Early Stage Risk Capital for Renewable Energy

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Many private sector RE projects do not reach financial close because risks cannot be properly mitigated:

- Political and/or regulatory uncertainty
- Off-taker credit concerns
- Risk-allocation in project documents
- E&S concerns
- Risky financial structure
- Limited technical experience of sponsor
- Limited access to capital by sponsor
RE Funding Solutions Vary by Project Stage

**RE Project Stage**

- **Regulatory & Policy Development**
  - Electricity Law / Sector Reforms
  - RE policy & regulations
  - Public-private partnership structure

- **Project Development**
  - Studies: Technical, Econ., Resource
  - Land acquisition, Permitting
  - PPA, EPC, O&M
  - E&S assessments and plans
  - Project Financing

- **Construction**
  - Civil works
  - Electro-mechanical works
  - E&S impact management
  - Achieving Commercial Operations

- **Operations**
  - Technical supervision
  - Sales & Collections
  - E&S impact management

**Funding Type**

- **Government Funds**
- **Donor Funds**
- **Early-stage capital**

- **Developer Equity**
- **Early-stage capital**

- **Sponsor Equity**
- **Senior Bank Debt**
- **Green Bonds**

- **Strategic Investors**
- **YieldCo**
### The Global Infrastructure Project Development Fund

<table>
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<th><strong>Objective</strong></th>
<th>Increase the number of private, bankable infrastructure projects in low and middle income countries</th>
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<td><strong>IFC Role</strong></td>
<td>Early-stage risk capital for project development activities</td>
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<td>Proactive co-development of project with experienced IFC professionals</td>
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<td><strong>Size</strong></td>
<td>US$150 million fund, 5-year investment period</td>
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<td><strong>Amount</strong></td>
<td>Up to US$8 million for project development expenses required to reach financial close (avg. $4M for 20-30% share). Ideally projects with construction financing needs of &gt;US$200 million.</td>
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<td><strong>Instrument</strong></td>
<td>Cost-sharing with sponsors, convertible to equity. IFC gets right to invest additional equity for construction phase and be lead arranger for debt financing</td>
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What situations need early-stage risk capital?

- Early-stage private or PPP projects in low & middle income countries
- Sponsor or local developer granted MOU/LOI/license from Government
- Private company awarded project via Government tender
- Projects not requiring contract with Government
- “Post-conflict country” initiatives
- Projects in need of a surrogate sponsor at the initial stages
What activities can early-stage risk capital fund?

- Pre-feasibility and Feasibility Studies
- Technical, Economic and Market Studies
- Environmental & Social Impact Studies
- Relationship management with key stakeholders
- Financial Modeling
- Legal costs of key project documents
- Obtaining permits
- Tendering for EPC and O&M contractors
- Negotiating project documents
- Selecting and supervising project participants
- Arranging equity and debt financing
ICF InfraVentures versus Typical VC?

- Typical Venture Capital has shorter term investment horizons
  => But development + construction can be 8-10 yrs (hydros)

- VC hurdle rates may not align with RE projects
  => Regulated long-term PPA tariffs can limit potential upside

- IFC’s focus on managing E&S aspects to ensure sustainability

- IFC’s convening power of governments and agencies
  => Helps resolve project development issues

- IFC’s access to large base of investors helps mobilize financing

- IFC ensures bankability by application of global best practices

- Sponsors get access to all World Bank Group instruments
Example: Nepal Hydropower Sector

- Post-conflict country, low per capita income, severe power shortages
- Uncertain RE regulatory environment and private participation framework
- Enormous hydropower potential but very low installed capacity
- Many hydro licenses originally secured by local developers with limited technical expertise. Foreign sponsors not familiar with Nepal.

**Early-stage risk capital from IFC InfraVentures:**

- Negotiating concession agreement and PPA with government
- Leveraging WBG to enhance credit profile of off-taker
- Technical evaluation of project design, engineering, geology & hydrology
- Establishing E&S safeguards and benefit sharing with local community
- Mobilizing large financing from domestic and international banks
Example: Myanmar Clean Energy Sector

- Recently opened up to foreign investment following years of military rule
- Low per capita income, 70% with no electricity access and severe power deficits
- 100 GW hydro potential, but only 2.7 MW installed and almost no solar
- Electricity sector being reformed, no RE regulations
- Credit concerns with gov. off-taker
- Significant E&S issues with past hydro projects

**Early-stage risk capital from IFC InfraVentures:**

- Supporting foreign sponsors with first-time investment
- Support in negotiating PPA with government
- Leveraging WBG to enhance credit profile of off-taker
- E&S assessments according to Equator Principles

Source: Assessment of Solar Energy Potential for the Union of Myanmar

Photo credit: Khin Maung Win / AP
Thank You

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