



---

**PUBLIC**

Project Number: 52329-001  
April 2022

# Pacific Renewable Energy Program Annual Report January–December 2021

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank



## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
DMC	–	developing member country
DMF	–	design and monitoring framework
LC	–	letter of credit
PARD	–	Pacific Department
PPA	–	power purchase agreement
PRG	–	partial risk guarantee
PSOD	–	Private Sector Operations Department

## NOTE

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

<b>Vice-Presidents</b>	Ashok Lavasa, Private Sector Operations and Public–Private Partnerships Ahmed M. Saeed, Operations 2
<b>Directors General</b>	Suzanne C. Gaboury, Private Sector Operations Department (PSOD) Leah C. Gutierrez, Pacific Department (PARD)
<b>Deputy Directors General</b>	Christopher Thieme, PSOD Emma M. Veve, PARD
<b>Directors</b>	Mukhtor Khamudkanov, Energy Division (PAEN), PARD Jackie B. Surtani, Infrastructure Finance Division 2 (PSIF2), PSOD
<b>Team leaders</b>	Alix Burrell, Principal Investment Specialist, PSIF2, PSOD Woo Yul Lee, Senior Energy Specialist, PAEN, PARD
<b>Team members</b>	Alexander Jett, Senior Investment Specialist, Office of the Director General-Guarantees and Syndications Unit, PSOD Youngjae Lee, Investment Specialist, PSIF2, PSOD Rafael Montinola, Investment Specialist, PSIF2, PSOD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	<b>Page</b>
I. INTRODUCTION	1
II. PROGRAM SUMMARY	1
A. Overview	1
B. Planned Impact, Outcome, and Output	2
III. PROGRESS ON ACHIEVING PROGRAM OUTPUTS	2
IV. CONCLUSION	3
APPENDIX	
Design and Monitoring Framework	4

## I. INTRODUCTION

1. The Pacific Renewable Energy 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 Pacific developing member countries (DMCs).<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 portfolio's progress, and prepares periodic program progress reports to development partners as required. This is the third annual progress report covering the 12 months from 1 January 2021 to 31 December 2021.<sup>2</sup>

## II. PROGRAM SUMMARY

### A. Overview

2. The ADB Board of Directors approved the program on 17 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. The development of a regional guarantee program is an output indicator of the Pacific Renewable Energy Investment Facility, designed to support ADB investment in sovereign renewable energy projects in the smallest 11 Pacific DMCs and 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 instead of a direct loan.
- (iii) A letter of credit (LC) facility to cover short-term liquidity risk is to be drawable by the independent power producer 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.

---

<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.

- (iv) Technical assistance for transaction advisory support and streamlined processes to reduce high transaction costs associated with relatively small 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 renewable energy generation 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 output is the successful establishment of the Pacific Renewable Energy Program. This output will support an estimated five separate renewable energy projects in Pacific DMCs 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. On 21 June 2021, the ADB President approved (i) a loan of \$3,000,000 from ordinary capital resources and (ii) administration of up to \$2,000,000 from the program for the LC facility for the Hihifo 6-megawatt solar project in Tonga, which is an anchor project of the program.<sup>8</sup> However, the eruption of the Hunga Tonga Hunga Ha'apai submarine volcano on 22 January 2022 caused a further delay. It was a once-in-a-thousand-year event, with heavy ashfall causing minor damage to solar panels at completed project sites.<sup>9</sup> The financing is now scheduled to close in the first half of 2022. Following the cleanup of damages and lifting of restrictions imposed in February 2022 as a result of the recent coronavirus disease (COVID-19) outbreak in Tonga, the project commissioning will begin in April 2022 and operations will begin. The project is categorized as effective gender mainstreaming.

6. Two further pipeline 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. These pipeline projects for the program are also expected to include some gender mainstreaming elements. These projects have been progressing slower because of the COVID-19 pandemic, which has resulted in travel restrictions to the Pacific and a slowdown in development work from international developers who have to work and negotiate contracts online and across time zones. A travel bubble between Australia, New Zealand and the Pacific has been discussed by respective governments as a possible solution but has not yet been implemented. The expected delay to projects in the pipeline is still unknown. PRG and partial credit guarantee have not been utilized under the program yet.

---

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

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

<sup>8</sup> Financing was anticipated to close in 2019. However, the investor sold the majority of its shares to a new investor, which delayed the financing process by 7 months. Restrictions due to the COVID-19 pandemic caused another 18 months delay in the financing process following the adjusted project commercial operation date scheduled for the second quarter of 2022.

<sup>9</sup> An estimated ten per cent of the solar panels have been damaged and the sites have been covered in volcanic ash with an estimated cleanup cost and panel replacement cost totaling \$260,000, which will be covered by the Sunergise International Limited.

#### **IV. CONCLUSION**

7. No project under the program has been signed since its approval on 17 April 2019. As of February 2022, the solar project in Tonga is being repaired and commissioned, and drawdown of the financing is expected in the first half of 2022. Further projects, including the Tonga wind project and the Fiji solar project, are in the pipeline for financing. The investor in each case has requested to use the program to support its financing plan. However, all projects in the pipeline are expected to be delayed. The extent of the delay is unknown at this stage due to the COVID-19 travel restrictions. All Pacific developing member countries are highly vulnerable to infectious diseases since they are heavily reliant on imported goods, international tourism, and their health systems' capacity is weak. As the impact of the COVID-19 pandemic is ongoing, it may cause further delays in implementing and closing projects under the program.

## 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 2026</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. (2019 baseline: 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 2024</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, PDMC = Pacific developing member country.

<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.