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A Green Street Company

Metro Power, Pakistan

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Pakistan's Metro Power marks the IFC's first investment into a wind project in Pakistan and demonstrates the influence multilateral financing can have in boosting the attractiveness of the renewables sector amongst domestic banks.

Metro Power Company signed a $140 million financing for its 50MW wind project in Sindh province of Pakistan in April. The IFC provided both debt and equity to the project bringing comfort to local lenders.

Before 2014, local commercial banks focused on conventional power projects, and failed to gain enough experience with renewables projects. This led to a shortfall in the debt available to fund such projects.

"Building relationships with banks to bring them in [to a wind project] is the biggest challenge in my mind," says Danish Iqbal, chief executive officer of Metro Power. "There are many projects available wanting to get financed." Bankers, he adds, do not lack for projects.

On Metro's deal, local commercial banks (Askari Bank, Bank of Alfalah, National Bank of Pakistan and United Bank) would only commit to providing 50% of the financing. This meant the balance had to come from foreign lenders. There was, however, little interest until the IFC stepped in.

"The involvement of the IFC in this deal was landmark because it provided debt and took on an equity stake, as well as bringing the Eco Trade and Development Bank on board for the financing," says Ashruff Rana, a director at Bridge Factor, which advised on the Metro financing.

The IFC provided $25.8 million in debt and equity. It paid $3.3 million for a 10% stake. The project sponsors are the Iqbal Alimohamed Family and InfraCo Asia, which is funded by the Private Infrastructure Development Group.

The IFC's participation will bring additional knowledge, experience, best practices, international funding and comfort to local banks. Such multilateral interest has been seen as key to improving financial confidence. Other examples include a $95 million credit facility that the Overseas Private Investment Corporation (OPIC) closed for the Sapphire wind power project last year, and the Asian Development Bank's $36.8 million loan to a Zorlu Enerji project in the Sindh province in 2011. The IFC has indicated that it may also lend to upcoming wind projects in Jhimpir and Gharo.

Energy purchase agreements

To attract such investors, Pakistan has offered generous energy purchase agreements (EPAs). Under an EPA, wind risk is assumed by the power purchaser, namely the National Transmission & Despatch Company (NTDB). For Metro, NDTC signed a 20-year offtake agreement. The exact tariff will not be decided until after construction, so Metro will provide additional equity in place of a portion of the senior debt if the final tariff is lower than expected.

The EPA regime's fixed-price mechanism "provides clarity and stability that projects may not receive without the government backing," Rana says. "In fact, government support has been important in closing the recent wind projects

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because it assumes a major part of the risk. For instance, it takes on political risk and ensures against issues such as repatriation or nationalisation. Many ECAs would price debt at around 700bp if it was not for such guarantees."

Iqbal adds, "We have a cost-plus tariff which has an EPA, and a feed-in tariff regime, which also has an EPA, as we can only sell to one power purchaser. One main difference is that the cost-plus tariff covers the wind risk whereas the feed-in-tariff does not."

Iqbal suggests that, after the spate of signed project financings, the wind sector in Pakistan has "crossed the difficult path."

"Earlier, banks were very sceptical of the wind regime and new wind project developers in the market. Now the first six projects should make this a reliable market for financiers, suppliers and foreign developers. We are ourselves at the financing stage on our next 50MW wind project, for which we expect to close financing by the end of this year."

The recent successes – combined with the EPAs, increased multilateral involvement and an urgent need to combat power shortages – should allow developers to aim for better debt terms.

"It has taken seven to eight years to get to where we are now in terms of mechanical knowledge, project knowledge and structuring financings," Rana says of Pakistani wind project finance. "Now that the experience is in place, plus the government wants to develop more renewable energy projects, the market can continue to develop."

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