

INTERVIEW

Project Financing for Solar PV Project in Saudi Arabia

Supporting Project for Decarbonized Society Participated in by Japanese Company

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The Japan Bank for International Cooperation (JBIC) signed in March 2021 a loan agreement with South Rabigh Renewable Energy Company (SRREC) of the Kingdom of Saudi Arabia, in which Marubeni Corporation holds an equity stake. JBIC provides project financing amounting to up to approximately USD78 million (JBIC portion) for the Rabigh Solar PV Plant located in Saudi Arabia.

The loan is co-financed with Mizuho Bank, Ltd. and Al Rajhi Banking & Investment Corporation of Saudi Arabia, and the total co-financing amount is approximately USD157 million. Al Rajhi Banking & Investment Corporation provides the funds based on Islamic finance.

First Loan for IPP/Renewable Energy Project in Saudi Arabia

Amid the global trend toward decarbonization, efforts are made toward clean energy in Saudi Arabia, one of the leading oil producing countries. To make a transition of the industrial structure, Saudi Arabia is making a move to a diversified economy rather than relying on “the oil money” from oil and natural gas exports. In such circumstances, its power generating capacity needs enhancements as the domestic power consumption is on the rise due to population and income growth, rapid urbanization, etc.

About the significance of supporting the project, Ikada remarks that “Under the Saudi Vision 2030 announced by the Government of Saudi Arabia in 2016, the country aims to develop 40GW of solar power generation and 16GW of wind power generation capacity by 2030 in order to expand the use of renewable energy and to address the growing power demand. It also aims to strongly promote renewable energy development by actively introducing independent power producers (IPP). The promoter of the initiative is REPDO, the international competitive bidding organizer within Saudi Arabia’s Ministry of Energy. As part of these development plans, REPDO published the tender document of the Rabigh project in the summer of 2019. In this project, SRREC will build, own, and operate a 300MW solar PV plant in Rabigh, located approximately 800km to the west of Riyadh, the capital of Saudi Arabia. The electricity produced by the plant will be sold to Saudi Power Procurement Company over 25 years.

This project is in line with the energy policy of the Government of Saudi Arabia, and it also conforms with the Infrastructure System Overseas Promotion Strategy 2025, which the Government of Japan is promoting. JBIC’s financial support for the project, in which the Japanese company participates, contributes toward strengthening the relation with Saudi Arabia, which is a key exporter of oil to Japan, as well as toward Japanese industry maintaining and enhancing its international competitiveness.”

Organizing Online Communications among Stakeholders

Marubeni contacted JBIC for financial support when considering sponsoring SRREC. Previously, JBIC had provided project financing for multiple projects in Saudi Arabia, including a petrochemical plant project, but this would be the first IPP project for JBIC, so we considered accordingly and provided indirect support in structuring the project.

Marubeni has participated in solar PV projects in the Middle

East, namely in the United Arab Emirates (UAE), Oman, and Qatar. The company’s wealth of development and operation experience in these projects was highly valued, and the company became a shortlisted bidder in April 2020. Also, Saudi entity Al Jomaih Energy & Water Company was considering co-investing in SRREC with Marubeni.

Ikada says “I joined the project when the Marubeni consortium got shortlisted. First of all, I started researching the challenges of IPP projects in Saudi Arabia, Saudi Power Procurement Company to which the electricity will be sold, the status of power project supervisory and regulatory authorities and relevant companies, and relevant laws and regulations. JBIC has offices all around the world, and one of them is in Dubai, which is in charge of projects mainly in the Middle East. The staff of JBIC’s Representative Office in Dubai is constantly building relationships with government agencies, power-sector companies, and others, therefore they have a lot of up-to-date, real information. With the help of their knowledge, we were able to make our research into the Saudi power sector satisfactory to progress to consider financing.

In the contract negotiation process, the first difficulty we faced was to be on an equal footing. There were many arguments because REPDO tried to negotiate based on its previous IPP projects’ contracts, but JBIC, as a lender to reach an agreement, needs to conform with the internationally standardized conditions on which IPP projects in some other Middle Eastern countries such as the UAE have agreed. To make matters worse, the COVID-19 pandemic barred us from having face-to-face meetings, and online meetings and emails became our main means of communication. These circumstances sometimes impeded our efforts to have thorough discussions and to make our desired progress.”

JBIC’s efforts in the negotiation particularly focused on clarifying the rationale behind the factors that affect the profitability and structure of the project and JBIC’s policy. In addition, legal advisors’ opinions were referred to so that conditions were found acceptable for both sides. JBIC’s efforts continued with the parties involved sharing timelines, and they finally resulted in the loan agreement signed in March 2021. The construction of the Rabigh Solar PV Plant commenced in April.

Contributing toward Global Energy Transition for Decarbonization

A number of development projects of renewable energy such as solar PV and wind power are planned for the future in Saudi Arabia. Ikada expresses his ambitions: “Project financing involves many parties, such as sponsors, lenders, and local authorities and companies including power off-takers, and many of them do not necessarily share a mutual interest. I learned the importance of understanding each party’s position in order to seek ways to facilitate consensus-building on an agreement as JBIC’s representative in the project.

Due to the global trend toward decarbonization, renewable energy development projects are expected to increase in frontier markets such as Central Asia and Africa. With the experience in this project, I would like to participate in timely businesses such as distributed power supply systems and hydropower generation to respond to the power demand in small areas, in addition to large conventional power generation projects. JBIC is expected to play a large role as a policy-based financial institution and will continue to provide financial support to assist various Japanese companies in the overseas expansion of their businesses.”