Paving the Way for Public-Private Partnerships in Sub-Saharan Africa

Cameroon’s Power Sector Example: Kribi 216 MW Gas-fired Power Plant

Alain Ebobisse
Chief Investment Officer, IFC Global Infrastructure
Global Head, IFC InfraVentures

November 15, 2011
IFC is a Member of the World Bank Group

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<th>IBRD</th>
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<td><strong>Established Year</strong></td>
<td>1945</td>
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<td><strong>Role</strong></td>
<td>To promote institutional, legal and regulatory reform</td>
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<td>To promote private sector development</td>
<td>To reduce political investment risk</td>
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<td><strong>Clients</strong></td>
<td>Governments of member countries with per capita income between $1,025 and $6,055</td>
<td>Governments of poorest countries with per capita income of less than $1,025</td>
<td>Private companies in member countries</td>
<td>Foreign investors in member countries</td>
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| **Products**         | • Technical Assistance  
                      • Loans  
                      • Policy Advice | • Technical Assistance  
                      • Interest Free Loans  
                      • Policy Advice | • Equity/Loans  
                      • Risk Management  
                      • Advisory Services | • Political Risk Insurance |

**Shared Mission:** To Promote Economic Development and Reduce Poverty
IFC Financial Performance

**IFC FY11 Highlights**

- Credit Rating (S&P, Moody’s): AAA
- Portfolio: $55.2 billion
- Committed: $12.2 billion
- Mobilized: $6.5 billion
- # of companies: 1,737
- # of countries: 102

**Total committed IFC financing: US$12.7 billion**

- 2006: IFC's own account $8.0 billion, Mobilization $4.7 billion
- 2007: IFC's own account $8.0 billion, Mobilization $4.7 billion
- 2008: IFC's own account $8.0 billion, Mobilization $4.7 billion
- 2009: IFC's own account $8.0 billion, Mobilization $4.7 billion
- 2010: IFC's own account $8.0 billion, Mobilization $4.7 billion

IFC was awarded the 2010 Euromoney Project Finance Magazine “Multilateral of the Year” award
Since 1967, IFC’s Power Group Has Committed $7.8 billion to 239 Projects in Emerging Markets

Cumulative Commitments since 1967

- Other: 6%
- RE Through FIs & PE Funds: 8%
- Distribution: 9%
- Transmission: 4%
- Integrated Utilities: 3%
- Generation - Thermal: 38%
- Generation - Renewable: 32%

Total Commitments = US$ 7.8 billion

Outstanding Portfolio, June 30 2011

- Other: 3%
- RE Through FIs & PE Funds: 13%
- Distribution: 7%
- Transmission: 3%
- Integrated Utilities: 5%
- Generation - Thermal: 28%
- Generation - Renewable: 41%

Total Portfolio = US$ 4.7 billion
IFC’s Power Group is Active in All Regions...

Cumulative Commitments since 1967

- South Asia: 19%
- Sub-Saharan Africa: 7%
- East Asia and Pacific: 19%
- Europe & Central Asia: 4%
- Latin America & Caribbean: 28%
- Middle East, N. Africa & S. Europe: 23%

Total Commitments = US$ 7.8 billion

Outstanding Portfolio, June 30 2011

- South Asia: 22%
- Sub-Saharan Africa: 8%
- East Asia and Pacific: 20%
- Europe & Central Asia: 21%
- Latin America & Caribbean: 3%
- Middle East, N. Africa & S. Europe: 26%

Total Portfolio = US$ 4.7 billion
## Our Power Investments Span 57 Countries

<table>
<thead>
<tr>
<th>L. America &amp; Caribbean</th>
<th># of investments</th>
<th>MENA &amp; South Europe</th>
<th># of investments</th>
<th>Europe and Central Asia</th>
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<th>Sub-Saharan Africa</th>
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*IFC’s power committed portfolio as of June 30, 2011*
Paving the Way for Public-Private Partnerships in Sub-Saharan Africa

Cameroon’s Power Sector Example: Kribi 216 MW Gas-fired Power Plant
Cameroon: Electricity Sector

Characterized by:
- Electrification rates of 48%, almost double the SSA average of 25%
- Cost reflective tariffs;
- Privatized & credit-worthy utility;
- Regulator in place;
- Least cost expansion investment plan to support sector planning
- Political will to support private sector participation

Yet:
- Demand continues to outstrip supply --> domestic growth 5-6% p.a.
- Power shortages are estimated to cost the economy 2% of GDP growth / 5% of lost enterprise revenues
- Some uncertainty in the sector related to the introduction of a new electricity law

Increasing power generation capacity, efficiency & sustainability is at the heart of the Government of Cameroon’s Vision 2035 to transform Cameroon into an industrialized emerging economy
Cameroon: Long History of WBG Engagement

12 + yr engagement by IFC
- 1997: Advisory mandate signed with IFC
- 1998: Electricity sector law drafted, regulator set up
- 2001: AES acquired 56% of Sonel
- 2006: IFC lends DFI capex financing for AES Sonel investment plan
- 2011: Financial close for Cameroon’s 1st IPP, Dibamba
- 2011/2012: Financial close for Kribi

WB / IFC energy sector program:
- multi-prong engagement in electricity sector across both public & private sector
- policy dialogue as well as what is needed for private sector participation
- effective support on sector, institutional, regulatory and governance reforms
- supporting RoC in broad-based sector consultations on new electricity law

As a result of long sector reforms, Cameroon’s power sector has attracted more private investment than most Sub-Saharan Africa countries.
Kribi Power Development Corporation (KPDC)

- Kribi Project: 216MW gas-fired power plant & 100km transmission line
- Technology:
  - Wartsila engines: 13 x 18V50DF- gas reciprocating engines of 16.6MW gross capacity each
  - Siemens-KEC JV: 100km 225kV double circuit transmission line; step-up 11/225kV sub-station
- Fuel type: gas to be provided from off-shore Sanaga Gas field
- Location: near coastal city of Kribi, in the South Province of Cameroon
- Target COD: early 2013, in time for dry season
- Off-taker: AES Sonel, integrated power utility for Cameroon
- KPDC is owned by The AES Corporation (56%); Republic of Cameroon (44%)

Public Private Partnership
Kribi confirmed as the next least cost investment in the power sector

The Kribi Project will:
- significantly expand the country’s energy generation capacity
- help bridge the period before further hydropower developments
- provides much needed low-carbon thermal complement to hydro-based system
- catalyze the first commercial development of Cameroon’s gas reserves
- benefit 163,000 households (equivalent)

As second IPP in Cameroon & one of few IPPs in Africa, the Project:
- serves to demonstrate a replicable IPP model
- successful example of a Public Private Partnership in the power sector

Broad and diverse lender group
- Prospective DFI lenders include IFC, African Development Bank (AfDB), European Development Bank (EIB), FMO, Proparco, BDEAC
- Standard Chartered Bank led local bank syndicate backed by WB partial risk guarantee
- First private long-term local currency project finance for an infrastructure project
**KPDC: Contractual Structure**

- **EPC Procurement:** Fixed price EPCs Wärtsilä & Siemens T&D /KEC International (KEC) - selected on a competitive basis

- **Power Purchase Agreement / Connection Installation Agreement:** 20-year off-take with AES-Sonel for 100% of the power;

- **Licenses:** 20-year sales & generation licenses issued by Minister of Energy upon recommendation of ARSEL;

- **Gas Supply Agreement:** With SNH (National Petroleum Agency), with Perenco as the upstream operator;

- **Government Commitment Agreement:** Agreement through which RoC commits its support to the Project
Kribi: Key Project Risks & Mitigants

Sector-related: new electricity law, capacity
- Government commitment to reform
- WBG active sector dialogue; WB partial risk guarantee (PRG)
- Broad DFI support through financing of bankable projects

Timely construction of power plant, transmission line, gas supply facilities
- Choice of proven technology & relatively standard design
- Competitively bid fixed price contracts with reputable companies
- Contractual alignment of construction schedules
- Appropriately sized penalties for contractor under-performance

Balanced contractual structure
- In line with good industry practice
- RoC had international advisors for project structuring & negotiations
- Regulator reviewed & provides its non-objection on contracts

Off-taker credit-worthiness
- One of the strongest credits among power companies in SSA;
- AES Sonel is profitable with EBITDA of US$100M in 2010
- End user tariffs are cost recovery with respect to costs of IPPs

There are risks but with appropriate allocation among stakeholders they can be adequately mitigated
Role & Risk Allocation for Project Sponsor: AES Corporation

- **Shareholder / Equity contribution**
  - Strong financial capacity

- **Project Development**
  - Experienced Sponsor with track record in emerging markets power

- **Arranging financial close**
  - Experience in structuring bankable project documents for project finance lending
  - Global relationships with DFI & commercial lenders

- **Over-seeing construction & operation of the Project**
  - Technical capability to develop the Project
  - Active in Cameroon’s electricity sector since 2001:
    - 56% owner of AES Sonel (national integrated utility) - concession awarded in 2001
    - 56% owner of Dibamba Power Plant (88MW HFO plant) - COD achieved 2009
  - Able to leverage existing in-country platform & expertise of local staff working at AES affiliate companies
Role & Risk Allocation for Government: Republic of Cameroon

Role

- Shareholder /Equity contribution
- Back-stops bulk of payments in connection with early termination of power purchase agreement (PPA) or gas supply agreement (GSA)
- Maturity enhancement of local tranche
- Guarantee support for bridge loans

Key Risks

- Sizable contingent obligations vis-à-vis the Project
  - Obligations not unusual given early stage of development of country’s energy sector
  - Most RoC undertakings are covering risks which are within RoC’s control
  - ROC assisted by international advisors
  - Commitment to sustainable sector reform
- Non-performance of private participant
  - Selection of strong & experienced operator
  - Performance based incentives / penalties
  - Close monitoring by regulator
  - Striking right balance between constructive engagement and negative interference
Key Success Factors for Public-Private Partnerships

- Political commitment to implement PPPs & government support for its obligations
- Meets a need competitively and efficiently
- Adequate tariffs, good adjustments, payment discipline
- Regulatory framework independent & transparent
- Contractual arrangements balanced & fair
- Good legal documentation: this is contract-based financing
- An appropriate financial structure
- Strong and creditworthy participants
- Government and Private participants advised by experienced firms
THANK YOU FOR YOUR ATTENTION