

PACIFIC COMMUNITY

FIFTH PACIFIC REGIONAL ENERGY AND TRANSPORT MINISTERS MEETING

(Port Vila, Vanuatu, 8-12 May 2023)

AGENDA ITEM E5 – STRENGTHENING PRIVATE SECTOR FINANCING AND PARTICIPATION IN THE ENERGY TRANSITION IN THE PACIFIC

[Jointly submitted by SPC’s Pacific Centre for Renewable Energy and Energy Efficiency (PCREEE), CAMCO, Climate Finance Access Network (CFAN) and Private Financing Advisory Network (PFAN)]

Purpose

1. The purpose of this paper is to:
 - (i) inform the Energy Officials / Energy Ministers of the progress with the establishment of the CAMCO-led “Transforming Island Development through Energy and Sustainability” (“TIDES”) - a special blended finance platform for the Pacific aimed at providing flexible financing to local renewable energy developers, and the available advisory and capacity building services through the Climate Finance Access Network (CFAN) and the Private Financing Advisory Network (PFAN)
 - (ii) seek support to the establishment of the TIDES and continuation of CFAN and PFAN work in the Pacific as well as building capacity in the PICTs to attract and mobilize private finance.

Background

2. Pacific islands are heavily reliant on imported, expensive and polluting fossil fuels. There is no one size fits all solution. A combination of on-grid/ off-grid projects and battery storage projects will be needed to achieve 100% renewable energy access.
3. The current pattern for investment in renewable energy across the Pacific reveals a predominant project by project approach, funded by bilateral and multilateral donors. There is no fit-for-purpose investment vehicle suitable for private sector engagement. The market capacity to achieve the required sectorial transformation to meet the NDCs targets remains low.
4. The lack of availability of evidence-based bankable projects and programs, innovative financing facilities and instruments, and limited finance expertise in the PICTs is a major barrier to the energy transition. To address these challenges, CAMCO, CFAN, PCREEE and PFAN are working to develop pipelines of investment-ready energy projects and introduce a market building facility to support capacity building in the region to enable continued sustainable development of the renewables sector.
5. CAMCO is a specialist climate and impact fund manager having experience in sustainable finance. CAMCO manages multiple investment platforms aimed at financing innovative solutions to address climate change and deliver positive impact in emerging markets such as the “Transforming Island Development through Energy and Sustainability” (“TIDES”)

platform. TIDES is a blended finance platform for the Pacific aimed at providing flexible financing to local renewable energy developers with the goals of catalysing investment in zero-emissions projects across the full range of sizes, from mini-grids to large grid-connected systems.

6. The Climate Finance Access Network (CFAN) is a global network coordinated by the Rocky Mountain Institute (RMI). RMI is an independent non-profit founded in 1982 that transforms global energy systems through market-driven solutions to align with a 1.5°C future and secure a clean, prosperous, zero-carbon future for all. CFAN aims to unlock and accelerate climate finance at scale by deploying highly trained climate finance advisors to supplement capacity in developing countries' governments and direct access entities. These embedded advisors work to develop high-quality green and climate investment projects and to build lasting national capacity that will ultimately maximize adaptation and mitigation outcomes. The Global Green Growth Institute (GGGI) is an implementing partner for CFAN in the Pacific. GGGI is a treaty-based international, inter-governmental organization dedicated to supporting and promoting strong, inclusive, sustainable economic growth in developing countries and emerging economies. GGGI has deployed six CFAN advisors to Fiji, Kiribati, PNG, Tonga, Vanuatu and two serving Samoa, Solomon Islands, and Tuvalu. SPC, another implementing partner of CFAN in the region, is currently preparing the deployment of a second cohort of advisors to FSM, Cook Islands and French Polynesia.
7. The SPC's PCREEE is a regional vehicle to accelerate the uptake of renewable energy and energy efficient technologies in the Pacific Islands and has conducted a number of sustainable energy investment forums in the region.
8. The Private Financing Advisory Network (PFAN) is a multilateral public private partnership that works to identify and nurture promising, innovative clean and renewable energy projects by bridging the gap between investors, clean energy entrepreneurs and project developers. PFAN provides guidance in areas such as economic feasibility, project structure, investment and financing, preparation of the business plan, and introductions to investors. PFAN has had a presence in the Pacific since 2019 and has built up a network of 13 advisors in 4 countries: Fiji, Solomon Islands, Vanuatu, Papua New Guinea.

Current status

9. Based on its successful experiences in Africa, CAMCO is developing the TIDES financing platform to support the implementation of a stable, sustainable and prosperous Pacific Region.
10. TIDES is aligned with the priorities of the FESRIP and has recently signed a MoU with SPC to collaborate to promote renewable energy and energy efficiency solutions for the sustainable development of the PICTs.
11. The key features of TIDES include being a:
 - a. Blended finance vehicle: combining private, public, and donor funding to attract private finance into the renewable energy sector;

- b. Flexible capital: Investment across full range of project sizes (0.1 to 50+MW) and project types (large grid-connected, C&I, and minigrid).

Developer-level funding:

- TIDES partners in collaboration with local developers, which helps them grow their capacity and creates local jobs by developing a 50+ MW initial pipeline;
- Private Sector Pacific Islands Diversified portfolio: uses off balance sheet financing to create diversified portfolio of assets for private sector and reduce risk;
- Rapid capital deployment: Standardisation allows for rapid, repeatable transactions tailored to local conditions.

12. Key Features of Market Building Facility

- \$5m Technical Assistance facility aimed at building capacity for: (i) RE Developers, (ii) Financial institutions, (iii) Utility Operators, and (iv) Governments and regulatory bodies.
- \$7m Development Loan facility to assist RE developers with contribution to third-party costs for: (i) Fundraising, (ii) Financial modelling, (iii) Technical design, (iv) Environmental and social impact assessment, (v) Community engagement, and (vi) Regulatory compliance.
- \$18m Results Based Facility (RBF) to bridge the viability gap for energy access mini grid across the region.

13. CAMCO is currently in the process of completing the fundraising process with a target first close of 1st quarter 2023.

14. PFAN's current pipeline of projects in the region includes:

- Rural Electrification Network serving a specific geographic area in rural Fiji;
- E-Charging Network operator;
- Financial facilities for RE systems for Women in Agriculture;
- IPP EPC Financing;
- Off-grid solar financing project;
- Agricultural adaptation project in the sugar sector.

15. In Fiji PFAN is working closely with the Government of Fiji, UNDP, and GGGI around the design of a Results Based Funding Facility to attract Private Sector operators to own and operate provision of electricity services to 300+ rural communities via Renewable Energy-based mini-grids. This work is currently underway in the pre-investment feasibility stages.

16. GGGI/CFAN has an extensive project pipeline at different stages of development. Some of the energy projects include:

- Building resilience of rural communities through clean, renewable, and affordable energy in Fiji, in partnership with UNDP, PFAN and Government of Fiji, for US\$25 million.
- Grid battery energy storage system (BESS) in Tonga, currently in project development stage, for US\$20 million.

- BESS for grid stabilization in Efate, Vanuatu, waiting for final approval worth US\$11.5 million.
- Distributed battery storage and control system tuning for grid stabilization in Samoa, estimated at US\$5 million, currently at feasibility study stage.
- Renewable Energy Transition support in Tuvalu, currently at pre-feasibility study stage to assess the RE resources in the country.

Issues and Challenges

17. The development of a funding platform such as the TIDES needs high level political buy-in and investor confidence is crucial for the fund raising.
18. While there is keen interest to “Go Green” there are still large gaps in both downstream and upstream portions of the project preparation work. These include a general lack of clear understanding of the regulatory requirements for operators where the business is looking to provide an electrification service in an off-grid scenario.
19. There is limited data available to private sector entities formulating business plan or proposal.
20. In terms of new technologies such as e-mobility, there are no defined structures or regulations yet on where private sector entities can participate in this space.
21. There are local capacity constraints on identifying, formulating, and tendering bankable projects.
22. Utilities need to be credible off-takers before IPPs are willing to undertake the necessary investments. Guarantees can help mitigate this risk for the private sector.
23. Investors are often interested in large-scale projects which are usually incompatible with PICs context, making it hard to develop bankable projects.

Recommendations

24. The meeting is invited to:
 - i. **acknowledge** the SPC partnership with CAMCO and the climate finance advisory and capacity building works of CFAN and PFAN to catalyse private sector participation and investments and to support the energy transition in the region;
 - ii. **support** the mobilisation of donor and private finance for the establishment of the TIDES and the continued presence of embedded CFAN and PFAN advisors and their expansion to more PICTs;
 - iii. **call** on CAMCO and PCREEE to accelerate the delivery of regional market capacity building activities and the design of the Results Based Facility (RBF).