FINANCIAL SOLUTIONS BRIEF

NIGERIA
AZURA-EDO IPP

PROJECT HIGHLIGHTS

- Important precedents for Nigeria's power sector were set by Azura. The project demonstrates government commitment to developing much needed electricity supply.
- Azura was the first power generation project in Nigeria to receive guarantee support from the International Bank for Reconstruction and Development (IBRD) and the Multilateral Investment Guarantee Agency (MIGA), and funding from the International Finance Corporation (IFC).
- The project's financial design "de-risks" aspects of execution and operation. This includes mitigating exposure to major supply chain constraints. Construction and revenue risks are also managed.
- Azura's innovative financial structure is a template for further private investment in the power sector.

Photo courtesy of Azura-Edo

Blackouts are an everyday event in Nigeria. A weak electricity grid and insufficient generation capacity cause widespread and regular power outages, forcing millions of people to rely on costly and polluting diesel generators to keep their lights, refrigerators, and computers going.

Financing cost effective and cleaner generation has proven problematic. The private sector has an important role to play, but power generation investors and lenders have traditionally been wary about the non-payment and political risk in Nigeria. To help break this logjam, the World Bank Group is supporting the Azura-Edo IPP Project (Azura), a new gas-fired power plant that will provide electricity for 14 million people.

Azura is Nigeria's first true project-financed independent power plant (IPP) and its financial structure is expected to serve as a template for further investment in the sector. The 459MW project required about $900 million in funding, which was provided by 20 equity providers and international banks. The Azura-Edo IPP reached financial close in December 2015 and began generating electricity ahead of schedule in December 2017.

PROJECT DESCRIPTION

Azura consists of the development, financing, construction, operation, and maintenance of a 459MW gas-fired open-cycle power plant located near Benin City, in Edo State.

The project will draw from the country's reserves of natural gas, a clean-burning transition fuel, to address critical electricity needs and help Nigeria move toward a less carbon-intensive economy.

Azura will sell its electricity to Nigerian Bulk Electricity Trading PLC (NBET) under a long-term take-or-pay power purchase agreement (PPA). NBET is a Nigerian Government entity newly established under Nigeria's 2010 "Roadmap to Power Sector Reform"—a single buyer that bulk purchases electricity from generators. NBET then on-sells that electricity to distribution companies, which it sells to end users. Thus NBET is at the center of Nigeria's electricity trading arrangements.

Azura's project sponsors are: (i) Amaya Capital, a principal investment firm with a focus on the infrastructure sector in Africa, together with American Capital Energy & Infrastructure (50 percent); (ii) Africa Infrastructure Investment Managers, which invests in long-term institutional unlisted equity in African infrastructure projects (30 percent); (iii) Aldwych, an energy company active in the emerging economies of Africa, together with the Pan-African Infrastructure Development Fund (14 percent); and (iv) ARM-Harith Infrastructure Fund, an equity investor in infrastructure projects and companies across West Africa with a focus on Nigeria (6 percent).

CONTEXT

With a population of approximately 180 million, representing nearly 15 percent of the entire African continent's population, there are few, if any, other countries in the world that have a bigger gap between electricity demand and supply. Azura offers:

- Access to a secure and reliable source of gas. Situated close to substantial, mature, and proven domestic gas reserves, the project is located only 1 km away from the country's main gas trunk-line.
- Support from the Edo State Government. The Edo State Government is a minority shareholder and has been instrumental in assisting the project's work with the local communities.
- Access to evacuation capacity to the electricity grid. The site, near sub-stations, was specifically chosen to ensure safe and easy evacuation onto the grid.
- Partnerships with "best-in-class" stakeholders. These include world-class suppliers, contractors, service providers, and advisors with deep experience in Africa.
- Commercial agreement with key Nigerian authorities. The project benefits from a long-term take-or-pay power-purchase agreement (PPA) with NBET and a put-call option agreement (PCOA) with the Ministry of Finance that provides termination payment assurances, while mitigating the impact of such assurances to the balance sheet of the Federal Government of Nigeria' (FGN).
- Strong financial support from the World Bank Group. Azura is the first power generation project in Nigeria to receive guarantees from IBRD, support from MIGA, and IFC funding.

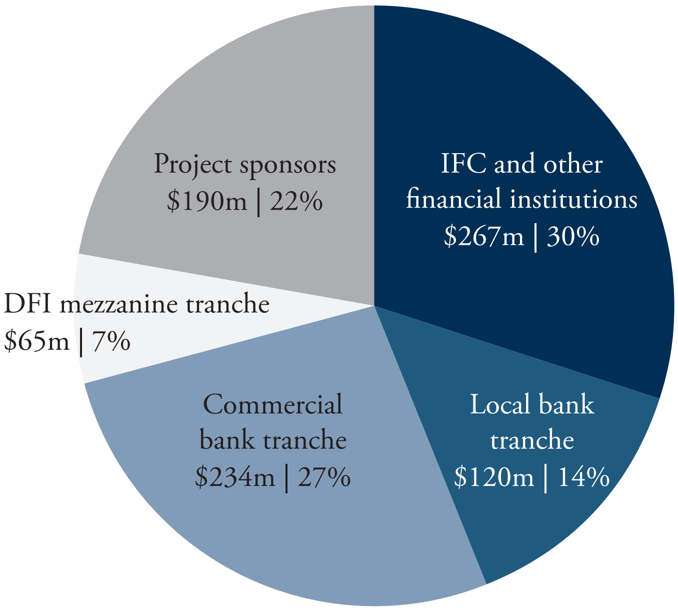
FINANCING

Azura's $876 million financing involves $190 million of equity and $686 million of debt from a consortium of local and international financiers.

The following debt facilities were provided:

- Senior Commercial Tranche of $234 million backed by IBRD and MIGA. This tranche was arranged by Standard Chartered Bank and covered by an IBRD loan guarantee and MIGA 4-point cover (each up to $118m of principal plus interest).
- Senior DFI tranche of $267 million and a $65 million DFI mezzanine facility. IFC acted as co-lead arranger along with FMO, the Dutch development organization. IFC provided $50m in debt, $30m in subordinated debt, and mobilized $212.5m.
- Local bank tranche of Naira 24 billion ($120 million). The Central Bank of Nigeria Power and Aviation Intervention Fund provided the local debt (with a natural hedge).

GRAPH 1. FINANCING OF THE PROJECT



BOX 1. HIGHLIGHTS OF THE GOVERNMENTAL SUPPORT STRUCTURE

- FGN's unwillingness to provide sovereign guarantees led to development of a mechanism for FGN support in the event of an early termination of the PPA, with no negative impact to FGN's balance sheet – a Put and Call Option Agreement (PCOA).
- The PCOA allows the project company to 'put' the plant (or its shares) to the FGN in nearly all circumstances where the PPA is terminated early and obliges FGN to pay a purchase price, which at a minimum covers outstanding debt.
- The PCOA structure has now been used in other jurisdictions in Africa and beyond.

CREDIT ENHANCEMENTS AND GUARANTEES

The Azura structure includes several features designed to "de-risk" execution and operation of the project:

- Mitigating exposure to major supply chain constraints or interruptions – through the choice of site location and purchase of political risk insurance and contingent business interruption insurance.
- Limiting exposure to delays or deficiencies in construction – through heavily 'back-end' loaded agreements with Azura's EPC contractor and close involvement in the selection and management of the civil works contractor.
- Protection of the revenue stream – through an IBRD payment guarantee put in place to support Nigeria's nascent power sector reforms, ensuring the project's bankability with lenders.
- IBRD guarantees of $238 million also provide:
- A payment guarantee, in an amount up to $120 million, to backstop NBET's payment security obligations under the PPA.
- A debt mobilization guarantee, in an amount up to $118 million, which allowed the project company to secure a tranche of commercial debt.

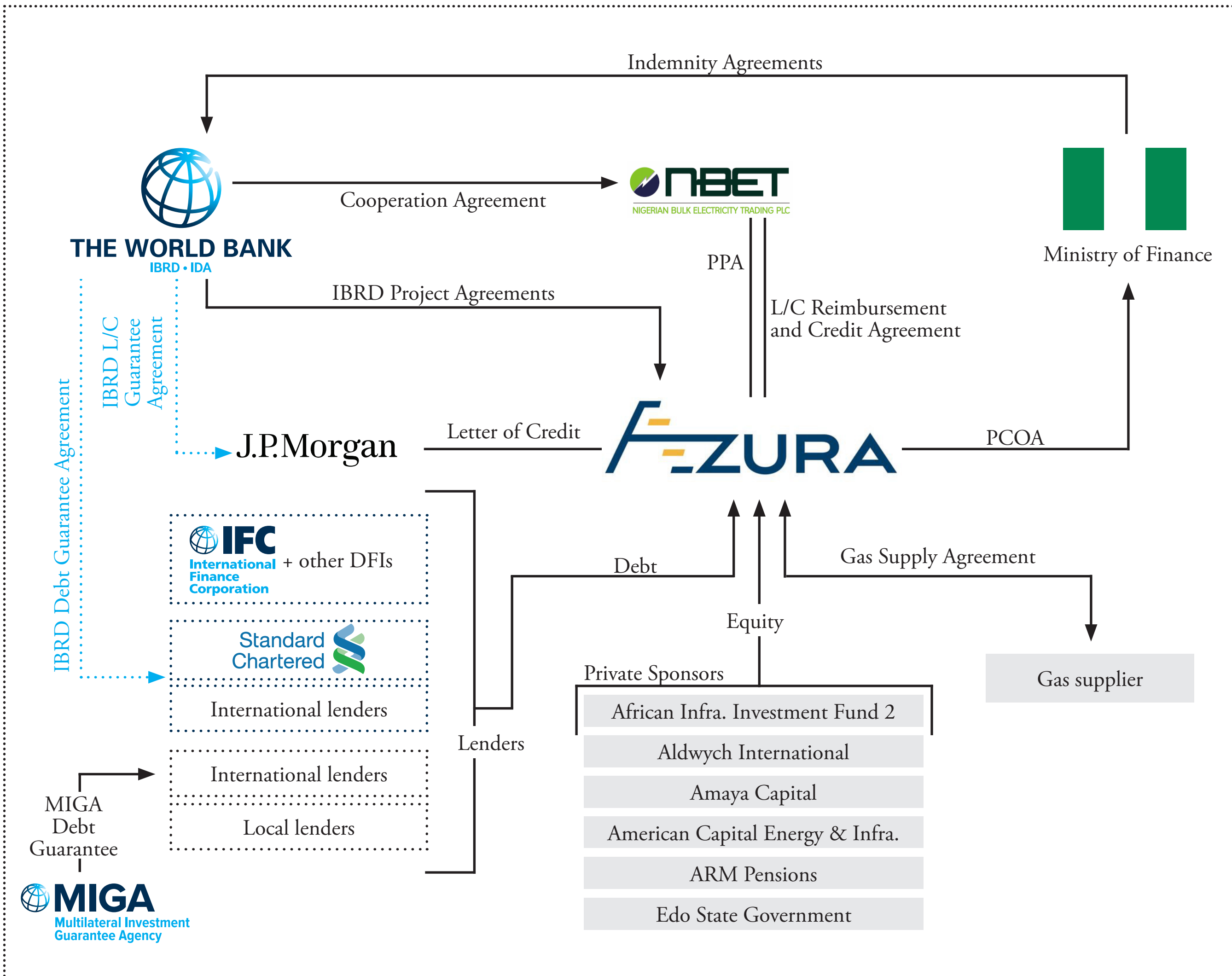
Equally, MIGA issued guarantees to cover certain "MIGA-covered" commercial lenders against transfer/inconvertibility, expropriation, war and civil disturbance, and breach of contract by the host government. Political risk cover was also written for the equity shareholder.

BENEFITS OF WORLD BANK GROUP SUPPORT

The World Bank's involvement led to the financing of Nigeria's first IPP. It is a privately-developed, greenfield, limited recourse project-financed independent power plant, selling power to Nigeria's newly-formed single buyer, NBET.

The successful financing and implementation of Azura established important precedents for Nigeria's power sector, showing FGN's commitment to developing much-needed electricity supply within Nigeria. It also paved the way for further generation asset development with its resulting project documentation and financial structures. The PCOA is a particular example of an innovation that has since been used as a template for further investments in Nigeria and elsewhere.

GUARANTEE STRUCTURE



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