Sub-Saharan Africa Benefits from the first IDA Guarantee for Azito

IDA recently provided its first Partial Risk Guarantee Operation for the US$223 million Azito Power Project (Azito) in the Republic of Cote d’Ivoire (ROCI) under the Pilot Program approved in August 1997. The Project, which consists of a 300MW gas-fired power station and a 225 kV transmission line, has high priority in the economic investment and development strategy of the country and will address the critical shortage of power supply anticipated for 1999. Azito, which reached Financial Closure in January 1999, will be among the lowest tariffs in Sub-Saharan Africa. Azito will also have electricity exporting capacity to neighboring countries such as Ghana, Togo, and Benin. The project is located 10 kms from Abidjan city center and is being undertaken in two phases - Phase I is already in commission and Phase II is scheduled for completion by November 1999.

The Project

The project consists of a Power Plant (open cycle gas turbine) with two 150 MW phases and a 16-km double circuit 225 kV Transmission line. The Transmission component, which will transport power from Azito to the existing power system and reinforce the existing grid, will be completed along with the first two phases of the Power Plant. The transmission system will be turned over to the state upon completion of construction and will incur payment obligations to the project. The Project will be implemented on a build-operate and transfer (BOOT) scheme for a term of 24 years.

The Government of Cote d’Ivoire (GOCI) is responsible for providing natural gas to the project. The gas will come from offshore gas fields operated by Apache and United Meridien International Corporation (UMIC) through pipelines from Vridi central gas terminal to the Project site. Power generated by the Azito plant will be distributed by Compagnie Ivoirienne d’Electricité (CIE), a private utility set up as a joint venture of Société d’Aménagement Urbain et Rural International (SAURI) and Electricité de France International (EDFI). CIE is responsible for the transmission and distribution of power in the country on behalf of the State.

The Power Sector in Cote d’Ivoire

Power in Cote d’Ivoire is produced by a combination of hydro and thermal facilities. The total capacity of the system is at present about 1050 MW. The hydroelectric system is composed of several dams of small to medium size (5 to 210 MW). The annual power production is highly dependent on the level of rainfall. Over the last 15 years, with the exception of 1983 (due to a severe drought), the yearly production varied between 870 and 1900 GWh, with an average of 1,300 GWh. The years 1995, 1996, and 1997 have been favorable (1,700 to 1,900 GWh). In comparison 1998 generation was significantly less productive while 1999 is predicted to be around the 1998 level. Existing thermal capacity (446 MW) is produced by CIE and Compagnie Ivoirienne de Production d’Electricité (CIPREL).

Project Background

The Azito Power project is the second IPP in Cote d’Ivoire following CIPREL, which was developed in 1994. Azito was awarded to ABB in June 1997 following competitive bidding among six pre-qualified sponsors. The winning bid of ABB Energy Ventures and Electricité de France International incorporated a special purpose company, CINERGY, S.A. (CINERGY), in Cote d’Ivoire in 1998 to own and operate the Project. The Sponsors described below are equity investors in the company:

- **ABB Energy Ventures, B.V.** ABB-EV is a subsidiary of Asea Brown Boveri Limited (ABB)
- **Electricité de France International** EDFI is a wholly owned subsidiary of Electricité de France International

"The key to mobilizing commercial banks has been the guarantee provided by the International Development Association (IDA)"
France (EdF), the French national electrical utility
- Industrial Promotion Services-Côte d’Ivoire, S.A. (IPS-CI), a unit of the Aga Khan Fund for Economic Development. ABB EV and EDFI will hold 74% of the Company, through CINERGY Holding B.V. (CHC), a company incorporated under the laws of Netherlands, and IPS International will hold the remaining 26%.

**Financing Structure**

The total financing cost was around US$223 million for the Power Plant and the Transmission components combined. The Project was financed through a combination of equity, subordinated debt, and senior debt in the ratio of 20:10:70. The equity component consists of approximately US$45 million of shareholders contribution. The shareholders have also committed to make available up to US$17 million as contingency fund and US$4 million for the project. The subordinated debt of US$20 million will consist of US$10 million of convertible debt and US$10 million of fixed debt. This was funded jointly by the International Finance Corporation (IFC) and the Commonwealth Development Corporation (CDC).

The $140 million senior debt consists of: $32 million IFC A loan with 14 years maturity, $30 million IFC B loan with 10 years maturity, a $30 million IFC A loan with 14 years maturity, $30 million IFC B loan with 10 years maturity supported by an IDA Guarantee and a $48 million CDC Club loan with 12 years maturity. The CDC Club loan was funded by a combination of bilateral and multilateral institutions led by CDC including the African Development Bank, Nederlandse Financierings-Maatjeschap voor Ontwikkelingslanden N.V. (FMO) and Deutsche Investitions und Entwicklungsgesellschaft GMBH (DEG). The Lead Arranger and Underwriter of both the IFC B Loan and the IDA Facility was Société Générale of France. The IFC B loan and the IDA Guarantee tranches were successfully syndicated on a pro rata basis to a group of international banks.

The IDA Guarantee was considered critical to the completion of the financing for the Project and instrumental to obtaining the longest tenor to date for a commercial financing for Côte d’Ivoire. IDA was brought in to the Project when the Government of Côte d’Ivoire extended the scope to include the transmission system and requested the Sponsors to finance the incremental cost. The Sponsors explored all alternative sources of finance, including the possibility of increasing the IFC B loan. The additional financing, therefore, required IDA’s credit enhancement as a ‘lender of last resort’.

**Contractual Framework**

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 natural force majeure risks will be borne by the sponsors and the lenders. Sovereign or political risks are assumed by GOCI 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 Concession Agreement (CA)** between the GOCI and CINERGY S.A. was signed on September 5, 1997 and was subsequently amended on July 5, 1998. Under the CA, the Company is granted with the exclusive right to develop the plant and is required at the end of the term of the CA to transfer the plant to the GOCI. Under the Concession Agreement GOCI has undertaken to purchase the power on a take or pay basis and to supply gas to the project.

- **The CCEM** (“Contract Clef en Main” – turnkey contract) between the GOCI and the Company was signed on July 15, 1998. Under the CCEM, the Company has agreed to finance, design, construct, supply, install and commission an energy evacuation system (“ESS”) required for the delivery of electric power generated by the Azito power plant to the national electric grid and transfer the system to GOCI after construction to be operated by CIE.

- **The Engineering Procurement and Construction Contracts (EPC)** between CINERGY and the respective suppliers and contractors. The plant contractors are ABB Power Generation Ltd., ABB Sadelmi S.p.A. and Società Italiana Montaggi, S.p.A. The transmission contractors are ABB High Voltage Technologies Ltd. and ABB Sadespa S.A.

- **The Operations and Maintenance Agreement (O&M)** between CINERGY and Azito O&M S.A. (the “Operator” owned 50% each by EdF and ABB EV). The Agreement is intended to be in the nature of a “fixed price” contract covering both routine operations and maintenance and major maintenance. The term

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**Financing Plan**

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<td><strong>Total Sources</strong></td>
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of the O&M Agreement expires 15 years from provisional acceptance of Phase 2.

- Loan documentation consists of the Common Terms Agreement, the Share Retention and Project Funds Agreement, the Intercreditor Agreement, the Subordination Agreement, the respective Loan Agreements, the Trust and Retention Accounts Agreement and the Direct Agreement.

**IDA Partial Risk Guaranteed Loan**

The IDA PRG guarantees commercial lenders against defaults in scheduled debt service payments of both principal and interest on a non-accelerable basis resulting from State failure to meet its payment obligations under the CCEM and the CA. Obligations covered include both periodic payments (e.g., capacity payments, CCEM installments for the transmission line) and termination amounts. IDA would make such payment in accordance with the amortization schedule pre-agreed with commercial lenders or prepay the loan, at its option. The principal categories of risks covered by the IDA Guarantee are:

- **Breach of Contract**: GOCI's undertakings under the Concession Agreement relating to the purchase of power and the supply of gas and the installment payments due under the CCEM.

- **Availability and Convertibility of Foreign Exchange**: Changes in the CFAF arrangements affecting transferability or convertibility in the event of a delinking of the CFAF from the Euro.

- **Changes in Law**: Any change in the laws of Cote d’Ivoire, which would cause material adverse effect on the company (including judicial decisions not in suspense as a result of an appeal).

- **Political Force Majeure Events**: These covered events within Cote d’Ivoire including nationalization and expropriation.

- **Natural Force Majeure Events**: Events affecting the State’s obligations including the transmission system following completion.

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. In parallel, IDA has an Indemnity Agreement with GOCI, under which GOCI counter guarantees IDA for any payments made under the Guarantee Agreement. IDA’s approximate US$30 million commitment under the guarantee is recorded at 100% of its nominal value in the lending program as IDA’s risk coverage extends to the whole loan amount, albeit for certain specified risks as outline above.

**Benefits of the Guarantee**

The benefits of the IDA Guarantee reflect the partnership with the private sector for the benefit of Governments, Project Sponsors, and Lenders. Specifically, the Azito Guarantee:

- Helped mobilize funds for the completion of the Project.
- Helped mobilize long term finance substantially beyond prevailing market terms for the country.
- Catalyzed co-financing of over US$200 million whilst minimizing IDA support to only $30 million (15%) of total project financing.

**Bank Group Coordination**

The IFC and IDA jointly played a key role in the financing of the Project and were able to leverage their respective institutional strengths effectively for the benefit of the client country. Both institutions collaborated very closely on this transaction in terms of project appraisal, sector issues as well as syndication strategy. This enabled the Project to achieve financial closure on an accelerated time scale to meet both the government’s and the sponsor’s aggressive schedule. This successful IDA/IFC collaboration is a follow up to the support provided to CIPREL, the first private sector power initiative of Cote d’Ivoire.

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](http://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 at cchararnsuk@worldbank.org.

**Azito is the first power project to be financed on a non-recourse finance basis in the region and such will provide a framework for further developments.**

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Project Contractual Structure

EdFI 50%  ABB EV 50%

Azito O & M (Ivory Coast)

O & M Contract

EPC Contract

EPC Consortium Power Plant

Shareholders ABB/EdF/IPS-CI

IFC (A)

IFC (B)

CDC Club

Société Générale

Société Générale IDA Facility

IDA

Senior Debt

Subordinated Debt

Concession Agreement

Transmission System Contract

Government of Côte d’Ivoire

EPC Contract

Non-Convertible

Convertible

IFC

CDC

DEG

IFC

CDC

DEG

AFDB

FMO

CDC

DEG

IFC

CDC