



PUBLIC-PRIVATE PARTNERSHIPS BRIEFS

Kenya: Thika Power



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 IDA, financing from IFC, and guarantees from MIGA. These instruments are playing an important role in increasing investor confidence and mobilizing the long-term financing needed to construct power plants. The Thika power plant was the first plant to be commissioned under the plan.

This series showcases how the World Bank Group supports the development and implementation of public-private partnerships. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

Kenya has historically relied on hydropower for the bulk of its power generation. But during times of drought, when hydropower drops in supply, Kenya has had to turn to costly emergency diesel-fired plants. To avoid this, the government wanted to develop a series of thermal and renewable IPPs to replace the expensive, diesel-fired rental power plants currently in use. It is envisioned that 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 International Monetary Fund program.

Project Description

The first IPP to be implemented under the program was the Thika Power Project. The Thika project is a result of the Kenyan government's 2009 tender of three power plants, to encourage private sector participation in electricity supply. The project consists of the construction (on a build, own, and operate basis) of an 87 MW heavy fuel oil plant located at Thika, approximately 35 kilometers from Nairobi.

Melec PowerGen Inc. (an affiliate of the Matelec Group of Companies from Lebanon) was awarded the contract following a competitive bidding process. The total project cost is estimated at \$153 million. Thika has entered into a 20-year power purchase agreement with Kenya Power, to which it will sell all its output. Heavy fuel oil plants offer a viable and lower cost alternative than diesel-fired plants to address the short-term energy deficit in Kenya, given the

relatively long development period of other sources like geothermal energy and coal. Over time, as more renewable energy plants come on line, the heavy fuel plants are expected to transition from base to peak-load operation.

World Bank Group Role

The project benefited from:

- MIGA-issued guarantees of up to \$61.5 million covering ABSA Capital of South Africa's non-shareholder loan (including estimated swap exposure) to Thika Power Ltd. in Kenya. The guarantees will have a term of up to 15 years, providing coverage against the risk of breach of contract.
- A further guarantee through an IDA partial risk guarantee to cover short-term liquidity.
- An IFC investment of \$38.3 million in Thika Power Ltd.

Outcomes

The Least Cost Power Development Plan is expected to move Kenya away from a reliance on hydropower, alleviating power shortages that have hampered economic growth in Kenya. The government goal is to triple the national electricity supply of dependable energy to 3,000 MW by 2018, with emphasis on the development of alternative power sources—especially geothermal. This project is a step in this direction.

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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