FINANCIAL SOLUTIONS BRIEF

CAMEROON
KRIBI GAS POWER PROJECT

PROJECT HIGHLIGHTS

- IDA Guarantees unlocked long term, local-currency financing for power generation in Cameroon. The key was development of a "synthetic" 14-year local currency loan. This balanced regulatory, local lender and project needs.
- The synthetic loan gave local lenders an option to transfer the debt to the Government of Cameroon. Lenders were then concerned about government performance risk. An IDA guarantee protected against that risk.
- The structure solves three common problems. The first is matching currencies of funding and costs. The second is loan tenor being shorter than is necessary. The third relates to uncertainties about a government's ability to perform.

The Kribi Gas Power project ("Kribi") was the first infrastructure project in Cameroon to raise long-term, local currency commercial financing on a project finance basis. This came from innovative structuring and a first-time variant of International Development Association (IDA) loan guarantees to cover local lenders. By opening access to long-term financing in local currency, IDA paved the way for deploying local capital for infrastructure projects in the subregion.

Kribi consists of the development, construction and operation of a 216 MW natural gas-fired power plant located near Mpolongwe village, nine kilometers north of the coastal city of Kribi in the South Province of Cameroon. The project includes the construction (with substations and transformers) of a new 100-kilometer 225-kilovolt transmission line between the Kribi power plant and the Mangombe 225/90-kV substation at Edéa in Littoral Province.

The project is Cameroon's second independent power plant (after Dibamba HFO 88 MW, financed in 2010).

PROJECT DESCRIPTION

Kribi is the lowest-cost gas-fueled option to increase reliability of electricity supply to the country. It was designed to meet base load demand initially, with a transition to a peak load supply once additional hydropower projects in Cameroon come online.

In 2009, the Government of Cameroon awarded a 20-year public-private partnership (PPP) contract to Kribi Power Development Corporation (KPDC). The contract provides for designing, building, financing, and operating Kribi and the associated transmission line.

KPDC was commissioned in 2013. It is 44 percent owned by the Government of Cameroon and 56 percent owned by Globeleq Africa (which in 2014 acquired shares previously held by AES Corporation).

Electricity generated from the project is transmitted into Cameroon's Southern Interconnected Grid. Kribi sells all electricity output to ENEO (formerly AES Sonel), a privately run utility, through a 20-year power purchase agreement.

Gas fuel supply is secured under a 20-year take-or-pay gas sales agreement from the National Hydrocarbons Company (SNH), the state-owned gas supplier. SNH procures that gas under another 20-year take-or-pay agreement with Perenco Cameroon, a private sector owner-operator.

CONTEXT

Until 2011, most infrastructure financing in Cameroon was raised on a corporate basis through equity and foreign-currency-denominated loans from international development finance institutions (DFIs). The Dibamba thermal power plant was exceptional because it was financed on a project finance basis with private equity and loans from DFIs denominated in foreign currency.

Local and international commercial bank activity in Cameroon had been limited to short-term corporate financing. While commercial banks had not taken part in financing a local project, local banks had liquidity and an interest to do so. Helping bring these banks into such a financing has many development attractions, but there were two important impediments to overcome. These were:

- Local lenders having structural and regulatory constraints that limited the maximum maturity of a loan to seven years. This term is insufficient for long-term infrastructure financing needs.

- The Government of Cameroon and associated entities (SNH and the national energy regulator) not having a track record in private project financing. Local private lenders were uncertain about whether government entities would perform their project obligations.

The Government of Cameroon had a strong interest in local banks participating in the financing of Kribi. This interest had two elements:

- to introduce a local-currency component into the financing package to mitigate foreign-exchange risk (which is passed through to the tariff), and

- to develop the capacity of the local lending market in long-term project finance.

Thus, the challenge was to create a financial structure that appealed to local lenders with limited experience in project finance, and overcome the restrictions on the tenor of local lending.

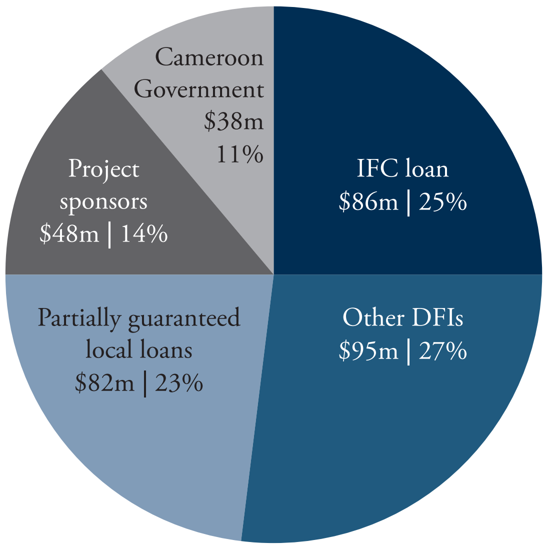
FINANCING

Local lending eventually played a key role in the Kribi financing. As a backdrop, the total cost of Kribi was $350 million and the project reached financial close in August 2012. Its financing was structured with a debt-to-equity ratio of 75 to 25. The debt had a 14-year maturity and consisted of three tranches (Graph 1).

The World Bank Group was involved in the financing through the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Development Association (IDA). IFC provided loans to KPDC to partially finance the project, MIGA extended Political Risk Insurance to cover Globeleq's equity investment and IDA supported the local banks.

The local currency loan was for 40 billion Central African CFA francs (equivalent to $82 million), accounting for 31 percent of the overall project debt. Standard Chartered Bank Cameroon SA acted as the Local Loan Facility Agent.

GRAPH 1. FINANCING OF THE KRIBI PROJECT



INNOVATION IN USING THE GUARANTEE INSTRUMENT

The innovation that made the local currency loan possible was developed jointly by the Government of Cameroon, local banks, and IDA. An amortization profile of 14 years was achieved through a "put option" in favor of the local lenders. At the end of seven years, local lenders could exercise the option and sell their participation to the government at a price defined in the Local Loan Purchase Agreement (shown in Box 1). In this case, the government will hold the local loan until KPDC or the government replace the commercial lenders. If the local lenders do not exercise their put option, the loan will be extended for a second seven-year term. Cameroon has no regulatory prohibition against extending a loan.

KNOWHOW AND INSTRUMENTS USED

The IDA guarantee was crucial in attracting local-currency-denominated debt from local commercial banks. IDA provided a guarantee to protect the local lenders against the risk of the government not making the payment due upon the exercise of the put option. The local lenders also benefit from an IDA guarantee that covers KPDC debt-service defaults triggered by a breach of the government's contractual obligations under a separate Government Commitment Agreement. These include political force majeure, breach of electricity license agreements, termination of the concession by the power purchaser and equivalent replacement failure, and termination of the gas supply agreement.

BOX 1. HIGHLIGHTS OF THE LOCAL LOAN STRUCTURE

The objective was to create a "synthetic" 14-year local currency loan while respecting the regulation limiting loan maturity to seven years and eliminating refinancing risk.

- Seven-year loan with a 14-year amortization profile, with a balloon payment at year seven corresponding to about 65 percent of the original amount.
- Pre-negotiated extension option at year seven, allowing local lenders to extend their loan for another seven years—and providing incentives to do so.
- For local lenders who elect not to extend their participation, transfer of participation to the Government of Cameroon upon payment of a put fee.

The Kribi structure is significant not only for the financing of the Kribi project. It also helps point the way to solving three particular problems that face large infrastructure projects in low-income countries. These are: (i) funding and cost currency mismatches, (ii) available loan tenor being shorter than is needed to deliver reasonable service prices, and (iii) uncertainties about a government's ability to perform.

BENEFITS OF WORLD BANK GROUP SUPPORT

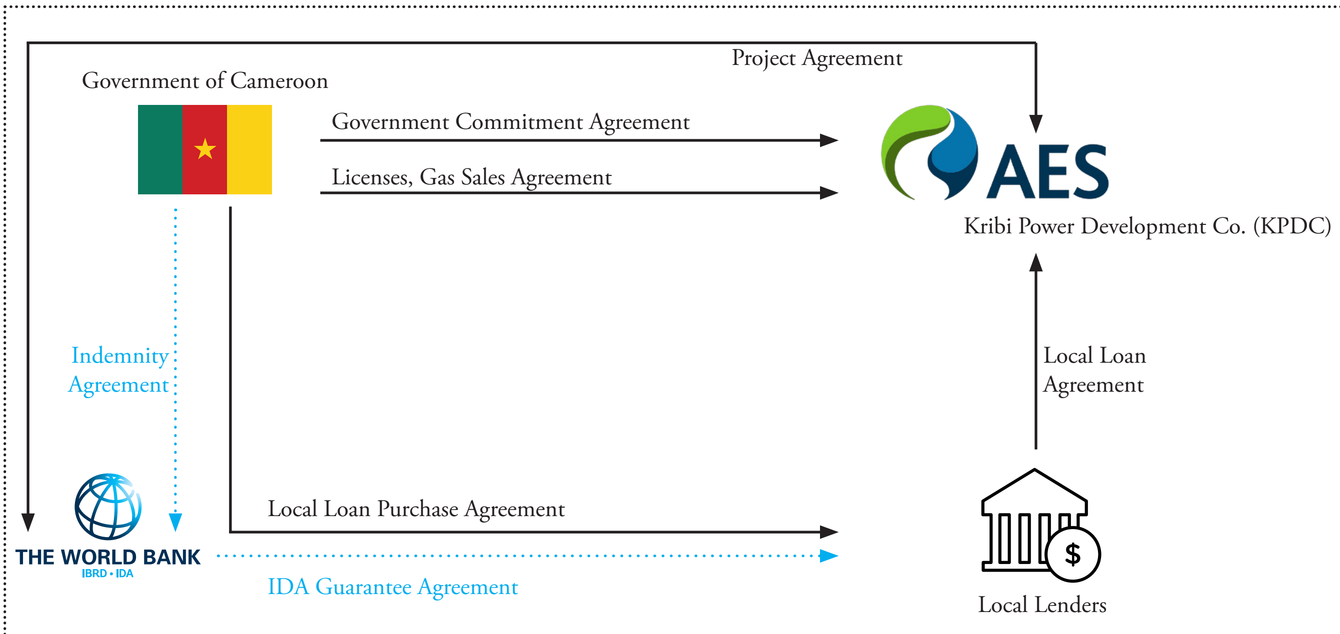
The World Bank Group's involvement was instrumental in helping Cameroon achieve its objectives for the project. The country's first long-term, local-currency loan for infrastructure solved a project-level problem and contributed to building capacity within local banks. These outcomes help the future development of both the financial and the infrastructure sectors. In addition, the local component in the financing package substantially reduces foreign-exchange risks.

As the second and largest independent power plant in Cameroon, and the first to run on natural gas, the project is an important step towards diversifying power generation sources in Cameroon. It has had the added benefit of monetizing gas resources.

Since the plant began commercial operation in 2013, Cameroon has diversified its generation mix and enhanced the reliability and cost-effectiveness of its energy supply. This has an accompanying positive social and economic impact. The electricity supply from Kribi allows ENEO to provide electricity equivalent to about 163,000 households (based on average consumption). Kribi provides a relatively inexpensive thermal addition to Cameroon's electricity system. Kribi's levelized tariff ($0.128 per kilowatt hour) is substantially lower than the average generation tariff at the time the project was designed and financed ($0.180 per kilowatt hour).

The successful financing and implementation of Kribi sets an attractive precedent for future private investments in infrastructure in Cameroon and similar countries. It sends a clear message about the government's commitment to developing sustainable large-scale infrastructure projects. It also tells us about the power of problem solving through collaboration.

GUARANTEE STRUCTURE



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