

- Project Guarantee Example

Wind power offers a cleaner alternative than fossil dependent energy production. As the technology becomes more affordable, through inter alia economies of scale, renewable energy should become a sustainable option in areas suitable for wind power technology. Despite this, attracting capital to this industry remains difficult in almost all economies. In the developed countries barriers are lowered by state subsidies, whereas developing countries lack such supports and a guarantee can function as a stepping-stone between the project and financiers.

Pakistan is very dependent on other countries for its energy needs and like many other developing countries it has a major deficit in national generation capacity of 5000MW, equivalent to 15-28 % of its needs. The Pakistani government needs to reduce this dependency on foreign supply. It also has set a target that 6 % of electricity should come from renewable resources before 2030. The current fossil dependent energy systems are expensive as they most often use oil or diesel based production for electricity.

The Swedish global strategy for environmental interventions outlines energy efficiencies and renewable energy as primary focus areas. Sida's development partner, the Asian Development Bank (ADB) had identified an opportunity to finance a project of two new wind turbines with an effect of 50 MW each, which would reduce the energy deficit by 100 MW (or 2 %) that fitted well with the Swedish objectives. This project would also increase the possibilities for economic growth.

Outcome objective and expected impact

The direct outcome from this project is to generate just over 285GWh electricity per year, competitively priced

and with low levels of carbon emissions. It is estimated to be 30 – 40 % cheaper than using imported oil, diesel and coal for energy production. The project is estimated to decrease carbon emissions by 140,000 tons per year.

In addition to this the project created job opportunities from start, with the construction of the turbines and towers, and for operations and maintenance post completion expected end of 2015.

Guarantee critical for the project funding

The total cost of the two wind turbines was USD 267 million. This was fully financed through a mix of equity and loans (25:75) to the companies created especially for this project by the Fauji group. Fauji Foundation is one of Pakistan's largest corporate groups, which is investing in the energy sector, as well as the financial sector. It is a social business, as it distributes its profits to social security programmes for the poor part of the country's population.

The Islamic Development Bank provided a majority of the loans and the rest was financed through local commercial banks. The Islamic Development Bank carried the greatest credit risk in the project, with a third of the total funding of the project, and the Sida/ADB guarantee covers half of their share. Sida receives an annual fee of 3.4 % for its share of the guarantee.

How Sida's key principles and conditions apply

Additionality: There are very limited resources for projects in Pakistan. Foreign commercial banks are unwilling to make transactions in Pakistan due to a too high perceived political risk. Local banks have limited funding possibilities for long-term loans and are unwilling to lend to the new sector of wind power in Pakistan.

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Market Distortion: The project, which has been developed in close collaboration with the stakeholders, including the government of Pakistan, complies with the procurement rules of ADB, which constitutes a safeguard in terms of market distortion.

Risk-Sharing Partnership: The ADB and Sida guarantees cover a third of the total project financing.

An environmental assessment was also done of the project before the guarantee agreement was signed.

Sustainability: The project has a long-term financing agreement and is lead by a strong lead investor. The project became revenue generating soon after the turbines and towers were constructed.

Eligibility: This project has a good strategic fit, since it supports the Swedish global environmental strategy for development, as well as the regional strategy for South Asia, which emphasizes that Sweden shall support an increased access to essential, sustainable infrastructure for poor people.

Summary

Area:	Pakistan
Purpose:	Financing of the construction of two wind
Implementing Partner:	ADB as co-guarantor
Guarantee recipient:	The Fauji Group
Direct Beneficiaries:	Local Energy Buyers and employees hired to construct and to operate the wind turbines
Indirect Beneficiaries:	Consumers
Value of guarantee:	USD 66.7 million of which Sida's part is USD 33.3 million
Duration:	2012 - 2025
