International Finance Corporation
World Bank Group

Early Stage Risk Capital for Renewable Energy

Asia Clean Energy Forum
June 2015

Obstacle to Private Investment: Too Few Bankable Projects

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		Funding Type
Regulatory & Policy Development	• Electricity Law / Sector Reforms • RE policy & regulations • Public-private partnership structure	• Government Funds • Donor Funds • Early-stage capital
Project Development	• Studies: Technical, Econ., Resource • Land acquisition, Permitting • PPA, EPC, O&M • E&S assessments and plans • Project Financing	• Developer Equity • Early-stage capital
Financial Close		
Construction	• Civil works • Electro-mechanical works • E&S impact management • Achieving Commercial Operations	• Sponsor Equity • Senior Bank Debt • Green Bonds
Operations	• Technical supervision • Sales & Collections • E&S impact management	• Strategic Investors • YieldCo

IFC's Response: IFC InfraVentures

The Global Infrastructure Project Development Fund

Objective	Increase the number of private, bankable infrastructure projects in low and middle income countries
IFC Role	Early-stage risk capital for project development activities Proactive co-development of project with experienced IFC professionals
Size	US$150 million fund, 5-year investment period
Amount	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 >US$200 million.
Instrument	Cost-sharing with sponsors, convertible to equity. IFC gets right to invest additional equity for construction phase and be lead arranger for debt financing

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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?

Project Development Activities

- 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

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IFC 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**

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Example: Nepal Hydropower Sector

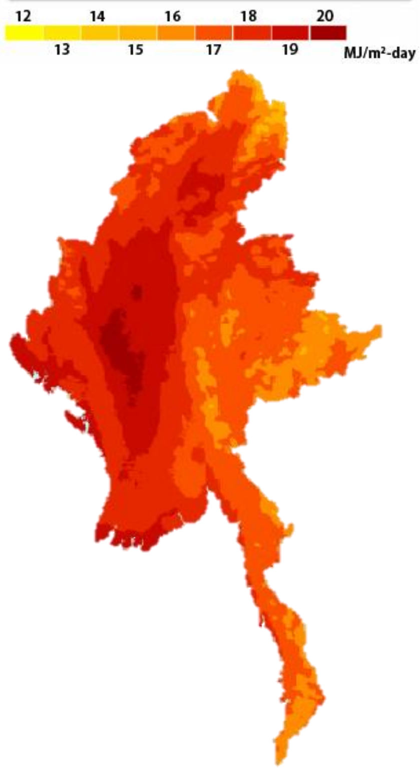
- Post-conflict country, low per capita income, severe power shortages
- Uncertain RE regulatory environment and private participation framework
- Enormous hydropower potential but very low installed capacity
- Many hydro licenses originally secured by local developers with limited technical expertise. 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



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

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

Photo credit: Khin Maung Win / AP

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Thank You

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