AGENDA ITEM E6 – INNOVATIVE APPROACH TO INCREASE PRIVATE SECTOR INVESTMENT IN RENEWABLE ENERGY IN THE PACIFIC

(Submitted by Asian Development Bank)

Purpose

1. The purpose of this paper is to inform Energy Ministers’ of the Pacific Renewable Energy Program and seek agreement to work with the program to promote private sector investment in renewable energy.

Background

2. A structural transition is currently underway in power generation in the Pacific — from relying on fossil fuels to utilising renewable energy sources — to lower costs, reduce greenhouse gas emissions, and improve energy security. Pacific countries are increasingly looking to private sector to invest and operate renewable energy generation, however there are barriers to attracting private sector to the Pacific. The private sector relies on sovereign guarantees to backstop the offtake obligations of power utilities. However, certain Pacific developing member countries are unable to provide guarantees because of sovereign debt ceilings or preference to utilize available headroom for direct borrowing.

3. The Pacific Renewable Energy Program encourages private sector investment by using donor funds to backstop the power payment obligations of power utilities, replacing the need for sovereign guarantees. The design for each project under Pacific Renewable Energy Program includes one or more of the following:

- **Partial risk guarantee.** A partial risk guarantee (PRG) covers standard political risks and breaches of contract under a power purchase agreement (PPA), which includes coverage of failure by the utility to make a termination payment in the event of full default by the power utility. The PRG will support commercial loans with an aggregate principal amount of up to $50 million. ADB will provide $50 million Ordinary Capital resources (OCR) for PRG, and funding through the Government of Canada may risk participate up to $20 million.

- **Direct loan.** ADB provides a direct loan to support a private sector investor. If ADB cannot fund a loan in local currency, a partial credit guarantee benefiting one or more local lenders to the project may be made available. ADB will lend up to $50 million from its OCR to independent power providers.

- **Letter of credit.** A letter of credit (LC) facility is intended to cover short-term liquidity risk, drawable by a project company in an amount covering payments due under a PPA for a specific period. ADB may arrange a maximum period of 24 months for the power payments to a project. The LC will cover the risk that a power utility as an offtaker fails to make payments to the project in accordance with the terms of the PPA. The LC will be fully secured by donor funds. Government of New Zealand has approved $3 million grant to support the LC. Additional funds will be sought depending on project demand.

- **Technical assistance.** ADB may employ technical assistance for transaction advisory support and streamlined processes. This reduces high transaction costs associated with relatively small transaction sizes in the Pacific and assists with capacity building. TA will be provided through existing ADB TA funds and additional external funds, as required.

Current status

4. The Pacific Renewable Energy Program was approved by the ADB Board on 17 April 2019 and is active. ADB is currently discussing a pipeline of projects with various Pacific countries and in finalizing the first transaction under the Program for a solar power private sector investment in Tonga.

Recommendations

(i) The meeting is invited to:

i. Agree to work with the Pacific Renewable Energy Program to identify suitable projects to promote private sector investment in renewable energy.