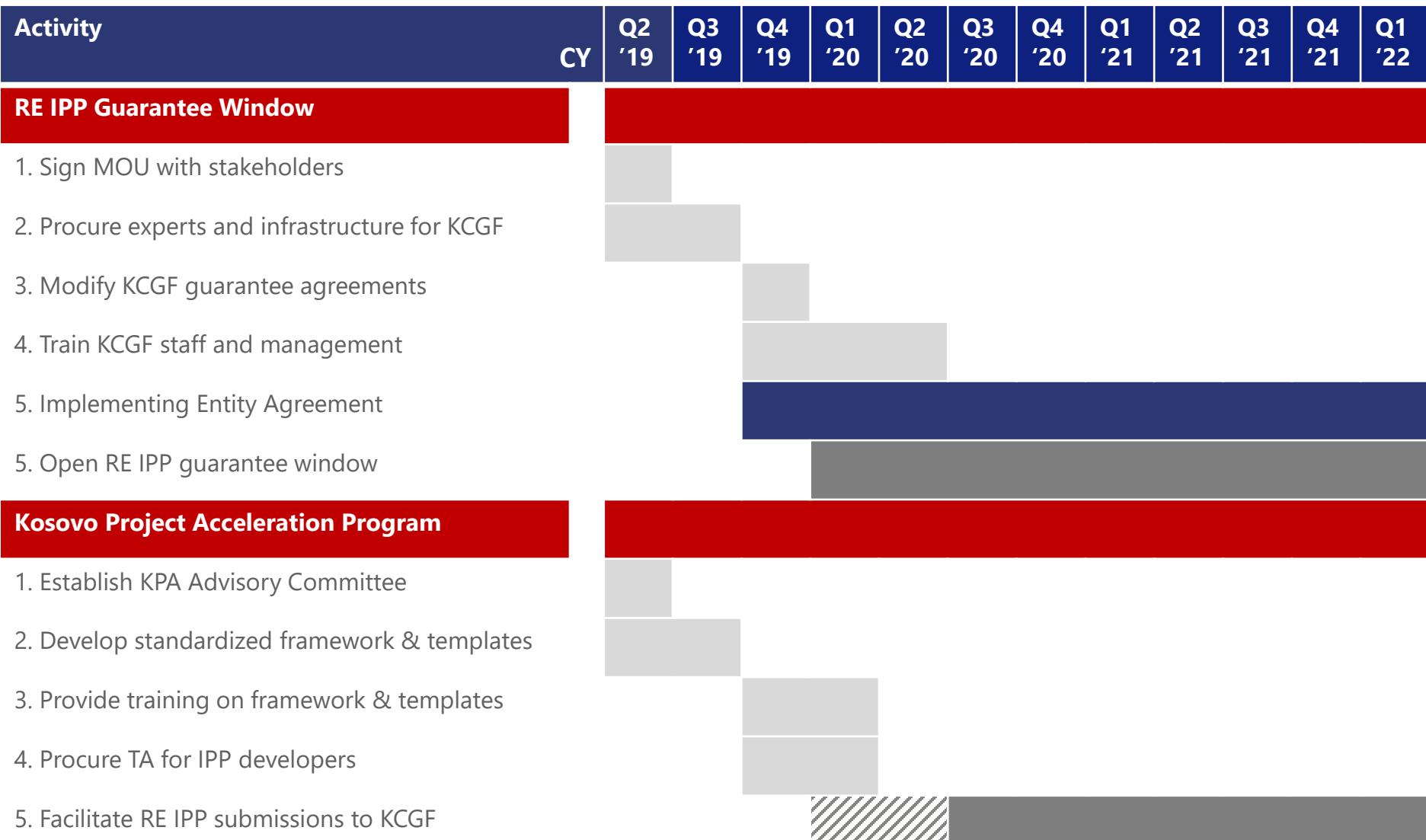


As part of the EMPOWER Private Sector project, **supported IPPs working in the solar power space**. Additionally **supported the development of solar energy through the Solar Roofs Project**, which installs photovoltaic panels at small businesses and residences in rural areas to provide subsidized electricity²



Enhancing energy security and sustainability is a core strategic priority; the EBRD seeks to apply its Green Economy Transition approach to Kosovo, **which prioritizes support to renewables**. Provided a loan to several local microfinance institutions, to increase financing for the green economy as part of the Green Economy Financing Facility for the Western Balkans³

MFK Threshold Program Timeline



MCC is procuring services to assist KCGF with the capital raise for the RE credit guarantee window

Key step	Responsible party	Description
Procure external expertise to lead the capital raising process	MCC	MCC will engage a consultant to lead the fundraising process that is familiar with all parties to support the capitalization of the proposed RE partial credit guarantee window
Lead outreach to donors	KCGF	In conjunction with the external consultant, lead the capital raise process with potential donors

While MCC would like to support KCGF in this process as much as possible, **it is our view that it should be a joint process between MFK and KCGF in leading the capital raise process** to prevent market confusion, as MCC and MCF will be procuring services in parallel for the KPA and market standardization programs.

Bringing the RE credit guarantee to market requires operational, technical and financial investments

Key activities

Operational

- Perform final legal and policy review of Law No. 05/L-057
- Update KCGF corporate governance and internal policies and procedures
- Coordinate KCGF mandate expansion activities with KPA Activities

Technical

- Provide funding and support KCGF to cover the incremental operating and capacity building costs to develop and implement the RE IPP Window
- Update/enhance the KCGF MIS to accommodate separate tracking, analysis and reporting on the RE IPP Window
- Provide capacity building and training in project finance and energy finance to the KCGF board members and staff, and to the partner banks

Financial

- Create a separate RE/EE IPP window within KCGF, and an accompanying capital grant to support the window
- Create separate guarantee between KCGF and banks to cover RE IPP guarantees
- Create detailed financial projections for the RE IPP Window

MFK will provide TA to develop the pipeline of RE deals through the KPA and market standardization

Key Kosovo Project Accelerator activity



Finalize a **standardized framework and document templates** for renewable energy project financing that incorporates international best practices for technical, environmental, social, financial and regulatory criteria that is contextualized to the Kosovo market



Provide **training to IPP developers** on use of standardized framework.



Procure **targeted technical assistance to IPP developers** to prepare documents to be submitted to banks using the standardized framework and templates.



Establish a **KPA Advisory Committee** consisting of key RE stakeholders to develop standardized framework and templates as needed.

Key market standardization activities



Provide **training to KCGF, partner financing institutions/banks, and market regulators** on use of standardized framework for renewable energy project financing



Procure **targeted technical assistance to KCGF and partner banks** to help them effectively structure and negotiate project finance deals for renewable energy IPPs **and to regulators** to help them improve the enabling environment for renewable energy project finance

Launching KPA and market standardization will require investment in content expertise and relationships

Key activities

Content expertise

- Understand and map commercial banks' approval process for non-recourse project financing to identify key bottlenecks and documentation challenges
- Identify key differences between international project financing standards and national regulations by RE technology (wind, solar, hydro) to develop recommendations for resolving differences through KPA activities
- Identify RE experts – both international and local – that can be matched to specific KPA activities and processes that assists developers to meet pre-defined KPA requirements in the most efficient and cost-effective manner

Relationships

- If possible, negotiate MOUs with commercial banks that secure commitments to provide nonrecourse project financing to IPP developers that receive a RE guarantee from KCGF
- Design KPA and market standardization requirements, processes, and activities in consultation with commercial banks, donor community, and KCGF staff to ensure successful completion will result in developers becoming eligible for non-recourse project finance from the banks

MCC will provide 5M USD to cover the cost of the KPA and market standardization programs

We understand that the RE guarantee product poses financial and operational considerations for KCGF

Key considerations

Financial

- Will introducing guarantees for RE IPPs **jeopardize KCGF's sustainability**, its existing capital, its other lending windows, or its sustainability?
- Will **adequate capital** will be provided to support the RE guarantees?

Operational

- Is there a **pipeline of bankable RE IPP projects** to justify a RE Guarantee Window?
- Who will cover **incremental staffing and operational costs**?
- How will **KCGF and partner banks learn** to underwrite and monitor RE IPP projects?

However, existing financial commitments and lending safeguards can ensure KCGF's financial viability...

Financial considerations

Mitigants

Risk assessment

KCGF financial sustainability:

expanding KCGF's mandate to RE poses a financial sustainability risk if several RE guarantees are called upon and there is insufficient funding at KCGF to cover the loans

Low leverage ratio: KCGF can start with a 1:1 leverage structure to ensure there is enough capital reserves

Isolated RE window: KCGF can isolate the RE window from MSMEs to protect KCGF's overall sustainability and avoid jeopardizing its existing capital

Low: Maintaining a low leverage ratio and isolating the RE guarantee window are simple and fast to implement and by siloing lending (at least for now) the risk to KCGF financial sustainability is low

Adequate guarantee capital:

KCGF needs to secure guaranteed capital for the RE window

Letters of Interest: MCC / KCGF can seek letters of interest from WB and other donors

Medium. Although stakeholder interviews have indicated that the capital raise will likely not be an issue, it is difficult to shop the product to donors for firm capital commitments before it is finalized

... and operational risks to KCGF are minimized via MCC funding and technical assistance

Operational considerations	Mitigants	Risk Assessment
Pipeline of bankable RE IPP projects: Success requires sufficient IPP projects to utilize guarantee capital	Kosovo Project Accelerator: TA will support IPPs standardize documentation and reach financial close on projects MOUs with commercial banks: MOUs from banks may incentivize additional IPPs to enter the market	Medium: MFK will support IPPs through TA but whether IPPs maintain standards and timelines is dependent on the individual IPP
Incremental staffing and operational costs: the RE window will require additional staff who are specialized in RE projects	MCC Funding: MCC dedicated funding for the cost of internal operations for the first 5 years	Low: MCC is directly covering personnel costs and can create a plan for future funding with future grants or fee revenue to cover costs
KCGF and banks receive training: TA will be critical for KCGF and banks to underwrite and monitor RE IPP projects successfully	Kosovo Project Accelerator and market standardization: TA will support KCGF and banks to understand how to effectively create RE guarantees Hiring additional staff: MCC funding will hire the relevant experts to ensure KCGF has the right capabilities for RE	Low: the KPA and market standardization program will ensure KCGF has the requisite staff, and that both KCGF and the banks have the necessary training to successfully pursue RE guarantees

Let's discuss these concerns. Is there anything else on your mind that we haven't discussed?

Additionally, pursuing RE guarantees supports KCGF's mission and positions it for future success

Benefit

Rationale



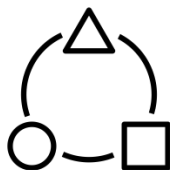
Enhances mission

- **Expanding KCGF to cover renewable energy projects supports KCGF's mission** as RE leads to domestic production and services that create added value, produces new jobs, and supports overall economic development
- **The unreliable supply of energy is a main constraint to economic growth** in Kosovo; in catalyzing RE, KCGF positions SMEs for growth and sustainable success



Increases expertise and brand

- **Hiring additional and training existing staff has positive externalities** as staff learn how to monitor / underwrite a more diverse selection of projects, potentially allowing KCGF to better pursue other emerging sectors in the future
- **KCGF has an opportunity to grow and build its brand** as the catalyst for lending in Kosovo (especially within RE)



Diversifies portfolio

- **Adding renewable energy diversifies KCGF's guarantee portfolio and therefore reduces risk**, particularly given the overlapping risk profiles of SMEs and agriculture



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Summary

Supporting Renewable Energy Market Innovatively

Background

- Recognizing the demand for energy and the need to increase supply sustainably, Kosovo made a strong commitment to renewable energy by setting a target of 29% of gross consumption of energy in 2020 to be renewable.
- However, despite having a well-established support scheme framework that guarantees attractive Feed-in-Tariffs and long term PPA's, renewable energy as a percentage of gross energy consumption has remained relatively static, indicating that there are still serious barriers to RE IPP's coming online.
 - *“The share of RES in the total energy supply mix remains lower than 10% despite the fact that the RES authorizations issued by ERO amount to more than 700 MW in capacity”*

Supporting Renewable Energy Market Innovatively

Constraints Analysis / Due diligence

- This impelled MCC and MFK to commission world class consultancy services to understand the financing constraint to IPPs and identify high-potential interventions through the Threshold Program.
- An intensive 18-month due diligence where all stakeholders provided their in-depth contribution and suggestions, identified the need to address issues from the regulatory, demand-side and supply-side perspectives.
 - “Every RE IPP developer interviewed cited access to finance as the key bottleneck to project development”

Supporting Renewable Energy Market Innovatively

Areas of support

- **Develop renewable energy credit guarantee product**
 - Support Kosovo Credit Guarantee Fund to increase its capacity in project finance and energy finance as well as cover all incremental operating costs to establish a separate RE IPP Guarantee Window
- **Project screening and development - Kosovo Project Accelerator**
 - Establish a pipeline of bankable projects - provide targeted technical assistance and training to IPPs, banks, and local experts.
- **Market standardization**
 - Creation of Standardized templates for technical documents as well as provision of training to banks and market regulators on use of standardized framework for renewable energy project financing.

Supporting Renewable Energy Market Innovatively

KCGF as a partner

- Bringing the RE credit guarantee to market requires operational, technical and financial investments, hence, the opportunity for collaboration with the Kosovo Credit Guarantee Fund to create a new credit guarantee window for renewable energy projects was explored.
- KCGF strategic interests align with MCC's/MFK's priorities and the Fund's significant expertise with guarantee products and key relationships with local financial institutions makes them an ideal partner to develop a guarantee product for project finance for RE IPP's.

Supporting Renewable Energy Market Innovatively

Project facts and expected results

- Highly innovative as it will pioneer new products in the financial market of Kosovo
- MCC has committed 5M USD through MFK to cover the cost of this support.
- Will address key supply and demand-side barriers to IPP access to project finance,
- Ecosystem and market development,
- Reduced risk perception through catalyzing successful transactions,
- Improved project planning by developers,
- Professionalization of the pre-feasibility process,
- Better financial structuring, project packaging, and project development by developers based on bank needs,
- Capacity building of financial institutions, for credit appraisal,



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