

The Risk Assessment and Mitigation Platform of IRENA

Presentation to the Berne Union

15 October 2018

Agenda

- 1. About IRENA**
- 2. The Sustainable Energy Marketplace**
- 3. The Risk Assessment and Mitigation Platform**
- 4. The Cooperation model**
- 5. Done so far and still to do**
- 6. Stay in touch!**

Overview

- » Established in 2011
- » Headquarters in Masdar City, Abu Dhabi, UAE
- » IRENA Innovation and Technology Centre – Bonn, Germany
- » Permanent Observer to the United Nations – New York, USA

Mandate

To promote the widespread adoption and sustainable use of **all forms of renewable energy** worldwide



Bioenergy



Geothermal
Energy



Hydropower



Ocean
Energy



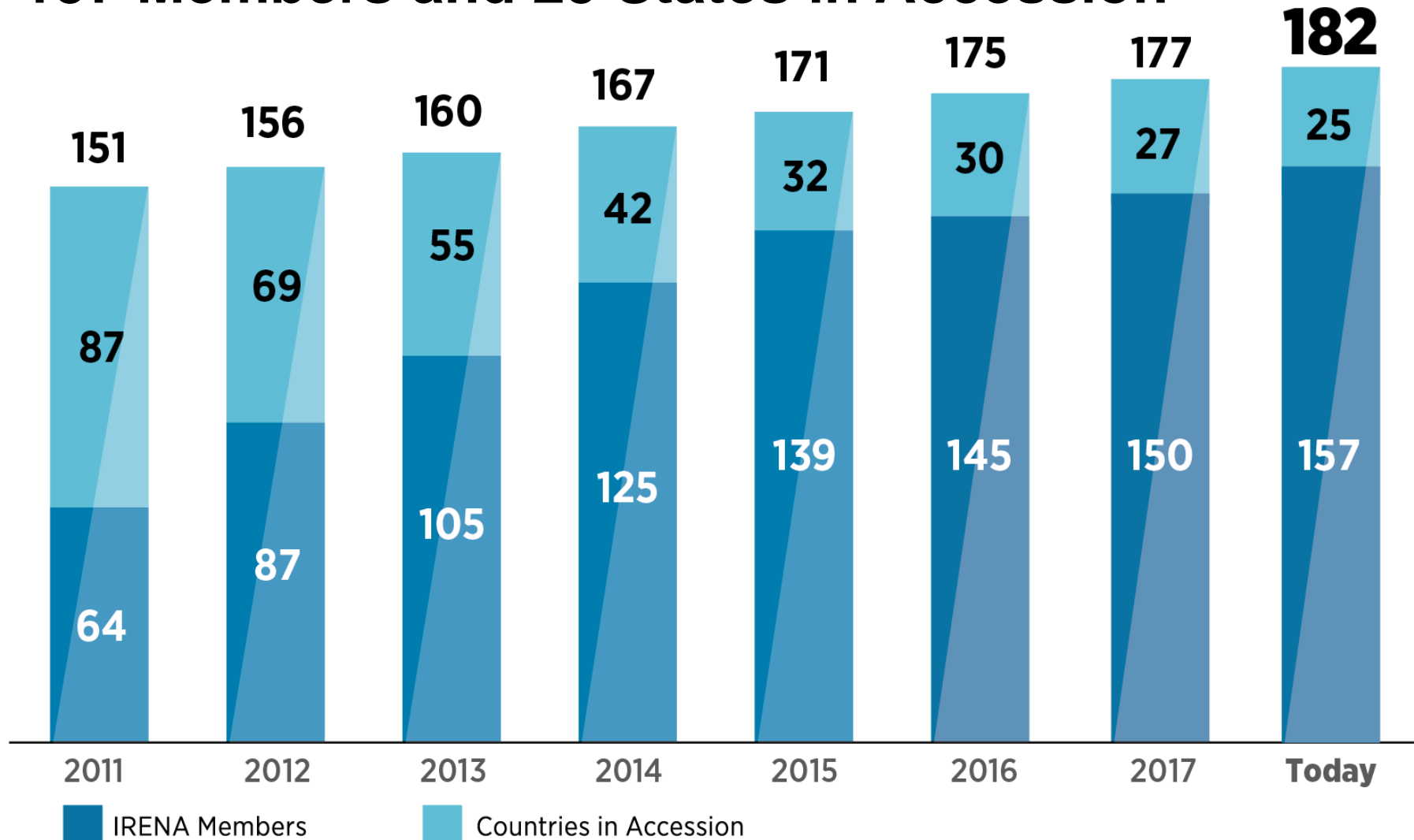
Solar
Energy



Wind
Energy

Growth in IRENA Membership

157 Members and 25 States in Accession*



IRENA Analysis & Data



Tools & Platforms

RESOURCE
YOUR SOURCE FOR RENEWABLE ENERGY INFORMATION

Success stories
Country profiles

Global Atlas
FOR RENEWABLE ENERGY

Site characterisation

Deployment

Project pipelines
Corridors,
SIDS Lighthouse,
Readiness Assessment

Pre-feasibility

Assistance to financial closure and debt facility

Bankable project development guidelines

Investor-readiness

Feasibility

IRENA ADFD
Supporting Energy Transition

SUSTAINABLE ENERGY MARKETPLACE

IRENA PROJECT NAVIGATOR



Evaluate, technical assistance
SUSTAINABLE ENERGY MARKETPLACE



8.8 billion US \$ Total investment cost
4.3 GW Combined installed capacity (power generation projects only)
190 Projects
156 Financing instruments



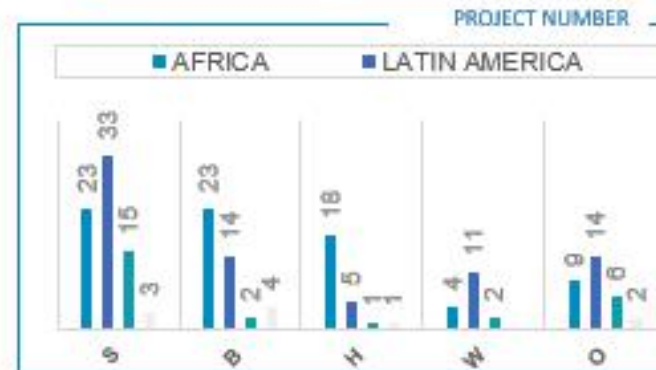
COVERAGE – PROJECTS (I)

190 | sustainable energy projects...

- 77 projects in SUB SAHARAN AFRICA
- 77 projects in LATIN AMERICA
- 26 projects in SIDS
- 10 projects in ASIA & MENA

Total installed capacity | Total investment size

4.3 GW | **8.8 BN USD**



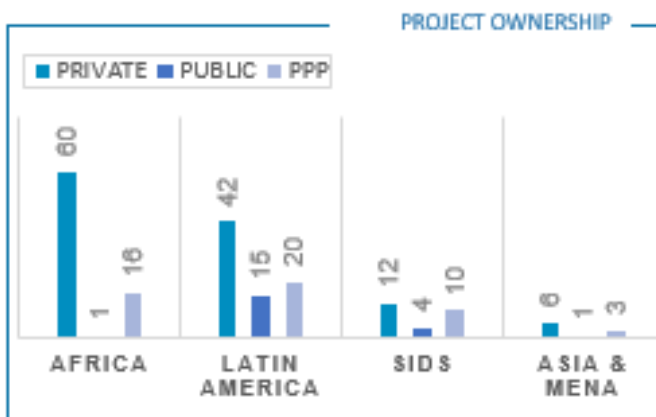
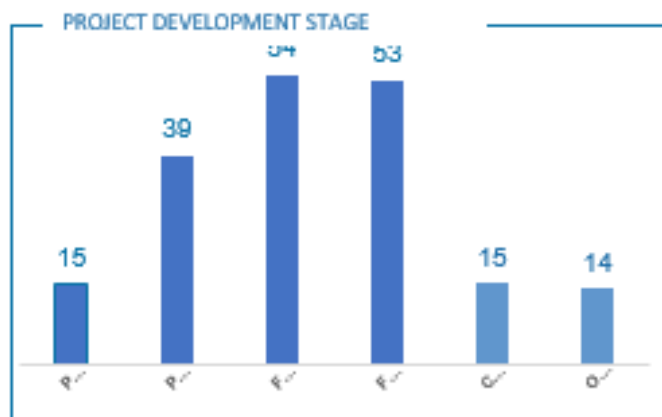
COVERAGE – PROJECTS (II)



The combined share of projects in the **development & financing** stages



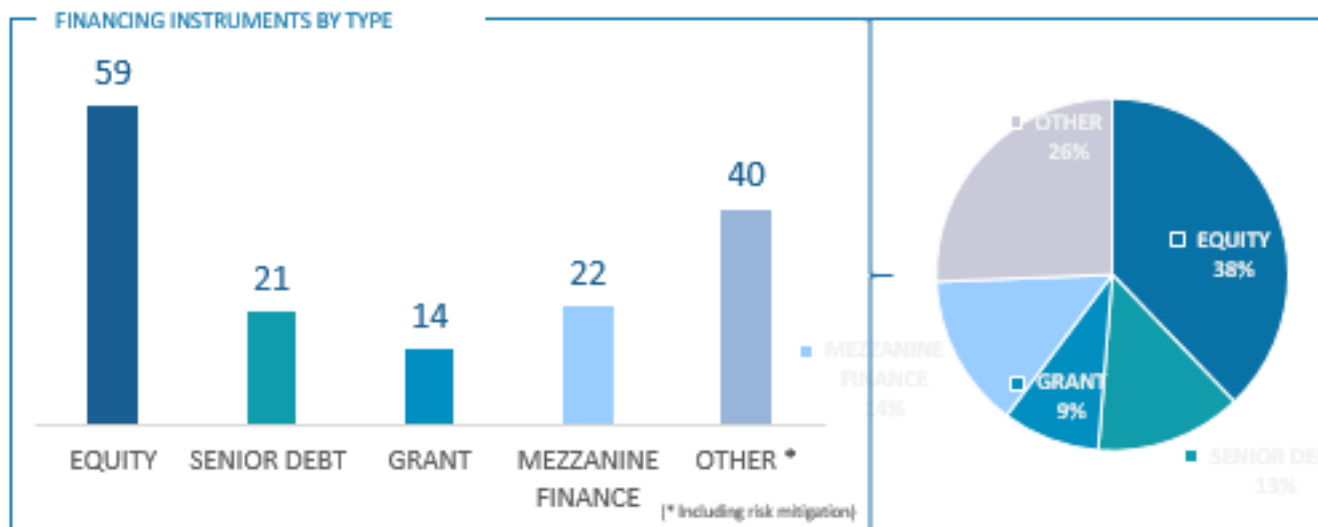
The share of **privately developed** projects



COVERAGE – FINANCING

62 # } Financing institutions

156 # } Financing instruments



RAMP: Starting Point

- ❑ The cost of capital for RE projects accounts for 40 to 60% of the total project costs
- ❑ In Sub-Saharan Africa typically
 - Equity investors ask an IRR of 15 to 20%
 - Lenders ask 13% interest
- ❑ The main justifications are
 - Development costs
 - The risk premium
- ❑ IRENA and other institutions invest in the development of an enabling legal and regulatory environment
- ❑ There are ways to reduce the cost of mitigation of the residual risks

The scope: risks that can be covered

- Offtaker risks
 - public buyers
 - commercial buyers
- Political risks
 - Currency inconvertibility and transfer restrictions
 - Expropriation, confiscation, nationalization
 - War and civil war
 - Political violence, terrorism and sabotage
- Currency risk
- (Resource risk)
- (Force majeure)

There are many Risk Mitigation Instruments for RE but they are

- Hard to understand
- Hard to compare
- Hard to combine and customise
- Not always available
- Slow to access
- Not always cheap
- Not always satisfactory

The renewable energy sector requires unique solutions

- The risks are more difficult to understand
- Many providers of risk mitigation are usually involved in one single transaction
- The amounts are important
- The commitments cover periods up to 20 years
- There is a complex political, regulatory, legal and regional context
- The technology changes fast
- There are many actors involved

IRENA is in a unique position to develop solutions

The objectives of this project:

Facilitate investments in Renewable Energy by

- **improving access to Risk Mitigation Instruments**

By improving information about solutions, standardizing the processes, coordinating the providers of risk mitigation instruments, increasing the risk appetite of insurers and reinsurers

- **reducing the costs and the development time of RE**

By reducing the real or perceived risk of the projects, sharing the due diligence process, implementing common assessment standards, enabling securitization, attracting donor support

2 Phases, 4 roles

Phase 1: Implement the Risk Mitigation Platform

- Risk Mitigation Marketplace as part of the Sustainable Energy Marketplace :
- Implement the Toolbox and Cooperation Agreements :

**Implemented
by IRENA**

Facilitate

Streamline

Phase 2: Standardize access to risk mitigation

- Set common standards and implement them through (underwriting) agents :
- Leverage on the standardization to protect portfolios and facilitate finance :

**Facilitated by
IRENA**

Standardize

Aggregate

Risk Mitigation Marketplace

Participants:

- Lenders
- Credit and political risk insurers
- Other insurers? (resource risk, technology risk...)
- Facultative Reinsurers
- Guarantors
- Developers and investors
- Providers of currency hedges
- Insurance brokers, financial advisors, consultants
- Offtakers and governments agents



Risk Mitigation Marketplace

Providers of Risk Mitigation will share information about their company, products and processes

- Rating
- Licenses
- Key features of the relevant products
- Availability of each product per country
- Eligibility criteria (per product and per country)
- Minimum information needed to issue an indicative quote
- Maximum reaction time
- Capacity per product and per country
- Relationship with the government (if any)
- Willingness to work with brokers
- Willingness to co-guarantee or co-insure based on a unique wording
- Willingness (and conditions) to reinsure participants
- Point of contact
- ...

Risk Mitigation Marketplace

- ❑ IRENA will integrate this information in the existing Sustainable Energy Marketplace
- ❑ As the platform manager IRENA will commit to the following:
 - A professional web site to manage and share all the information
 - User-friendly navigation and regular update of all the input
 - A thorough consultation of all the participants (format to be defined) on the different initiatives and the preparation of the proposals with a multidisciplinary team
 - Publicity around the initiatives that will increase the visibility of the participants
 - Absolute neutrality in the processing of the information
 - Rules of engagement that prevent any free riders

Risk Mitigation Marketplace

- ❑ Developers, lenders and investors will have access to all the information and will be able to contact the Providers of Risk Mitigation directly
- ❑ As an alternative, they can ask help in finding and structuring a solution and the Platform Manager to will engage in active matchmaking

Building Blocks



The objective is to have a clear vision on the end-result, but implement one module after another, where each module has value on its own.

The viability of the agent concept (block nr. 4) will be condition for the implementation of the more ambitious components

Building the IRENA Platform

**Risk Mitigation
Marketplace**



**Cooperation
Agreements**



Toolbox



The RAMP form: captions

Who are you?

Nature of your organisation

Nature of risk mitigation

Activity in the RE sector

Experience in the energy
sector

Credit Rating

Business license

Working languages

Geographical scope

Risks that you can cover

Eligibility criteria

Your commercial process

Your reach

Claims

Category specific information

Cooperation platform

Documentation upload

The form is designed to provide a maximum of information with a minimum of effort

- There are about 120 questions
- Nearly all the questions can be answered by clicking
 - ✓ Yes/No
 - ✓ Multiple choice
 - ✓ Choosing from a list
- Comments (with few exceptions) are not mandatory
- No questions about specific products
- The help guide explains the questions in plain English. It comes with the explanations of some key concepts and most used acronyms

The form comes with a comprehensive help guide

- 117. Use t**
Sometime political ri of insurar leave the
- 118. Recei**
Project on that they based on to the ma
- 119. Reins**
Primary ir source pc
- 120. Share interest)**
If the proje lender), IR reduce the
- 121. retriev provided |**
Rather than supplying different PRM and lenders with information individually, IRENA considers to open a data room per project to which all potential partners will have access.
- 48. Maximum size of transactions (gross)**
Most PRM have a maximum size for the individual transactions that they can cover. Usually this is expressed as the amount of risk that they are willing to take, although other criteria can apply. The limitation is often a direct consequence of their risk management framework that protects the company against exposures that so big that they can affect the rating or the financial stability of the company.
The term “gross” refers to the exposure (risk) before it is reinsured or otherwise ceded to a partner company.
- The figure given here is the absolute maximum. For specific transactions the maximum may be much lower than indicated here.
- 49. Maximum tenor**
Tenor refers to the maximum validity (duration) of a risk mitigation instrument. During that period the RM cannot unilaterally cancel the cover for other reasons than those that are set in the contract. The figure given here is the absolute maximum. The maximum tenor for individual transactions can be smaller, depending on the risk policies and the assessment by the PRM.
- 50. Can you take risk on existing (operational) projects?**
Some PRM are restricted by their mandate (ex.: “attract new investments”) and can only protect new ventures.
Other institutions prefer not to cover existing operations because of the moral hazard and the risk of adverse selection.
The eligibility of operational projects may depend on the type of instrument. If that is the case the PRM is asked to explain the policy in the comment section

Building the IRENA Platform

Risk Mitigation
Marketplace



Cooperation
Agreements



Toolbox



The cooperation platform

Cooperation platform: are you willing to	
work on a standard NDA provided by IRENA	Y/N
work on a standard enquiry form provided by IRENA	Y/N
use a standard NBI form provided by IRENA	Y/N
work with IRENA acting as agent for the project owner	Y/N
use a standard claims cooperation clause	Y/N
use the policy wording from other providers of risk mitigation	Y/N
receive enquiries on transactions that meet your eligibility criteria	Y/N
reinsure or counter guarantee other <u>PRM</u>	Y/N
share the due diligence work with other PRM (provided that there is no conflict of interest) and other stakeholders in the transaction	Y/N
retrieve the information that is needed for an assessment from a data room that is provided by IRENA	Y/N

Building the IRENA Platform

Risk Mitigation
Marketplace



Cooperation
Agreements



Toolkit



The RAMP toolkit

A set of reference documents to guide less experienced users and to propose template documents that over time can help to standardize the interactions between different parties

The toolkit will include

- Reference materials about risk mitigation.
- Template documents that are recommended for use in interactions between different parties
- Discussion papers to introduce initiatives for standardization and aggregation of projects and risk mitigation

Next Steps



Concept validation



Project Development
and Budget



Step By Step
Implementation



Monitoring and
Decision on Further
Developments

RAMP: What have we done so far?

- A thorough discussion about the way RAMP will be integrated into the Marketplace;
- Ongoing refining of the RAMP concept and its different components;
- Meetings, mails and calls with about 20 potential stakeholders to test the different components of RAMP, search for comparable solutions, and explore room for future cooperation;
- Tentative agreements with 3 other initiatives (IISD, US AID, AfDB) to cooperate for the development of a risk mitigation database;
- Development of a contact database where we have the contact details of developers, investors, banks and government
- Detailed design of the Risk mitigation database and the related processes;
- Development of the communication strategy
- Design of the RAMP form

Next steps

- Today and the next days: get your feedback
- Understand how we can cooperate with the Berne Union and individual BU members
- Engage DFIs, guarantors, other providers of risk mitigation and specialized intermediaries
- Finalise the form, help guide and the risk mitigation database itself
- Fill the database with completed forms
- Finalise the terms of use
- Launch a marketing campaign to inform project owners and lenders

If you want to know more we can share

1. A description of the project (16 pages)
2. A teaser (1 page)
3. The draft version of the RAMP form
4. The help guide to the RAMP form
5. A login to access the Marketplace as “basic user”
6. The terms of reference for the RAMP database
7. ATI Presentation made to the energy sector in Tanzania: “Why 100 IPPs failed”
8. IRENA publication: “Unlocking renewable energy investment: the role of risk mitigation and structured finance”

For comments, questions, suggestions, support and congratulations:

Jef Vincent

Senior Advisor Renewable Energy Finance

jvincent@irena.org

M +254 718 925 346 (till end of October)

skype: jefvincent