



CASE STUDY

Palau Solar

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16 June 2022

AIFFP'S PALAU SOLAR INVESTMENT SETS A NEW BENCHMARK FOR QUALITY PACIFIC INFRASTRUCTURE

PRIVATE SECTOR-LED INVESTMENT

Australia, through the Australian Infrastructure Financing Facility for the Pacific (AIFFP), has provided USD22 million in financing to Solar Pacific Pristine Power (SPPP) to support the construction of Palau's first utility-scale solar and battery energy storage facility (the Project). Located on Palau's largest island, Babeldaob, the Project will comprise a 15.28-megawatt peak capacity solar photovoltaic facility, and a 12.9-megawatt battery energy storage system. When complete, it will be among the largest hybrid facilities of its kind in the Pacific and generate over 20 per cent of Palau's energy needs.

The Project is wholly private sector-led. It demonstrates how Australian financing can leverage and encourage private sector investment to deliver major infrastructure projects in the Pacific, importantly without adding to sovereign debt. SPPP is a special purpose vehicle incorporated in Palau by Solar Pacific Energy Corporation. Solar Pacific Energy Corporation is a renewable energy developer based in the Philippines and part of the Alternergy group.

This investment is an example of the AIFFP's market-leading approach to infrastructure safeguards, financing, innovation, and quality. Indeed, the AIFFP's investment in Palau demonstrates that value for money can go beyond more than just price to also encapsulate robust social and environmental outcomes which maximise

development impact. The AIFFP is enabling prosperity across the Pacific, and in Palau, by ensuring that all its work enhances locally determined goals and priorities, and strengthens quality infrastructure by elevating climate resilience, social inclusion, and innovation to the forefront of infrastructure investment processes.

SUPPORTING CLIMATE ACTION AND GREEN BUILDING PROCESSES

The AIFFP is committed to ensuring that its investments are climate resilient; ensuring all its projects respond to climate change risks and impacts, and maximise opportunities for low-emissions, climate resilient development. Like many Pacific and small island countries, Palau is highly dependent on imported fossil fuels to service its energy needs. At present, more than 99 per cent of the island's electricity is generated using automotive diesel, leading Palau's energy sector to issue up to 96 per cent of all national greenhouse gas emissions¹.

The AIFFP's investment in the Project was designed in part to assist Palau to meet – and even exceed – its self-determined Paris Agreement emissions reductions targets early; a rare and notable achievement for a country with one of the world's highest per capita greenhouse gas emissions rates.² For instance, when operational, the Project will immediately and renewably generate over 20 per cent of Palau's energy needs, reducing Palau's energy sector emissions in line with its self-determined commitment of 22 per cent below 2005 levels by 2025.³ The solar and battery facility will also contribute considerably to Palau's efforts to meet its targets of 45 per cent renewable energy, and 35 per cent energy efficiency by 2025.⁴

¹ Republic of Palau, 2019, *Pathway to 2030: Progressing with Our Past Toward a Resilient, Sustainable, and Equitable Future – 1st Voluntary National Review on the SDGs*, pp. 38.

² World Bank Data, *data.worldbank.org*, CO2 emissions (metric tons per capita) – Palau, accessed 1 June 2022. <https://data.worldbank.org/indicator/EN.ATM.CO2E.PC>

³ Republic of Palau, 2015, *Intended Nationally Determined Contribution*, pp.1

⁴ Ibid



The investment also demonstrates that quality infrastructure can be installed without any ecological cost. Palau is home to the most species-diverse native forests in Micronesia, and many of its plants and animals are rare and endangered.⁵ To preserve this pristine ecology, and prevent critical habitat loss, SPPP worked with biodiversity specialists to find an existing site for capital works that was already degraded, and which would be large enough for electricity generation. Months of careful effort and close cooperation with local stakeholders to meet the environmental requirements of Palau and the AIFFP also enabled SPPP to mitigate the risk that the solar and battery facility would damage surrounding pristine environment. For instance, and unusually for a capital works as large as the Palau solar and battery facility, no new roads have been required to allow materials to pass through to the site during construction.

STRENGTHENING SAFEGUARDS AND BLENDED FINANCE STANDARDS

The investment demonstrates the benefits offered by a best-practice approach to meeting and exceeding global standards on social and environmental safeguards. In May 2021, a comprehensive due-diligence assessment conducted by the AIFFP found that the proposed provider of the plant's solar modules was procuring polysilicon from factories suspected of using forced labour. As a result, and at the request of the AIFFP, SPPP collaboratively initiated a second procurement to source a new supplier which could demonstrate its supply chain was not exposed to modern slavery.

These actions not only ensured that the AIFFP's investment would do-no-harm, but also contributed to measurable improvements in global labour conditions by removing significant Pacific market demand for the exposed forced-labour-exposed polysilicon products. Although the new supplier's technology had a higher unit cost, a careful lifecycle analysis conducted by SPPP demonstrated that the new modules would satisfy all operational and production requirements, including capacity to withstand typhoon strength winds. They also benefited from a supplier led recycling program at end of life.

In recognition of the additional and unforeseen project costs generated by the change in supplier, the AIFFP contributed a further USD4 million, alongside the original USD18 million loan, in DFAT funding to ensure that the Project would remain viable. The value of this innovative blended-finance contribution was carefully determined by the AIFFP to ensure that it covered only costs in excess of what could be funded by the original debt facility, and SPPP's equity contribution. In line with OECD Development Assistance Committee standards for blended finance, this ensured that the AIFFP's additional funding was not market-distorting, and that the updated arrangement would not interfere with a strong market incentive for the borrower to generate commercial returns from the solar and battery facility.⁶

THE BENEFITS OF A QUALITY INVESTMENT APPROACH

The AIFFP's commitment to inclusive social and environmental standards contributes to ensuring that Pacific Countries and Timor-Leste have greater access to capital to meet critical infrastructure needs, and that this infrastructure is delivered in a way that meets their development priorities. The AIFFP's investment makes clear the returns that accrue to infrastructure investments that go above and beyond simply ensuring financial viability. Not only will the Project deliver returns for SPPP, but it is being achieved in a way that enhances global safeguards standards, does no harm, and facilitates achievement of Palau's self-determined climate and development needs

⁵ Convention on Biological Diversity, n.d. cbd.int, Country Profiles: Palau Main Details, accessed 1 June 2022, <https://www.cbd.int/countries/profile/?country=pw#:~:text=Palau%20is%20home%20to%20many,mst%20species%2Ddiverse%20in%20Micronesia>.

⁶ OECD (2021), The OECD DAC Blended Finance Guidance, OECD Publishing, Paris, <https://doi.org/10.1787/ded656b4-en>.