The Kribi Gas Power Project: Private, Local-Currency Financing Made Possible through an IDA Guarantee

Background

In the late 1990s the government of Cameroon initiated a reform to improve efficiency and increase private sector participation in the country’s power sector. The reform included new legislation, a new regulator, and privatization of SONEL, the state-owned integrated power utility, which was transferred to private management under a 20-year concession in 2001. The concessionaire, Energy of Cameroon (ENEO), was granted exclusivity over transmission and distribution of electricity and the right to develop and own up to 1,000 MW of generating capacity.

In the early 2000s the government of Cameroon decided to pursue the exploitation of offshore gas reserves for, among other things, incremental power generation. As a result, in March 2006, Perenco Cameroon, a subsidiary of French Perenco, signed a 25-year production-sharing agreement with Société Nationale des Hydrocarbures (SNH), the state-owned gas supplier, to exploit the Sanaga South gas field.

That agreement was the basis for the later development of the Kribi Gas Power Project.

Project

The Kribi Power Project ("Kribi") is owned by the Kribi Power Development Company (KPDC), a public–private partnership created in 2008 by AES (56 percent) and the government of Cameroon (44 percent). AES formed KPDC when it was the majority shareholder of ENEO in order to increase ENEO’s generating capacity up to the 1,000 MW allowed.

Kribi consists of a new 216 MW natural gas–fired power plant and an associated 100-kilometer transmission line. The total project cost was $350 million. Kribi sells all its electricity output to ENEO through a 20-year power purchase agreement. Fuel is purchased under a 20-year take-or-pay gas sales agreement from SNH, which in turn procures the gas under another 20-year take-or-pay agreement with Perenco Cameroon.

The government of Cameroon awarded Kribi to KPDC by virtue of ENEO’s right to develop and own up to 1,000 MW of generating capacity. To ensure efficiency and least cost, the engineering, procurement, and construction contracts for the power plant and transmission line were selected through a competitive bidding process under the procurement rules and supervision of the European Investment Bank.

Kribi was designed to satisfy base load for the time being and eventually, once additional hydropower is developed, to be used to meet peak demand and as spinning reserve. The electricity supply

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1 Known as AES SONEL at the time the concession was awarded in 2001, the name changed to ENEO when Actis acquired AES’s assets in 2014. Actis owns 56 percent of ENEO; the government of Cameroon holds the remaining 44 percent.

2 "Spinning reserves" are plants synchronized with the grid and kept ready to respond within a few minutes of a sudden need.
from Kribi allows ENEO to provide electricity equivalent to the average consumption of about 163,000 households.

With a levelized tariff of $0.128 per kilowatt hour, Kribi provides a relatively inexpensive thermal addition to Cameroon’s electricity system until additional hydropower resources can be developed. The average tariff at the time Kribi was designed and financed was $0.18 per kilowatt hour.

The challenge

Until 2011, most of the infrastructure financing in Cameroon was done on a corporate basis through equity and foreign-currency-denominated loans from international development finance institutions (DFIs). The only exception was the Dibamba thermal power plant, which was financed on a project finance basis with private equity and loans from DFIs denominated in foreign currency. Local and international commercial banks had provided only short-term corporate financing.

The government of Cameroon had a strong interest in local banks participating in the financing of Kribi. The government’s objective was twofold: (i) to introduce a local-currency component into the financing package in order to mitigate foreign-exchange risk (which is passed through to the tariff), and (ii) to develop the capacity of the local lending market in long-term project finance.

While local lenders had liquidity and strong interest in participating in the financing of private projects, they suffered from structural and regulatory constraints that limited maximum maturities of the loan to seven years, which was insufficient for long-term...
The challenge was to create a financial structure that was attractive for local lenders with relatively little experience in project finance and that would overcome regulatory constraints on the tenor of local lending.

Infrastructure financing needs. Moreover, the fact that the government of Cameroon and associated entities (SNH and the national energy regulator) lacked a track record in private project financing created a high degree of uncertainty (perceived risk) among the local lenders.

Thus, the challenge was to create a financial structure that was attractive for local lenders with relatively little experience in project finance, and that would overcome the restrictions on the tenor of local lending.

The solution

Kribi reached financial closing in August 2012. Its financing was structured with a debt-to-equity ratio of 75 to 25. To attract local-currency-denominated debt from local commercial banks into the structure, the package included, as a risk-mitigation instrument, an $82 million guarantee from the International Development Association (IDA) of the World Bank.

The debt has a 14-year maturity and consists of three tranches (table 1): (i) $86 million from the International Finance Corporation (IFC); (ii) $95 million from other DFIs; and (iii) a local-currency tranche of 40 billion CFA francs, equivalent to $82 million, provided by domestic commercial banks (the "local loan"). The local loan amounted to 31 percent of the overall project debt.

The local loan has an innovative structure developed jointly by the government of Cameroon, local banks, and IDA. The amortization profile of 14 years was achieved through a "put option" in favor of the local lenders, under which, at the end of 7 years, local lenders may exercise the option and sell their participation to the government at a price defined in the Local Loan Purchase Agreement (box 1). In this case, the government will hold the local loan until KPDC or the government find new commercial lenders to take it up. If the local lenders do not exercise their put option, the loan will be extended for a second 7-year term. Cameroon has no regulatory prohibition against extending a loan.

Table 1. Financing of the Kribi Power Project (US$ million)

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<th>350</th>
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<td>Total, all sources</td>
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<tr>
<td>Debt</td>
<td>263</td>
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<td>IFC</td>
<td>86</td>
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<td>Other development finance institutions</td>
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<td>Cameroon commercial banks (under IDA’s partial risk guarantee)</td>
<td>82</td>
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<tr>
<td>Equity</td>
<td></td>
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<tr>
<td>Project sponsors</td>
<td>48</td>
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<tr>
<td>Cameroon government</td>
<td>38</td>
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Box 1. Cameroon Kribi Gas Project: IDA Guarantee Coverage

The IDA guarantee protects private lenders against debt-service default caused by a breach by the government of Cameroon of:

- Key contractual obligations under the Government Commitment Agreement (including political force majeure; breach of electricity license agreements; termination of concession of the off-taker and equivalent replacement failure; and termination of gas supply agreement).
- The government’s payment obligations under the Local Loan Purchase Agreement (that is, payments under the put option).

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 7-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.
- Prenegotiated 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.

3 The period of time after an agreement has been entered when all conditions for disbursement have been fulfilled (or waived) and all documents have been properly filed and executed. After financial closing, drawdowns are allowed.
“Since Kribi began commercial operation in 2013, Cameroon has diversified its generation mix and enhanced the reliability and cost-effectiveness of its energy supply, with an accompanying positive social and economic impact.”

The makers of the local loan benefit from an $82 million–equivalent IDA guarantee that protects them against debt-service default triggered by a breach of the government’s contractual obligations under the Commitment Agreement (including for reasons of political force majeure; breach of electricity license agreements; termination of concession of the off-taker and equivalent replacement failure; and termination of the gas supply agreement), or of its payments to local lenders under the Local Loan Repurchase Agreement following lenders’ exercise of their put option.

Benefits of World Bank Group support
World Bank Group support through the IDA guarantee and the IFC loan enabled the financing and construction of the Kribi power plant. 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—with an accompanying positive social and economic impact.

Kribi’s financing structure provides a novel way of addressing three common problems of large infrastructure projects in low-income countries: currency mismatch, short loan tenor, and uncertain government creditworthiness.

The World Bank Group’s involvement enabled Cameroon’s first long-term, local-currency loan for infrastructure and thus contributed to building capacity within local banks for future development of both the financial and the infrastructure sectors. In addition, the local component in the financing package reduces foreign-exchange risks.

The successful financing and implementation of Kribi sets an attractive precedent for future private investments in infrastructure in Cameroon, sending a clear message about the government’s commitment to developing large-scale infrastructure projects in a sustainable way.

The peer reviewers for this note were Clive Harris, who manages the Public–Private Partnership Practice in the World Bank’s Cross-Cutting Solution Global Practice, and Richard MacGeorge, a lead infrastructure finance specialist in the Bank’s Energy and Extractives Global Practice.