MIGA Multilateral Investment Guarantee Agency WORLD BANK GROUP

MIGABRIEF

AFRICA ENERGY

INSURING INVESTMENTS ▪ ENSURING OPPORTUNITIES

MIGA: A Leader in Mobilizing Investment in Sub-Saharan Africa's Energy Sector

Sub-Saharan Africa is increasingly becoming a more attractive and hospitable destination for investors, with many countries registering historically high growth and attracting significant levels of foreign direct investment. However, access to energy remains an obstacle to sustainable growth in countries throughout the region.

It is estimated that at least $40 billion a year is required to meet future demand in the African power sector, compared with current yearly investment of less than one-quarter of this amount. On the demand side, Africa's population is growing quickly, compounding the energy shortage problems even further. On the supply side, measures need to be put in place to ensure the sector works well and is financially viable.

MIGA Can Help Investors and Lenders Manage Sector Risk

As the world looks to the private sector to take the lead in delivering infrastructure needs throughout Africa, investors and lenders are often wary of entering these relatively untested markets. The risks that concern investors often relate to low confidence in the judiciary system, weak or untested regulatory frameworks, poor governance, corruption, lack of enforcement of contracts, political instability, and macroeconomic instability. The risks for investors in the power sector across emerging markets can be particularly acute. Research conducted by MIGA in 2013 found that the risk of government breach of contract in the power sector exceeds even that of the natural resources sector.

In general, utility projects and public service projects have proved to be fertile ground for disputes. Tariff adjustments have resulted in a number of power-related breach of contract pre-claims events. This appears to be the most contentious contracting issue in power projects, despite the flexibility for price changes being clearly embedded in many contracts.

MIGA guarantees are well-suited to reduce the risks associated with investments in the power sector and can play a pivotal role in helping companies attract funds for large, capital-intensive investments. MIGA's coverage can be used on a standalone basis or in conjunction with the World Bank's partial risk guarantees, which offer additional benefits. Partial risk guarantees include conditions that promote stable regulatory and contractual frameworks, while helping investors obtain capital market financing on better terms and securing a sovereign counter-guarantee.

Increasingly, MIGA guarantees are becoming important as a credit enhancement tool that can ensure a more stable, long-term partnership for energy providers and off takers—as energy projects inevitably involve an insurable commitment from a sovereign or sub-sovereign.

MIGA insures foreign direct investments against losses related to:

- Currency inconvertibility and transfer restrictions
- Expropriation
- War, civil disturbance, terrorism, and sabotage
- Breach of contract
- Non-honoring of sovereign financial obligations

MIGA provides dispute resolution services for guaranteed investments to prevent disruptions to developmentally beneficial projects.

Despite a relatively high prevalence of pre-claims situations compared to other sectors, MIGA has only two power claims paid in over 25 years—a testament to our demonstrated mediation abilities.

Highlights of MIGA's Experience in the Energy Sector in Sub-Saharan Africa

MIGA's active portfolio includes energy sector projects in Angola, Cameroon, Côte d'Ivoire, Ghana, Kenya, Mozambique, Senegal, and Uganda.

Meeting the Burgeoning Demand for Power in Côte d'Ivoire

In Côte d'Ivoire, MIGA is helping to mobilize private finance for Côte d'Ivoire's vast reconstruction needs with its support for the expansion of the Azito Thermal Power Plant, which will generate 50 percent more power without using any additional gas.

The project involves converting the existing simple-cycle Azito Plant to combined-cycle, increasing total capacity from 290 to approximately 430 megawatts while avoiding 225,000 tons of CO2 emissions per year. Upon completion, the facility will become one of the largest independent power generators in sub-Saharan Africa.

The International Finance Corporation (IFC), the World Bank Group's private sector lending arm, is also supporting Azito's expansion. IFC arranged a $350 million debt package, providing $125 million from its own account and mobilizing the balance from five European development finance institutions and the West African Development Bank. MIGA is providing breach of contract cover to the equity investor and lead sponsor, Globeleq. This transaction was recognized as "African Power Deal of the Year 2012" by leading industry magazine *Project Finance International*.

Thika Power Plant in Kenya

MIGA's support to the Thika power plant in Kenya is an example of how credit enhancement can work in practice. The project is particularly important as it represents the first time an international commercial bank has provided long-term financing to a power scheme in the country.

While the Kenyan power sector has gone through relatively successful reform since the late 1990s, with a number of long-term power purchase agreements (PPAs) supported by international investors, private-sector investment and long-term commercial bank financing has remained difficult—partly due to the perceived country risk after the civil disturbances following the 2007 election.

The Thika project is one of three thermal IPPs awarded through an international competitive bidding process. It consists of the development, design, construction, and operation of an 87MW thermal power plant about 35 kilometers from Nairobi.

Thika's commercial lender is Absa Capital from South Africa, which augments financing from the African Development Bank and the IFC. This breakthrough was made possible largely due to an innovative structure that has three key elements to the payment security arrangement: letters of credit backstopped by World Bank partial risk guarantees to support short-term liquidity; a power purchase agreement with KPLC; and a letter of support from the Kenyan government with termination payment clauses guaranteed by MIGA.

The new structure used in this project was particularly interesting because it substantially reduced (and deferred) the contingent liabilities for the host government, while making the plant viable from the perspective of international commercial banks.

The Thika power project has also benefited from the synergies of three World Bank Group instruments: an IFC loan, a World Bank partial risk guarantee, and a MIGA guarantee. The World Bank Group institutions worked together closely to coordinate and share due diligence, maximize efficiency, and reduce the burden on the sponsor and other lenders.

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