African Power Deal of the Year 2007

Bujagali: Six years and signed

One of the biggest financings in Uganda to date and achieved as pure project debt without completion guarantees, the 250MW Bujagali Energy hydropower project reached financial close in the last days of 2007.

Sponsored by Industrial Promotions Services and Sithe Global Power, the project has a troubled history – AES Corporation first brought the project to within a week of close six years ago and the project has since gone through sponsor change and 75% cost increases.

The final $682 million deal, with commitments from 10 lenders, has heavy multilateral support – $360 million from the World Bank (comprising a $130 million loan from the IFC, a $115 million partial risk guarantee from the IDA and a $115 million investment guarantee from MIGA), $175 million from the EIB, $110 million from the African Development Bank (ADB), $73 million from Proparco and $73 million from FMO.

The commercial debt is $57.5 million each from Absa and Standard Chartered (covered by the MIGA guarantee) and $45 million from KfW. The sponsors are providing $198 million in equity.

The project comprises development of a run-of-the-river power plant on a BOOT basis at Dumbbell Island, 8km north of the existing Nalubaale and Kiira power plants. The plant will recycle the water flows released from these upstream hydropower facilities to generate additional electricity

The project began controversially in the 1990s when the then government of Uganda signed implementation and power purchase agreements (PPAs) with AES project company Nile Power despite no competitive bidding process.

The World Bank twice committed to the project, only to withdraw each time, first due to NGO attacks culminating in the National Association of Environmental Professionals claiming "performance shortfalls, controversies related to social, economic and environmental aspects and evidence of corruption" and second following (subsequently proved) allegations of bribery levelled at a subcontractor subsidiary. The latter came a week before a prospective financial close by WestLB and ANZ Investment Bank.

A brace of reports then damned the project seemingly irredeemably. World Bank's independent investigative unit, Inspection Panel, stated the dam violated five key World Bank policies covering environmental, social and financial aspects, and Prayas Energy Group's independent review declared the power purchase agreement "not in line with international standards", accused World Bank of giving "poor advice to the Ugandan government" and having "misled the public about the cost" of an "excessively expensive" project estimated at between $20 million and $40 million more annually than comparable projects elsewhere.

Despite this, when AES resumed negotiations with the government and lenders in May 2003, the World Bank remained involved and the Aga Khan Fund for Economic Development (AKFED) expressed interest in investing $20 million of equity. But three months later a liquidity crisis at AES caused the corporation to abandon the project. AES wrote off $75 million of equity, with the site, works and some plant and equipment reverting to the government.

After sending out a request for proposals to 11 companies, AKFED's industrial development arm Industrial Promotion Services (IPS) was selected along with US-based Sithe Global Power, ahead of Stucky Consulting Engineers of Switzerland and the Wakisi Consortium comprising South African and UK firms. IPS and Sithe reviewed the project – to mitigate NGO anxiety a study was undertaken on how advanced and competitive alternatives such as geothermal energy were, and the implementation and power purchase agreements were publicised.

The new sponsors were also unhappy with the contractual structure AES had agreed with the government, and created a new risk profile. In the new arrangement, the government has a take-or-pay style agreement leaving the sponsors and lenders free from both demand risk for the power (negligible anyway in a 4% electrified country) and more seriously, availability risk for the water.

Negotiations with prospective EPC contractors (who are taking construction risk) delayed the process, as did obtaining the environmental impact assessment and resettlement plan for the transmission line supplementing the dam, and in February 2007, the sponsors announced costs for the project had soared. With oil, metal and cement prices much higher than when initial calculations were made, the overall cost rose 50% to $750 million. Further rises saw the final figure hit $880 million.

In April 2007 the World Bank finalised its funding package, and once secured, commitments came from other lenders. The lack of a lead lender and the large number of multilaterals, each with their own charters and responsibilities to their respective governments, made negotiations complex.

Primary lender EIB's requirements ranged from the financial through the technical to the environmental. Top of the list was assurance over the ability of the power sector to use the power produced, with a loss-rate in other Ugandan power projects of 40%. EIB also entered into discussions with the government over preservation of the source, Lake Victoria.

EIB and other lenders also insisted that there must be a direct benefit of the project to local communities. This was difficult to achieve within the scope of the project as power producers are not licensed to distribute power, and the government's focus was on the provision of electricity to industry. However, an agreement between the project company and the government distributor was achieved, with AfD providing support to extend supply to rural communities in the Bujagali area. ■

Bujagali Energy

Status: Closed 21 December 2007
Size: $880 million
Description: 250MW run-of-the-river IPP and 100km of 132 kV transmission line
Sponsors: Sithe Global Power, Aga Khan Fund for Economic Development
Non-voting equity participant: Government of Uganda
Total debt: $681.8 million
Lenders: European Investment Bank, International Finance Corporation, African Development Bank, Proparco (AfD), FMO, ABSA (Barclays Capital), Standard Chartered, DEG (KfW)
Political risk provider: MIGA
Partial risk guarantor: IDA
Sponsor legal adviser: Chadbourne & Parke
Lender legal adviser: Linklaters
Sponsor technical adviser: Montgomery Watson Harza
Lender technical adviser: Colenco Power Engineering
Contractors: Veidekke, Skanska International Civil Engineering, Alstom Power, GE Energy, ABB Distribusjon, Lahmeyer, Norplan