

**Working Group 2:  
Small Scale Renewable  
Energy Risk Mitigation**

# Background

- **At its first meeting in Paris, February 20-21, WG 2 accomplished the following:**
  - Identified performance, market, credit, and regulatory risks associated with small scale projects
  - Reviewed the nature of the various risks
  - Outlined a number of risk mitigation approaches for further consideration
    - Including both financial risk mechanisms and other instruments/approaches.

# Key Barriers to Small Scale RE Development

- Lack of sufficient bankable projects by viable, financially sound project sponsors
- Lack of economically/financially viable projects
- Inadequate engagement of local FIs in small scale RE project financing, to include MFIs
- High transaction costs of small scale projects
- Performance risks
- Lack of consumer awareness/demand for RE
- Lack of access to long term financing matched to project life
- Risks associated with carbon financed small scale RE projects

# Proposed Mechanisms to Address Small-Scale RE Risks/Barriers

## **WG 2 identified 5 key mechanisms for further analysis:**

- End-User Credit Enhancement Instruments
- Developer/Sponsor Credit Risks Partial Guarantee Instruments
- Contingent Grants
- Small Scale RE Project Preparation Mechanism
- Micro-insurance

# WG 2 Criteria for Assessing and Evaluating the Role of these Instruments

- Sustainability
- Replicability
- Engage local FIs
- Apply to a range of small scale RE technologies
- Address a variety of applications
- Maximize impact

# Consultant TOR

- Inventory on-going/planned activities for the 5 mechanisms
- Conduct in-depth assessment of which mechanism works at which RE stage
- Conduct primary and secondary data collection
- Identify outstanding areas where support is warranted:
  - Prioritize these areas
  - Recommend 1-2 mechanisms for more detailed study
  - Ensure that the resulting mechanisms meet criteria
  - Identify potential countries/ FIs for applying recommended mechanisms
- Conduct preliminary design of the mechanism(s).
- Examine practicability/constraints of these instruments/structures
  - Delineate risks that private sector could assume and those it cannot
  - Recommend possible modalities of such instruments/ structures.
- Identify specific partner organizations (e.g., FIs) for piloting recommended mechanisms.
- Identify sources of co-financing for the above activities

# Consultant Selection

- Reached out to WG 2 and UNEP to get names/recommendations
- Identified number of candidates
- Selected John Maclean
  - Strong background in clean energy financing (EE/RE)
  - World recognized reputation (clients include private companies, WB, IFC, ADB, etc)
  - Hands on knowledge of risk mitigation and credit enhancement mechanisms

# Deliverables and Status

- Work plan
  - To include approach, proposed interviewees, programs/mechanisms to be assessed, expected travel, timeline (Complete)
- Monthly progress reports (Complete)
- Bi-monthly conference calls to review progress and next steps (Complete)
- Draft Final Report (Complete)
- Final Report (1/08)