Financial Solutions:
Partial Risk Guarantee

Finance, Economics & Urban Department
Sustainable Development Network Vice - Presidency

December 2007

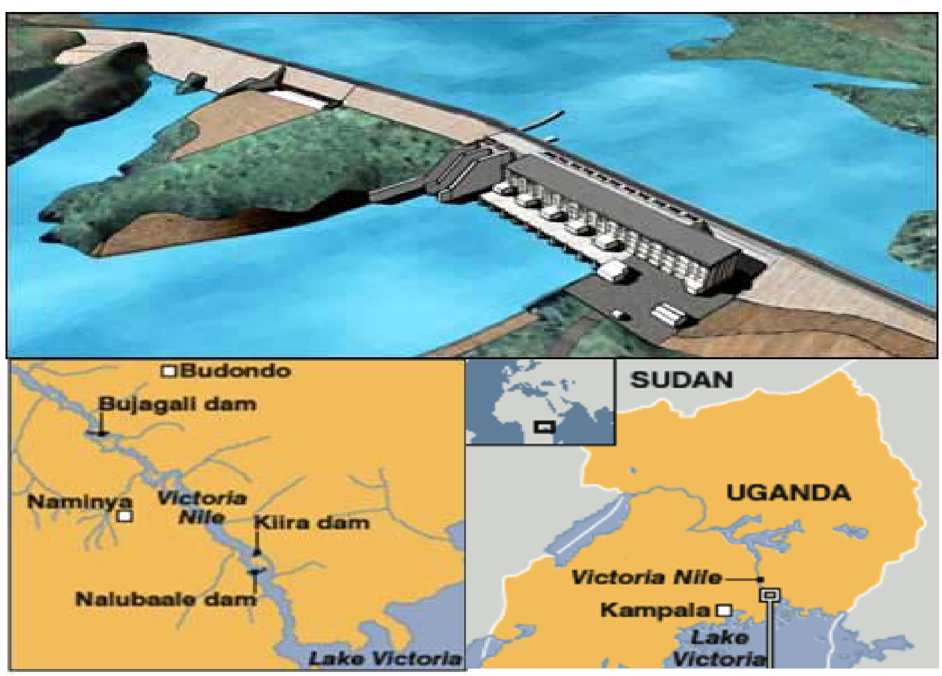
IDA Partial Risk Guarantee (PRG) to promote Uganda's first Independent Power Producer

Uganda's first large scale Independent Power Producer (IPP) project, the Bujagali Hydropower, will double power generation sources in Uganda, thus reducing significantly the severe power shortage prevailing in the country, and fostering economic growth and wellbeing of its citizens. Supported by the World Bank Group (WBG) and other multilaterals, the project reached financial close in December 2007.

"The Bujagali project is a model of the kind of innovative funding solutions and partnerships that will help resolve Africas energy crises,"
Obiageli Ezekwesili, WB Africa Region VP

Awarded the "The Africa Power Deal of the Year 2007" by Euromoney "Project Finance Magazine"

IDA provided a Partial Risk Guarantee (PRG) for Uganda, in support of the Bujagali 250MW hydropower plant project. The project is being developed on an Independent Power Producer (IPP) basis, making it one of the largest private sector financed projects in the Sub-Saharan Africa so far and the first of its kind in Uganda. It is developed, built, owned, and operated by Bujagali Electricity Limited (BEL), whose sponsors are Industrial Promotion Services (Kenya) Limited and SG Bujagali Holdings Ltd, an affiliate of Sithe Global Power, LLC (USA). The project came at the time when Uganda was facing major power shortage, which was having a significant constraining impact on its industrial growth. The total financing requirements for the project equaled to US$ 798 million[1].



Guarantors

Multilaterals and Bilaterals

Commercial Debt Providers

Equity Providers

The Project

The Bujagali hydro project consists of 250MW run of the river power plant with a reservoir for daily storage, an intake powerhouse complex, and a rock filled dam with a maximum height of about 30 meters, together with spillway and other associated works. It is being constructed on the Nile river, approximately 8 kilometers north of the existing Nalubaale and Kiira power plants. The project will sell electricity to Uganda Electricity Transmission Company Limited (UETCL) under a 30-year PPA, which was signed on December 13, 2005. The powerhouse will be constructed to house 5x50MW Kaplan turbines. The small reservoir will have an estimated surface area of 388 hectares, extending back to the tailrace areas of the Nalubaale and Kiira dam complex. The proposed project will require 238 hectares of land take for the project facilities, of which only 80 hectares would be for new inundated areas adjacent to the Nile river. The land take includes 113 hectares required for temporary and ancillary facilities including temporary haul roads, coffer dams, storage and quarries. Evacuation of electricity from the proposed project will require the construction of about 100 kilometers of transmission line, as well as the construction of a substation at Kawanda, and the extension of the Mutundwe substation.

Project Background

Uganda's main source of power is from the Nalubaale and Kiira 380 MW' dam complex, located at the mouth of Lake Victoria. However, electricity output from this dam complex has declined gradually from around 270MW in 2002 to 120MW on September 2006 in order to comply with the agreed curve i.e. the water discharge regime agreed by all Nile tributary counties. In comparison, in 2006 – 2007 estimated peak demand was about 350 - 380MW and about 290 MW at base load, thus resulting in persistent and acute power shortages which were impacting economic growth. To alleviate the shortage of power, the Government has procured a 150MW of short-term thermal power plants.

After unsuccessful attempts to develop the project in the late 90s, the Government of Uganda initiated a new bidding process, with the support of the World Bank, seeking a new project sponsor to develop the Bujagali project. The tender process benefited from a significantly improved sector environment compared to the previous attempt. This included: (a) a reformed power sector structure, in which an independent electricity regulator has been established, and generation and distribution have been unbundled and concessioned to the private sector; (b) increased demand for electricity in the face of declining generation output; (c) an improved sector financial structure, which is now under stress because of the current power sector crisis that has required expensive thermal power generation and has led to significant tariff increases; and (d) improved governance standards.

The current sponsors have been selected following a transparent, international competitive bidding process. In turn, the sponsors selected the Equipment, Procurement, Construction (EPC) contractor on a competitive bidding basis and required the contractors to sign up to a Code of Conduct.

Uganda Power Sector

With the new Electricity Act passed by the Parliament in 1999, the electricity sector in Uganda went through unbundling of the generation, transmission, and distribution. A separate company was established for each of them. Generation and distribution were offered for a 20 year concession, and awarded to Eskom Uganda Ltd, and Umeme Ltd respectively. In addition an independent Electricity Regulatory Authority (ERA) was established..

The Bujagali project will support Uganda 's efforts to meet its electricity demand with least-cost power generation as compared to other energy options. Once commissioned in 2011, the project will also relieve residual power shortages and

Benefits of the Guarantee

- The IDA guarantee reduced the perceived risk in the project to such an extent as to allow commercial debt to be mobilized.

- The IDA guarantee improved the terms of the commercial bank loan to the project company BEL, by enabling access to long term financing at lower cost, thus allowing such reduction to be factored in the PPA tariff, therefore reducing the cost to end users via lower tariff.

- It created new benchmark for private sector investment in Sub-Saharan Africa power generation.

- It catalyzed co-financing of over US$750 million, by combining commercial debt over and above DFIs financing. IDA support was only US$115 million, or about 18% of the total debt financing.

substantially reduce the need for more expensive emergency thermal power. This will help contain potential rises in electricity tariffs and allow industrial and commercial users to reduce costs and increase productivity, boosting economic growth.

Project Cost and Financing Structure

The total financing requirement for the project is US$798[1] million, of which US$ 627 million is financed with debt, and US$ 171 million financed by equity. The debt equity ratio is around 78:22.

The debt facility consists of a commercial loan of US$115 million, from the Standard Chartered and Absa banks, covered by the World Bank PRG. The rest of the financing came from other multilaterals, such as IFC who committed US$130m in loans, the European Investment Bank lend US$140 million, and the AfDB US$110m. European DFIs financing consists of French development agency Proparco, with a US$73m loan, DEG/KfW of Germany with US$45m, and Dutch financier FMO with US$73m. All senior loans have a 16 year door-to-door maturity.

The Multilateral Investment Guarantee Agency (MIGA) provided an equity investment guarantee of up to US$115m for a 20 year period.

Contractual Framework

Key project agreements with Uganda counter-parties are as follows:

- *Implementation Agreement (IA)* between BEL and Government of Uganda/UETCL. The IA sets out the terms on which the Government grants to BEL the concession to design, finance, construct, own, operate, and maintain the project.

- *Power Purchase Agreement (PPA)* between BEL and Government of Uganda/UETCL. The PPA sets the terms for the production related to and sale of the electricity for the project contracted capacity. Under the PPA, BEL agrees to sell all of its production exclusively to UETCL and UETCL agrees to purchase the project's contracted capacity.

- *Government Guarantee* between BEL and Government of Uganda/[UETCL]. Whereas, the Government agrees to: (a) guarantee UETCL's payment obligations under the PPA to BEL; and (b) indemnify BEL for any loss incurred as a result of UETCL's obligations under the PPA becoming void, unenforceable or ineffective.

[1] World Bank, Bujagali Project Appraisal Document (PAD), April 2, 2007

Financing Plan

$ million

Debt	
IFC	130
EIB	130
Commercial Banks (under PRG)	115
AfDB	110
European DFIs	142
Total Debt	627
Equity	
Project Sponsors	151
Government	20
Total Equity	171
TOTAL SOURCES	**798**

- *Engineering, Procurement and Construction (EPC) Contract* between BEL and Salini SPA. The proposed project will be built pursuant to a fixed price, date certain, turnkey EPC Contract. The EPC contractor, Salini SPA (Italy) (with Alstom Power Hydraulique (France) as a key subcontractor) was selected pursuant to a competitive EPC selection process in accordance with the EIB procurement rules.

- *Operation and Maintenance (O&M) Agreement.* The operation and maintenance of the power plant will be conducted by a Sithe Global affiliated company, incorporated in Uganda.

- *Direct Agreements.* As usual in PPP projects, the lenders entered into direct agreements, amongst other, with the parties' signatory to the PPA, IA, and Government Guarantee. The Government Direct Agreement includes customary clauses, including Government's acknowledgements of the security interests created in the project for the benefit of the lenders and the step-in rights of the lenders in the project.

IDA Partial Risk Guarantee (PRG)

The IDA PRG guarantees commercial lenders against debt service payment defaults resulting from the Government's failure to meet its payment obligations as stipulated under the IA and the Government Guarantee. The proposed IDA PRG is non-accelerable; therefore, principal and interest on the IDA Guaranteed Facility between the commercial banks and BEL would be covered by IDA only as they become due.

The IDA PRG covers the risk of debt service default for the covered lenders arising from the following categories of events:

- Political force majeure events;

- Changes in law and events making the project contractual agreements unenforceable or void, or making the performance of BEL or its EPC contractor (and related parties, such as subcontractors) unlawful;

- Government imposed restrictions on the ability of BEL to be paid or to receive foreign currency or transfer funds abroad; and

- Failure by the Government to fulfill its payment obligations relating to UETCL's purchase of power and termination payments due by UETCL.

The provision of the PRG was instrumental in catalyzing long term commercial debt in Uganda, and reduced risk for commercial debt without increasing government liability to an extent that commercial debt could match DFIs maturities.

The PRG Agreements consist of: *the Guarantee Agreement*, entered into between IDA and the commercial lenders to BEL, which defines the scope of IDA's risk coverage and the trigger mechanics of the guarantee; *the Indemnity Agreement*, entered into between IDA and the Government of Uganda, under which the state counter guarantees IDA for any payments made under *the Guarantee Agreement*, and *the Project Agreement*, entered into between IDA and BEL, under which the company covenants that it complies with World Bank environmental guidelines and other applicable requirements.

Lead Financial Officers for this operation:Mr Suman Babbar (Sbabbar@worldbank.org) and Mr. Raymond Bourdeaux (Tel: (202) 458-955; Rbourdeaux@worldbank)..

For more information on the World Bank Guarantee program please visit our web site www.worldbank.org/guarantees or contact:

Upali Perera at (202) 458-2801, by email at uperera@worldbank.org or

Chalida Chararnsuk at (202) 458-8111, by email ccharar nsuk@worldbank.org.

IDA Partial Risk Guarantee for Uganda: Bujagali Hydropower Project

Contractual Structure