Please join the EBA International Energy & Transactions Committee for a brown bag/teleconference on

**Mitigating Investment Risks in Emerging Energy Markets: A Focus on Africa**

May 29, 2013
12:00 pm - 1:30 pm (ET)

Location: Hunton & Williams LLP
2200 Pennsylvania Avenue, NW, 9th Floor
978 Penn Quarter Conference Room, Washington, DC 20037

In emerging markets, energy development has not kept pace with rising demand. Over the next 25 to 30 years, nearly all of the growth in energy demand is forecast to come from the developing world. The African energy markets present both challenges and fantastic opportunities to potential investors. Some countries lack a basic energy infrastructure while other countries are actively exporting energy resources to their neighbors and in the global marketplace. This brown bag panel will discuss the potential areas of growth in Africa's emerging energy markets and how to best mitigate investment risks.

Our speakers are:

**John Beardsworth, Partner at Hunton & Williams** - Mr. Beardsworth has extensive experience in energy sector restructuring and privatization and has worked in Africa for over 25 years. He has acted for the governments of Uganda, Tanzania, Kenya, and Mozambique, among others, on a range of energy and infrastructure matters. He will discuss mitigating risks in African energy markets from a legal perspective.

**Richard Rubin, Consultant and Managing Director at Project Finance Advisors** - Mr. Rubin is a technical and finance consultant who works exclusively in emerging markets. PFA has provided financial expertise for energy and telecoms infrastructure projects in Georgia, Morocco, Algeria, Tunisia, Bangladesh and the former Soviet Union. He will discuss the need for reliable regulatory regimes to finance large projects and provide power reliability and cost savings to countries as it relates to North Africa.

**Alain Ebobissé, Global Head, IFC InfraVentures and Chief Investment Officer, International Finance Corporation** - Mr. Ebobissé has led a number of complex infrastructure transactions in Africa, Europe, and Latin America. He will provide an overview of the IFC's power investments in emerging African markets and present an investment case in a West African country.

Our moderator is:

**Linda Oramasionwu, Kupanda Capital** - Ms. Oramasionwu was an Investment Officer in the African Development Bank's (AfDB) Private Sector Department where she led the origination, structuring, due diligence and execution of industries and services investments and project proposals including equity and senior debt investments. Prior to joining the AfDB, she was a corporate associate at a boutique law firm specializing in fund formation in emerging markets.
Mitigating Investment Risks in Emerging Energy Markets: A Focus on Africa
International Energy & Transactions Committee Brown Bag

The Challenges and Risks of Doing Business in Africa – A Legal Perspective

May 29, 2013

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Doing business in Africa presents many challenges and risks, but also many opportunities if those challenges and risks are properly understood and managed.

**Presentation Overview**

- Doing Business in Africa—Issues and Opportunities
  - Legal & Regulatory Framework Issues
  - Political Risk
  - Public-Private Partnerships
  - Corruption & Transparency Issues
- Nigeria – Restructuring the Electricity Market to Attract Private Sector Investment
Legal & Regulatory Framework Issues
Energy sector laws in Africa and developing countries elsewhere are frequently outdated or otherwise underdeveloped. Furthermore, the scope of regulatory authority and other sector roles and responsibilities may be unclear. Such lack of clarity in the legal and regulatory framework leads to uncertainty for companies considering investing in a country.

Example—Kenya’s Petroleum Sector

• Petroleum sector legislation drafted in 1986, not substantially updated since
• Petroleum legislation is oil-centric, which is problematic given recent natural gas discoveries
• Broader energy legislation and petroleum legislation conflict or are unclear as to which government entity is responsible for regulating or overseeing certain activities (e.g., contract negotiation, contract compliance, and regulation of upstream petroleum activities)
Example—Kenya’s Petroleum Sector (continued)

• Legislation is silent on a number of important issues, including land rights, transfer pricing and other fiscal matters, and delineation between upstream, midstream, and downstream subsectors

• Uncertainty on some of these issues has delayed potential investment by contractors

• Petroleum sector legislation currently under review for modernization in accordance with international best practices
Political Risk
International energy projects are by their very nature subject to a certain amount of political risk, which risk is generally greater in developing countries in Africa and elsewhere in the world.

Political Risks

- Currency risk
- Nationalization/Expropriation
- Change in Law
- Political Force Majeure
- Transaction Costs
**Currency Risk**

- **Risks**
  - Exchange rate fluctuation
  - Convertibility
  - Repatriation

- **Mitigation**
  - Bilateral treaties
  - Offshore collateral accounts
  - Insurance (MIGA, IFC, World Bank)
  - Government Support

**Nationalization/Expropriation**

- **Risks**
  - Expropriation or nationalization of investment assets

- **Mitigation**
  - Bilateral treaties
  - Involvement of IFIs
  - Political Risk Insurance
Change in Law

**Risks**
- Changes in host country law or regulation that adversely impact investment

**Mitigation**
- Stabilization/Change in Law clauses (can either make changes in law inapplicable or obligate government party to offset cost of compliance)

Political Force Majeure

**Risks**
- Acts of war or other armed conflict
- Lapses in necessary government consents
- Politically motivated nationwide strikes/other labor actions

**Mitigation**
- Provide for force majeure relief by contract if such events adversely affect performance
Current State of Energy Infrastructure in Africa

• Across Africa, investments in infrastructure have failed to keep pace with growth and demand—whether due to insufficient funds, poor planning, inefficient management or other factors—creating a tremendous infrastructure deficit

• Less than 40 percent of the population across the continent, and only 26 percent of the population of Sub-Saharan Africa, has access to electricity

• Energy demand in Africa is only going to increase, with 6 of the top 10 fastest growing markets in the world located in Sub-Saharan Africa

• To bridge the infrastructure gap, many African governments are turning to financing through Public-Private Partnerships (or “PPPs”)
Risk Allocation in PPPs

- One of the key features of PPPs is the allocation of risks between the government and the private sector in an effort to achieve a “win-win” scenario.
- Creates incentives for the government and the investor to properly manage risk.
- Reduces project costs and helps provide governments with better value for money.
- Some risks can also be separately insured, e.g., via political risk insurance from IFIs such as MIGA.

Two Recent Examples of PPPs in Africa

- **2012**: $900 million, **250 MW Bujagali Hydroelectric Dam in Uganda**—the largest private sector investment ever undertaken in East Africa.
  - Overcame risk of non-cost-reflective tariffs by enabling project sponsors to bid a rate of return on equity and hold a competitive tender for the EPC contract.
  - Currently promoted: **Ruzizi III Regional Hydroelectric Project** on the border between the Democratic Republic of Congo (DRC) and Rwanda, which would provide electricity to utilities in those two countries and Burundi.
Corruption & Transparency Issues
Corruption & Transparency Issues

Although many African countries have the energy infrastructure deficit discussed above, many of these same countries have a wealth of natural resources, including significant oil & gas deposits, that could help not only with the electricity shortfall but also their economies as a whole.

Unfortunately, the extraction of natural resources does not necessarily make developing countries peaceful and prosperous. In fact, there is evidence that many of the developing countries with highly developed extractive industries are less developed and less prosperous than similar countries that have not discovered natural resources.

Corruption is among the main drivers of this “Resource Curse” phenomenon.

One way to mitigate risks associated with corruption, which can harm not only the state but also companies engaged in business activities within the country, is to promote transparency.

“Resource curse is the term used to describe the failure of resource-rich countries to benefit from their natural wealth. Perversely, many countries rich in natural resources are poorer and more miserable than countries that are less well endowed.”

George Soros, forward to Escaping the Resource Curse.
Efforts to Promote Transparency: The Extractive Industries Transparency Initiative

An example of such efforts to promote transparency is the Extractive Industries Transparency Initiative—a coalition of governments, companies, civil society groups, investors, and international organizations that have agreed to promote transparency in payments made by extractive companies and revenues received by governments launched in 2002 by Tony Blair at the World Summit for Sustainable Development.

“...I firmly believe that the initiative can make a significant contribution to ensuring that the proceeds from mining and energy industries are used for development.”

Tony Blair, speech at the first EITI plenary conference in 2003, Lancaster House, London.

**EITI Compliant**

**EITI Candidates**
- **16 countries**, including Cameroon, Chad, Madagascar, Mozambique, and Togo.
At its essence, countries and companies that want to comply with the EITI work with each other and civil society in a **Multi-Stakeholder Group** to produce an **EITI Report** on tax and royalty payments made by extractive industries.
Other Efforts at Promoting Transparency and Reducing Corruption

**US Dodd-Frank Act Section 1504**

- Requires **disclosure of payments** made to the US or foreign governments by companies in the industry who raise capital in the US.
- Disclosure is **at the project-level** of granularity (as opposed to country-level)—a requirement also recently adopted by the EITI.
- Goal is to increase transparency, permitting stakeholders to examine revenues derived from the extractive industries and **increase government accountability**.
- SEC adopted final rules implementing Section 1504 in August 2012—disclosures will be required for fiscal years ending after Sept. 30, 2013 (SEC has denied a request to stay effectiveness of its rules pending legal challenges from industry groups).

**UK Bribery Act 2010**

- Criminalizes bribery of private individuals and public officials by companies either organized in the UK or who do business in the UK.
- Crucially, the Act **holds such companies responsible for the actions of its employees, agents, and subsidiaries**.
- Given that resource-rich countries (including many African countries) frequently have relatively high rates of corruption, participants in the extractive industries (and, by extension, the energy sector) are particularly susceptible to liability under the Act.
- Companies can **mitigate exposure to such risks by demonstrating that it had adequate procedures in place** designed to prevent persons associated with the company from violating the Act (pursuant to guidelines prescribed in the Act).
Nigeria—Restructuring the Electricity Market to Attract Private Sector Investment
Existing Market Structure Challenges

• Just a short time ago, the National Electric Power Authority of Nigeria was a state-owned, vertically-integrated monopoly utility beset by poor delivery services, distribution and operation losses, weak management and maintenance, and massive under-investment resulting in large numbers of obsolete facilities unable to operate.

Restructuring Approach

• Now, the Federal Government of Nigeria (“FGN”) is years into a massive restructuring of the Electricity Sector aimed at attracting much-needed investment. They have adopted two basic strategies:

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<th>Privatization</th>
<th>Tariff Reform</th>
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<td>• Sale of all Generation and Distribution Assets to Private Investors</td>
<td>• Move away from massive, unsustainable state subsidies and towards cost-reflective rates paid by most consumers</td>
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<td>• Competition between Independent Power Producers</td>
<td>• Critical for attracting investment, as investors will not enter into long-term contracts unless their Nigerian counter-parties have sustainable cash-flows</td>
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<td>• Separate, privately owned Distribution Companies spread throughout the Country with local monopolies</td>
<td>• Aimed at curbing excessive political influence and incentivizing improved efficiency</td>
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The Electric Power Sector Reform Act of 2005 (the “2005 Reform Act”) provided the legal and regulatory framework for the Nigerian electricity sector, including the framework for transforming the electricity industry into a market-based industry. The 2005 Reform Act called for the establishment of a number of new entities, many of which are designed to be owned and operated by private investors:

- **The Bulk Trader**
  - The establishment of the Nigerian Bulk Energy Trading Company PLC ("NBET")

- **GenCos**
  - The creation of a number of new generating companies to which existing generation assets owned by the state can be transferred

- **Separate Transmission, System Operator, and Market Operator**
  - The creation of a separate transmission company and related system operator and market operator entities

- **DisCos**
  - The privatization of a number of distribution and supply companies
The 2005 Reform Act envisions a **transitional stage of sector reform** during which the portfolio of PPAs held by the Power Holding Company of Nigeria (the successor to the vertically integrated parastatal utility) will be transferred to the **Bulk Trader (NBET)**, which will also competitively procure new generation on behalf of the distribution companies. Nigeria is currently in this transitional stage and Hunton & Williams is advising the Bulk Trader. At a later stage of sector reform, when the **DisCos** are creditworthy, the Bulk Trader will novate the PPAs to the new DisCos. At that stage of sector reform, the wholesale market will operate as a bilateral market with a balancing mechanism.

On February 21, 2013, the Bureau of Public Enterprises, on behalf of the Federal Government of Nigeria, and the 14 Preferred Bidders for 15 of the 17 Companies created out of the Power Holding Company of Nigeria executed Share Sale Agreements and Concession Agreements. On the same date, Industry Agreements were executed between the Successor Companies and the relevant counter parties including the Gas Aggregation Company of Nigeria, Nigerian Gas Company, NBET and the TCN. Agreements signed were:

- Share Sale Agreements (Distribution Companies and Thermal Generation Companies)
- Concession Agreements (Hydro Generation Companies)
- Vesting Contracts
- Gas Supply and Aggregation Agreements
- Gas Transportation Agreements
- Transmission Use of Network System Agreements
- Grid Connection Agreements
- Ancillary Services Agreements
The Government of Nigeria has acknowledged that end-user electricity tariffs in Nigeria are currently set at rates that do not reflect the cost of supplying electricity to consumers and that commercial losses (the failure of distribution companies to bill and collect the tariffs they are permitted to charge plus theft) are too high. It will take time to implement long-lasting solutions to these problems by increasing tariffs to cost-reflective rates and taking the steps necessary to foster an environment where consumers (and distribution companies) consistently pay for the electricity they consume. In the meantime, FGN has determined to address these problems over the short term by:

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<th>MYTO</th>
<th>Credit Enhancements</th>
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<td>• creating a subsidy to make up shortfalls between the currently approved customer tariffs and cost reflective tariffs (this subsidy will be phased out as the approved tariffs are increased under the Multi-Year Tariff Order (“MYTO”) mechanism to cost-reflective levels)</td>
<td>• providing credit enhancements, with the support of international financial institutions, to backstop payments due from NBET to IPPs under the PPAs.</td>
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Investment Risk in the Maghreb
How Can Legal Reforms Mitigate Investor Risk?

North Africa Regional Interconnection
Reinforcement Feasibility Study
Comité Maghrébin de l’Electricité (COMELEC)

Presentation to
Energy Bar Association
International Energy & Transactions Committee Brown Bag

By
Project Finance Advisors, LLC
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Bethesda, MD 20814
+1 301 656 5271

May 28, 2013
PFA’s Transactional Experience

• PFA is a founding member of OPIC’s EDN Loan Originator Program
• PFA is shortlisted advisor to DOE Title VII Program
• Worked extensively with transmission utilities in Central America and Russia
• Some of the projects completed include
  ➢ Empresa de Transmisión Eléctrica, S.A. (ETESA) (the national electricity transmission company of Panama)
  ➢ Office National de l’Electricité (ONE), under a USTDA cost-share arrangement
  ➢ Empresa Nacional de Energía Eléctrica (ENEE) (the Honduran power generation, transmission and distribution company)

www.pfadvisors.com
**Background**

- To cost justify reinforcement of and interconnection of the national electric grids of Algeria, Morocco and Tunisia ("COMELEC")
  - Our feasibility study was financed by a grant from the United States Trade and Development Agency (USTDA)
- To develop public policy recommendation for the Maghreb electricity market and needed instructions
**Legal Challenges**

- Existing interconnections between the COMELEC nations are few and operated only informally, without agreements specifying the parties’ rights and responsibilities.

- There are no formal power sales between the COMELEC nations or parties within these nations.
  - Inadvertent imbalances at existing interconnections are rectified in-kind.

- There are no transmission agreements and no agreements for mutual reinforcement in the event of system difficulties.
**Needed Legal Reform**

- As of 2004, the energy market needed reform and restructure
- In Morocco and Tunisia, electric service is provided by traditional, state-owned, vertically integrated utilities providing bundled transmission, distribution and generation service under one corporate structure
  - Some unbundling for distribution and auto-generation has occurred in Morocco since study
- In Algeria, a new Electricity Law embraced a statutory scheme for the implementation of an open access framework, the creation of an Independent System Operator and a power exchange
Needed Legal Reform (cont’d)

• However, to accomplish reliable power exchange, the legal regimes in each country need to be revised to allow for the enforcement of power purchase contracts
  ➢ Creditworthiness of sovereign backed PPAs are traditional concern of financiers

• The cost for new generation assets would be substantially reduced through the use of bilateral power exchange or alternatively the use of a regional power pool
  ➢ Two types of power flow studied - west to Europe and bilaterally from Algeria to Europe and Tunisia
Needed Legal Reform (cont’d)

• Currently STEG (Tunisia) and ONE (Morocco) have unilateral jurisdiction to enter into power purchase contracts above ‘auto generation’ thresholds

• PPA’s should be encouraged with Algeria and other COMELEC member states on a cost based pricing scheme where economic profits are clearly understood and openly negotiated
Benefits of Cross Border Facilitation

• Energy exchanges will result in greater reliability and security for the region fostering economic development beyond national borders

• An international contract regime must be established where importers can rely on power and avoid building extra generation

• If reliable, a bilateral exchange regime could double the benefits of these modest recommendations in the form of avoided generation costs
  ➢ Algeria’s lower price of fuel should benefit other countries
A Snapshot of the Results

- Westerly flow cases are better in the aggregate for all three countries
- Bilateral exchanges originating from Algeria are still profitable but less so because of tradeoffs between generation plant types, heat rates and fuel costs between Tunisia and Algeria
- Morocco always benefits if it can charge a tariff for wheeled power to Europe
  ➢ more benefit if Morocco chooses to avoid building new generation and reliably import less expensive energy from Spain or Algeria
Economic Benefits – Orders of Magnitude

- **Planned Generation Investment**
  - ONE – $1.39 Billion
  - STEG – $1.004 Billion
  - Sonelgaz – $1.53 Billion
  $3.94 billion in generation investment

- **Planned Transmission**
  - ONE – $.966 Billion
  - STEG – $.348 Billion
  - Sonelgaz – $.227 Billion
  $1.541 billion in generation investment

- So, total spending is $5.48 billion with transmission about 29% of that amount.
Orders of Magnitude

Expected Generation Costs for COMELEC
($ millions)

2003 2004 2005 2006 2007 2008 2009 2010

ONE  STEG  SONELGAZ
Economic Benefits (cont’d)

- Almost all of Morocco’s energy is produced from burning coal and the cost of conventional turbines to burn this fuel is very expensive.
- Algeria and Tunisia benefit from the use of natural gas and more efficient combined cycle gas turbines.
- Interconnection is always profitable – issue is how fast will payback occur.
- It made the most sense for Morocco to substitute energy it currently imports from Spain with less expensive electricity from Algeria.
Mitigating Risks in Power Sector Investments in Emerging Markets (with a focus on Africa)

Energy Bar Association - Washington DC

Alain Ebobisse
Chief Investment Officer, IFC Global Infrastructure
Global Head, IFC InfraVentures

May 29, 2013
**IFC is a Member of the World Bank Group**

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<th><strong>IBRD</strong></th>
<th><strong>IDA</strong></th>
<th><strong>IFC</strong></th>
<th><strong>MIGA</strong></th>
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<td>International Bank for Reconstruction and Development</td>
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<td>International Finance Corporation</td>
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<th><strong>Role</strong></th>
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<th><strong>To promote private sector development</strong></th>
<th><strong>To reduce political investment risk</strong></th>
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<th><strong>Clients</strong></th>
<th>Governments of member countries with per capita income between $1,025 and $6,055</th>
<th>Governments of poorest countries with per capita income of less than $1,025</th>
<th>Private companies in member countries</th>
<th>Foreign investors in member countries</th>
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| **Products** | • Technical Assistance  
• Loans  
• Policy Advice | • Technical Assistance  
• Interest Free Loans  
• Policy Advice | • Equity/Loans  
• Risk Management  
• Advisory Services | • Political Risk Insurance |
|-------------|------------------------------------------------|------------------------------------------------|------------------------|---------------------|

**Shared Mission:** To Promote Economic Development and Reduce Poverty
IFC Financial Position

IFC FY12 Highlights

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<th>Description</th>
<th>Details</th>
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<td>Credit Rating (S&amp;P, Moody’s)</td>
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<tr>
<td>Portfolio (own account)</td>
<td>$45.3 billion</td>
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<td>FY12 Committed</td>
<td>$15.5 billion</td>
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<td>FY12 Mobilized</td>
<td>$4.9 billion</td>
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<td># of companies</td>
<td>&gt;1,700</td>
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<tr>
<td># of countries</td>
<td>103</td>
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IFC FY12 Commitments of $15.5 billion by region

- Latin America & the Caribbean: 10.5
- Europe and Central Asia: 10.4
- Sub-Saharan Africa: 7.2
- East Asia and the Pacific: 6.5
- Middle East and North Africa: 5.6
- South Asia: 4.7
- Global: 0.4

IFC FY12 Portfolio of $45.3 billion by region

- Latin America & the Caribbean: 10.5
- Europe and Central Asia: 10.4
- Sub-Saharan Africa: 7.2
- East Asia and the Pacific: 6.5
- Middle East and North Africa: 5.6
- South Asia: 4.7
- Global: 0.4
Since 1967, IFC’s Power Group Has Committed $8.6 billion to over 250 Projects in Emerging Markets

Cumulative Commitments since 1967

- Generation - Thermal: 36%
- Generation - Renewable: 33%
- Distribution: 9%
- Transmission: 4%
- RE through PE Funds and FIs: 9%
- Other non-RE: 9%

Total Commitments = US$ 8.6 billion

Outstanding Portfolio, June 30 2012

- Generation - Thermal: 27%
- Generation - Renewable: 43%
- Distribution: 7%
- Transmission: 2%
- RE through PE Funds and FIs: 15%
- Other non-RE: 6%

Total Portfolio = US$ 4.9 billion
IFC’s Power Group is Active in All Regions...

Cumulative Commitments since 1967

- Sub-Saharan Africa: 7%
- World: 2%
- East Asia and the Pacific: 18%
- Latin America and the Caribbean: 26%
- Middle East and North Africa: 10%
- South Asia: 19%

Total Commitments = US$ 8.6 billion

Outstanding Portfolio, June 30 2012

- Sub-Saharan Africa: 8%
- World: 2%
- East Asia and the Pacific: 20%
- Latin America and the Caribbean: 19%
- Middle East and North Africa: 9%
- South Asia: 20%
- Europe and Central Asia: 22%
- Sub-Saharan Africa: 8%

Total Portfolio = US$ 4.9 billion
Our Power Investments Span over 60 Countries

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<tr>
<th>L. America &amp; Caribbean</th>
<th># of investments</th>
<th>MENA &amp; South Europe</th>
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Cameroon’s Power Sector Example: Kribi 216 MW Gas-fired Power Plant
Cameroon: Electricity Sector

Characterized by:

- Electrification rates of 48%, almost double the SSA average of 25%
- Cost reflective tariffs;
- Privatized & credit-worthy utility;
- Regulator in place;
- Least cost expansion investment plan to support sector planning
- Political will to support private sector participation

Yet:

- Demand continues to outstrip supply --> domestic growth 5-6% p.a.
- Power shortages are estimated to cost the economy 2% of GDP growth / 5% of lost enterprise revenues
- Some uncertainty in the sector related to the introduction of a new electricity law

Increasing power generation capacity, efficiency & sustainability is at the heart of the Government of Cameroon’s Vision 2035 to transform Cameroon into an industrialized emerging economy
Cameroon: Long History of WBG Engagement

12 + yr engagement by IFC

- 1997: Advisory mandate signed with IFC
- 1998: Electricity sector law drafted, regulator set up
- 2001: AES acquired 56% of Sonel
- 2006: IFC lends DFI capex financing for AES Sonel investment plan
- 2011: Financial close for Cameroon’s 1st IPP, Dibamba
- 2011/2012: Financial close for Kribi

WB / IFC energy sector program:

- multi-prong engagement in electricity sector across both public & private sector
- policy dialogue as well as what is needed for private sector participation
- effective support on sector, institutional, regulatory and governance reforms
- supporting RoC in broad-based sector consultations on new electricity law

As a result of long sector reforms, Cameroon’s power sector has attracted more private investment than most Sub-Saharan Africa countries.
Kribi Power Development Corporation (KPDC)

- Kribi Project: 216MW gas-fired power plant & 100km transmission line
- Technology:
  - Wartsila engines: 13 x 18V50DF- gas reciprocating engines of 16.6MW gross capacity each
  - Siemens-KEC JV: 100km 225kV double circuit transmission line; step-up 11/225kV sub-station
- Fuel type: gas to be provided from off-shore Sanaga Gas field
- Location: near coastal city of Kribi, in the South Province of Cameroon
- Target COD: early 2013, in time for dry season
- Off-taker: AES Sonel, integrated power utility for Cameroon
- KPDC is owned by The AES Corporation (56%); Republic of Cameroon (44%)

Public Private Partnership
Kribi confirmed as the next least cost investment in the power sector

The Kribi Project will:
- significantly expand the country’s energy generation capacity
- help bridge the period before further hydropower developments
- provides much needed low-carbon thermal complement to hydro-based system
- catalyze the first commercial development of Cameroon’s gas reserves
- benefit 163,000 households (equivalent)

As second IPP in Cameroon & one of few IPPs in Africa, the Project:
- serves to demonstrate a replicable IPP model
- successful example of a Public Private Partnership in the power sector

Broad and diverse lender group
- Prospective DFI lenders include IFC, African Development Bank (AfDB), European Development Bank (EIB), FMO, Proparco, BDEAC
- Standard Chartered Bank led local bank syndicate backed by WB partial risk guarantee
- First private long-term local currency project finance for an infrastructure project
**KPDC: Contractual Structure**

- **EPC Procurement:** Fixed price EPCs Wärtsilä & Siemens T&D /KEC International (KEC) - selected on a competitive basis

- **Power Purchase Agreement / Connection Installation Agreement:** 20-year off-take with AES-Sonel for 100% of the power;

- **Licenses:** 20-year sales & generation licenses issued by Minister of Energy upon recommendation of ARSEL;

- **Gas Supply Agreement:** With SNH (National Petroleum Agency), with Perenco as the upstream operator;

- **Government Commitment Agreement:** Agreement through which RoC commits its support to the Project
Kribi: Key Project Risks & Mitigants

Sector-related: new electricity law, capacity
- Government commitment to reform
- WBG active sector dialogue; WB partial risk guarantee (PRG)
- Broad DFI support through financing of bankable projects

Timely construction of power plant, transmission line, gas supply facilities
- Choice of proven technology & relatively standard design
- Competitively bid fixed price contracts with reputable companies
- Contractual alignment of construction schedules
- Appropriately sized penalties for contractor under-performance

Balanced contractual structure
- In line with good industry practice
- RoC had international advisors for project structuring & negotiations
- Regulator reviewed & provides its non-objection on contracts

Off-taker credit-worthiness
- One of the strongest credits among power companies in SSA;
- AES Sonel is profitable with EBITDA of US$100M in 2010
- End user tariffs are cost recovery with respect to costs of IPPs

There are risks but with appropriate allocation among stakeholders they can be adequately mitigated
Role & Risk Allocation for Project Sponsor: AES Corporation

- Shareholder / Equity contribution
  - Strong financial capacity

- Project Development
  - Experienced Sponsor with track record in emerging markets power

- Arranging financial close
  - Experience in structuring bankable project documents for project finance lending
  - Global relationships with DFI & commercial lenders

- Over-seeing construction & operation of the Project
  - Technical capability to develop the Project
  - Active in Cameroon’s electricity sector since 2001:
    - 56% owner of AES Sonel (national integrated utility) - concession awarded in 2001
    - 56% owner of Dibamba Power Plant (88MW HFO plant) - COD achieved 2009
  - Able to leverage existing in-country platform & expertise of local staff working at AES affiliate companies
Role & Risk Allocation for Government: Republic of Cameroon

**Role**
- Shareholder /Equity contribution
- Back-stops bulk of payments in connection with early termination of power purchase agreement (PPA) or gas supply agreement (GSA)
- Maturity enhancement of local tranche
- Guarantee support for bridge loans

**Key Risks**
- Sizable contingent obligations vis-à-vis the Project
  - Obligations not unusual given early stage of development of country’s energy sector
  - Most RoC undertakings are covering risks which are within RoC’s control
  - ROC assisted by international advisors
  - Commitment to sustainable sector reform
- Non-performance of private participant
  - Selection of strong & experienced operator
  - Performance based incentives / penalties
  - Close monitoring by regulator
  - Striking right balance between constructive engagement and negative interference
Key Success Factors for Public-Private Partnerships

- Political commitment to implement PPPs & government support for its obligations
- Meets a need competitively and efficiently
- Adequate tariffs, good adjustments, payment discipline
- Regulatory framework independent & transparent
- Contractual arrangements balanced & fair
- Good legal documentation: this is contract-based financing
- An appropriate financial structure
- Strong and creditworthy participants
- Government and Private participants advised by experienced firms
THANK YOU FOR YOUR ATTENTION