



INFORMATION ACTIVITY

Renewable Energy Risk Management Assessment

Description

Fostering innovation in the area of RE financial risk management

Context

Appropriate risk management tools such as contracts, insurance and reinsurance, credit enhancement products and alternative risk transfer/finance instruments are often lacking for renewable energy (RE) projects, particularly in developing countries, where risk and risk perceptions are highest. There are a number of key barriers to the development of new risk management instruments and approaches. Many risks associated with RE projects are non-traditional and hence uninsurable. It can be difficult to aggregate and diversify risks and actuarial data are not available to properly assess them. Underwriters and financiers have limited understanding of RE projects and associated risks and have difficulty aligning strategies for dealing with them. Underwriting mentalities are therefore generally rigid and inflexible.

Traditional insurance products are gradually becoming more widely available to the RE sector (see Figure 1), and some evolving risk management instruments and structures are being applied to RE projects. However, many gaps still exist and 'institutional inertia' is preventing any significant progress with regard to product development, especially for businesses in emerging markets. New approaches are needed to increasingly engage the risk management industry in the clean energy sectors.

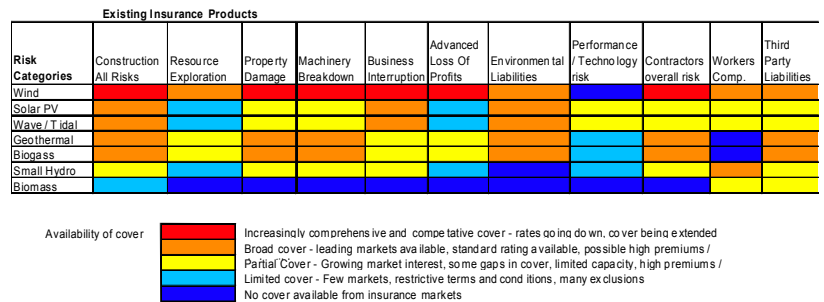


Fig. 1: Example RET Risk Transfer Heat Map

Operation

In 2004, SEFI funded a scoping study of currently available and potential future financial risk management instruments for the renewable energy sector. The **Financial Risk Management Instruments for Renewable Energy Projects** study was carried out by a consortium led by Marsh Ltd. and provided an overview of financial risk management instruments currently used for RE projects and those that could be developed. It will serve as a basis for the consultation and more detailed research under an upcoming full-scale assessment project.

Status

The scoping study has paved the way for a Global Environment Facility -sponsored assessment of RE risk management instruments. This project will analyse the risks associated with RE projects that could be effectively mitigated by financial risk management approaches, evaluate existing and emerging instruments, and identify the most promising modalities of such instruments where commercial actors are ready to play an active role. Feasibility studies of 5 to 10 selected risk management instruments will be conducted to estimate the market prospects in specific GEF-eligible countries. Finally, the effort will assess specific areas in which the GEF and other donors could most effectively drive innovation in the risk management markets.



Contact and information

UNEP Renewable Energy and Finance Unit

Aki Maruyama, Tel. +33 (0)1 44 37 16 27, aki.maruyama@unep.fr

<http://sefi.unep.org>