



Public-Private Partnership Stories

Cameroon: SONEL



Photo © Nico Saporiti

By the late 1990s, it was clear that Cameroon's power sector would not be able to meet growing demand for electricity. Generation capacity was 800,000 MW, with only 452,000 connections serving a population of nearly 16 million. Dependence on hydropower left the country vulnerable to frequent brownouts and blackouts. Meanwhile, growth in demand from both industry and households was strong, but few resources were available to invest in the sector. In response, the government of Cameroon undertook reforms of the power sector, including privatization of the state power utility, Société Nationale d'Electricité (SONEL), for which the government appointed IFC as transaction advisor.

In July 2001, AES Corporation, a global power company, acquired 56 percent of SONEL's equity and entered into a 20-year concession to generate, transmit and distribute electricity in Cameroon. In the decade since privatization, SONEL has transformed from a loss-making government utility to an income-generating enterprise which has successfully attracted additional investments. By 2011, private sector financing had increased Cameroon's power capacity to 1,033 MW, the number of connections had expanded by 75% 792,000, and the electrification rate stood at nearly 50 percent.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

IFC Advisory Services in
Public-Private Partnerships
2121 Pennsylvania Ave. NW
Washington D.C. 20433
ifc.org/ppp

IFC's advisory work was funded by L'Agence Française de Développement (AFD) and the World Bank.

BACKGROUND

In the late 1990s, the government of Cameroon recognized that its power sector urgently needed to be expanded and modernized. The state power company, Société Nationale d'Electricité (SONEL), was the sole generator and distributor of power in the country. Only 452,000 connections existed—leaving most people in the country without electricity. Dependence on hydroelectric power—which accounted for 725 MW of capacity out of a total of 819 MW—made it vulnerable to droughts, leading to blackouts and brownouts. Demand was growing quickly from both households and industry, and particularly from ALUCAM, an aluminum smelter that consumed approximately one-third of supply. Revenue suffered from poor collection rates, low tariffs, and currency devaluation. Consequently SONEL faced a growing debt burden which it was unable to service.

In response, the government adopted a series of power sector reforms, starting with the 1998 Electricity Sector Law, which lay the groundwork for the privatization of SONEL. But the privatization effort faced daunting challenges. Stakeholder commitment to the process was questionable, and investors were concerned about transparency.

To facilitate the transaction, the government of Cameroon appointed IFC as lead advisor to privatize SONEL.

IFC'S ROLE

IFC proceeded on two fronts. First, it helped the government develop and implement its privatization strategy. This included preparatory studies and the technical execution of the transaction. IFC drafted a long-term concession agreement, pre-selected bidders based on technical and financial criteria, facilitated negotiations with investors, organized the bidding process helped select the winning bidder, and closed the transaction.

In parallel, IFC advised the government on the reform of the Electricity Sector Law and the establishment of a new legal and regulatory framework. This included passage of the new electricity law that: (i) introduced phased competition; (ii) established an independent regulatory agency; and (iii) created a new agency to promote rural electrification, provide technical assistance, and identify donor funding.

TRANSACTION STRUCTURE

The transaction terms allowed 56 percent of SONEL's capital to be acquired by a private entity through a transparent bidding process. The winning bidder would be granted a 20-year concession for the distribution, transmission, and generation of electricity throughout Cameroon. Other key features of the transaction were:

- The winning bidder would have exclusive rights to distribute and sell electricity to low volt customers throughout the concession, and to medium and high volt customers for the first five years.
- Five percent of the shares acquired by the winning bidder would later be transferred to SONEL's employees.
- Reciprocal debts between the government and SONEL would be

eliminated, and some of SONEL's outstanding debt would be transferred to the government.

- The transmission network would have to be managed through a subsidiary.
- The buyer would be subject to a cap on exclusivity of installed generation capacity.
- The winning bidder would be required to commit to a significant increase in the number of electric connections and to meet performance targets.

The tariff structure was also modified to ensure the financial sustainability of the utility and its investments in the network.

BIDDING

Five large, reputable international consortia prequalified but two of the prequalified candidates withdrew before bidding was launched. The government then sought to increase the attractiveness of the deal to potential investors by guaranteeing 50 percent of the purchase price against risks such as accuracy of financial accounting data, the net book value of shareholders' equity, accuracy of asset lists, and other potential issues.

One bidder, AES Corporation, submitted a bid, which met technical and financial requirements. It paid out \$71 million to acquire 56 percent of the company through a combination of capital increases and purchase of existing shares, valuing the company at over \$225 million. The agreement was signed in July 2001.

The concession agreement was modified in 2006 to secure a \$340 million financing package—one of the largest ever provided to a privatized utility in sub-Saharan Africa.

EXPECTED POST-TENDER RESULTS

- The privatization raised \$71 million in private sector investment. Subsequent investments exceeded €500 million.
- By 2011, the number of connections had increased by over 75 percent, to 792,000. By 2021, AES expects to add 750,000 more connections. In 2011, the electrification rate stood at 49 percent, almost double the average in Sub-Saharan Africa.
- Total capacity grew to 1,033 MW by 2011 through construction of new thermal power plants in Dibamba and Limbe, and the renovation of existing hydropower plants.
- The increase in non-hydro power generation, such as gas and heavy fuel oil, has reduced the impact of droughts on supply.
- Employees have benefited from an HIV/AIDS workplace education program since 2001.

01/2012