IDA Guarantee catalyses private finance for Haripur Power Project in Bangladesh

IDA provided its second Partial Risk Guarantee (PRG) for the US$180 million Haripur Power Project (the Project) in Bangladesh under its Pilot Program approved in August 1997. The Project, the first land-based Independent Power Producer (IPP) plant in Bangladesh, comprises of a 360 MW gas-fired combined cycle power plant which is built, owned, and operated by AES Haripur (Private) Limited (AESH), a wholly-owned subsidiary of the US-based AES Corporation (AES). The Project started simple cycle operations in June 2001 and combined cycle operations in December 2001 at an electricity tariff below US $0.03/kWh which is among the lowest offered to date by an IPP internationally.

The introduction of the Haripur plant into the power generation system has helped alleviate the country’s critical energy shortfall which has become a major bottleneck to economic growth. The Project is located approximately 22 km south-east of Dhaka, the capital city and main load center of Bangladesh. Only 18% of the urban population has access to electricity and in rural areas, only 10%. The additional power will generate savings by displacing less efficient plants running on imported liquid fuels. The Project will attract substantial private investment flows for infrastructure development in Bangladesh.

The Project

Under the Government’s Private Sector Power Generation Policy initiated in 1996, AES was selected to implement the Haripur IPP following an international tendering process. AES was set up by AES as a locally incorporated special purpose company to undertake the construction and operation of the Project. The Bangladesh Power Development Board (BPDB) will purchase the entire output of the build-own-operate (BOO) plant under a 22-year Power Purchase Agreement (PPA). Gas will be supplied to the Project under a Gas Supply Agreement (GSA) for the term of the PPA by the Titas Gas Transmission and Distribution Company (Titas), a state-owned enterprise and a subsidiary of Petrobangla (the national oil and gas company) through a 1.3 km natural gas pipeline which will connect the Project to the gas distribution system.

The Financing Structure

The total financing cost of the Project was US$180 million, which was financed through a combination of equity, subordinated sponsor loan, and senior debt. The debt equity ratio of the Project was about 54:46. The equity component consists of 20% of base equity, almost 5% of simple cycle revenues guaranteed by AES and the balance as subordinated sponsor loan. The senior debt consists of a commercial loan of US$60.9 million supported by the IDA PRG and a US$37 million Senior Sponsor Facility provided by AES Corporation. The IDA guaranteed commercial debt of US$60.9 million has been underwritten by ANZ Investment Bank for a term of 14 years and is expected to be syndicated shortly to a group of international banks.

Financing Plan

<table>
<thead>
<tr>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>$73.70</td>
</tr>
<tr>
<td>Simple Cycle Revenues</td>
<td>$8.40</td>
</tr>
<tr>
<td>IDA Guaranteed Commercial Loan</td>
<td>$60.90</td>
</tr>
<tr>
<td>Senior Sponsor Facility</td>
<td>$37.00</td>
</tr>
<tr>
<td>Total</td>
<td>$180.00</td>
</tr>
</tbody>
</table>

Contractual Framework

The security structure for the Project consists of a set of contractual agreements which define the rights and obligations of the major participants in the Project. The Project-related risks such as...
construction, operation, and certain natural force
majeure risks will be borne by the sponsor and
the lenders. Sovereign or political risks are
assumed by the Government of Bangladesh
(GOB) and its agencies and are backstopped by
the IDA Guarantee. These risks are identified and
allocated through the Project’s contractual
framework, which comprises of the following
main agreements:

- **The Implementation Agreement (IA)** signed
  between AESH and GOB in September 1998, defines the rights and obligations of
  the parties and is for a period of 22 years
  from commercial operations of the Project.
  Under this Agreement, the Government
  grants the project company the right to
  construct and operate the Project on the
  plant site. It guarantees the payment
  obligations of BPDB under the PPA, the
  obligations of Titas under the Gas Supply
  Agreement, and of the Ministry of Industries
  under the Land Lease Agreement. It assures
  AESH of all fiscal incentives and other
  benefits, provided in the Private Sector
  Power Generation Policy of Bangladesh, and
  the free convertibility and transferability of
  foreign exchange, through Bangladesh
  Bank, required to meet the company’s
  foreign currency remittances.

- **The Power Purchase Agreement** signed
  between AESH and BPDB, provides for the
  sale of electricity to BPDB for the term of
  the IA on the basis of a two-part tariff
  consisting of: (i) a capacity payment, with
  non-escalable component to cover debt
  service, and an escalable component to
  cover return on equity, fixed operation and
  maintenance costs, insurance, and other
  fixed costs; and (ii) an energy payment
  composed of a variable operation and
  maintenance payment and fuel payment.

- **A Gas Supply Agreement** signed between
  AESH and Titas on the same date and for
  the same term as the IA and the PPA,
  provides for the supply of gas by Titas to the
  plant at a price to be determined from time
to time by the Ministry of Energy and
Mineral Resources.

- **The Land Lease Agreement (LLA)** signed
  between the project company and the
  Ministry of Industries, grants a lease to the
  company for a term that is equal to (i) the
  25th anniversary of the commercial
  operations date; or (ii) the third anniversary
  of the expiration or termination of the PPA,
  whichever is longer.

- The Engineering, Procurement, and
  Construction (EPC) Contract dated April
  1999, between AESH and Hyundai Engi-
  neering and Construction (HHI) and Hyundai
  Heavy Industries (HEC) is a fixed price
  turnkey contract under which the EPC
  contractor will procure all work and services
  necessary in connection with the design,
  engineering, procurement, site clearance,
  construction, start-up and testing of the
  plant. Under the Guarantee and Coor-
  dination Agreement HEC and HHI, jointly
  and severally, guarantee each other’s obli-
  gation to construct the Project on a fixed-
  price, date-certain turnkey basis.

- An Operations and Maintenance Service
  Contract (O&M) dated April 1999 was
  entered between AESH and AES Bangla-
desh Operations (AESBO), an offshore
  wholly-owned subsidiary of AES Corpora-
tion. AESBO will be responsible for the
  administration, operation, repair, and main-
tenance of the Project to international
  standards. The company will have a back-to-
  back Agreement with AES Corporation to
  provide personnel and management services
  to assist AESBO in the performance of their
  obligations under the Agreement.

- **Loan Documentation** consists of the
  Common Terms and Intercreditor Agree-
  ment, the Share Retention and Project Funds
  Agreement, the Accounts and Security Trust
  Agreement and the respective loan
  Agreements.

**Structure of the IDA Partial Risk Guarantee**

The IDA PRG will provide coverage to
commercial lenders for loan default by AESH on
scheduled debt service payments, resulting from
the Government’s failure to meet its payment
obligations under the IA and the Government
Guarantee in support of the PPA, GSA, and LLA.
Obligations covered include both periodic
payments and termination amounts. The
Guarantee structure would be non-acceleratable in
the event that the Project is terminated as a result
of a Government default. IDA would make
payments under its Guarantee in accordance with
the amortization schedule pre-agreed with com-
mercial lenders or prepay the loan, at its option.
The commercial risks, such as completion and
operations risks, and natural force majeure risks
relating to the Project, which will be borne by the sponsors and commercial lenders, will be mitigated by the EPC and the O&M contracts and various commercial insurance arrangements. The principal categories of risks which will be backstopped by the IDA PRG are the following:

1. *Breach of Contract* by the Government with respect to its payment obligations under the IA and the Government Guarantee relating to the purchase of power and supply of gas.

2. *Currency convertibility or transferability* relating to the Government’s undertaking to make sufficient foreign exchange available for local currency conversion and repatriation of debt service payments.

3. *Changes in laws* in Bangladesh which would have the effect of making Project Agreements unenforceable or void or having a material adverse effect on the ability of the company to make debt service payments (including judicial decisions not in suspense as a result of an appeal).

4. *Political Force Majeure* events within Bangladesh, including nationalization and expropriation.

5. *Natural Force Majeure* events limited to BPDB’s interconnection system and Titas’ gas pipeline to the plant.

6. *Frustration of Arbitration* relating to any action by GOB or third parties to frustrate the dispute resolution process.

IDA’s Guarantee support is documented in a Guarantee Agreement with the lenders, which outlines the scope of IDA’s risk coverage and defines the trigger mechanisms of the IDA Guarantee. IDA will charge a Guarantee Fee of 75 bp per annum on outstanding principal amounts of the guaranteed loan. In parallel, IDA has an Indemnity Agreement with GOB, under which GOB has counter-guaranteed IDA for any payments made under the Guarantee Agreement.

**Benefits of the Guarantee**

The IDA PRG was crucial in mobilizing private sector financing from the international debt market for Haripur. This was the first time that such long term international financing was made available for Bangladesh. The successful financial closure of Haripur through the deployment of the IDA Guarantee will serve as an important milestone in establishing a track record for facilitating financial capital flows to the country.

For more information on the Haripur Power Project, please contact:

**Farida Mazhar**

Fmazhar@worldbank.org  
Tel: (202) 473-1235  
Fax: (202) 477-0218
To obtain a copy of the brochure, *The World Bank Guarantee: Catalyst for Private Capital Flows*, please contact Jyoti Azad at (202) 473-1771, or by email at jazad@worldbank.org or visit our website: www.worldbank.org/guarantees.