CASE STUDY 36: SRI LANKA – PORTFOLIO APPROACH TO DISTRIBUTED GENERATION OPPORTUNITIES

Barriers	Lack of access to credit, lack of technical capacity by financiers and developers
Instrument	Portfolio Guarantee - pari passu
Application	Guarantee covering 50% of the potential losses of a renewable energy portfolio
Amount	US$55 million equivalent (50% covered by the guarantees)

PROJECT BACKGROUND AND OBJECTIVES

Traditional power sector models in Sri Lanka are based on a large central generation model not amenable to distributed generation (DG), the small scale production of electricity at or near the demand site. Although promising technologies – biomass, wind and small hydro – are available, local developers, operators, and financial intermediaries are not familiar with the technologies. Access to credit is particularly difficult given the banks' high perceived risks and lack of adequate capacity to identify, assess and structure this type projects.

In 2008, IFC, with support from the Global Environment Facility (GEF), launched the Portfolio Approach to Distributed Generation Opportunities (PADGO) program to develop DG from renewable energy sources in Sri Lanka. PADGO included both investments and advisory work supporting financial intermediaries, project developers, investors, equipment suppliers, and other stakeholders, to develop, finance and implement renewable energy projects.

In order to increase access to private financing, IFC partnered with two of Sri Lanka's largest financial intermediaries, providing them with pari-passu portfolio risk sharing facilities to cover a portion of the potential losses from loans to eligible small scale renewable energy projects. In addition, the financial intermediaries are receiving advisory services and project developers are benefiting from specialized advice on the implementation of power purchase agreements and other standardized commercial documents.

INSTRUMENTS USED

The financial mechanism used by the Program is a portfolio risk-sharing facility (denominated in local currency) to encourage local commercial banks to increase their exposure to small scale renewable energy projects. Under this mechanism, IFC pledges to cover 50% losses that may arise from renewable energy loans that are advanced by partner banks. Funds from the GEF are used to provide first loss coverage.

INSTITUTIONAL ARRANGEMENTS

Under PADGO, IFC has risk sharing agreements with two local bank partners, Commercial Bank of Ceylon (2009) and National Development Bank of Sri Lanka (2010), which take the lead in finding projects, designing their credit facilities and reviewing project proposals from developers.

OUTCOMES

By helping local banks expand their capacity to finance distributed generation technologies, the program expects to support direct lending of more than $50 million to eligible projects that will benefit underserved populations in the country. Moreover it will strengthen the technical capacity of local partner financial institutions in assessing the risks and viability of renewable energy projects.

Further reading

IFC, NDB PADGO: Summary of Proposed Investment – click here

GEF, Sri Lanka - Portfolio Approach to Distributed Generation Opportunity (PADGO) (Phase 1) – click here