

# PACIFIC RENEWABLE ENERGY PROGRAM

## A project financing and donor-backed guarantees program for private sector investment in renewable energy projects in the Pacific

Pacific developing member countries of the Asian Development Bank (ADB) share similar development challenges, including small populations, limited resources, remoteness, susceptibility to natural disasters, and vulnerability to external shocks. A structural transition is currently underway in power generation—from relying on fossil fuels to utilizing renewable energy sources—to lower costs, reduce greenhouse gas emissions, and improve energy security. This makes the involvement of the private sector crucial to the ownership and operation of renewable energy-generating facilities. Private sector participation can fill the investment gaps and supplement capacity in the power sector.

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.

The Pacific Renewable Energy Program (PREP) is designed to work within these constraints. It encourages private sector investment by using donor funds to backstop the power payment obligations of power utilities. The design for each project under PREP includes one or more of the following forms of financing support:

- **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.<sup>1</sup> Payment for breach of contract is made under the PRG upon arbitral award.
- **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.
- **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 reinstated once the power utility has restored the outstanding payments. If provided, the LC will be fully secured by donor funds.

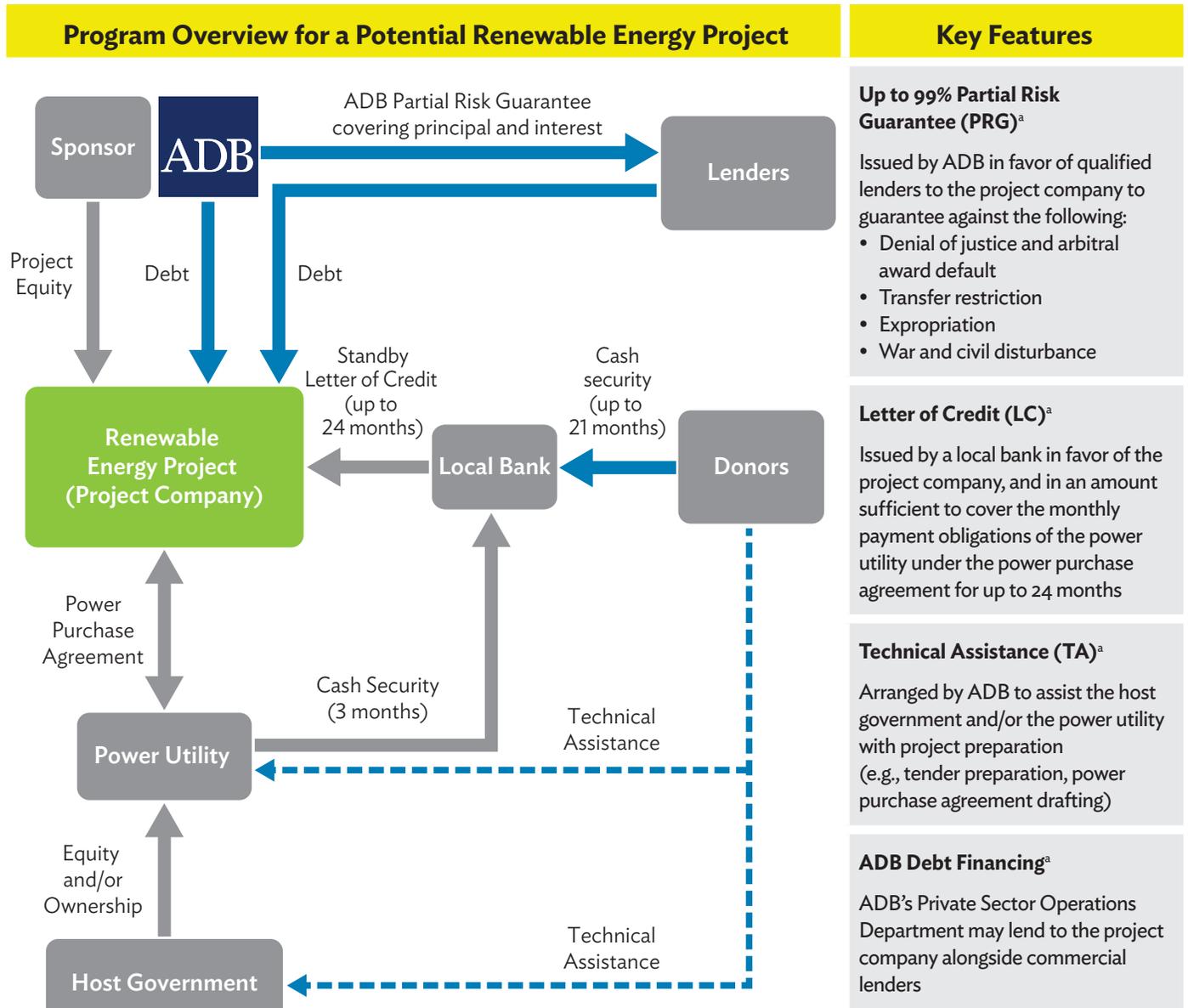
<sup>1</sup> Expropriation, inconvertibility and/or nontransferability, war and civil disturbance, and breach of contract.

- **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 in environmental and social safeguards.

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**The Pacific Renewable Energy Program encourages private sector investment in renewable energy. It mitigates short-term liquidity risk, through a donor-backed standby letter of credit, and supports long-term investment, through a partial risk guarantee.**



<sup>a</sup> Indicative only, subject to ADB satisfactory due diligence, internal credit and Board approvals, and final documentation relevant to each IPP and its sponsors.

Source: Asian Development Bank.



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Photo on the front page:

**Solar panels at a project site.** ADB has helped develop solar energy capabilities and coverage in Samoa (photo by ADB).