



United Nations Environment Programme

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PROGRAMME DES NATIONS UNIES POUR L'ENVIRONNEMENT • PROGRAMA DE LAS NACIONES UNIDAS PARA EL MEDIO AMBIENTE
ПРОГРАММА ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ ПО ОКРУЖАЮЩЕЙ СРЕДЕ

DIVISION ON TECHNOLOGY INDUSTRY AND ECONOMICS

Energy Branch – Renewable Energy and Finance Unit

UNEP/GEF

Assessment of Financial Risk Management Instruments for Renewable Energy Technology Projects

Request for Proposals

Feasibility Studies for the Development of New Financial Risk Management Instruments and Approaches for Renewable Energy Projects

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Purpose of Document

This document is a request for proposals (RFP) within the framework of the ongoing UNEP/GEF “Assessment of Financial Risk Management Instruments for Renewable Energy Projects”.

This RFP is issued by the Renewable Energy and Finance Unit of the Division of Technology, Industry and Economics (DTIE) of the United Nations Environment Programme (UNEP).

Proposals are sought on the preparation of feasibility studies for new financial risk management instruments and approaches for renewable energy projects in GEF eligible countries.

The primary target audience of this RFP is:

- Reinsurance and insurance companies;
- Insurance brokers;
- Risk management advisors;
- Financial institutions;
- Renewable energy finance consulting services;

Bidders are expected to have significant experience in the financing and/or risk management of renewable energy projects in emerging and developing countries.

Background

National development strategies in many emerging and developing economies include the ambition of increasing the share of renewable energy production within the overall energy mix. However the high real and perceived risks associated with renewable energy technologies and projects in developing countries have slowed the growth of the sector and increased the costs of financing.

Risk management instruments are used to mitigate or transfer certain risks associated with the financing of RET projects, thereby reducing the cost of capital and mobilizing capital flows to the sector.

The UNEP/GEF “Assessment of financial risk management instruments for renewable energy technology” is working to identify promising new financial risk mitigation solutions for renewable energy projects in developing and emerging economies. Through this RFP UNEP and the GEF will provide financial support for the preparation of feasibility studies on a number of new instruments or programme approaches.

UNEP expects from each feasibility study a systematic and comprehensive analysis and precise action plan for developing the risk management instrument or approach.

Synopsis of Research Findings

Within this initiative designated working groups have been assessing financial risk management instruments for large scale RET projects (Working group 1), medium and small scale projects (Working group 2) and geothermal projects¹ (Working group 3). The table below summarizes the findings for working groups' 1 and 2. For further details on the suggested financial risk management instruments and related mitigation strategies please refer to the working group reports (see <http://www.unep.fr/energy/finance/risk>).

Working group recommendations fell into two categories:

1. Commercial risk mitigation instruments that could be developed by the industry to address specific market needs (new instruments or bringing existing instruments into new geographic markets); and
2. Risk management programmes that address less narrowly defined project development or implementation barriers.

UNEP is seeking proposals on both approaches. These two categories of solutions should be adapted to the scale, the type of RE technology and to the markets considered for implementation.

Working Groups	Identified risks and barriers	Existing instruments	Suggested mitigation strategies
1. Large scale projects	<ul style="list-style-type: none"> ▪ Permitting / Planning delays risk ▪ Credit risk ▪ Contract bankability risk ▪ Contractor non-performance risk ▪ Off-taker contract failure and default risks ▪ Physical and natural hazard risks ▪ Catastrophic design failure risk ▪ Process Interruption risk ▪ Design / Engineering Risk ▪ Resource volatility risk ▪ Warranty non performance risk ▪ CER risks ▪ Legal liability risk ▪ Lack of adequate financial, legal and service infrastructure ▪ Restrictive local insurance regulations ▪ Etc. 	<ul style="list-style-type: none"> ▪ Traditional Project Insurance Policies (including construction All Risks, Property Damage, Machinery Breakdown, Delay in Start Up, Business Interruption, Third Party Liabilities) ▪ Warranties ▪ Political Risks Insurance ▪ Weather Derivatives (WD) ▪ Credit Delivery Guarantees ▪ Turbine Warranty Insurance 	<ul style="list-style-type: none"> ▪ Special Purpose Vehicles (SPVs) and Insurance facilities to act as market intermediaries. ▪ New adapted financial products e.g. Carbon Futures Contract. ▪ Enhancing the marketability of customized insurance products.
2. Medium and Small scale projects	<ul style="list-style-type: none"> ▪ <u>Credit risk:</u> <ul style="list-style-type: none"> -End user risk -End borrower risk ▪ <u>Transaction size risk</u> ▪ <u>Limited access to finance</u> ▪ <u>High cost of finance</u> ▪ <u>Lack of awareness raising</u> ▪ Etc. 	Credit enhancement approaches: <ul style="list-style-type: none"> ▪ Project portfolio approach ▪ Market aggregation ▪ Capacity building 	Facility to act as a market aggregator on <ul style="list-style-type: none"> ▪ Consumer finance ▪ Micro finance ▪ Business finance Stand alone facility to address project finance

¹ geothermal was broken out due to the specific nature of exploration risks

Proposal

Proposal Selection

Through this RFP, UNEP is looking to provide financial support to 3 feasibility studies for instruments/programmes that target large scale RE projects and up to 3 instruments/programmes that target small scale projects.

The instruments/programmes could be those recommended by the working groups' (ref. table above and research reports) or could consist of new approaches adapted to the market conditions of selected countries.

The proposed instruments and programmes should have a geographical focus in one or more GEF eligible countries and the country or region selected for the feasibility studies should be specified in the proposal.

All proposed instruments and programmes and in particular emissions offset instruments should be non-specific to the Kyoto Protocol mechanisms.

Scope of work

Proposals are expected to outline feasibility studies for specific promising financial risk management instruments and/or programme approaches.

Selection of risk mitigation instruments

▪ Large scale projects:

Bidders can propose instruments adapted to large scale renewable energy projects in specific GEF eligible countries e.g. insurance and alternative risk transfer products. There are no restrictions regarding the choice of renewable energy technologies to cover.

▪ Medium and small scale projects:

Bidders can propose instruments adapted to small scale renewable energy projects in specific GEF eligible countries e.g. partial risk and credit guarantee mechanisms. There are no restrictions regarding the choice of renewable energy technologies to cover.

Selection of risk management programmes

Bidders can also propose feasibility studies on a national or regional Facility e.g. one that would act as a market intermediary or small scale project aggregator e.g. special purpose vehicles.

Examples of instruments and programme approaches that might be addressed include:

- Customized insurance products;
- Alternative risk transfer products e.g. carbon futures, weather derivatives, etc;
- Partial credit or risk guarantee structures;
- Insurance facilities for pooling projects.

Preparation of Feasibility Studies

The following are suggested stages feasibility study preparation. Bidders are expected to propose detailed action plans for development of the selected instrument(s)/programme(s). UNEP will also accept proposals with different approaches.

1. Stage 1. Collect market information on the proposed financial risk management instrument(s)/programmes(s) in the selected country/region for implementation.
2. Stage 2. Scan the feasibility of the proposed financial risk management instrument and/or programme. E.g market demand, impact on domestic/regional markets, legal and marketing issues, market readiness, availability of market data for insurance purposes, identification of market partners, etc.
3. Stage 3. Develop an implementation strategy for the instrument or programme. The implementation strategy needs to take into account market realities and related factors e.g. Take into consideration the market need specific to the renewable energy sector, any market distortions, regulatory barriers, investment climate and other environmental factors and risks.

The feasibility studies will prepare the ground for the implementation of instruments and programmes by the Industry or in partnership with donors. Indeed, UNEP might consider raising further support for certain initiatives in special circumstances.

Instructions to Bidders

Evaluation criteria

Proposals will be evaluated on the following criteria:

- Ability to develop and implement the proposed financial risk management instrument(s)/programme(s);
- Expertise in financial and risk management of RET projects in emerging and developing countries;
- UNEP will take into account the social dimension and energy access agenda of developing countries when considering the development of financing mechanisms for small scale renewable energy projects.
- All instruments and programmes and in particular carbon types of instruments, should be non-Kyoto protocol eligible.
- Commercial presence in the recommended countries for implementation;
- Price;
- Timeframe.

Feasibility study plan

The proposal should submit a feasibility study timeframe showing the key work activities and in accordance with the dates specified below:

Event	Date
Proposal decision	October 5 th , 2007
Contract awarded	November 14 th , 2007
Feasibility study progress reports	January to March, 2008
Feasibility study available	March 31 st , 2008
Final feasibility study report and recommendations	April 18 th , 2008

Inputs required from UNEP

Should the bidder require any further input from UNEP to allow the work to be completed by the dates shown above, then any such input must be identified clearly in the Proposal.

Bidders Background

Bidders are kindly requested to include a short summary of past relevant work, achievements and references.

Budget for the feasibility studies

UNEP's budget for each feasibility study will range from USD50,000 to USD100,000.

Terms and conditions

- There are no specific format and headings for submission of proposals.
- Proposals shall indicate an appropriate price schedule and all prices shall be quoted in US dollars (USD).
- UNEP will make no payment and no reimbursement of expenses related to the preparation of proposals.
- UNEP does not bind itself to accept the proposal with the lowest price.
- UNEP may at its own discretion extend this deadline for the submission of Proposals.
- UNEP may at its discretion accept only part of the proposal i.e. select some of the suggested instruments and related feasibility studies.
- The final selection of proposals will be in accordance with the proposals evaluation procedures of UNEP and UNEP's decision is final.
- Bidders are requested to complete a compliance statement with reference to the terms and conditions of contract.

Submission of Proposals

The deadline for submission of proposals is **Friday, October 5th, 2007**.

Five copies of the proposal should be sent to the following address:

UNEP - Division of Technology, Industry and Economics
Energy Branch - Renewable Energy Finance Unit
Attention: Fatma Ben Fadhl
15 Rue de Milan
75441 Paris Cedex 09
France

For additional information

Should any problems of interpretation arise in the course of drawing up the proposal, bidders may submit a written request by email/ fax/mail or call for further information:

Ms. Fatma Ben Fadhl
Email: fbenfadhl@unep.fr
Tel: +33 1 44 37 14 68; Fax: +33 1 44 37 14 74
UNEP Division of Technology, Investment and Economics
Energy Branch - Renewable Energy Finance Unit
15 Rue de Milan, 75441 Paris Cedex 09, France

Requests should be made no later than 10 calendar days before the deadline for the submission of proposals.

An electronic copy of this RFP can be downloaded from the project's website at
<http://www.unep.fr/energy/finance/risk>