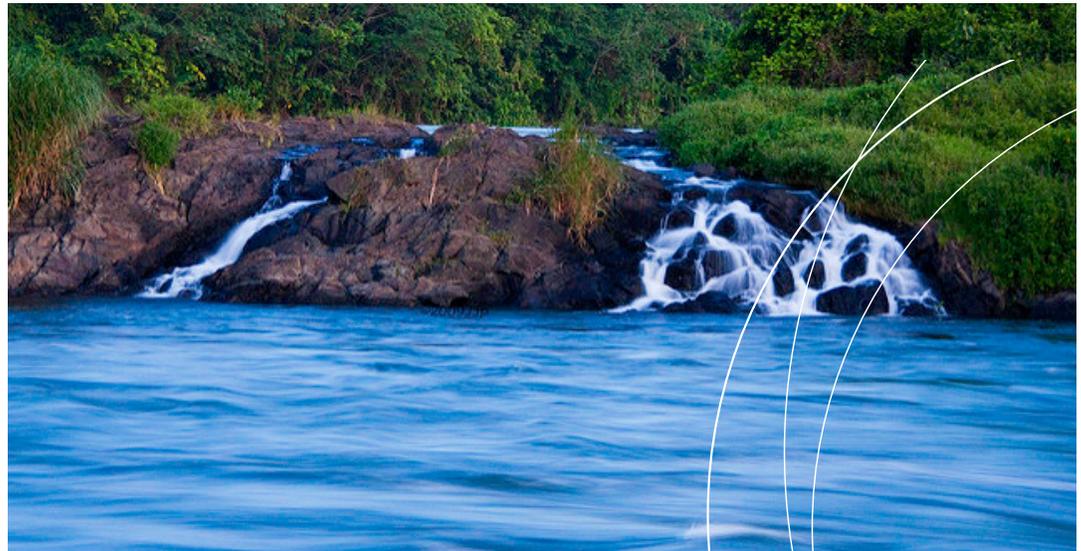




Public-Private Partnership Stories

Uganda: Nyagak Hydro



The West Nile region in north-west Uganda is home to roughly 2 million people, most of whom have no access to electricity. Increasing the country's power generation capacity – a key driver of economic development – is a major government priority, especially in rural and remote areas. Much of Uganda's power generation system is run by private sector companies under multi-year concession agreements, including the electricity system in the West Nile region, which has been operated as an independent grid since 2003 by the West Nile Rural Electrification Company (WENRECO). When this project started, WENRECO's only generation facility was a small 1.44MW heavy fuel oil (HFO) thermal plant. Despite the expected completion of a 3.5 MW hydro scheme, WENRECO required additional generation options to reduce its reliance on diesel and meet growing demand in the region.

In 2010, Germany's KfW Development Bank (KfW), funded a feasibility study for developing a 5.5 MW hydropower project on the Nyagak River, and provided around 8 million Euro to develop the Nyagak III hydropower plant. With hydropower development a major pillar of the country's Second National Development Plan, the Uganda Electricity Generation Company Ltd. (UEGCL), decided to develop Nyagak III through a Public Private Partnership and, with IFC support, awarded the project to Hydromax Ltd in April 2016.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

IFC'S ROLE

UEGCL hired IFC as lead transaction advisor to structure, tender, and implement a joint-venture PPP to develop Nyagak III. IFC's mandate included performing technical, financial, legal, and Environmental & Social due diligence and recommending an optimal structure to accommodate UEGCL's requirement to maintain an equity stake in the project. IFC developed the suite of transaction documents and assisted UEGCL through a transparent and competitive tender process that resulted in the selection of a strategic partner and a competitive tariff.

TRANSACTION STRUCTURE

The project required the private sector partner to design, engineer, finance, construct, operate, and maintain a run-of-river hydro power plant. The energy sale structure was complicated by the fact that national legislation required the Uganda Electricity Transmission Company Ltd. (UETCL) to be the sole off-taker for all power generation in the country. Thus, a back-to-back agreement was structured in which the project company would sign a 20 year power purchase agreement (PPA) with UETCL and similarly, UETCL would enter into an energy sales agreement with WENRECO with provisions that mirrored its obligation under the PPA. This structure had the benefit of increasing the viability of the project by including UETCL, which is an established and well-regarded state company with a strong balance sheet.

UEGCL also chose to retain a 30% equity stake in the project, so IFC helped develop an appropriate structure that would protect UEGCL's interests as a minority shareholder. A shareholder's agreement was developed and negotiated with all prequalified bidders during the tender process to maximize UEGCL's negotiating position and was finalized prior to the bid submission date.

BIDDING

Four bidders prequalified for the project: i) Hydromax Ltd. (Uganda); ii) Vidullanka PLC (Sri Lanka); iii) VS hydro Ltd. (Sri Lanka); and iv) Eco Power Holding (Sri Lanka). Eco Power and Hydromax submitted proposals and Hydromax Ltd. was ultimately selected as the winning bidder in April 2016, based on offering the lowest tariff of 5.5 US Cents/kWh and a project cost of 17 million USD.

The development of Nyagak III will directly result in WENRECO being able to connect new villages and provide electrification to areas that were previously dependent on generators and kerosene, new connections that would not have been possible without Nyagak III coming on line.

EXPECTED POST-TENDER RESULTS

- Development of 5.5 MW run of river hydro plant generating 30.8 gWh of hydropower a year for the 2 million residents of the West Nile region.
- Generation of sufficient energy to allow connection of an additional 15,000 people to the grid.
- Avoidance of over 11,000 metric tons of GHG/year.
- Mobilization of 8 million USD in private financing and sponsor equity.
- Additional 8 million Euro provided by KfW.

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