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FINANCIAL SOLUTIONS BRIEF

SIERRA LEONE WAPGP POWER PROJECT

PROJECT HIGHLIGHTS

- A World Bank Group (WBG) intervention mobilizes private investments for energy supply in a fragile and post-conflict country following the Ebola crisis.
- A combination of WBG instruments leverage the project finance required to develop the WAPGP .
- WAPGP will address chronic power shortages and provide year-round baseload generation capacity.
- The project complements the ongoing power sector policy dialogue between the WBG and the Government of Sierra Leone. This focuses on improving the operational and commercial performance of the sector.

Sierra Leone is known for the white-sand beaches that line the Freetown Peninsula. Unfortunately, the country's beauty has been overshadowed by a brutal civil war that ended in 2002 and an Ebola outbreak between 2014–2016. These events brought extreme devastation to Sierra Leone's economy. The country also faces severe power shortages and limited distribution systems, which further affects economic development.

The Western Area Power Generation Project (WAPGP) was seen as a key component of the Government of Sierra Leone's recovery plan to rejuvenate economic growth post-Ebola. The plan aims to create jobs by providing reliable electricity supply to households, commercial establishments, industries, and health facilities in the Freetown area.

The WBG is providing an IDA guarantee, an IFC investment loan, and a MIGA guarantee that together will leverage \$138 million in investments for the power sector in Sierra Leone and send an important signal to the private sector that the country is ready for investment even as it continues to recover from Ebola. The project is part of the ongoing WBG support and policy dialogue for the energy sector in Sierra Leone.

PROJECT DESCRIPTION

The WAPGP involves the design, development, financing, construction, and operation of a 57 MW greenfield heavy fuel oil independent power plant east of Freetown. The private investors are CDC, a UK development fund, managed by Globeleq (50.1 percent equity) and Tempus Constant Qualitas Power Ltd of Abu Dhabi (49.9 percent equity).

The WAPGP will operate in a complex and high-risk sector that is heavily dependent on fiscal subsidies, with a fragile macroeconomic outlook expected to continue for the foreseeable future. The country's power sector suffers from decades of underinvestment in power generation, transmission, and distribution. Only 15 percent of its population has access to electricity. Transmission losses of 38 percent are among the highest in Africa. Grid connection rates are low, there is regular load shedding, and tariffs are below cost recovery levels.

The WAPGP will sell its entire power capacity and output to Sierra Leone's Electricity Distribution and Supply Authority (EDSA) under a 20-year take-or-pay power purchase agreement (PPA). The government and EDSA are jointly and severally liable for EDSA's offtake performance.

The WAPGP will address chronic power shortages and provide year-round baseload generation capacity. WAPGP's heavy fuel oil-based generation is expected to improve the availability of electricity services in the Freetown area. Combined with parallel investments by the Government of Sierra Leone to upgrade and stabilize the transmission and distribution network, WAPGP will catalyze development of additional generation, including renewables, that can be added to the network—diversifying Sierra Leone's energy mix. Once commissioned, WAPGP is expected to provide a demonstration effect for the government's power sector reform initiatives and private investment into Sierra Leone.

CONTEXT

The WAPGP complements the ongoing power sector policy dialogue between the WBG and the government, which is focused on improving the operational and commercial performance of the sector. This is a key part of the WBG's Joint Implementation Plan for the energy sector in Sierra Leone.

With implementation of the WAPGP, the government has committed to certain measures. These include to: (i) improve the performance of Sierra Leone's power sector; (ii) improve transparency and predictability of sector cash flows; (iii) instill confidence in its plans for a viable and sustainable energy sector where EDSA can meet its contractual payment obligations; and (iv) reduce the sector's subsidy requirements from the fiscal budget, specifically:

- Reduction of technical and commercial system losses through investments in the network and automated metering.
- Engagement of a management contractor for EDSA to provide management, operational, and capacity services, and improve operational and commercial performance.
- An exemption from heavy fuel oil taxes for power generation within the electricity sector that reduces the need for tariff increases and encourages large customers to switch from self-generation to EDSA supply.
- Tariff adjustments to reflect the true cost of electricity to end consumers, allowing EDSA to recover its reasonable costs.
- Establishment of a sector-wide collection arrangement for EDSA's electricity sales. The collection arrangement is a crucial part of the World Bank Group's structuring support for Sierra Leone. Key elements are highlighted below.

INSTRUMENTS USED

A combination of Bank Group instruments were used to leverage the project finance required to develop WAPGP. These include:

- An International Development Association (IDA) guarantee of up to \$40 million to backstop the government's and EDSA's payment security under the PPA.
- An International Finance Corporation (IFC) A-Loan of up to \$30 million and an IFC interest rate swap representing a loan-equivalent exposure of up to \$3 million to the project company.

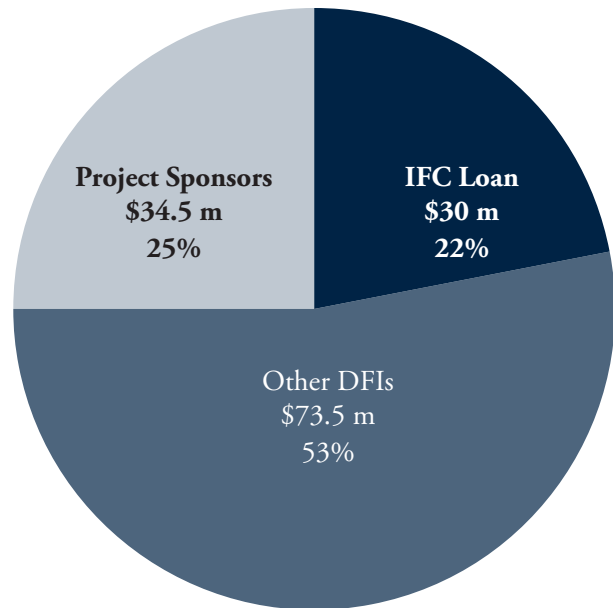
- Multilateral Investment Guarantee Agency (MIGA) political risk insurance of up to \$60 million covering equity.
- This World Bank Group intervention allowed WAPGP to raise a further \$73.5 million of senior debt from other development finance institutions including the African Development Bank, CDC Group, Emerging Africa Infrastructure Fund, and the Dutch development bank, FMO.
- Project sponsors provided \$34.5 million of equity on a “first in basis”—reflecting the high risk associated with the WAPGP. Senior debt of \$103.5 is to be provided after equity, with a 13-year tenor.

The joint engagement of IDA, IFC, and MIGA in preparing the WAPGP has strengthened the government’s deeper engagement on sector reforms.

BENEFITS OF WORLD BANK GROUP SUPPORT

The WAPGP is the first joint Bank Group operation in Sierra Leone. The combination of their support was instrumental in mobilizing \$138 million in investments into Sierra Leone’s power sector and serves as an important signal to the private sector that the country is ready for investment, even as it continues to recover from the Ebola epidemic.

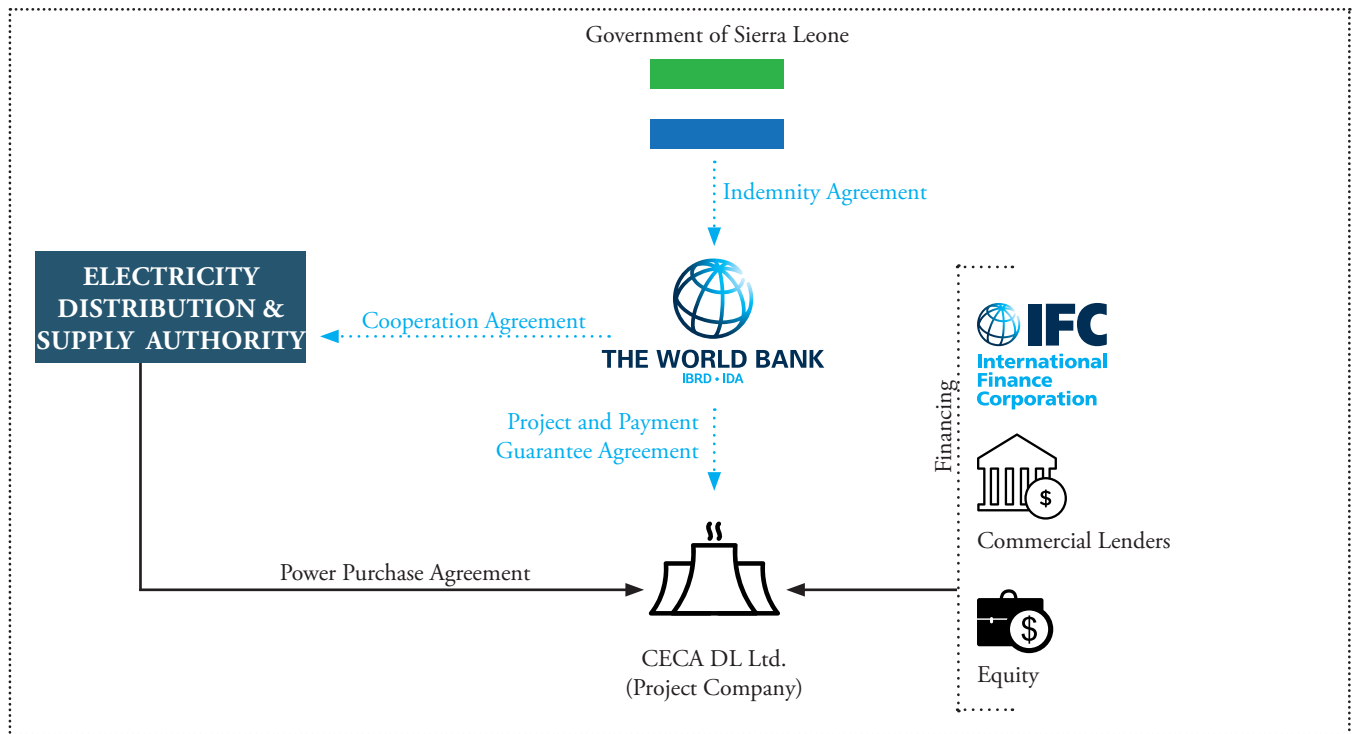
GRAPH 1. FINANCING OF THE PROJECT



BOX 1. HIGHLIGHTS OF SIERRA LEONE’S SECTOR-WIDE COLLECTION ACCOUNT ARRANGEMENTS

- The arrangements are applicable to all of EDSA’s cash collections from electricity sales, which helps all suppliers.
- It will be managed by an independent agent, chosen through a competitive tender.
- The arrangements will include a pre-determined cash waterfall for prioritized payment obligations.
- The WAPGP and other IPPs will have priority in the cash waterfall.
- The government, at the beginning of each annual budgetary period, will contribute funds sufficient to cover any estimated annual sector shortfalls directly into the Collection Account, including any amounts required to meet EDSA’s and the government’s payment obligations under various PPAs with private parties.
- During each such budgetary period, the government’s contributions will be adjusted in accordance with actual payment obligations under the Collection Account’s defined cash waterfall.

GUARANTEE STRUCTURE



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