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# Pacific Renewable Energy Program Annual Report April–December 2019

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Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
DMF	–	design and monitoring framework
IPP	–	independent power producer
LC	–	letter of credit
PARD	–	Pacific Department
PDMC	–	Pacific developing member country
PPA	–	power purchase agreement
PRG	–	partial risk guarantee
PSOD	–	Private Sector Operations Department
RRP	–	report and recommendation of the President
TA	–	technical assistance

## NOTE

In this report, "\$" refers to United States dollars.

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## I. INTRODUCTION

1. The Pacific Renewable Energy Program (Program) provides an umbrella facility of up to \$100,000,000 of financing support, including loans, guarantees, and letters of credit, to overcome the constraints to private sector investment in renewable energy projects in island countries.<sup>1</sup> The Program was jointly developed by ADB's Private Sector Operations Department (PSOD) and the Pacific Department (PARD). PSOD oversees implementation, monitors the progress of the portfolio, and prepares periodic program progress reports to development partners as required. This is the first annual progress report covering the first 8 months from the approval of the Program on 23 April 2019 to 31 December 2019.<sup>2</sup>

## II. PROGRAM SUMMARY

### A. Overview

2. The ADB Board of Directors approved the Program on 23 April 2019. PSOD and PARD jointly developed the Program under a "One ADB" approach. This approach leverages PARD's close relationship with the Pacific power utilities. Development of a regional guarantee program is an output indicator of the Pacific Renewable Energy Investment Facility (Facility), which was designed to support ADB investment in sovereign renewable energy projects in the smallest 11 Pacific island member countries and to assist in sector reform.<sup>3</sup> The Facility identified a donor-backed guarantee program as a key activity to promote private investment in the Pacific energy sector, as part of the sector reform agenda. The design for each project under the Program includes one or more of the following forms of financing support:

- (i) A partial risk guarantee (PRG) covering standard political risks and breaches of a 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, as set out in the PPA.<sup>4</sup> Payment for breach of contract is made under the PRG upon arbitral award.<sup>5</sup>
- (ii) A direct loan provided to support a private sector borrower; or, where ADB cannot fund a loan in a local currency, then an ADB partial credit guarantee benefiting one or more local lenders to the project may be made available to an independent power producer (IPP) instead of a direct loan.
- (iii) A Letter of Credit (LC) facility to cover short-term liquidity risk is to be drawable by the IPP in an amount covering payments due under the PPA for a specific period. ADB may arrange for a maximum period of 24 months of PPA payments per project. The LC will cover the risk that a power utility as an off-taker fails to make payments to the project following the terms of the PPA, and the LC will be reinstated once the utility has restored the outstanding payments. The LC, if provided, will be fully funded by development partner funds.
- (iv) Technical assistance (TA) for transaction advisory support and streamlined processes to reduce high transaction costs associated with relatively small

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<sup>1</sup> ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Pacific Renewable Energy Program*. Manila.

<sup>2</sup> PSOD and PARD are required to report progress in Program implementation annually to the ADB Board of Directors (calendar year).

<sup>3</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Pacific Renewable Energy Investment Facility*. Manila. The Facility was approved on 22 June 2017.

<sup>4</sup> Expropriation, inconvertibility/nontransferability, war and civil disturbance, and breach of contract.

<sup>5</sup> The PRG will not cover PSOD lending.

transaction sizes in the Pacific, and to assist with capacity building in environmental and social safeguards.

## **B. Planned Impact, Outcome, and Output**

3. **Impact and outcome.** The impact will be increased generation of renewable energy in the Pacific, as stated under the Framework for Action on Energy Security in the Pacific 2010–2020. The outcome will be increased private sector investment in renewable energy in the Pacific.<sup>6</sup>

4. **Output.** The Program output will be the successful establishment of the Pacific Renewable Energy Program. This output will support an estimated five separate renewable energy projects in PDMCs over a 5-year period.<sup>7</sup>

## **III. PROGRESS ON ACHIEVING PROGRAM OUTPUTS**

5. The Program is well received, and project financing transactions are now underway, however, no project has been signed to date. The private sector operations team is mandated to finance a 6-megawatt (MW) solar project in the Kingdom of Tonga (Tonga), which is an anchor project of the Program. Financing was anticipated to close in 2019. However, the investor sold majority of its shares to a new investor, which delayed the financing process by 7 months. The financing is now on track with planned financial close in 2020. Two further projects, a wind project in Tonga and a solar project in Fiji, are expected to be financed by the Program over the next 24 months. The Asia-Pacific Climate Finance Fund has provided a direct charge of \$200,000 to cover the legal fees associated with designing the template for the Letter of Credit under the Program. Donor support for the Letter of Credit is also under discussion with the Asia-Pacific Climate Finance Fund.

## **IV. CONCLUSION**

6. No project under the Program has yet been signed since its approval on 23 April 2019. The Program is on track. As of March 2020, the solar project in Tonga is continually progressing. Both the Tonga wind project and the Fiji solar project are in the pipeline for financing, and the investor in each case has requested to use the Program to support their financing plans.

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<sup>6</sup> The design and monitoring framework is in Appendix 1.

<sup>7</sup> By comparison, PSOD has only ever invested in one energy sector project in the Pacific.

## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Program is Aligned with</b>			
Increased generation of renewable energy in the Pacific (Framework for Action on Energy Security in the Pacific, 2010–2020) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Outcome</b>  Private sector investment in renewable energy in the Pacific increased	<b>By 2024</b>  Five investments in renewable energy generation are supported by the Program and at least two projects of which will be categorized as some gender elements. (baseline 2019: 0)	Program progress report	Political support for renewable energy declines  Commercial financiers unwilling to finance IPPs in PDMCs, despite the Program
<b>Outputs</b>  Pacific Renewable Energy Program successfully established	<b>By 2022</b>  Loans and guarantees obligations of the Program reached \$50 million (2019 baseline: 0).	Program progress reports	Insufficient demand for loans and guarantees within target PDMCs
<b>Key Activities with Milestones</b>  <b>Output 1: Pacific Renewable Energy Program established</b>  Guarantee Program is operational when Financing Agreements are signed by 2020.			

IPP= Independent Power Producer, PDMCs= Pacific Developing Member Countries

<sup>a</sup> Secretariat of the Pacific Community. 2011. *Framework for Action on Energy Security in the Pacific, 2010–2020*. Suva. Source: Asian Development Bank.