



RLSF FAQs

THE PRODUCT

A1 *What are the roles of ATI, RLSF and the LC Bank?*

- (a) The LC bank will issue a stand-by on demand LC to the IPP Project Company.
- (b) RLSF is not a legal entity, but a facility with 2 components: an amount of cash and an on demand guarantee provided by ATI. The LC bank will have recourse to use the cash and the guarantee by way of cash/guarantee credit support to the extent that any draw under the LC remains unpaid after an agreed waiting period (except to the extent that the LC Bank has offered to share some risk on its own account in its bid under the RfP).
- (c) ATI will be the formal partner of the LC Bank and both will coordinate the conditions of the LC.

The relationship between ATI and the IPP will be reflected through either the terms of the LC itself or otherwise through the terms of an agreement entered into by ATI with each IPP.

A2 *What is the tenor of the LCs?*

This is an element which remains to be tested with the LC Banks but we believe that the LC should be capable of having a tenor of no less than 5 years but possibly up to 10 years. Typical market practice is that the LC is for a one year period but with an obligation on the Offtaker to ensure it is available on an ongoing basis for a specified period of time. It is preferable that the RLSF would work in a similar way such that the LC is automatically renewed each year, subject only to cancellation upon a material default (i.e. if the IPP breaches certain key obligations – like paying the LC fees and meeting its commitments with regard to environmental and social impact monitoring).

A3 *In which currencies can the LC be issued?*

The LC will typically be issued in US Dollars but there may be projects financed in Euro which would necessitate a Euro denominated LC. The understanding is that the LC will be denominated to match the currency of the senior debt to the IPP.

A4 *How does ATI select the countries where it will operate?*

In the launching phase ATI will focus on countries:

- (a) that are member of ATI (and where its preferred creditor status applies)
- (b) that don't have any outstanding claims with ATI;
- (c) where the Governments give a strong support to ATI in general;
- (d) where the utilities agree that ATI can collect and share payment records; and
- (e) the need for collateral has been identified as a bottleneck for the IPPs.

A5 *Can IPPs in non-member countries apply?*

Yes, and each case will be assessed on its own merits. However, this will require that the host Government and the Offtaker make commitments to ATI that compensate the absence of a preferred creditor status. We would need active support from the IPP to engage with a Government that likely is not familiar with ATI. Specifically in respect of Nigeria and Ghana, in principle projects in both countries are possible but in both cases, discussions with government and the Offtakers will need to be fast-tracked and will be subject to further discussion between potential beneficiaries of the RLSF, KfW and ATI.

A6 *When will the facility be launched?*

We expect that the product will be ready in the fourth quarter of 2017. However the concept also implies that the governments and utilities will give the facility a formal support, and it is difficult to predict how fast this can be achieved. The LC bank is expected to be chosen in the third quarter of 2017.

A7 *What happens when the facility is exhausted?*

If RLSF has given commitments for the total amount of the capacity (62 million Euro is the expected amount for the first two phases), we expect that more partners (e.g. other development finance institutions and donors) will step in to increase the capacity. We have already received several expressions of interest from other donors in this respect.

A8 *Why is a formal Government support needed before RLSF is made available?*

ATI by its nature works with Governments to manage and mitigate the risks which ATI is insuring. As such it is reasonable and sensible to ensure that the respective Government is aware of the RLSF initiative prior to an IPP being covered and is acknowledging the nature of the liability being assumed by ATI. It should also be noted that it would typically be expected that the host Government would continue to enter into the normal host Government agreement with the IPP providing for the assumption of typical political risks and, probably, providing a sovereign guarantee of the Offtaker's payment obligations of the PPA. Any payment outstanding under the PPA, including any amount drawn under an RLSF backed PPA, would then be a liability of the host Government under that agreement and RLSF would work with the Government to ensure that any outstanding amount is paid.

A9 *Why is RLSF restricted to IPPs with a capacity of max. 50 MW?*

Larger IPPs will probably find it easier to tap into the partial risk guarantees provided by large multilateral institutions, like WBG or AfDB. It is anticipated that smaller projects will

not be in a position to assume the cost and take the time to undertake a process with WBG / AfDB to obtain a PRG product to facilitate the issuance of a Letter of Credit. Also, by focusing on smaller IPPs the RLSF will better spread its risk and be able to engage with different Governments.

However, on a case by case RLSF can consider larger projects, up to 100MW.

A10 *Will the Offtakers be tempted to delay payments to IPPs that benefit from RLSF because they know that the facility will support them anyway?*

The cover provided under RLSF is no different to that provided under a typical LC procured by the Offtaker itself. The payment obligation of the Offtaker for the sum which has not been paid would remain and the PPA would continue to go into default if the sum has not been repaid within an agreed period of time. The Offtaker is not relieved of this payment obligation. The RLSF backed LC simply provides a cash flow to meet necessary IPP expenditures in the hope that the lack of payment is simply a cash flow problem for the Offtaker.

A11 *Will RLSF replace the other forms of political risk insurance?*

No. Just like the stand-by LC co-existing with the traditional political risk cover, other PRI products will keep their relevance. The RLSF does not cover the full termination risk, currency inconvertibility risk or the risk of expropriation for example.

A12 *Will the IPP have to take the conventional PRI insurance with ATI?*

Absolutely not, the IPP can source its other insurance requirements as it wants.

A13 *How is the LC bank selected?*

The bank that will issue the LCs will be selected through a competitive tender, based on a number of criteria. The most important ones are:

- (a) The credit rating of the LC Bank;
- (b) The price that the LC Bank will charge on top of the risk premium that will be charged by RLSF for the risk component;
- (c) The willingness of the LC Bank to retain a part of the risk for its own account; and
- (d) The number of countries that the LC Bank will be able issue LCs in.

A14 *Will the RLSF benefit from the credit rating of ATI?*

The IPP and its lenders will in the first place rely on the credit rating of the bank that will issue the LC. The bank itself should be able to offer competitive terms because it is backed by the facility which is a mix of cash collateral and the on-demand guarantee provided by ATI. The LC Bank will get capital relief for both components.

A15 *What will the LC cost to the IPP?*

This is impossible to say at this stage. It will be a combination of

- (a) The risk premium that will be charged by ATI. This will likely vary from one country to another, and possibly from transaction to transaction.
- (b) The pricing offered by the LC bank, which will be a function of the cost of the capital that the LC Bank has to allocate to the ATI guarantee.

A16 What will the maximum amount of any single LC be?

The objective is to ensure that the IPP can continue its operations for between 3 to 6 months. The LC will allow the IPP to service its debt and fund its day-to-day operations. The amount of the LC will be the assumed payments under the PPA for the agreed period of time to be covered under the LC.

A17 Will the availability of RLSF for an IPP reduce the capacity that ATI will have available to cover other risks for the same project?

No. The exposure that ATI takes is allocated to the obligor (i.e. the utility) and to the country, there is no cap on the project itself.

The liquidity risk and the other risks that ATI can take (termination risk, currency inconvertibility etc.) are fundamentally different and the exposures will not cumulate.

The RLSF will of course increase ATI's exposure on the Offtaker and ATI will have a limit on each utility. However ATI has solid reinsurance treaties in place that will take care of the risk that exceeds ATI's capacity.

A18 What is the maximum amount of the facility?

Initially the facility will have a first tranche of 32 Million Euro, which will be increased to 62million (funding has already been secured) once the facility has demonstrated its ability to attract IPP investments and to have a systemic impact. The total value of the LCs that will be covered can be larger if the LC Bank is willing to participate in the risk. We expect that when RLSF runs out of capacity other participants will be willing to join the facility and increase its total impact.

THE APPLICATION PROCESS

A19 Who manages RLSF?

ATI manages RLSF. It is treated as one of the regular ATI products and enquiries are processed by the underwriting department according to ATI's standard processes.

A20 What is the role of KfW in the process?

KfW provides the funding in form of cash collateral, granted by the German Development Cooperation. KfW has delegated the day to day management to ATI. It will review each transaction to ensure that its eligibility criteria are met, and otherwise rely on the regular reporting that ATI will make.

A21 What are the eligibility criteria of KfW?

They are by and large the same as the regular guidelines of ATI. The specific concerns of KfW are

- (a) The technology that is used. Gas installations, even in combined cycle, will be excluded.
- (b) The monitoring of environmental and social guidelines by ATI, which fully adhere to IFC performance standards, may include on-site visits.

A22 How can an IPP apply?

The standard processes of ATI are applicable. Typically:

- (a) The IPP (or the lenders) can enquire about the availability of RLSF at an early stage, as part of the feasibility study. ATI will reply with an assessment of the eligibility and a list of the conditions that have to be met, as well as the documentation that the IPP will have to provide. If there is enough information available it will issue a Non-Binding Indication (NBI) that will also give a pricing indication.
- (b) The enquiry form may be downloaded from ATI's web site.
- (c) Shortly before the RLSF is effectively needed, the IPP will formally apply for the cover and provide the required documentation, as well evidence that the conditions have been met. ATI will then formally underwrite the transaction, and confirm cover if all conditions are met.
- (d) In between the IPP can ask additional questions and keep ATI informed on the progress, but ATI does not expect to be involved actively.

A23 What are the key criteria of ATI to assess an IPP?

ATI is able to provide, upon request, a checklist manual that gives a general overview of the points of attention and the reasons why they are relevant to ATI.

A24 How does the approval process work?

Once all the information has been received, the underwriter in charge will prepare an underwriting report that will be reviewed by the management. If it is approved a copy will be sent to KfW to get a "no objection". Meanwhile the client will complete a formal application form. Once all details have been agreed ATI will confirm to the LC bank that it can issue the LC and the facility letter.

A25 Will the IPP have to disclose to the Government and the Offtaker that it uses / applies for RLSF?

Absolutely, unless the IPP agrees that ATI will do it directly. ATI cannot take public buyer risk without notifying the Government. The involvement of ATI will normally have a

detering effect, and the Government should appreciate that we remove the burden from the utility of providing cash collateral.

A26 Which documents will the IPP have to provide?

The list will vary from case to case and will be shared in the NBI. Typically they will include:

- (a) the PPA and the concession/implementation agreement;
- (b) the environmental and social assessment report and resulting E&S action plan;
- (c) the term sheet of the bank;
- (d) (if the lender is applying) the internal credit paper of the bank;
- (e) the project information memorandum;
- (f) the business plan; and
- (g) consent to engage with the Government and the Offtaker.

A27 If the RLSF covers the Offtaker risk, why does ATI need to review all these internal documents?

There are a number of reasons. First, ATI will want to check if its standard eligibility criteria are met.

More importantly, the experience is that payment problems and other issues between the Offtaker and the IPP often find their origin in the features of the project itself: the way the pricing has been set, the involvement of the local and regional authorities, the management of the relations with the local communities, technological challenges of the installation, etc. For that reason ATI takes a holistic view of the whole project before looking at the very specific risk that will be covered.

A28 Will the LC bank do its own due diligence?

This will be discussed with the shortlisted bank. We expect that since the bank takes no or limited risk it will rely heavily in the underwriting of ATI. However if the bank also participates in the exposure it will have to do some kind of internal assessment as well.

A29 Will there be a direct contractual agreement between the IPP and ATI?

This will be discussed with the appointed LC bank. We hope that everything can be channelled through the bank, and that the facility letter will reflect the conditions of ATI.

A30 Will ATI require access to the IPP's data room?

In principle ATI does not wish to access the data room. It is the responsibility of the IPP to provide all the information that is needed for ATI to make a balanced assessment of the project and the risks it takes.

A31 Can large investors agree on a framework agreement that covers all their investments?

We welcome the possibility to have a general agreement with investors to define how we will work with them across the continent, and this will definitely help to speed up the underwriting and streamline the interactions. ATI is especially keen to approach potential

countries together with the private sector to demonstrate the added value of RLSF and in return get the support that ATI will require.

However this does not guarantee that ATI will approve each and every project that the investor will submit.

A32 *Can IPPs that already have an LC in place apply for RLSF?*

No. The funding from the German Government has specifically been designed to attract new investments.

Once ATI has more experience with the product it may be able to consider a similar insurance product outside RLSF and without the support of KfW.

A33 *How long does it take to have the facility in place?*

We cannot confirm this at this stage, as it will also depend on the administration requirements of the LC Bank.

In the case of a direct insurance, ATI would take between 2 and 4 weeks to approve a project, once all the information is available and confirmed. The processing time of the LC Bank may partly run in parallel and partly be in addition to this. Much will also depend on the confirmations and approvals that the host Government and Offtaker have to provide, and this can vary from country to country.

A34 *Are the terms and conditions negotiable?*

The final conditions of the cover will be discussed in detail and will to a large extent depend on ATI's understanding of the project and the associated risks. As such, a better understanding of and greater comfort with the project can influence the conditions and the pricing, but likely only in a limited way as the main concern will be the Offtaker risk.

A35 *Can the availability of the LC be guaranteed before financial close?*

If ATI has all the information and approvals it can make a binding offer and allocate the capacity that is needed. It will charge a commitment fee for this. If the IPP needs to have the LC in place at financial close the LC bank may add additional charges

TRANSPARENCY

A36 *How will RLSF encourage transparency?*

ATI has designed a "Transparency Tool", which will be a web-based interface where IPPs will upload key data of their invoices to the Offtaker and the payment records. From there RLSF can:

- (a) Calculate the payment delays (and their evolution) per IPP and for the industry as a whole;
- (b) Indicate the number of cases at which a LC has in fact been called;

- (c) Feed the aggregate results back to the IPPs;
- (d) Assess and monitor trends;
- (e) Make part of the gathered information public.

A37 *How will the Transparency Tool work?*

We are in discussions with external providers who will develop the platform and the details are not confirmed at this point of time.

A38 *What is the purpose of the Transparency Tool?*

It has a number of objectives

- (a) There is a lot of talk about the “perceived risk” vs. the “real risk” of non-payment by the utilities, and Governments claim that the risks are exaggerated by the private sector in order to negotiate a higher risk premium. The availability of tangible data will make the discussion more transparent.
- (b) The tool will also help to give incentives to the utilities to meet their contractual obligations.
- (c) In the end, if it appears that the payments by the utilities are correct over a longer period of time, it will reduce the need for collateral, LCs or insurance and thus reduce the costs to the IPP.

A39 *How will the Transparency Tool benefit the IPPs*

In addition to the previous points, the IPPs will be able to see how fast they are paid compared to other IPPs including potentially cross-border.

A40 *How and to whom will the information from the Transparency Tool be available?*

While this has not been finally concluded, the intention is:

- (a) That each participating IPP will receive information about the payment performance of the utility across all participating IPPs; and
- (b) to release less granular information to the general public, both through the ATI web site and through the media.

A41 *Can IPPs that do not benefit from RLSF participate in the transparency tool?*

Yes, as it will help to get a better overview of the actual performance of the Offtaker, and it will contribute to the deterring effect of the tool.

A42 *Is contribution to the Transparency Tool mandatory for the IPP?*

Yes, it will be a condition to benefit from the RLSF.

A43 Will the Offtaker know that the IPP has shared the payment information?

As a minimum

- (a) The Offtaker and/or the Government have to acknowledge that payment behavior will be registered and published, as a condition to introduce RLSF in that country;
- (b) The Government and the utility will be informed of each new LC that will be issued in the context of the RLSF.

A44 Do you really think that the utilities will agree to this?

The Governments and utilities will be approached in the next months, in parallel with the selection of the LC Bank. At this stage it is difficult to anticipate their reaction.

CALLING THE LC

A45 How much time does the IPP have to call the LC?

If there is a delay in payment but the IPP does not need/wish to call the LC immediately, it can wait up to 12 months to draw on the facility. The IPP still has to inform ATI of the delay at the latest 15 days past the payment due date.

A46 What is the earliest possible date at which the LC can be called?

Tentatively this has been set 15 days after the payment overdue date with an additional 15-day waiting period.

A47 How fast will the LC be paid?

Tentatively this has been set at 15 days after the LC has formally been called.

A48 Will the LC be paid out as a lump sum?

No, the payments will match the amount of the unpaid invoices. If the IPP waits for 6 months or longer to call the LC it will indeed be paid out as a lump sum, but otherwise the disbursements will be on a monthly basis.

A49 Will the IPP have to pay for the issuance of the LC?

Yes, when the bank disburses it will charge an interest rate. The details have not been set yet, but possibly it will mirror the interest rate that is set in the PPA.

A50 Will the Offtaker be contacted by ATI if there is a payment default, even if the LC is not called?

ATI has the right to do so, but will consult the IPP first to avoid any initiative that could make the problem worse.

A51 *Will the Offtaker be informed that the LC has been called?*

Yes. ATI will take all the necessary actions to recover the outstanding amount as soon as possible and will engage both the Offtaker and the central government. The recovery strategy will always be discussed with the IPP first in order to identify the most effective recourse.

A52 *What will happen when the Offtaker makes a partial payment?*

Partial payments will be used to replenish the facility and will be offset against the payments made so far.

- (a) If the payment is made before the full amount of the LC has been disbursed, the amount will reduce the maximum pay-out
- (b) If the payment is made after the full amount has been disbursed, the IPP will transfer the full amount to the LC Bank

A53 *Will the LC be reinstated once the Offtaker has made a payment?*

The LC will be reinstated after the full amount (principal and interest) has been repaid

A54 *Is there a risk that the RLSF will run out of capacity if several LCs are called at the same time?*

No, the total value of the LCs that will be issued will never exceed the total value of RLSF, i.e. the cash collateral plus the value of the on demand guarantee.

A55 *What if the IPP calls the LC but later it appears that it has not met all its obligations towards the bank?*

The LC will be irrevocable, but the bank; (and RLSF) have the right to claim the amount that was disbursed back from the IPP.