WORLD BANK GROUP

World Bank Group Delivers **Innovative Financial Solution** to Address Kenya's Power Shortage

Overview

In Kenya, where only 25 percent of the population has access to electricity, the World Bank Group is supporting the government's Least Cost Power Development Plan, which calls for an increase in the number of independent power producers (IPPs) and a more diversified energy mix. The program benefits from a combination of guarantees from the International Development Association (IDA), financing from the International Finance Corporation (IFC), and guarantees from the Multilateral Investment Guarantee Agency (MIGA). These instruments are playing an important role in increasing investor confidence and mobilizing the long-term financing needed to construct power plants.

Mobilizing financing in limited fiscal space

The government's plan called for a series of thermal and renewable IPPs, to replace the expensive, diesel-fired rental power plants currently in use. Subsequent IPPs will use only low-carbon resources such as geothermal and wind, and the thermal plants will transition to peak-load operation. The challenge for the government was attracting investors and lenders to deliver the program in the absence of sovereign guarantees, which were not possible under an agreed-on IMF program.

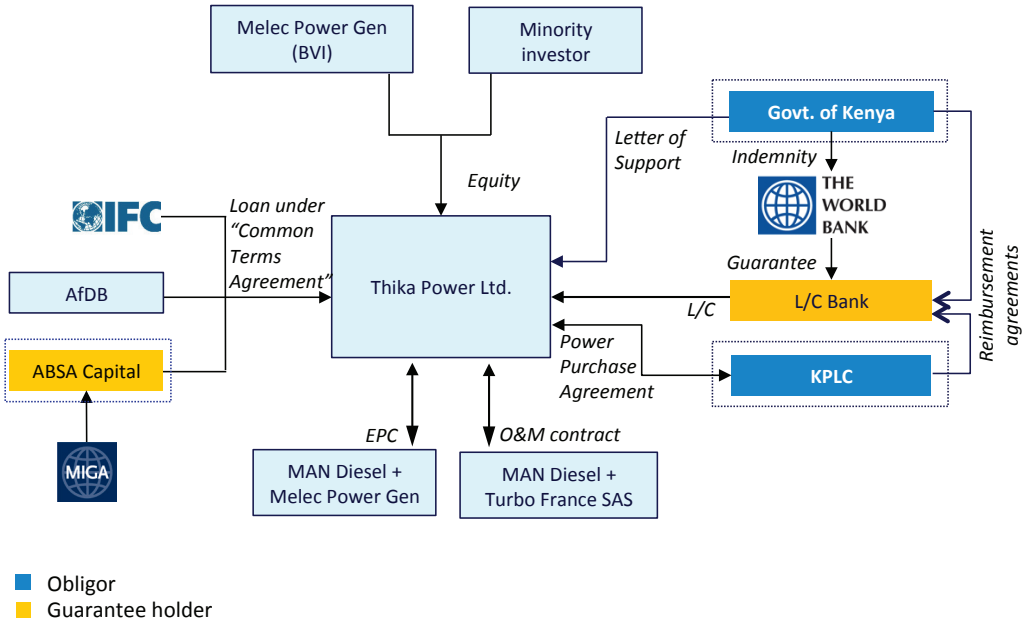
The World Bank Group stepped in with an innovative risk-mitigation package consisting of Standby Letters of Credit backed by IDA guarantees for ongoing power purchase payments and MIGA guarantees covering termination payments for commercial lenders and private equity. The package is supporting four IPPs that will provide new power generation capacity of 286 megawatts.

The Thika Power Project

The Thika Power Plant, an 87 megawatt heavy-fuel oil plant was brought online in August 2013. The total project cost was $146 million financed with a debt to equity ratio of 75:25. The $110 million debt portion was provided at a tenor of 15 years, in three equal tranches of $36.7 million by IFC (A Loan), the African Development Bank, and ABSA Capital of South Africa, respectively. The balance of $36 million was financed through equity contributions by the sponsors.

It represented many milestones for Kenya and the World Bank Group.

- It was the first time that an international commercial bank provided long-term financing to a power project in Kenya on a limited recourse basis. Previous power projects have been financed by international development finance institutions.
- The IDA guarantee structure helped to conserve scarce IDA resources through the provision of minimal amounts of security to lenders and investors, while making the IPP projects bankable.
- The IDA guarantee, IFC long-term financing, and MIGA termination coverage have optimized the use of the World Bank Group instruments, setting a standard for mobilizing investment that can be replicated to address emerging-market infrastructure deficits.



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