

PROJECT ABTRACT
JANUARY 23, 2014

Country: El Salvador
Sector: Renewable Energy
Project Name: Providencia Solar PV Project
Project Number: ES-L1091
Borrower: Providencia Solar, S.A. de CV
Sponsors: Neoen SAS and Almaval
Proposed A Loan: US\$50 million

PROJECT OVERVIEW

In 1996, the power supply system of El Salvador was drastically changed through the deregulation of the electricity market which enabled private sector participation in generation and distribution. After the power sector reform and a rapid increase of power demand, many thermal power plants were brought into the market, which depended on imported fossil fuels. As all of the fossil fuel in El Salvador is imported, the dependency on thermal power generation caused electricity prices to rise as a consequence of a general increase of international oil prices in the early 2000s.

In order to diversify the Country's electricity matrix, reduce dependence on imported fossil fuel, and ultimately reduce end users tariffs and the amount of electricity payments that are made by the government, in late 2013, the seven distribution companies of El Salvador, following the directive of the electricity regulatory authority in El Salvador (SIGET), launched a public competitive tender process to award the right to enter into 20-year power purchase agreement ("PPA") for up to 100MW of grid connected renewable energy power. Following a competitive bidding process, Neoen/Almaval offered the lowest price of US\$101.9MWh and was awarded a PPA for 60MWac.

The objective of the project is to increase by 74.4MWdc (60MWac) the installed capacity of El Salvador with non-traditional renewable energy, thus directly supporting the Government's priorities to ensure a stable and diversified long-term electricity supply and to increase energy generation from clean sources.

PROJECT DESCRIPTION

The project consists in the construction, operation and maintenance of a 74.4MWdc (60MWac) solar photovoltaic power plant and its associated facilities to be located near the international airport in Zacatecoluca, La Paz Department (the "Project"). The Project will supply approximately 159.000MWh per year of electricity through a 20-year PPA that has been signed by the Project and the local electricity distribution companies.

DEVELOPMENT IMPACT

The Project will have positive developmental impacts, such as: (i) adding 60MWac of renewable capacity to the Salvadorian grid, thus decreasing thermal and hydro generation reliance; and (ii) displacing approximately 50,000 equivalent tons of carbon emissions per year. The Project will create between 200 direct and indirect jobs during the construction phase and approximately 10 direct jobs during the operational phase.

IDB'S ADDITIONALITY

The Bank's participation is critical for the financial feasibility of the Project by providing and mobilizing financing at tenors that are not available in the commercial market. There are very few examples of non-recourse project financing of this nature in El Salvador. As such, the 18 year tenor debt facilities to be provided by the IDB, the C2F and the China Fund are critical for the financial viability and sustainability of the Project.

PROJECT CONTRIBUTION TO IDB OBJECTIVES

The Project directly addresses two of the strategic objectives outlined in the GCI-9 of fostering development through the private sector and promoting renewable energy. The Project is fully aligned with IDB's Country Strategy for El Salvador (2010 - 2014), which seeks to support El Salvador's efforts to increase renewable energy generation capacity in the country's electric power system. Specifically the Project directly contributes to the Country Strategy's Result Matrix strategic objective to Increase Renewable Energy Sources from 676MW in 2009 to 823MW by 2014. It also contributes to the Bank's efforts to support small and vulnerable countries and to SCF strategy objectives to support US\$12 billion in climate friendly investments by 2015 and impacting the people of the Region.