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MULTILATERAL DEVELOPMENT BANKS' COLLABORATION:
INFRASTRUCTURE INVESTMENT PROJECT BRIEFS

Nigeria: The Azura-Edo Independent Power Plant



Overview

Nigeria has long suffered from a shortage of electricity, a problem the Federal Government of Nigeria (FGN) began to tackle with comprehensive power sector reforms in 2010. The World Bank Group (WBG) responded by providing support for reforms and private sector investment through its joint Energy Business Plan (EBP) for Nigeria which included an investment in the Azura-Edo Independent Power Plant (Azura IPP). The Azura IPP, financed by International Finance Corporation (IFC) and other development financing institutions as well as private sector lenders, is expected to provide electricity to 14 million residential consumers.

This series showcases how the Multilateral Development Banks' collaboration supports the development and implementation of infrastructure investment. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

Nigeria suffers from an acute lack of electricity. Demand for energy is estimated to be at least 6,000 megawatts (MW), while dependable available capacity stood at around 3,500 MW. The FGN initiated a large-scale power sector reform that in the last 10 years included establishing a cost-based tariff regime, privatizing distribution and generation assets, and creating a single-buyer entity. A key obstacle was creating a credible regulatory and contractual framework that would give private investors sufficient confidence to participate in the sector. For this, the FGN sought support from the World Bank Group and other development financing institutions including the Dutch Development Bank (FMO), German Development Bank (DEG), French government's private sector financing arm (Proparco), Swedish government's development finance institution (Swedfund International) and the U.S. government's development finance institution (OPIC), among others.

In response, IBRD, IFC and MIGA worked together under the joint Energy Business Plan, an initiative established to optimize the combined resources of the World Bank Group to support Nigeria's sector reforms and attract private sector investment to its gas-to-power sectors. One element of the EBP strategy was to support private sector investment in additional generation capacity. One of such was the investment in the private sector sponsored gas fired power plant project - Azura IPP. The project included the construction, operation and maintenance of a 459 MW gas-fired open-cycle power plant near Benin City, Edo State, Nigeria. It also included the construction of a short 330kV transmission line connecting the power plant to the Benin North substation, and a short underground gas pipeline spur connecting the power plant to the country's main gas trunk line, the Escravos Lagos Pipeline System.

The project was necessary to add much-needed power to the national grid. The Azura-Edo IPP is considered a priority project for the FGN, and is expected to be the first greenfield IPP post sector reform to come online. Azura-Edo is the first wholly project-financed IPP in Nigeria. As such, it is regarded as a ground-breaking project set to pave the way and set important benchmarks for future private sector driven, project financed IPPs in Nigeria.

Project Description

The Azura-Edo Gas-Fired Power Plant Phase 1 (459 MW) is an Open Cycle Gas Turbine power station that is part of a 1,000 MW IPP being built in Edo State. Azura Power West Africa Ltd. (the project company) includes as project sponsors a consortium of private investors (97.5 percent) and the government of Edo State (2.5 percent). The consortium is composed of a joint venture between Amaya Capital Ltd. and Actis GP LLP (51 percent), AIIF2 Power Holding Ltd. (29 percent), Aldwych Azura Ltd. (14 percent), and ARM- Harith Infrastructure (six percent). The plant will have a sole off-taker, the state-owned Nigeria Bulk Electricity Trader (NBET) under a 20-year power purchase agreement (PPA) backstopped by a Put Call Option Agreement (PCOA) with the Federal Government of Nigeria. Seplat Petroleum Development Company, a Nigerian upstream production and development company, will supply gas to fuel the plant under a 15-year contract.

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The sponsors raised a total of \$ 868 million through equity contributions from equity investors and debt financing from commercial banks and development finance institutions. Rand Merchant Bank, Standard Chartered Bank, Siemens Bank, Standard Bank and KfW IPEX Bank provided \$ 230.6 million in commercial bank financing. The IFC, FMO, DEG, Proparco, Swedfund International, OPIC, Emerging Africa Infrastructure Fund, the UK government's development finance institution (CDC Group) and the ICF Debt Pool provided \$ 262.5 million in development financing alongside a \$120 million development facility provided by Nigeria's Bank of Industry. Finally, the IFC, OPIC, Emerging Africa Infrastructure Fund, and Proparco provided \$65m in subordinated debt. The World Bank Group's Multilateral Investment Guarantee Agency (MIGA) provided \$492 million in guarantees, while the World Bank Group's International Bank for Reconstruction and Development (IBRD) provided guarantee coverage of at least \$325 million.

Multilateral Development Banks' Role

Multilateral and bilateral support for the project was as follows:

- \$80 million IFC (WBG) direct lending, split between \$50 million in senior debt and \$30 million in subordinated debt. IFC also arranged a \$267.5 million tranche of development financing, and \$35 million of subordinate debt
- \$40 million FMO loan under IFC syndication
- \$27.5 million DEG loan under IFC syndication
- \$15 million Swedfund International loan under IFC syndication
- \$35 million OPIC loan under IFC syndication
- \$20 million Emerging Africa Infrastructure Fund loan under IFC syndication
- \$30 million CDC Group loan under IFC syndication
- \$25 million ICF Debt Pool loan under IFC syndication
- \$492 million guarantees provided by MIGA (WBG) covering equity investments, commercial lending and hedging instruments
- \$325 million guarantees provided by IBRD (WBG) covering commercial lending instruments

Outcomes

The main expected development benefits of the project consist of delivering much-needed additional power to Nigeria, and, in turn, the broader West African power grid. In doing so, the project is expected to provide access to affordable electricity to about 14 million residential consumers at a fraction of the cost of self-generated power.

The Azura-Edo IPP also has a strong demonstration effect and sets a precedent for future private sector investors in the gas-to-power value chain. It has high levels of government support, a dedicated lead sponsor, strong technical and engineering support, and was situated both near the country's main gas trunk line and the national transmission grid.

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