

Risk Instruments for Green Investments

IRENA-CPI Side Event, WFES
“Risk Coverage for Renewable Energy Investments”
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Perceived Risks for Green Investments

POLITICAL, POLICY, SOCIAL RISKS

Sources:

- Actions of governments and citizens

Enhanced by:

- Reliance on public financial and institutional support
- Investment horizon longer than policy cycle
- Environmental impact of some technologies creating social resistance

TECHNICAL, PHYSICAL RISKS

Sources:

- Technology characteristics
- Environment/sites impacts

Enhanced by:

- Not yet proven green technologies
- Lack of accurate technology performance data
- Uncertainty over measurements of the natural resources availability

MARKET, COMMERCIAL RISKS

Sources:

- Valuation of input and output
- Cost and availability of financial resources

Enhanced by:

- High upfront costs
- Long investment horizon and payback periods
- Financiers' unfamiliarity with green investments
- Complexity of infrastructure investments

OUTCOME RISKS

Sources:

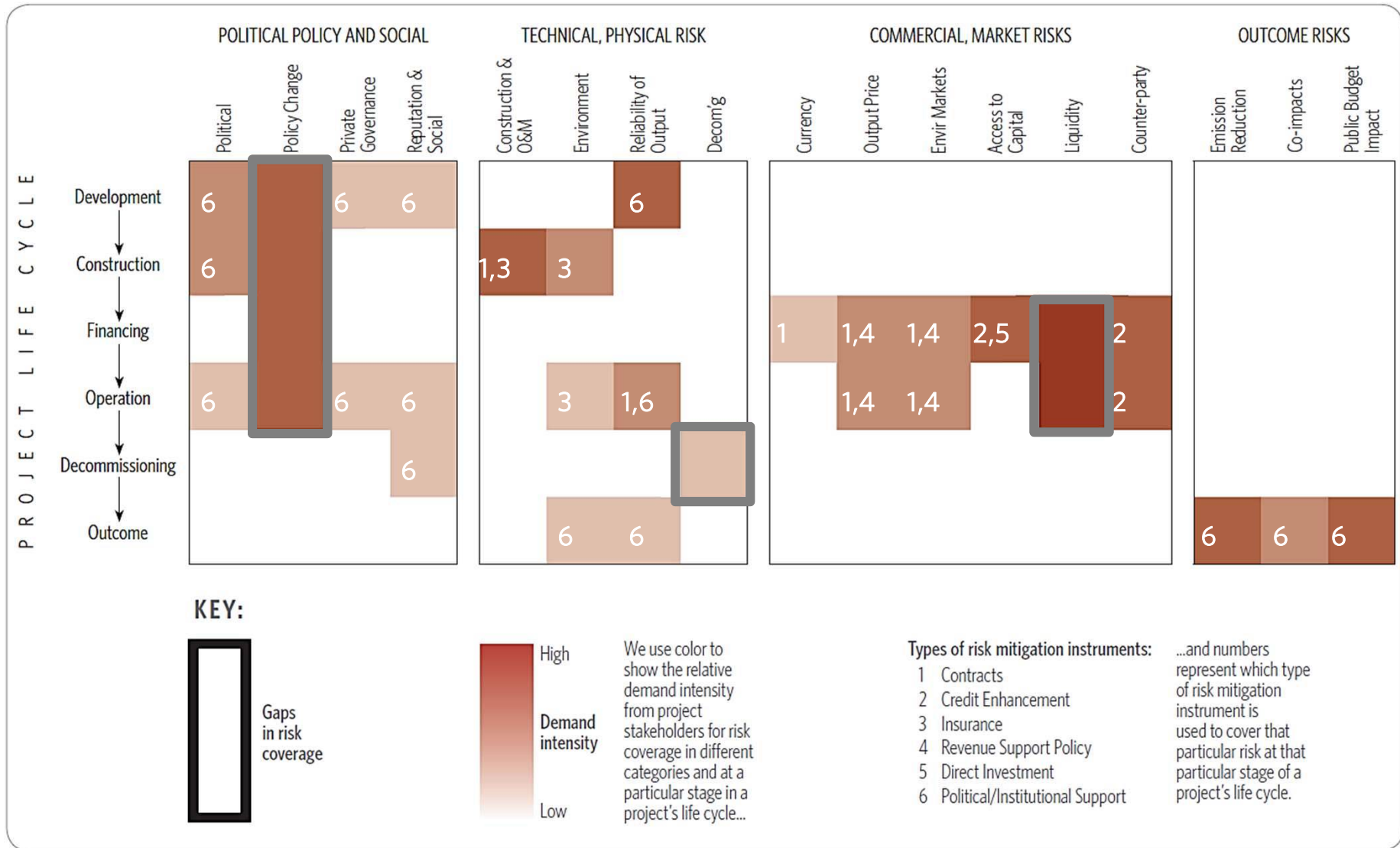
- Commitment of limited public resources
- Uncertainty of delivering public interest goals objectives

Enhanced by:

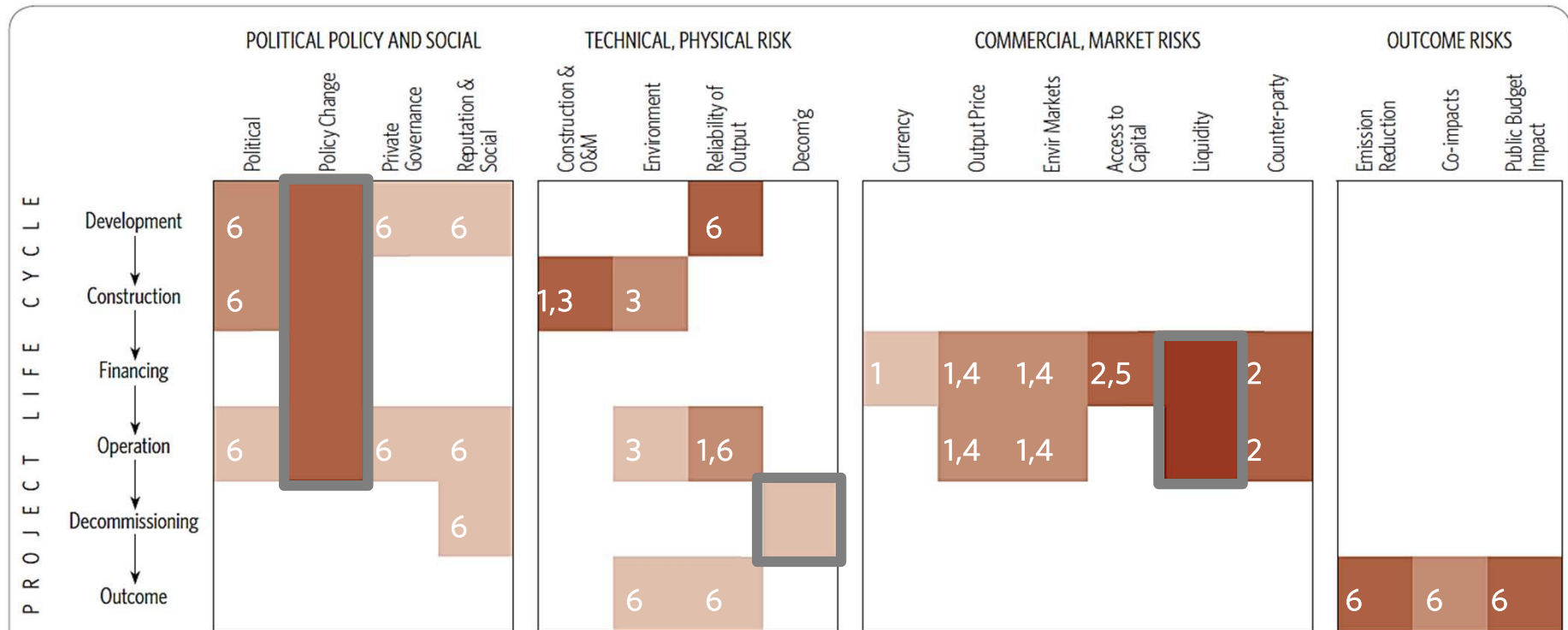
- Amount of public support required
- Current budget constraints

Most risks are common to all infrastructure investments, but **unique features of green investments enhance the perception** of relatively common-place risks.

Demand and supply of risk coverage: identifying the gaps – Developed countries



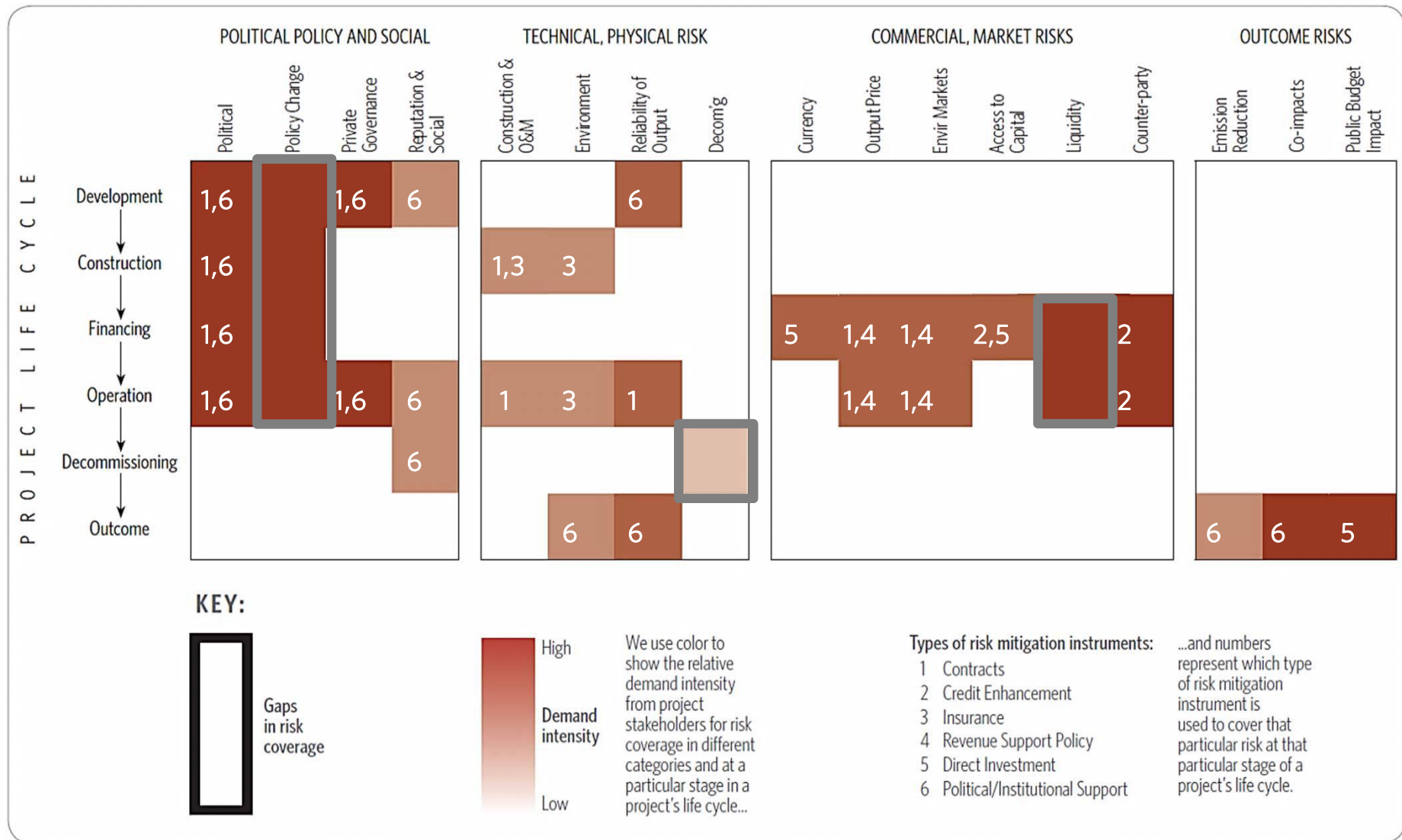
Demand and supply of risk coverage: identifying the gaps – Developed countries



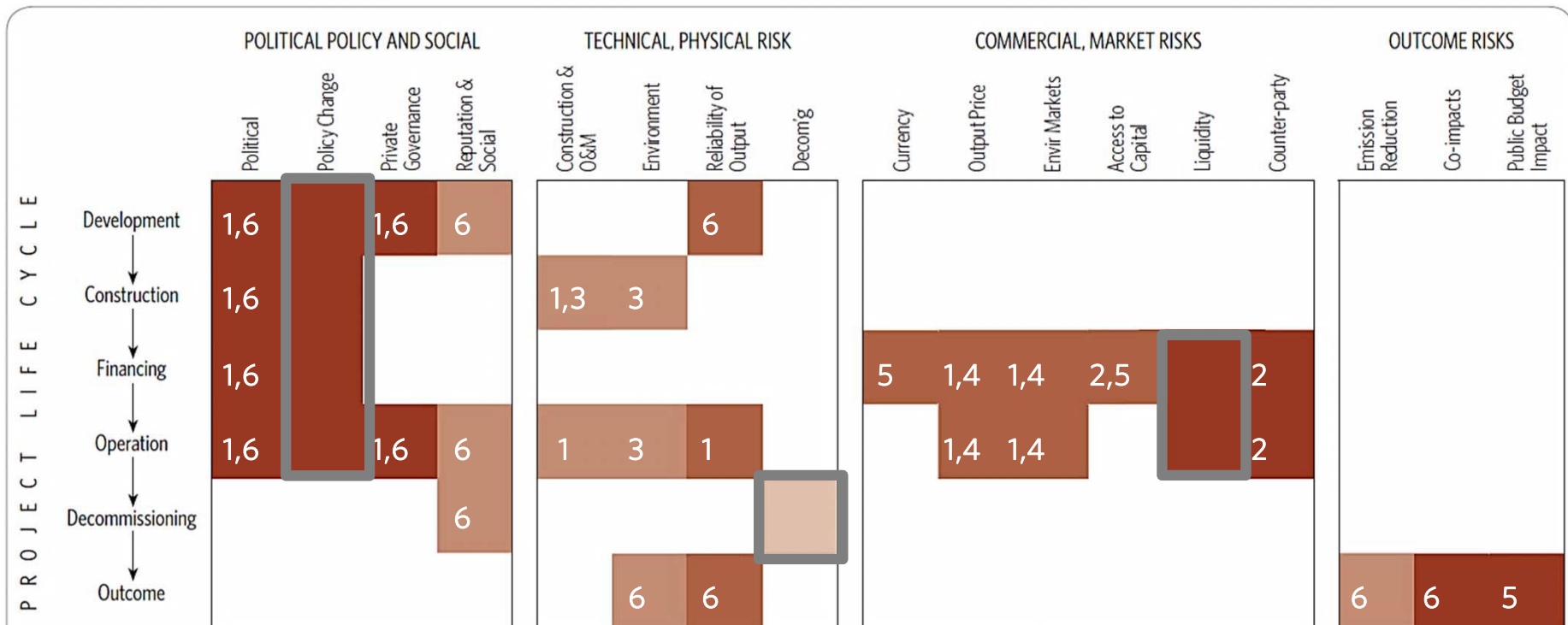
In developed markets:

- Demand for coverage of **policy risk** is not yet met;
- Gaps in coverage of **physical risks** occur in prospective technologies;
- Project-by-project interventions have done little to mitigate investment **liquidity risks**.

Demand and supply of risk coverage: identifying the gaps – Developing countries



Demand and supply of risk coverage: identifying the gaps – Developing countries



In developing markets:

- **Political and policy risks** are critical; only the former is covered;
- **Financing risks** enhanced by weakness of domestic financial markets;
- Concessional resources highly active but have had little impact on the involvement of private resources or **liquidity** of investments

World Bank Group risks instruments

- Most WBG instruments *explicitly* cover *counterparty/credit risk* and *political risk*
- Other risks are *implicitly* covered mostly through *partial credit guarantees*
- The WBG helps *indirect mitigation* of additional risks

NOTE: Coverage offered is a different concept than effectiveness of risk mitigation

RISKS	POLITICAL, POLICY, SOCIAL					TECHNICAL, PHYSICAL					COMMERCIAL, MARKET				OUTCOME					
	PUBLIC GOVERNANCE	LEGAL AND OWNERSHIP RIGHTS	PERMITTING/SITING	POLICY	PRIVATE GOVERNANCE	REPUTATION/SOCIAL OPPOSITION/VIOLENCE	CONSTRUCTION	DISASTER/CATASTROPHE	RELIABILITY OF OUTPUT	OPERATION AND MANAGEMENT	ENVIRONMENTAL IMPACTS	CURRENCY	INPUT / OUTPUT PRICE VOLATILITY	ENVIRONMENTAL INSTR. VOLATILITY	ACCESS TO CAPITAL	COUNTERPARTY/CREDIT DEFAULT	INVESTMENT LIQUIDITY/EXIT	EMISSION REDUCTION TARGETS	CO-IMPACTS (I.E. EMPLOYMENT)	FINANCIAL SUSTAINABILITY (BUDGET)
CREDIT ENHANCEMENT	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit
INSURANCE	Explicit	Explicit	Explicit	Explicit	Indirect	Explicit	Explicit	Explicit	Explicit	Indirect	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit
CONTINGENT FINANCING	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Indirect	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit	Explicit
CONTRACTS	Explicit	Explicit	Explicit	Explicit	Indirect	Indirect	Explicit	Explicit	Explicit	Indirect	Explicit	Explicit	Explicit	Explicit	Indirect	Explicit	Explicit	Explicit	Explicit	Explicit

Legend:
 WBG coverage:
 none | indirect | implicit | explicit

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MIGA	Green	Green	Green	Green	Yellow	Green					Yellow				Yellow	Green			Yellow	Yellow
IFC	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Green	Green	Light Green	Green	Green	Green	Green	Green	Green	Light Green	Green	Yellow	Light Green
IDA	Green	Green	Green	Green	Yellow	Green					Yellow				Green	Green			Yellow	Yellow
IBRD	Green	Green	Green	Green	Light Green	Green	Light Green	Green	Light Green	Light Green	Green	Green	Light Green	Green	Green	Green	Yellow		Yellow	Green

Legend:

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The risk gap

Risk, whether real or perceived, is the single most important factor impeding investment in renewable energy projects

- Gaps in risk coverage in developing and developed markets, particularly for policy risk and financing risks
- A wide range of instruments (e.g., WBG) exist that theoretically cover most risk categories, but only a few types appear to have been used at a significant scale for climate related projects
- New or improved risk mitigation instruments are needed to address financing and policy risks.

➔ Development financing institutions and the public sector have significant opportunities to fill these gaps

...helping nations spend their money wisely



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Further Reading

- **The Landscape of Climate Finance 2013**
<http://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2013/>
- **Studies on Risk Gaps and Risk Mitigation instruments**
<http://climatepolicyinitiative.org/sgg/publication/risk-gaps-2/>
- <http://climatepolicyinitiative.org/publication/mapping-the-world-bank-group-risk-mitigation-instruments-for-climate-change/>
- **Case studies on Climate Finance effectiveness**
<http://climatepolicyinitiative.org/publication/san-giorgio-group-case-studies/>
- **Information about the San Giorgio Group**
<http://climatepolicyinitiative.org/venice/san-giorgio-group/>