Sub-Saharan Africa Benefits from the first IDA Guarantee for Azito

IDA recently provided its first Partial Risk Guarantee Operation for the US$223 million Azito Power Project in the Republic of Cote d'Ivoire (ROI) under the Pilot Program approved by the IDA Board in 1997. The Project, which consists of a 300MW gas-fired power station and a 225 KW transmission line, has high priority in the economic investment and development strategy of the country and will address the critical shortage of power supply anticipated for 1999. Azito, which reached Financial Closure in January 1999, is also expected to have electricity exporting capacity to neighboring countries such as Ghana, Togo and Benin. The project is located 10 km from Abidjan city center and is being undertaken in two phases - Phase I already been completed in March 1999 and Phase II scheduled for completion by June 1999.

The Government of Cote d'Ivoire (GOCI) provides natural gas to the project at no cost. The gas comes from offshore gas fields in Cote d'Ivoire operated by Apache and UMIC, who are also responsible for the financing and construction of gas pipelines from Vridi central gas terminal to the Project site.

The Power Sector

Power in Cote d’Ivoire is produced by a combination of hydro and thermal facilities and controlled under the auspices of the state utility Compagnie Ivoirienne d’Electricite (CIE). The total capacity of the system is at present about 1050 MW. The hydroelectric system is composed of several dams of small to medium size (5 to 210 MW). The annual production is highly dependent on rainfall level. Over the last 15 years, and with the exception of 1983 (severe drought), the yearly production varied between 870 and 1900 GWh, with an average of 1,300 GWh. The years 1995, 1996, and 1997 have been favorable (1,700 to 1,900 GWh). Preliminary 1998 results are predicted to be approximately 1,200 GWh while 1999 is expected to be around 1,300 GWh. The Azito Power project is the second IPP in Cote d’Ivoire following CIPREL, which was developed in 1994.

CIE also produces thermal power in Vridi, in the outskirts of Abidjan. This plant has an installed capacity of about 236 MW, with four gas turbines (86 MW each). Installed in 1984, the gas turbines are still in good condition and should operate for another ten years. It is expected that they will be run in a semi-base load (300 to 500 GWh p.a.). CIPREL’s total capacity of 210 MW is composed of three gas turbines of 33 MW each (commissioned in April 1995) and another gas turbine of 110 MW (commissioned in April 1997). The Take or Pay contract of CIPREL amounted to 670 GWh before the 1997 expansion, and amounts now to 1,410 GWh p.a., with an incentive to go up to 1,460 GWh. Since its inception, Ciprel has been dispatched at or above its Take or Pay level.

The key to mobilizing commercial banks has been the guarantee provided by the International Development Association (IDA)
Project Background

The Azito Power project is the second IPP in Cote d’Ivoire following CIPREI, which was developed in 1994. The Azito project was awarded to ABB in June 1997 following open bidding among six pre-qualified bidders. A special purpose company, Cinergy, S.A. was incorporated in ROCI in 1998 to own and operate the Project. The Sponsors described below are equity investors in the company:

- ABB Energy Ventures, B.V. –ABB-EV is a subsidiary of Asea Brown Boveri Limited (ABB)
- Electricité de France International – EDFI is a wholly owned subsidiary of Electricite de France (EDF), the French national electrical utility
- Industrial Promotion Services (ROCI), S.A. (IPS-CA), a unit of the Aga Khan Fund for Economic Development

ABB EV and EDFI will hold 74% of the Company, through Cinergy Holding B.V. (CHC), a company organized under the laws of Netherlands, and IPS International will hold the remaining 26%.

Financing Structure

The total project cost was US$204 million for the Power Plant and the Transmission components combined. The Project was financed through a combination of equity, subordinated debt, and senior debt in the ratio of 20:10:70. The equity component consists of approximately US$44 million of shareholders contribution. The shareholders have also committed to make available up to US$17 million as contingency finance for the project. The subordinated debt of US$20 million which will consist of US$10 million of convertible debt and US$10 million of fixed debt will be funded jointly by IFC and CDC. The senior debt, which will amortize over a 13 year period following construction, consists of IFC A and B loans; a Club loan from several bilateral and multilateral institutions led by the Commonwealth Development Corporation; and a commercial loan tranche supported by an IDA Guarantee, arranged by Societe Generale.

IFC investment in the Project consists of an IFC A loan of US$ 32 million, an IFC B loan of US$ 30 million and a convertible debt Facility of around US$ 9 million. To supplement the IFC financing a US$ 30 million IDA Guarantee was utilized to ensure the project was fully funded. The IDA Guarantee was considered critical to the completion of the financing for the Project both by ABB and the lenders, including IFC. IDA was brought in to the Project as a ‘lender of last resort’ when the Government of Cote d’Ivoire extended the scope of the Project to include the transmission system and asked the Sponsors to finance the incremental cost. The Sponsors explored all alternative sources of finance, including the possibility of increasing the IFC B loan. However, the commercial debt market for the country was limited to only modest amounts of short term finance and there was finite lender appetite for IFC B loans, particularly under the existing unfavourable emerging market situation. The additional financing, therefore, required IDA’s credit enhancement which was a condition of Societe Generale’s underwriting commitment for the IFC B loan.

Contractual Framework

The security structure for the project consists of a set of contractual agreements which defines the rights and obligations of the major participants in the project. The Project related risks, including the natural force majeure risks will be borne by the sponsors and the lenders. Sovereign or political risks are assumed by the Government of Cote d’Ivoire (GOCI) 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 Concession Agreement (CA) between the GOCI and Cinergy S.A. was signed on September 5, 1997 which was subsequently amended on July 5, 1998. Under the CA the Company is granted with the exclusive right to develop the plant and is required at the end of the term of the CA to transfer the plant to the GOCI. Under the CA the Company is to supply the transmission facilities connecting the plant to the Azito sub-station located on the site periphery. The State is also has full responsibility for supplying gas on which the project operates. The gas will be made available by the State to the Company free of charge.
- The CCEM (‘Contract Clef en Main’ – turnkey contract) between the GOCI and the Company was signed on July 15, 1998. Under the CCEM, the Company agrees to finance, design, construct, supply, install and commission an energy evacuation system (‘ESS’) required for the delivery of electric power generated by the Azito power plant to the national electric power grid.
- The Engineer Procurement and Construction Contracts (EPC) between the GOCI and certain suppliers and contractors (both of which are members of the ABB group for all contracts): (i) EPC contracts for the Azito power plant (the “Lot 1 Contracts”), corresponding to the work under the CA and (ii) EPC contracts for the related transmission system (the “Lot 2 Contracts”), corresponding to work under the CCEM.
- The Operations and Maintenance Agreement (O&M) between Cinergy and Azito O&M S.A. (the “Operator” owned 50% each by EDFI and ABB EV)). The Agreement is intended to be in the nature of a “fixed
**IDA Partial Risk Guaranteed Loan**

The US$30.2 million commercial loan supported by the IDA Partial Risk Guarantee was syndicated on a pro rata basis with the IFC B Loan. The IDA PRG seeks to guarantee commercial lenders against defaults in debt service on a non-accelerable basis resulting from State default on its undertakings under the CA and the CCEM. All project obligations of the State would be covered, subject to a specific list of exclusions.

Exclusions would include the Company defaults, natural and external force majeure. For example, if termination were the result of the Company default, IDA would not cover the related termination payments. In the event of a dispute as to whether the State has breached the relevant agreement, IDA will pay under the guarantee after arbitration under the relevant agreement is concluded. The IDA Guarantee program requires a counter-indemnity from the host country Government.

**Benefits of the Guarantee**

The benefits of the IDA Guarantee reflect the partnership with the private sector for the benefit of Governments, Project Sponsors, and Lenders. Specifically, the Azito Guarantee provides:

- Help to mobilize funds for the completion of the Project.
- Long term finance substantially beyond prevailing market terms for the country.
- Catalyzed co-financing of over US$200 million whilst minimizing IDA support to only 15% of total project financing.
- Benchmarking of legal, regulatory and financial structures for future projects in the region.

**Bank Group Role in Cote d’Ivoire’s Private Power Initiative**

The Bank Group has been involved in the energy sector in ROCI since the first Power Loan in 1980. A 1982 Petroleum Exploration Project confirmed ROCI’s hydrocarbon potential, and indicated that incentives were needed to attract private interest in hydrocarbon exploration and development. Bank support for energy sector reform goes back to early 1986 when, as part of SAL III, the Government adopted a first set of measures aimed at reforming energy policies. The principal lesson learned from implementation for the Energy Sector Adjustment Loan is needed to rely on the private sector for development of Cote d’Ivoire’s energy resources through a suitable incentive framework. The Azito Project incorporates this lesson, as well as the lessons learned from implementation of CIPREL. Altogether, this lesson drew attention to the weaknesses in the sector’s legal and regulatory framework, the dispersion and overlapping roles of sector institutions and measures needed to assure the financial equilibrium of the sector. These issues are being addressed through the ongoing Private Sector Energy Project.

**Bank Group Coordination**

The IFC and IDA jointly played a key role in the financing of the Project and were able to leverage their respective institutional strengths effectively for the benefit of the client country. The Bank’s Partial Risk Guarantee, for around US$30 million, was critical to the completion of the financing for the Project. It helped to catalyze US$60 million of commercial bank financing lead managed by Societe Generale of France. IFC, on its part, provided an ‘A’ loan of US$30 million, a ‘B’ loan of around US$30 million and a US$8 million tranche of subordinate debt. The balance of the debt financing of US$48 million was provided by a club led by the Commonwealth Development Corporation.
IFC and IDA collaborated very closely on this transaction in terms of project appraisal, sector issues as well as syndication strategy which helped the Project achieve financial closure on an accelerated time scale to meet both the government’s and the sponsor’s aggressive Project schedule. This successful IDA/IFC collaboration is a follow up to the support provided to CIPREL, the first private sector power initiative of the country.

Sources of Funds

- IFC ‘A’ $32mm
- IFC ‘B’ $30mm
- CDC Syndicate $48mm
- Equity $45mm
- IDA Guarantee $30 mm
- Sub. Debt $20mm
- Internal Cash $18mm
- Development $19mm
- EPC-Plant $32 mm
- Contingency $8mm
- Other $17mm
- EPC-Transmission $110mm

Uses of Funds

- DSRA $15mm
- IDC $21mm
- Contingency $8mm
- Other $17mm
- Development $19mm
- EPC-Transmission $32 mm
- EPC-Plant $110mm

For more information on the Azito Power Project please contact:

Farida Mazhar, Senior Financial Officer, PFG
Tel: (202) 473-1235
Fax: (202) 477-0218