IDA Guarantee catalyses private finance for Haripur Power Project in Bangladesh

IDA provided its second Partial Risk Guarantee (PRG) for the US$180 million Haripur Power Project (the Project) in Bangladesh under its Pilot Program approved in August 1997. The Project, the first land-based Independent Power Producer (IPP) plant in Bangladesh, comprises of a 360 MW gas-fired combined cycle power plant which is built, owned, and operated by AES Haripur (Private) Limited (AESH), a wholly-owned subsidiary of the US-based AES Corporation (AES). The Project started simple cycle operations in June 2001 and combined cycle operations in December 2001 at an electricity tariff below US $0.03/kWh which is among the lowest offered to date by an IPP internationally.

The introduction of the Haripur plant into the power generation system has helped alleviate the country’s critical energy shortfall which has become a major bottleneck to economic growth. The Project is located approximately 22 km south-east of Dhaka, the capital city and main load center of Bangladesh. Only 18% of the urban population has access to electricity and in rural areas, only 10%. The additional power will generate savings by displacing less efficient plants running on imported liquid fuels. The Project will attract substantial private investment flows for infrastructure development in Bangladesh.

The Project

Under the Government’s Private Sector Power Generation Policy initiated in 1996, AES was selected to implement the Haripur IPP following an international tendering process. AESH was set up by AES as a locally incorporated special purpose company to undertake the construction and operation of the Project. The Bangladesh Power Development Board (BPDB) will purchase the entire output of the build-own-operate (BOO) plant under a 22-year Power Purchase Agreement (PPA). Gas will be supplied to the Project under a Gas Supply Agreement (GSA) for the term of the PPA by the Titas Gas Transmission and Distribution Company (Titas), a state-owned enterprise and a subsidiary of Petrobangla (the national oil and gas company) through a 1.3 km natural gas pipeline which will connect the Project to the gas distribution system.

The Financing Structure

The total financing cost of the Project was US$180 million, which was financed through a combination of equity, subordinated sponsor loan, and senior debt. The debt equity ratio of the Project was about 54:46. The equity component consists of 20% of base equity, almost 5% of simple cycle revenues guaranteed by AES and the balance as subordinated sponsor loan. The senior debt consists of a commercial loan of US$60.9 million supported by the IDA PRG and a US$37 million Senior Sponsor Facility provided by AES Corporation. The IDA guaranteed commercial debt of US$60.9 million has been underwritten by ANZ Investment Bank for a term of 14 years and is expected to be syndicated shortly to a group of international banks.
The security structure for the Project consists of a set of contractual agreements which define the rights and obligations of the major participants in the Project. The Project-related risks such as construction, operation, and certain natural force majeure risks will be borne by the sponsor and the lenders. Sovereign or political risks are assumed by the Government of Bangladesh (GOB) 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 Implementation Agreement (IA)** signed between AESH and GOB in September 1998, defines the rights and obligations of the parties and is for a period of 22 years from commercial operations of the Project. Under this Agreement, the Government grants the project company the right to construct and operate the Project on the plant site. It guarantees the payment obligations of BPDB under the PPA, the obligations of Titas under the Gas Supply Agreement, and of the Ministry of Industries under the Land Lease Agreement. It assures AESH of all fiscal incentives and other benefits, provided in the Private Sector Power Generation Policy of Bangladesh, and the free convertibility and transferability of foreign exchange, through Bangladesh Bank, required meeting the company’s foreign currency remittances.

- **The Power Purchase Agreement** signed between AESH and BPDB, provides for the sale of electricity to BPDB for the term of the IA on the basis of a two-part tariff consisting of: (i) a capacity payment, with non-escalable component to cover debt service, and an escalable component to cover return on equity, fixed operation and maintenance costs, insurance, and other fixed costs; and (ii) an energy payment composed of a variable operation and maintenance payment and fuel payment.

- **A Gas Supply Agreement** signed between AESH and Titas on the same date and for the same term as the IA and the PPA, provides for the supply of gas by Titas to the plant at a price to be determined from time to time by the Ministry of Energy and Mineral Resources.

- **The Land Lease Agreement (LLA)** signed between the project company and the Ministry of Industries, grants a lease to the company for a term that is equal to (i) the 25th anniversary of the commercial operations date; or (ii) the third anniversary of the expiration or termination of the PPA, whichever is longer.

- **The Engineering, Procurement, and Construction (EPC) Contract** dated April 1999, between AESH and Hyundai Engineering and Construction (HHI) and Hyundai Heavy Industries (HEC) is a fixed price turnkey contract under which the EPC contractor will procure all work and services necessary in connection with the design, engineering, procurement, site clearance, construction, start-up and testing of the plant. Under the Guarantee and Coordination Agreement HEC and HHI, jointly and severally, guarantee each other’s obligation to construct the Project on a fixed-price, date-certain turnkey basis.

- **An Operations and Maintenance Service Contract (O&M)** dated April 1999 was entered between AESH and AES Bangladesh Operations (AESBO), an offshore wholly-owned subsidiary of AES Corporation. AESBO will be responsible for the administration, operation, repair, and maintenance of the Project to international standards. The company will have a back-to-back Agreement with AES Corporation to provide personnel and management services to assist AESBO in the performance of their obligations under the Agreement.

- **Loan Documentation** consists of the Common Terms and Intercreditor Agreement, the Share Retention and Project Funds

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**Financing Plan**

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td>$73.70</td>
<td>40.90%</td>
</tr>
<tr>
<td><strong>Simple Cycle Revenues</strong></td>
<td>$8.40</td>
<td>4.70%</td>
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<tr>
<td><strong>IDA Guaranteed Commercial Loan</strong></td>
<td>$60.90</td>
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<tr>
<td><strong>Senior Sponsor Facility</strong></td>
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<tr>
<td><strong>Total</strong></td>
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<td>100%</td>
</tr>
</tbody>
</table>

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"The Haripur deal has become a precursor for other power deals in the country"

**The Independent, Bangladesh**

"The successful financial closure of Haripur will serve as an important milestone in establishing a track record for facilitating private flows to the country"

**Project Finance International**

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Agreement, the Accounts and Security Trust Agreement and the respective loan Agreements.

Structure of the IDA Partial Risk Guarantee

The IDA PRG will provide coverage to commercial lenders for loan default by AESH on scheduled debt service payments, resulting from the Government’s failure to meet its payment obligations under the IA and the Government Guarantee in support of the PPA, GSA, and LLA. Obligations covered include both periodic payments and termination amounts. The Guarantee structure would be non-accelerable in the event that the Project is terminated as a result of a Government default. IDA would make payments under its Guarantee in accordance with the amortization schedule pre-agreed with commercial lenders or prepay the loan, at its option. The commercial risks, such as completion and operations risks, and natural force majeure risks relating to the Project, which will be borne by the sponsors and commercial lenders, will be mitigated by the EPC and the O&M contracts and various commercial insurance arrangements. The principal categories of risks which will be backstopped by the IDA PRG are the following:

1. **Breach of Contract** by the Government with respect to its payment obligations under the IA and the Government Guarantee relating to the purchase of power and supply of gas.

2. **Currency convertibility or transferability** relating to the Government’s undertaking to make sufficient foreign exchange available for local currency conversion and repatriation of debt service payments.

3. **Changes in laws** in Bangladesh which would have the effect of making Project Agreements unenforceable or void or having a material adverse effect on the ability of the company to make debt service payments (including judicial decisions not in suspense as a result of an appeal).

4. **Political Force Majeure** events within Bangladesh, including nationalization and expropriation.

5. **Natural Force Majeure** events limited to BPDB’s interconnection system and Titas’ gas pipeline to the plant.

6. **Frustration of Arbitration** relating to any action by GOB or third parties to frustrate the dispute resolution process.

IDA’s Guarantee support is documented in a Guarantee Agreement with the lenders, which outlines the scope of IDA’s risk coverage and defines the trigger mechanisms of the IDA Guarantee. IDA will charge a Guarantee Fee of 75 bp per annum on outstanding principal amounts of the guaranteed loan. In parallel, IDA has an Indemnity Agreement with GOB, under which GOB has counter-guaranteed IDA for any payments made under the Guarantee Agreement.

Benefits of the Guarantee

The IDA PRG was crucial in mobilizing private sector financing from the international debt market for Haripur. This was the first time that such long term international financing was made available for Bangladesh. The successful financial closure of Haripur through the deployment of the IDA Guarantee will serve as an important milestone in establishing a track record for facilitating financial capital flows to the country.

Lead Financial Officer for this operation: Ms. Farida Mazhar at (202) 473-1235 or by email fmazhar@worldbank.org.

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 uperera@worldbank.org or Chalida Chararnsuk at (202) 458-8111, by email cchararnsuk@worldbank.org.
Project Contractual Structure

Government of Bangladesh

Implementation Agreement

Ministry of Industries

Land Lease Agreement

Bangladesh Power Development Board

Power Purchase Agreement

Titas Gas Transmission & Distribution Co

Gas Supply Agreement

AES Haripur (Private) Limited

EPC Contracts

Hyundai

Equity (46%)

AES (100%)

Financing Agreements

AES / Mitsubishi

O & M Contracts

Debt (54%)

PRG Facility

Sponsor Facility

Partial Risk Guarantee
Guarantee of Payment Obligations of Government of Bangladesh

IDA