



Technical Assistance Report

Project Number: 55051-001
Transaction Technical Assistance (TRTA)
March 2021

Preparing the Pacific Regional Financing Facility

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CEFPF	–	Clean Energy Financing Partnership Facility
DMC	–	developing member country
FSM	–	Federated States of Micronesia
PIU	–	project implementation unit
PSDB	–	Pacific state-owned development bank
TA	–	technical assistance

NOTE

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

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 55051-001	
Project Name	Preparing the Pacific Regional Financing Facility	Department/Division	PARD/PAEN
Nature of Activity	Project Preparation	Executing Agency	Asian Development Bank
Modality	Regular		
Country	REG (FSM, KIR, RMI, SAM, SOL, TUV, VAN)		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Energy	Energy sector development and institutional reform		0.30
Finance	Small and medium enterprise finance and leasing		0.30
	Total		0.60
3. Operational Priorities		Climate Change Information¹	
✓ Addressing remaining poverty and reducing inequalities		GHG Reductions (tons per annum)	0.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		ADB Financing	
✓ Fostering regional cooperation and integration		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.4		Effective gender mainstreaming (EGM)	✓
SDG 5.a			
SDG 8.3			
SDG 9.1			
SDG 10.4			
SDG 12.c			
4. Risk Categorization		Poverty Targeting	
Low		Geographic Targeting	✓
		Household Targeting	✓
5. Safeguard Categorization Safeguard Policy Statement does not apply			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB			0.60
Transaction technical assistance: Regional Cooperation and Integration Fund			0.40
Transaction technical assistance: Technical Assistance Special Fund			0.20
Cofinancing			0.40
Clean Energy Fund under the Clean Energy Financing Partnership Facility (Full ADB Administration)			0.40
Counterpart			0.00
None			0.00
Total			1.00
Currency of ADB Financing: US Dollar			

¹ The project reduces greenhouse gas emissions. However, it does not fall under the eligibility criteria for climate mitigation finance as defined by the joint multilateral development bank methodology on tracking climate finance, which notes that not all activities that reduce greenhouse gases in the short term are eligible to be counted towards climate mitigation finance. Accordingly, greenfield fossil fuel projects are excluded, and climate mitigation finance is considered zero.

I. THE PROPOSED PROJECT

1. The Asian Development Bank (ADB) seeks to establish a regional facility to provide grants to participating Pacific developing member countries (DMCs)¹ that will finance affordable clean energy financial intermediation loans for poor, low-income, and women borrowers. The proposed grant facility (the Facility) of \$15 million will finance clean energy projects in the participating Pacific DMCs to be implemented by the Pacific state-owned development banks (PSDBs). The project is consistent with the objectives of ADB's Pacific Approach, 2016–2020 of expanding ADB's operations in climate change and disaster risk management; and mobilizing more financing for the Pacific region and promoting innovative solutions to strengthen disaster preparedness, address vulnerability, and build resilience.² The impact of the project will be improved regional energy security in the Pacific region consistent with the draft Framework for Action on Energy Security in the Pacific (2020–2030).³ The outcome will be increased generation of lower cost, reliable, and clean energy.

II. THE TECHNICAL ASSISTANCE

A. Justification

2. The transaction technical assistance (TA) will help prepare the Facility and an associated TA to implement the Facility. In addition to the remoteness of most Pacific DMCs and diseconomies of scale in their energy sectors, clean renewable energy and energy efficiency remain under-exploited mainly due to higher upfront capital costs and institutional inertia that limits competition and private capital mobilization. The Pacific DMCs have limited borrowing and debt-service capacity, and have relied heavily on grant funding for capital intensive energy projects. The energy sector in the Pacific DMCs remains heavily controlled by state-owned utilities with inherent operational inefficiencies, chronic liquidity deficits, and limited capital resources for renewable energy and energy efficiency projects. Electricity supply remains dominated by diesel-based generation despite the potential for cost-competitive renewable energy and energy efficiency deployment. Grant funding has not been fully employed to leverage private sector participation in renewable energy development.⁴ In order to meet energy security objectives as well as the Paris Agreement and Nationally Determined Commitments, a different approach and financing modality are required, wherein governments help to leverage grant financing by reducing perceived market risks and barriers in order to mainstream investments for clean energy, including retail lending for distributed solar and energy efficiency deployment.

3. The Facility will be the first of its kind to mainstream retail clean energy financing in the Pacific. While the ADB funding will be provided on a grant basis to participating Pacific DMCs for each project under the Facility – wherein the DMC will re-lend the grant to its PSDB at concessional (zero) interest rate and the PSDB will then onlend to beneficiaries in the form of financial intermediation loans with a margin for the cost of administration and credit risk premium.⁵

¹ The proposed financing facility will target Federated States of Micronesia (FSM), Kiribati, Marshall Islands, Samoa, Solomon Islands, Tuvalu, and Vanuatu.

² ADB. 2016. *Pacific Approach, 2016–2020*. Manila. The Pacific Approach is ADB's overall country partnership strategy for the 11 small Pacific island countries. The project concept was discussed and agreed with the participating Pacific DMCs and proposed for ADB's Pacific regional operations business plan, 2021–2023.

³ The draft Framework for Energy Security and Resilience in the Pacific, 2021–2030.

⁴ ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Pacific Renewable Energy Program*. Manila.

⁵ This follows requirements set out in para. 18 of Operations Manual D6/BP on Financial Intermediation Loans (that financial intermediaries' onlending rates for sub-borrowers should be market-based and where there is no market-

The interest charged to sub-loans funded through the Facility will not include PSDBs' profit margin and will be used by the borrowers to purchase clean energy products (as sub-projects). A minimum of 50% of all sub-loans in a DMC will be used to finance poor and low-income households. Furthermore, at least 20% of all sub-loans will be to women borrowers. A ceiling for a single sub-loan amount per borrower will be determined at due diligence stage for each eligible project under the Facility. The maturity of these sub-loans will be set at a level that ensures the customer's savings on energy will exceed the loan payments to the PSDB, thus providing a net economic benefit to the end customer. All sub-loan repayments received by a PSDB will be returned to an escrow account established by the Ministry of Finance (or equivalent) and will be re-lent to the PSDB, provided that the bank remains financially sound.

4. As a multi-country facility, sharing of pricing and risk assessment strategies and protocols across countries will decrease the transaction costs for the national banks. This will enable cheaper loans for customers purchasing renewable energy equipment and a greater use of renewable energy within the region, beyond what would be possible through disconnected national interventions.

5. The first two projects under the investment facility will include clean energy financing projects in the Federated States of Micronesia (FSM) and Kiribati. The facility and projects are expected to be categorized as at least "effective gender mainstreaming."

B. Outputs and Activities

6. The major outputs and activities are summarized in Table 1.

Table 1: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
	Months from Notice to Proceed	
1. Preparation of the Facility	Within 1 month	1.1 Identify and confirm eligible end-use projects, scope, and conceptual design for sub-loans.
	Within 2 months	1.2 Conduct demand analysis in the Pacific DMCs, prepare preliminary costs estimates, and identify sub-loan financing options by PSDBs.
	Within 3 months	1.3 Conduct technical, financial, economic, gender, governance, procurement, and safeguards due diligence
	Within 4 months	1.4 Prepare the Facility (draft RRP) and linked documents.
2. Preparation of the first two projects under the Facility (FSM and Kiribati)	Within 1 month	2.1 Prepare procurement capacity, financial management, and risk management assessments, and identify procurement arrangements for each country.
	Within 2 months	2.2 Conduct technical, financial, economic, gender, governance, procurement, and safeguards due diligence.
	Within 3 months	2.3 Prepare and/or update due diligence assessments (financial management, financial analyses, gender action plan, environmental and social safeguards documents). 2.4 Prepare the draft RRP and linked documents.
3. Implementation support for the first two	Within 6 months	3.1 Support PSDBs capacity development and lending performance enhancement including but not limited in the

determined rate, onlending rates should be adequate to cover all costs and risks associated with onlending. It is also consistent with ADB's policy on relending of Asian Development Fund assistance for beneficiaries, which are commercially operated public corporations (such as PSDBs), that relending is generally to be on terms harder than those of the Asian Development Fund financing (ADB. 1980. *Lending and Relending Policies*. Manila).

Major Outputs	Delivery Dates	Key Activities with Milestones
	Months from Notice to Proceed	
projects with participating PSDBs and establishing a tracking system for performance.	Within 12 months	areas of risk, internal audit, compliance, gender equality and corporate governance. 3.2 Undertake project progress monitoring and update risk and implementation plan.
	Within 12 months	3.3 Undertake project implementation support and create a regional tracking system for performance of PSDBs' clean energy financing.
	Within 12 months	3.4 Support public outreach and community awareness campaign for clean energy.

DMC = developing member country, FSM = Federated States of Micronesia, PSDB = Pacific state-owned development bank, RRP = report and recommendation of the President.

Source: Asian Development Bank.

C. Cost and Financing

7. The TA is estimated to cost \$1,000,000, of which (i) \$200,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7), (ii) \$400,000 will be financed on a grant basis by the Clean Energy Fund⁶ under the Clean Energy Financing Partnership Facility (CEFPPF) and administered by ADB, and (iii) \$400,000 will be financed on a grant basis by the Regional Cooperation and Integration Fund.⁷ The key expenditure items are listed in Appendix 1.

8. Resources from the CEFPPF will be used to finance operational expenses in the form of foreign exchange and/or local expenditures and services from ADB member countries following ADB's guidelines and procedures.⁸

9. The beneficiary governments will provide counterpart support in the form of counterpart staff, office and communications facilities for consultants, office supplies, domestic transportation, and other in-kind contributions. The governments have been informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

10. ADB will administer the TA. The Energy Division of ADB's Pacific Department will select, supervise, and evaluate consultants. The consultants will work closely with counterpart agencies in FSM and Kiribati. A Facility Support Unit will be established in ADB to support the implementation of the Facility. Project implementation units (PIUs) will also be set up within the implementing agencies in each participating Pacific DMCs. The Facility Support Unit will (i) provide oversight over the consulting firm(s); (ii) support the national PIUs, including sharing of lessons learned between PIUs; (iii) monitor and report on processing and implementation progress; and (iv) support participating PSDBs' capacity building and training.

11. Implementation arrangements are summarized in Table 2.

⁶ Financing partners: the governments of Australia, Norway, Spain, Sweden, and the United Kingdom.

⁷ Established by ADB. Financing partner: Government of Japan.

⁸ ADB. 2007. *Clean Energy Financing Partnership Facility: Establishment of the Clean Energy Fund and Clean Energy Trust Funds*. Manila.

Table 2: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	June 2021–June 2022		
Executing agency	Asian Development Bank		
Implementing agencies	Energy Division, Pacific Department		
Consultants	To be selected and engaged by ADB		
	Individual: Individual selection/SSS	International (25 person-months) National (12 person months)	\$775,000
Procurement	None		
Advance contracting and retroactive financing	None		
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	None		

ADB = Asian Development Bank, SSS = single-source selection, TA = technical assistance.

Source: Asian Development Bank.

12. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.⁹ The transaction TA will require 25 person-months of international consultants' input and 12 person-months of national consultants' input. ADB will engage the consultant through individual consultant selection and/or single-source selection.

13. **Social media and websites.** All deliverables and information gained from the TA will be shared with DMCs on ADB's website.

14. **Cofinancier requirements.** For the preparation and implementation of the TA, core and development co-benefit indicators will be reported as required by the CEFPP, in consultation with the ADB's Sustainable Development and Climate Change Department, the fund manager.

E. Governance

15. The proposed TA will involve financial management assessment, procurement capacity assessment, and risk assessment and management, with tasks and outputs stated in the terms of reference for consultants (footnote 8).

III. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved (i) the Asian Development Bank (ADB) administering a technical assistance not exceeding the equivalent of \$400,000 to be financed on a grant basis by the Clean Energy Fund under the Clean Energy Financing Partnership Facility, and (ii) ADB providing the balance not exceeding the equivalent of \$600,000 on a grant basis for Preparing the Regional Financing Facility, and hereby reports this action to the Board.

⁹ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount		
	ADB ^a	CEFPF ^b	RCIF ^c
A. Consultants			
1. Remuneration and per diem			
a. International consultants	102.6	205.2	205.2
b. National consultants	10.6	21.2	21.2
2. Out-of-pocket expenditures			
a. International and local travel	23.8	47.6	47.6
b. Reports and communications	3.0	6.0	6.0
c. Training, seminars, and conferences ^d	15.0	30.0	30.0
B. Miscellaneous administration and support costs	2.0	4.0	4.0
C. Surveys	10.0	20.0	20.0
D. Training, seminars, and conferences ^c	15.0	30.0	30.0
E. Contingencies	18.0	36.0	36.0
Total	200.0	400.0	400.0

ADB = Asian Development Bank, CEFPF = Clean Energy Financing Partnership Facility, RCIF = Regional Cooperation and Integration Fund.

Note: The technical assistance (TA) is estimated to cost \$1,000,000, of which contributions from ADB's Technical Assistance Special Fund (TASF) 7, CEFPF, and RCIF are presented in the table. The beneficiary government will provide counterpart support in the form of counterpart staff, office and communications facilities for consultants, office supplies, domestic transportation, and other in-kind contributions. The value of the government contribution is estimated to account for 15% of the total TA cost.

^a Financed by ADB's Technical Assistance Special Fund.

^b Financing Partners: the governments of Australia, Norway, Spain, Sweden, and the United Kingdom. Administered by the ADB.

^c Established by ADB. Financing partner: Government of Japan.

^d Two capacity building trainings on clean energy will be organized by the consultants and/or the regional university in the Pacific.

Source: ADB estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55051-001-TARreport>

1. Terms of Reference for Consultants