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Interim Director General  
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D.O. No. A-01/03/2017-ISA  

Dated the 18th May, 2017

Your Excellency,

The Interim Secretariat of the International Solar Alliance (ISA) presents its compliments to all the prospective member countries.

In furtherance of the ISA Programme “Affordable finance at scale”, launched by India and France in April 2016, it is proposed that countries located totally or partially between the Tropics, willing to benefit from a Common Risk Mitigation Mechanism (CRMM), should now commission and support a feasibility study for operationalization of such a mechanism. As context, the present proposal of a common risk mitigation mechanism has been initially developed by TWI, IRENA, CEEW and TCX.

Broad description of the proposed mechanism, the constitution memorandum, as well as proposed terms and references of the feasibility study are in the attached documents.

Honourable Ministers from 121 prospective member countries are invited and requested to signal at the earliest, but not later than 16th May 2017, their intention to support the launch of the study as described in the proposed terms of reference.

Support to the launch of this study implies no commitment from countries other than political support and liaisoning with the task force.

The study will be launched publicly by the Interim Secretariat of ISA on behalf of all supporting countries on 18th May 2017 in New Delhi, in the presence of Mrs Isabelle Kocher, CEO of ENGIE and Chairperson of Terrawatt Initiative, and H.E. Mr Piyush Goyal, Hon’ble Minister of State (Independent Charge), for New and Renewable Energy, Government of India (TBC).

Declaration of support can be emailed to Dr. O.S. Sastry at sastry284@intsolaralliance.org.
Looking forward to hearing from you at the earliest.

The ISA Interim Secretariat takes this opportunity to renew assurances of its highest consideration to all prospective member countries.

With best regards,

Yours Sincerely,

(Upendra Tripathy)
Interim Secretariat
International Solar Alliance (ISA)

No: 9/01/2017-ISA

Dated the 18th May, 2017
Surya Bhawan,
National Institute of Solar Energy Campus,
Faridabad-Gurugram Road,
Gwal Pahari, Gurugram 122003, India

Office Memorandum

Subject: Constitution of and support to a Task Force for development of a Common Risk Mitigation Mechanism (CRMM), for solar power generation assets in ISA countries.

In the context of the International Solar Alliance’s (ISA’s) programme, aimed at mobilizing ‘Affordable Finance at Scale (AFS)’ Terrawatt Initiative and their partner organizations have proposed to Interim Secretariat ISA, to launch a feasibility study for the establishment of a Common Risk Mitigation Mechanism (CRMM) that aims at achieving a rapid scaling up of solar power investment globally. In this connection it is proposed to set up a task force to achieve following objectives:

Justification for setting the task force:

1. To achieve Nationally Determined Contributions (NDCs) presented and the targets set in Paris at COP21 and concurrently to reach domestic solar energy goals of ISA countries, a massive and rapid scaling-up of solar energy globally is required. The targeted installation at 1200 GW of solar energy by 2030 requires more than USD 1 trillion dollars of investments.

2. Although Solar Energy (SE) presents considerable potential for economic prosperity, sustainable development and energy security, many countries continue to face major obstacles to deploy solar energy at the scale and speed required in the absence of innovative financial instruments.

3. The challenge posed by the affordability and availability of private capital and to address the challenges associated with mobilizing affordable finance at scale for solar energy systems in ISA member countries, requires risk mitigation funds of various types.

4. Cost of capital for solar energy, which is a function of the multiple risks such as off-taker risk, foreign exchange risk from policy uncertainty, etc. that financiers continue to perceive, can be reduced through risk mitigation mechanisms.

5. Further, existing market instruments to address these risks are not adequately addressing the solar energy investment in the context of
developing ISA countries, and remain underutilized due to their prohibitively high costs, and hence the need to make such instruments affordable.

Therefore, it is critical to develop a concept document on the lines of a Common Risk Mitigation Mechanism (CRMM) scheme/s, to create common guarantee funds and develop guarantee instruments with clear scope, delimitation of risk coverage and recourse options, as well as to reduce transaction costs to mobilize the investment volumes necessary for scaling up solar energy projects, to attract investment of more than US $ 1000 Billion into solar power generation assets in the countries located fully or partially between the tropics by 2030.

In order to develop CRMM for ISA countries, in order to give effect to the provisions of second programme, the Interim Secretariat constitutes a task force (the “Task Force”), under the aegis of ISA, with the following member organizations:

1. Terrawatt Initiative —— Chair
2. The World Bank Group —— Member (TBC)
3. The Currency Exchange Fund (TCX) —— Member
4. The Council on Energy, Environment and Water (CEEW) —— Member
5. Confederation of Indian Industry (CII) —— Member
6. Any other agency / institution / experts to be co-opted by the chair

The Task Force will attempt to develop a Common Risk Mitigation Mechanism (CRMM) which would strive to:

- Develop a concept document on a Common Risk Mitigation Mechanism (CRMM), which will provide feasibility to create guarantee mechanisms both globally and at regional levels;
- Create a secure environment for affordable private institutional investment in solar assets;
- Operate as platform to aggregate, structure and channel key risks to existing guarantee mechanisms in a cost efficient manner;
- Underwrite key risks, namely off-takers’ default, foreign exchange (FX) and currency inconvertibility risks and other risks if any;
- Distribute through a partners network a user-friendly product designed to make complex risk mitigation instruments universally accessible for solar energy assets;
- Maximize the impact of public investment;
- Provide its service at affordable prices;
- Raise projects to international investment grades to attract private capital;
- Facilitate and accelerate the dissemination of higher quality standards and international best practices (contractual standardization, modernization of the legal and regulatory framework, etc.);
- Any other identified perspectives by the Task Force.

The Task Force stands constituted herewith, subject to Terms of Reference (ToR) at Appendix-1.
This issues with the approval of Interim Director General (IDG), ISA, under ISA's second programme approved by ISC at New York in April 2016.

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Agrim Kaushal
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Interim Secretariat of ISA
Appendix-1

Terms of reference of the feasibility study for the establishment of a common risk mitigation mechanism (CRMM)

These terms of reference intend to guide the feasibility study that will design and operationalize a common risk mitigation mechanism (CRMM) to attract investment of more than US $ 1000 Billion into solar power generation assets in the countries located fully or partially between the Tropics by 2030.

1/ General objective:

The study aims at providing member countries, represented by their National Focal Points and Honorable Ministers, supporting this CRMM initiative (the Initiative) with necessary recommendations for the operationalization of a common risk mitigation mechanism (CRMM):

- Aggregating risks plaguing grid connected solar electricity (separately for off-grid if so decided)
- Mitigating risks though mutualisation
- Sending a clear signal to players along the value chain
- Optimizing the leverage effect of public finance
- Cost efficiency gains
- Ease of subscription
- Ease of claim clearance
- Easily assignable
- Step process to achieve investment grade rating (with a long-term objective to reach BBB- or better)

2/ Specific aspects to be covered by the feasibility study:

- General design of the instrument
  - Economic and financial assessment of existing risk mitigation mechanisms, facilities may include but not limited to: MIGA (PRI and PRG), Climate Investor One (operational, by FMO), India FX risk hedging facility (being discussed, concept proposed by CPI), India payment security mechanism (concept proposed by World Bank), Regional Liquidity Support Facility (to be reviewed by GCF, by KFW), African Development Bank guarantee, AFD Off-Taker Guarantee, GarantCo, Africa Green Co, Instruments developed by IREDA, NTPC, SECI & NVVN, etc.
  - added value of the proposed mechanism
  - risks to be covered, risks of corporate clients & customers
  - real price project modelling

- Detailed design of the instrument – mechanisms and provisions to:
  - make the instrument flexible and adaptable to actual risk profile of the asset(s);
  - avoid moral hazards, including mutual capital fund and eligibility criteria;
  - streamline credit rating of the covered asset(s);
  - ease of subscription and use;
- ensure fair and cost reflective pricing;
- ensure efficient and transparent price sponsoring/subsidies;
- make the instrument simple to transfer with the asset(s) covered;
- guarantee efficient and expedited claim management;
- optimize public investment leverage ratio

- **Capitalisation requirements and financial model design**
  - Scenario analysis per varying leverage ratio (volume of guaranteed cost competitive assets per unit of public investment)
  - Financial structuring and sizing necessary for the guaranteed assets in the long-term perspective of reaching investment grade (minimum BBB-);
  - Capital requirement and capital structure;
  - Structuring of back to back, margin calls and collateral mechanisms;
  - Structuring of the mechanism of evaluation of the residual risks borne by the entity;

- **Management and Governance**
  - Assessment of the key governance’s issues;
  - Governance structure;
  - Management structure;
  - Savings in back office costs due to mutualisation
  - Mechanisms and provisions to guarantee the independence of the management and the governance and the absence of conflict of interests;

- **Operating model**
  - Design of fully digitalized business processes;
  - Operating details (organization, reporting, KPIs, marketing, communication...);
  - Optimized cost structure.

- **Legal and tax model**
  - Legal and tax structuring;
  - Assessment of the main regulatory and conventional issues;
  - Contractual structuring;
  - Digitalization of the contractual processes;
  - Digitalization of the dispute resolution mechanisms.

- **Advocacy toolkit**
  - Stakeholder mapping;
  - Evaluation of the expected shared values;
  - Evaluation of the synergies, mutualisation effect, economies of scale;
  - Evaluation of the leverage created on public capital;
  - Evaluation of the socio-economic benefits (SDG based);
  - Evaluation of the financial benefits.

- **Implementation**
  - Leadership and project management team;
- Action plan for fast implementation and deployment;
- Evaluation of an implementation budget;
- Business plan;
- Investment memo.

Any other useful recommendation.

3/ Project sponsorship

The feasibility study will be conducted under the aegis of ISA and as a basis for collective and concrete action, to better implement the second programme.

As context to this proposal, the initial concept of a CRMM have been developed by the TWI, IRENA, CEEW and TCX.

4/ Project management

The study is proposed to be entrusted to an interdisciplinary Task Force chaired by Terrawatt Initiative and as elaborated in the Office Memorandum of ISA Interim Secretariat.

5/ Stakeholders to be consulted in order to ensure buy-in and contributions of ideas to design the financial instrument:

Financial Institutions and existing risk-mitigation mechanisms
- The World Bank Group
- Regional Development Financial Institutions (African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IDB), and European Investment Bank (EIB)
- Bilateral Development Financial Institutions (Agence Française de Développement, (AFD), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) / KfW, Japan International Cooperation Agency (JICA) Abu Dhabi Fund for Development (ADFD), Netherlands Development Finance Company (FMO) etc.)
- Green Climate Fund (GCF), Global Environment Facility (GEF)
- The Multilateral Investment Guarantee Agency (MIGA)
- Asian Infrastructure Investment Bank (AIIB), New Development Bank (NDB),
- Instruments developed by IREDA, NTPC, SECI & NVVN,
- Exim banks
- Others: additional public and corporate financial institutions may be consulted as part of this project.

Private sector stakeholders
- Global Investment Banks/Financial Advisors, Global Law firms, Consulting firms
- Global insurance/reinsurance companies
- Global rating agencies
- Representatives from solar industry associations
- Representatives from power generation industry (Transmission System Operators (TSO), Distribution System Operators (DSOs), utilities, grid operators)
- Representatives from capital market industry
- Representatives from industry organisations (including, but not limited to, Confederation of Indian Industry (CII), Federation of Indian Chambers of...
Civil society
- Think tanks focused on finance and energy for developing and emerging economies
- TERI
- Other representatives of the civil society

6/ Deliverables

An monthly report will be presented to Ministries of countries supporting the Initiative to assess progress made, challenges and present initial design features.

The Task Force will present its final results at appropriate forum of member countries supporting the Initiative, and also deliver the findings in an electronic format to the ISA Secretariat:

- An assessment of existing guarantee facilities strengths and weaknesses, lessons learned and recommendations for a common pooling mechanism;
- Detailed design and options;
- Detailed Investment Memorandum;
- Term Sheets of key contracts;
- Job descriptions of key people;
- Detailed 5 years Business Plan (including set up costs);
- Fund raising strategy for the CRMM;
- Any useful advice and recommendation in particular in terms of capacity building, stakeholder onboarding, communication and advocacy.

7/ Schedule and submission

- The Task Force will start its work once constituted and launch stakeholder’s consultations.
- Monthly reports will be submitted to the member countries supporting the Initiative, starting 25 June 2017 through the Interim Secretariat to coordinate and provide guidance and support to members in implementation of each programme including raising of funds.
- The Interim Secretariat will also keep all NFPs (who constitute a permanent network of correspondence in ISA member countries) informed fortnightly progress made by the Task Force.
- The Task Force will present its deliverables to member countries at appropriate forum supporting the Initiative ahead of COP23.
- Upon approval by the competent authority, fund raising process will be open to operationalize the mechanism rapidly, with the objective to announce the first commitments during World Economic Forum 2018 (23-26 January 2018) in Davos.

8/ Budget and funding

The study will be carried out under a collaborative, volunteers, “pro bono” and workshop based model.
Task force will cover for their own travel and accommodation expenses or can join in video conference including through the INFOPEDIA of ISA.

9/ Conflict of Interest

The Task Force shall ensure to the best of their knowledge and belief, there are no present or currently planned interests (financial, contractual, organizational, or otherwise) relating to the work to be performed under the task that would create any actual or potential conflict of interest. Further, the Task Force will continue to exercise due diligence in identifying and removing or mitigating any conflicts of interest.

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