



ELEQTRA

Cenpower

Sub-Saharan Africa's Flagship US\$900 million private sector power project

Construction of Ghana's largest ever private sector-built power plant is expected to begin within months after Japanese conglomerate Sumitomo bought into the ground-breaking US\$900 million scheme, boosting the outlook for economic growth in the power-hungry West African country.

Several years in the making, Ghana's new US\$900 million, 350 MW plant, located in the Kpone municipality in the Tema industrial zone, will provide up to 20% of the country's power generation, and should see the end of the incessant power outages which have blighted the country for years.

Sumitomo's acquisition of 28% of the Kpone project heralds the entry into Ghana of one of Japan's leading power providers.

But it also marks the success of **eleQtra (www.eleQtra.com)**, the UK-based private sector infrastructure development company, **InfraCo Africa (www.infracoafrica.com)**, the European donor-backed funder of eleQtra, and the Africa Finance Corporation (AFC), the multilateral development finance institution, in addressing a market failure that had led to decades of chronic under-investment in the Ghanaian power sector, which has profound implications for the rest of sub-Saharan Africa.

The World Bank estimates that Africa must invest US\$100 billion a year for ten years in the power, transport, telecoms and water sectors to eliminate the continent's yawning infrastructure deficit, and bring it into line with other developing regions, but it is barely managing to invest half that figure.

In Ghana, electricity demand virtually doubled in the decade after 2000 in the four main load centres of Accra, Tema,

Takoradi and Kumasi, as a result of urbanisation and industrialisation, whilst supply increased by a mere 7%. Moreover, the country's four biggest miners, which account for 12.5% of peak demand, need additional power if their ambitious expansion plans are ever to be realised.

Early stage project developers, like InfraCo and eleQtra, and infrastructure financiers and project developers like AFC, which specialise in taking on greenfield development projects that most private sector companies shun, are showing how to bridge that deficit, thereby unlocking Africa's long-term economic growth potential.

"The idea for a new plant originally came in from some local entrepreneurs in 2005 who wanted an independent power producer (IPP) to sell electricity to miners like Anglo-Gold Ashanti," Ebbe Hamilton, project director and co-founder of eleQtra, said. "We looked at the country, saw the potential, and entered into a joint venture with the local group, Cenpower Generation."

"It soon became clear that selling power to miners was not enough to sustain a 350 MW plant," Hamilton said. "The miners could only off-take half that. Then the Electricity Company of Ghana (ECG) agreed to take 200 MW. The initial plan was to use gas from the West African Gas Pipeline, which runs between Nigeria, Benin, Togo, and Ghana, with crude oil as a back-up," Hamilton added.

"The design for the new plant was drawn up, the land was acquired, a power purchase agreement with the ECG was agreed, and all the miners signed memorandums of understanding," Hamilton said. Just as all the ducks were lined up, problems began to surface. "The electricity sector was still in



deregulation with no Grid Company in place. We couldn't guarantee that the miners would actually receive the electricity," Hamilton added.

"So we decided to drop the miners, and sell all the power to the ECG instead," Hamilton said. "We also redesigned the power plant, which will now be powered by oil and convert later to gas. The South African construction firm Group 5 has been selected as the contractor to build the plant, which will be completed in 2017, once financial closure is complete," he added.

The AFC, whose mandate is to help reduce Africa's yawning infrastructure deficit, while at the same time generating superior returns for its investors, joined the Kpone power project in 2010. "This is a high risk business," Oliver Andrews, the AFC's Chief Investment Officer and Cenpower Project Director, said. "One has to have the right skill set. AFC is one of the few project developers with the capacity to address the project and systemic challenges within project development. Be in no doubt project development is a high risk and very expensive business because projects can take 5-7 years, Cenpower took 11 years to package this large scale project. Why so? Because the sector reforms are not robust enough or do not exist. You have to build the right market conditions and become the trailblazer for others to follow," he said.

Hamilton expects that the Kpone power plant will either be supplied with natural gas from the West African Gas Pipeline, the offshore Jubilee field or, more likely, the large offshore Sankofa gas field currently being developed by the Italian oil major, Eni, and the Swiss-based commodities trader Vitol. When that happens, the cost of the fuel needed to power the plant will fall by 50%.

"Selecting Group 5 to build the new power plant helped bring in South African financing to back up the project," Hamilton said. **"The involvement of the South African government's Export Credit Agency helped to backstop the project, which allowed the South African banks to lend."**

"The South African banks, led by Rand Merchant Bank, are lending US\$425 million, European and South African development finance institutions are lending US \$225 million, and the balance of US \$250 million will be equity held by Sumitomo, the African Finance Corporation, Africa Infrastructure Investment Managers and local partners," Hamilton added.

"We also recognised that the project needed a strategic investor to act as owner/operator to help run the plant – someone who already had experience in running utility-scale power plants," Hamilton said. "Sumitomo was interested in the project, and wanted to get into Africa. They were looking for projects in Ghana and Kenya, so this project was a perfect fit."

InfraCo, a shareholder and funder, spent US\$10 million and nearly ten years developing the Kpone power plant. By selling out its 24% stake to Sumitomo, InfraCo is able to exit its investment, recouping the funds invested to re-invest in other early stage infrastructure projects. "InfraCo spent US\$10 million of donor funding, and the engagement and expertise of other private sector developers and financiers has resulted in a US\$900 million investment into Ghana's power generation sector," Hamilton said. "At the same time, we are bringing in stellar companies into Ghana like Sumitomo, Rand Merchant Bank and Group 5, whilst providing the country with state-of-the-art power generation technology to ease its electricity crisis, and InfraCo gets all its money back," Hamilton said.

"None of this would have happened without InfraCo being prepared to invest in high-risk, early stage, infrastructure development projects, and eleQtra's ability to make them happen," Hamilton said. "When we started this project, very few thought we could pull it off. Well, we did," he added.

InfraCo and eleQtra recognise that there is a market failure in Africa – a failure by private sector companies to take on greenfield infrastructure projects because the risks are too great. By taking on these challenges, InfraCo and eleQtra effectively de-risk such infrastructure schemes, enabling the private sector to enter at a later stage, thus providing Africa with the infrastructure it needs.

"InfraCo and eleQtra played an extremely useful role in putting this project together," AFC's Andrews said. "Instruments like InfraCo and eleQtra are much needed in Africa. This is one of the smartest ways of getting the infrastructure that Africa needs. It brings the donors, private sector expertise and African partners together. That is a unique combination and we need more of it."

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