



**“PPP-Financed  
Energy Infrastructure  
Projects in  
Central Africa**

**THE CASE OF THE  
KRIBI POWER  
STATION IN  
CAMEROON**



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"PPP-Financed Energy Infrastructure Projects in Central Africa  
The Case of the Kribi Power Station in Cameroon

Provisional Report By  
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## ACRONYMS

AAAA	Addis Ababa Action Agenda
ADIN	AFRICA Development Interchange Network
AES	Applied Energy Services
AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
AU	African Union
BOOT	Build, Own, operate and Transfer
CAR	Central African Republic
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale
DSSI	Debt Service Suspension Initiative
DRM	Domestic Resource Mobilization
ENEO	Energy of Cameroon
EPG	Eminent Persons Group
ESIA	Environmental and Social Impact Assessment
FfD	Financing for Development
FTP	Financial and Technical Partners
GESP	Growth and Employment Strategy Paper
GCMS	Globeleq Cameroon Management Services
GDP	Gross domestic product
FOCAC	Forum on China–Africa Cooperation
GSA	Gas Sales Agreement
IFF	Illicit Financing Flows
IFI	International Financial Institutions
IMF	International Monetary Fund
IPP	Independent Power Producer
JICA	Japan International Corporation Agency
MDRI	Multilateral Debt Relief Initiative
MDB	Multilateral Development Bank
PPA	Power Purchase Agreement
PPP	Public-Private-Partnership
SNH	Société Nationale des Hydrocarbures / National Hydrocarbons Corporation
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
TICAD	Tokyo International Conference on Africa Development
WB	World Bank
WHO	World Health Organization

# 1 INTRODUCTION AND CONTEXT

2015 marked a particular turn in global development perspectives with the adoption of the 2030 Agenda, the seventeen goals of which hence gear development governance worldwide. That agenda was very much influenced by the Common African Position (CAP) during the related negotiations. Financing for Development (FfD) is a key implementation factor for the 2030 Agenda. The global tendency, since the third International Conference on FfD in Addis Ababa, is toward a new paradigm favouring private finance.

In fact, the Addis Ababa Action Agenda (AAAA) bears a new vision, with the following declaration: “We will promote both public and private investment in energy infrastructure and clean energy technologies including carbon capture and storage technologies. We will substantially increase the share of renewable energy and double the global rate of energy efficiency and conservation, with the aim of ensuring universal access to affordable, reliable modern and sustainable energy services for all by 2030<sup>1</sup>.”

## 1.1 Financing for Development issues in Africa

The African Union “Agenda 2063” is a response to a number of development delays, gaps and challenges, including Infrastructure inefficiencies that cost Africa billions of dollars annually and stunt economic growth. The Programme for Infrastructure Development in Africa (PIDA) is seen as a solution and means to promoting regional economic integration by building mutually beneficial infrastructure in Energy, Transport, Information and Communication Technology (ICT) and Trans-boundary Water<sup>2</sup>. It is expected to generate more international trade and job creation, in line with the spirit of the Agenda 2030

for Sustainable Development, which includes a commitment on SDG 7: “Ensure access to affordable, reliable, sustainable and modern energy for all”.

But more than sixty years after independence, the majority of the countries in Africa are still struggling to emerge from a series of constraints including the absence of development with, a secular infrastructure and technology gaps, extreme poverty and debt burden, combined with numerous external shocks that continuously exacerbate the difficult economic situation. The most recent one is the COVID-19 pandemic which has spared no place on the Continent. Infrastructure remains Africa’s top priority, but resources mobilization for related financing is a huge challenge as well as making sure that the corresponding choices really meet the people’s needs. The new global development financing vision, by promoting blended financing with a prime role to private finance, beside the ever weakening Official Development Assistance (ODA), increasingly puts forth Public-Private Partnerships (PPPs) as a way to finance development projects. Donor governments and International Financial Institutions (IFI), such as the World Bank Group (WBG), have set up multiple donor initiatives to promote changes in national regulatory frameworks to allow for PPPs, as well as to provide advice and finance to PPP projects.

### 1.2 Maximising Finance for Development (MFD)

In 2017, the WBG launched the ‘cascade’ approach, now officially known as Maximising Finance for Development (MFD), which systematizes the WBG’s efforts in support of the expansion of private finance in infrastructure, including in social sectors. According to the ‘cascade’ principles, the WBG “first seeks to mobilise commercial finance” and “only where market solutions are not possible through sector reform and risk mitigation, would official

and public resources be applied”. Accordingly, the last decade has seen a huge increase in the amount of money invested in PPPs in the developing world, with a focus on middle income countries and on energy and transportation.

This paper reports on a study conducted by AFRODAD on PPP-Financed Energy Infrastructure Projects in Central Africa, with a view to expanding the understanding of the risks and benefits of PPPs in the energy sector and how they compare to publicly financed energy infrastructure projects.

### 1.3 Approach and methodology of the study

Looking at the Kribi Power Plant Expansion as the selected PPP-financed infrastructure project in West Africa, the study is based on a critical analysis of current approaches to and prospective plans for infrastructure development in the energy sector, with a view to proposing alternative visions of infrastructure governance and development. The project meets the criteria of being financed jointly by an International Financial Institution (IFI) or a Multilateral Development Bank (MDB) or one or several of its intermediaries and the private sector. The case analysis aims at informing on the key determinants of that financing scheme as compared to other possible formula, underlining the peculiarities and their impact on the beneficiaries on the one hand as well as public finance and the situation of the country on the other hand.

In this is entailed an identification of the characteristics of the PPP scheme as ascribed in the national and regional legal framework and applied onto the Kribi Power Plant Expansion project, as well as the underlying policy reasons or consequences, looking at the traditional development financing reference. The analysis

goes beyond how a PPP operates in application to energy infrastructure, to show how it affects the people and the energy management and public governance or debt management in general. The question is whether public-private partnerships in energy infrastructure projects help meet the expectations of relevant stakeholders.

The ultimate purpose is to provide an understanding of the risks and benefits of PPPs (analysis of the cost-effectiveness) in the energy sector and how they compare to other project financing options, like publicly financed energy infrastructure projects. It is also about suggesting alternative visions of infrastructure governance and development, looking at the role of PPPs in energy infrastructure projects in the broader context of a changing landscape of development finance over the past two decades.

The main issues addressed thus include: Cost-effectiveness and risky transfers in terms of the kind of benefit expected and investment risk sharing between the public and the private sector and consequences on budget expenditures; Development outcomes which has to do with the sustainable development impacts of PPPs, including on affordable access to public services for the poor, the fight against inequality and on the environment; Impacts on democratic governance, looking at the effect of public services commissioning by the State on democratic accountability and on policy space, debt transparency, quality infrastructure investment and illicit financial flows (IFFs); Environmental considerations in infrastructure investments by assessing the positive and negative impacts on ecosystems, biodiversity, climate and the use of resources, human rights and rights of indigenous people; as well as existing alternatives.

<sup>1</sup> <http://pubs.iied.org/pdfs/G03929.pdf>

<sup>2</sup> <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/programme-for-infrastructure-development-in-africa-pida>



## 2 THE CHANGING FfD PARADIGM AND PPP IN CENTRAL AFRICA

When UN heads of State and Government gathered in Monterrey, Mexico, from 21-22 March 2002, for the first Conference on Financing for Development (FfD), as part of the moves toward achieving the Millennium Development Goals (MDGs), they resolved to address the FfD challenges around the world, particularly in developing countries. Their goal was then to eradicate poverty, achieve sustained economic growth and promote sustainable development, as the World advanced toward a fully inclusive and equitable global economic system (United Nations, 2002). The action areas of the Addis Ababa Action Agenda (AAAA) that later on resulted from the 3rd International Conference on Financing for Development (FfD) are: national policies and regional cooperation for domestic public resources mobilization; private business and finance; international development cooperation; international trade; macroeconomic and financial stability as well as science, technology and innovation.

This may somehow appear to be in continuation of the Monterrey FfD consensus that leaned on:

- a. Mobilizing domestic financial resources for development;
- b. Mobilizing international resources for development: foreign direct investment and other private flows;
- c. International trade as an engine for development;
- d. Increasing international financial and technical cooperation for development; External debt; and
- e. Addressing systemic issues (enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development).



But the AAAA is characterised by a new paradigm that tends to place the private sector at the core of development financing, while pushing developing countries toward reforms to de-risk private investment ventures, with a view to promoting private sector instruments, including Public Private Partnerships (PPP), in the World Bank's spirit of Maximising Finance for Development (MFD).

### 2.1 Evolution of the FfD landscape in Central Africa

There has long been anxiety about the possibility of another economic and financial crisis, after the 2008 financial break-down<sup>3</sup> in the US that affected the whole World. Today, beyond the health consequences of the COVID-19 pandemic, serious concerns are raised with regard to the Financing for Development (FfD) process, particularly in Africa, both in terms of resources availability and in terms of the type of financing. In 2020 the International Monetary Fund (IMF), in its data releases, suggested more difficulties for the near future, as recovery perspectives from the pandemic were still rather unclear in all regions<sup>4</sup>.

#### 2.1.1 ODA and financing challenges in the Energy sector in Africa

Africa is particularly affected by the current global crisis situation, with a weakening trend in Official Development Assistance (ODA), which actually represents one of the major sources of financing for development. ODA is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries. The DAC adopted ODA as the "gold standard" of foreign aid in 1969 and 0.70 percent GNI was subsequently agreed upon as the minimum ODA target to which developed countries

<sup>3</sup> The 2008 financial and economic crisis originated from the US and spread all over the World in multiple forms through trade and other connections

<sup>4</sup> [https://unosd.un.org/sites/unosd.un.org/files/financing\\_for\\_sustainable\\_development\\_report\\_2021.pdf](https://unosd.un.org/sites/unosd.un.org/files/financing_for_sustainable_development_report_2021.pdf)





committed. But as of April 2021 very few (5) among these countries had met that target since it was established, and the weighted average of DAC members' ODA has never exceeded 0.4% of GNP5

In the meantime, fiscal deficits for Sub Saharan Africa has worsened, increasing on average to 7.6 percent of GDP in 2020, almost doubling from the 4.4 percent average in 2019, with huge negative effects on countries' debt sustainability6. Yet, an annual investment of at least USD 93 billion is required for Africa to meet its infrastructure needs – USD 40.92 billion (44 per cent) for energy, USD 21.39 billion (23 per cent) for water and sanitation, USD18.6 billion (20 per cent) for transport, USD 9.3 billion (10 per cent) for ICTs and USD 2.79 billion (3 per cent) for irrigation7. Energy thus appears to be the area in need of the most financial investment. 789 million people lack electricity as of 20188. This lack of access to energy, if not properly addressed, may limit capacities to stimulate economic and social growth, prevent disease and that of fighting pandemics (healthcare facilities powering; clean water supply for essential hygiene; enabling communications and IT services that connect people while maintaining social distancing).

Implementation of the Addis Ababa Action Agenda (AAAA) in such conditions is challenging, particularly as concerns domestic resources mobilisation (DRM) and blended finance. Additionally, African debts in general have surged against the backdrop of increasing development financing challenges, combined with depreciating foreign exchange

terms and cumulative increasing interest on previous borrowing. The general gross government debt has more than doubled during the past decade, moving from 28.5 percent of the GDP in 2010 to 60.7 percent in 2020. IMF projections in 2020 indicated that this indebtedness level would not fall significantly in the next five years The majority of countries in West and Central Africa moved from low and moderate risk debt distress towards falling into debt distress or being at a high risk of doing so9.

2.1.2 Private Finance and the Emergence of PPPs

Against the increasing demand in infrastructure financing and the limited offer of resources from DRM and ODA, the private sector appears as the complementing option for investment financing in Africa, with different modalities including Public Private Partnerships (PPP) that are gaining space, particularly in energy financing. A new window for international financing co-operation opened globally with the AAAA, as efforts from several instances (G20, FOCAC, TICAD, JAIKA...) to intensify cooperation with Africa emerged with the obvious tendency to link private financing of infrastructure with regulatory de-risking reforms. The G20 Eminent Persons Group for instance set the stage for the continuation of a major shift in global financial governance that would increasingly use public money to leverage private finance10

In Cameroon, PPPs are legally understood, in reference to the law setting the general regime for partnership contracts. It is a process whereby a

partnership agreement governs relations between a public entity and one or more private entities, within the framework of large scale projects (technically and financially). The State or one of its branches thus entrusts a third party, for a fixed period, depending on the amortization period of the investments or the financing methods selected, responsibility for all or part of the phases of an investment project: design of works or equipment necessary for a public service; funding; construction; transformation of works or equipment; servicing or maintenance; and operation or management11.

Cameroon's PPP institutional framework includes the Support Council for the Realization of Partnership Contracts (CARPA) which is an Expert Body created by decree n° 2008/035 of January 23, 2008, amended and supplemented by decree n° 2012/148 of March 21, 2012. It is placed under the supervision of the Ministry in charge of the Economy. The CARPA's mission is to contribute, through its expertise, to the creation and renewal of public infrastructure and equipment, as well as to the improvement of the quality of public service through large-scale technical and financial projects based on partnership contracts.

PPPs legally benefit from a specific and stable tax, financial and accounting regime in Cameroon. Transactions carried out under the partnership contract regime are subject to the exchange regime in force and benefit from related guarantees. When the partnership contract entails occupation of the public domain, this constitutes an

authorization to occupy the considered domain for the contract duration. The contract holder has, unless otherwise stipulated therein, real rights to the works and equipment that he carries out, with the prerogatives and obligations of the owner, under the conditions and within the limits stated in the contract to guarantee the integrity and use of the public domain (as in Art. 14-17 of the Law on PPP partnership contracts)12.

2.2 PPPs as applied to the Kribi power expansion project (analysis of the financial package)

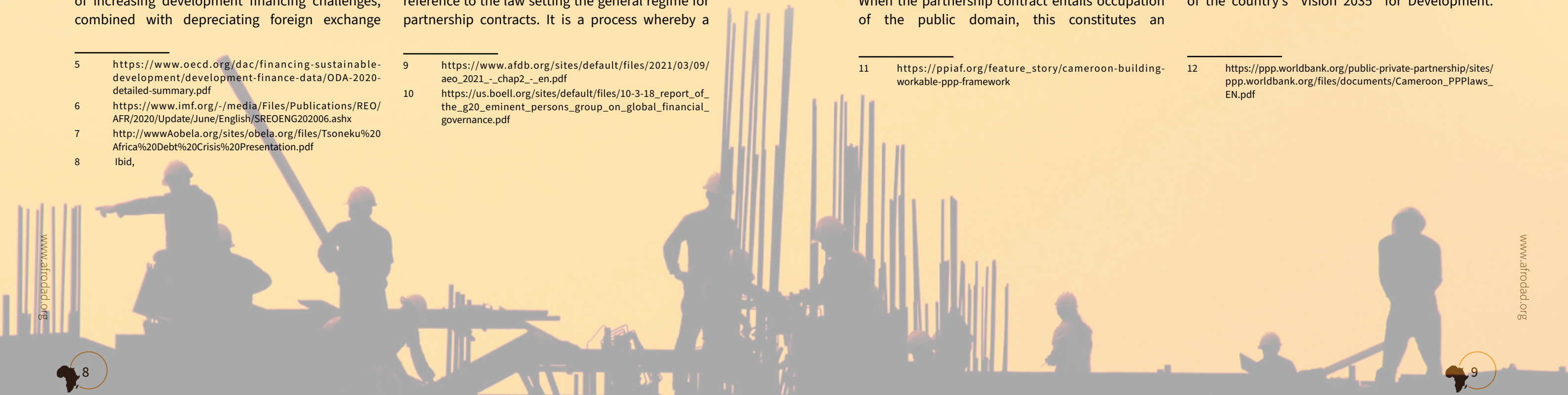
Cameroon is a country with an enormous hydropower potential, thanks to a very rich fluvial network, with many rivers likely to receive dam construction, in four different water basins (the Atlantic Symtem with the Sanaga River, which is the longest in the country); the Niger River basin with the Benoue River; the Congo basin with the Sangha River; and the Lake Chad basin with the Logone and Chari Rivers). But for almost two (2) decades after independence, Cameroon still relied mainly on a single power dam on the Sanaga River, to provide the two main cities (Douala and Yaoundé) and other localities with electricity, until the country got into an obvious energy crisis, despite the commissioning an additional dam in 1976 . That situation was acknowledged in the Growth and Employment Strategy Paper (GESp), the ten (10) year (2010-2019) translation of the country's "Vision 2035" for Development.

5 <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf>  
6 <https://www.imf.org/-/media/Files/Publications/REO/AFR/2020/Update/June/English/SREOENG202006.ashx>  
7 <http://www.Aobela.org/sites/obela.org/files/Tsoneku%20Africa%20Debt%20Crisis%20Presentation.pdf>  
8 Ibid,

9 [https://www.afdb.org/sites/default/files/2021/03/09/aeo\\_2021\\_-\\_chap2\\_-\\_en.pdf](https://www.afdb.org/sites/default/files/2021/03/09/aeo_2021_-_chap2_-_en.pdf)  
10 [https://us.boell.org/sites/default/files/10-3-18\\_report\\_of\\_the\\_g20\\_eminent\\_persons\\_group\\_on\\_global\\_financial\\_governance.pdf](https://us.boell.org/sites/default/files/10-3-18_report_of_the_g20_eminent_persons_group_on_global_financial_governance.pdf)

11 [https://ppiaf.org/feature\\_story/cameroon-building-workable-ppp-framework](https://ppiaf.org/feature_story/cameroon-building-workable-ppp-framework)

12 [https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/documents/Cameroon\\_PPPlaws\\_EN.pdf](https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/documents/Cameroon_PPPlaws_EN.pdf)





The diagnosis of the GESP indicated at the time that “in the energy sub-sector, due to insufficient planning, the country had had to deal with a paradoxical structural deficit, considering the huge hydropower potential of about 115,000 GWh/year, of which only about 4% had been developed in the nineties (FAO, 2021). The main challenge for the Cameroonian government as regards energy was thus to significantly increase production by developing the hydropower and gas potential and the modernization of the distribution networks. The aim was to be able to always meet domestic demand, and also to develop export of surplus energy capacities in an existing and open sub-regional market.

Among the project ideas that emerged, the government envisaged the construction of a gas pipeline to carry gas from offshore oil producing fields around Limbe in the South-West region toward the main City Douala for power production. In addition to that there was also the development a number of gas power plants, to capitalize on the Sanaga gas reserves, as substitute for fuel imports, in Dibamba near the city of Edea and in Kribi. The purpose was to diversify Cameroon’s energy production sources and energy mix through gas generation expansion, in order to end recurrent outages, while displacing inefficient thermal power plants and thus reducing environmental impact.

### 2.2.1 The Features of the Kribi Power Plant Project



Caption 1. 3D Illustration of Kribi Power Plant (Source Kribi Power Development Company 2016)

The Kribi power plant Project was meant to provide incremental generation capacity of 125 MW and increase reliability of electricity supply. The power station is located in the South Region of Cameroon, in the community of Mpolongwe, approximately 10 kilometres north of the coastal city of Kribi which had an estimated population of 60,000 inhabitants in 2007. That location is approximately 150 Km from Douala, the largest city and busiest port of the country, with at least 2 million inhabitants.

It is owned and operated by the Kribi Power Development Corporation (KPDC), an affiliate of AES Group, an American power generating company that also owns Cameroon’s power distribution company, AES-SONEL<sup>13</sup>. It was designed and built to generate a capacity output of 216 MW by burning natural gas provided by the National Hydrocarbons Corporation (SNH) under a Gas Sales Agreement (GSA). SNH purchases gas from Perenco, operator of the Sanaga South gas field, under a separate GSA.

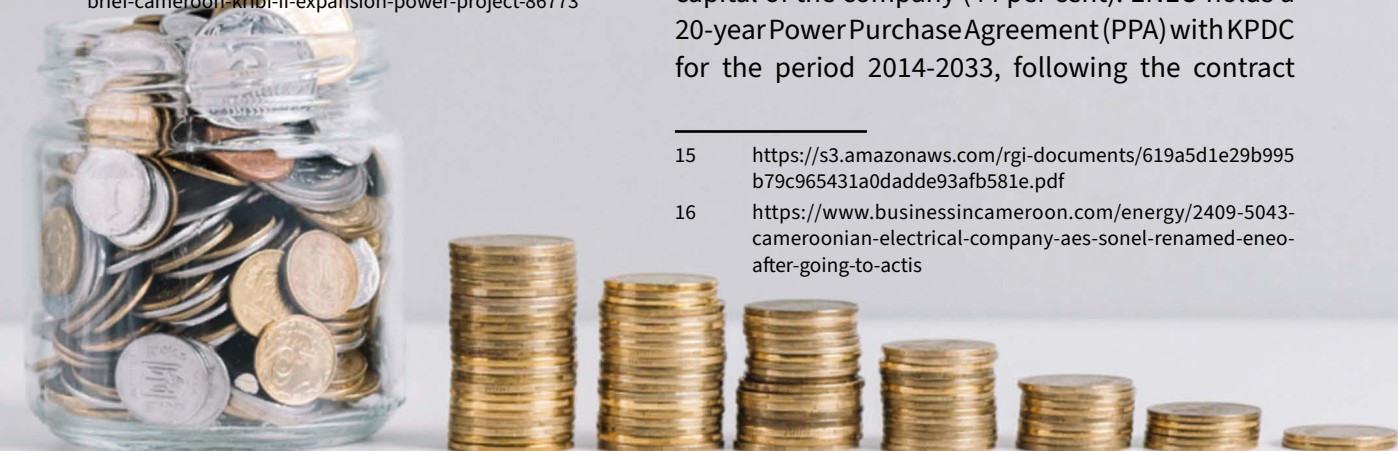
<sup>13</sup> AES SONEL is the entity that took over from the State owned National Electricity Company (SONEL), following privatization, as part of the structural adjustment programme with the IMF and the World Bank in the nineties.

Construction of the Kribi power plant began in March 2009 and commissioning was completed in June 2013. The power generated under a voltage of 11 kV is transformed by step-up power transformers to be transmitted via a 225 kV double circuits high tension transmission line of approximately 100 kilometres to Mangombé, near Edéa, where it is integrated in the national electric grid. A step-down transformer enables feeding Kribi under 30 kV. In addition to the original achievement of the plant, there has been an expansion project (Kribi II) consisting of the development, design, construction, operation and maintenance of a 125 MW gas-fired power plant extension. The scope of that second part of the project also included the plant switchyard and interconnections. The Kribi Power Plant’s aggregate capacity, after expansion is 340 MW<sup>14</sup>

### 2.2.2 The financing package of the project

In order to understand the financing scheme of the Kribi power plant and expansion project, it is important to consider a number of key dates in the evolution of the energy sector in Cameroon, particularly as concerns electricity. In 2007 the project to create the Kribi gas plant and the 225 KV transmission line between Kribi and Edea was launched. In 2008 the Kribi Power Development Company (KPDC) was created. In 2009, the first power producer outside of the AES SONEL concession, the Dibamba Heavy Fuel Oil (HFO) operated thermal power plant (88 MW) was commissioned and awarded to the US firm AES Corporation, adding emergency thermal power capacity to the system through the Dibamba Project, under the Dibamba Power Development Company (DPDC), established to operate as an Independent Power Producer (IPP),

<sup>14</sup> <https://www.afdb.org/pt/documents/document/project-brief-cameroon-kribi-ii-expansion-power-project-86773>



to generate electricity and sell to AES SONEL<sup>15</sup>.

Still in 2009, comprehensive economic analysis confirmed that the Kribi Gas Power Project was the next least cost generation investment in Cameroon’s electricity sector and a PPP contract was signed between the Government and KPDC. In 2013 the Kribi gas plant was commissioned. In 2014 an agreement was signed with Globeleq Cameroon Management Services (GCMS) for the supervision of the company’s management after the National Electricity Company (AES SONEL)’s shares were bought back by Globeleq. The same year, AES Corporation sold its equity stake in AES-SONEL to the private equity fund Actis Capital LLP (ACTIS) which became the strategic partner for the remaining period of the concession. AES-SONEL was renamed Energy of Cameroon (ENEO Cameroon S.A. In 2015 Globeleq Africa, the majority shareholder of the KPDC, was sold by ACTIS to the Anglo-Norwegian consortium Nordfund-CDC. ENEO Cameroon and ACTIS agreed to undertake a series of actions to improve services, financial viability and governance. In 2018, the Government of Cameroon agreed to extend the ENEO Cameroon’s concession for another ten years beyond 2021<sup>16</sup>.

The construction of the plant under a Build, Own, operate and Transfer (BOOT) structure was originally budgeted at about US\$390 million (CFA: 176.3 billion), with US\$132.5 million (CFA: 60 billion) provided as a loan by a consortium of banks led by Ecobank. The African Development Bank (AfDB) provided another loan of US\$64.3 million (EUR45 million). The remaining US\$193.2 million (CFA: 87.5 billion) was sourced from other lenders. The Ministry of Energy and Water supervises the Kribi Power Company Development (KPCD) and represents the financial interests of the Cameroonian State in the capital of the company (44 per cent). ENEO holds a 20-year Power Purchase Agreement (PPA) with KPDC for the period 2014-2033, following the contract

<sup>15</sup> <https://s3.amazonaws.com/rgi-documents/619a5d1e29b995b79c965431a0dadde93afb581e.pdf>

<sup>16</sup> <https://www.businessincameroon.com/energy/2409-5043-cameroonian-electrical-company-aes-sonel-renamed-eneo-after-going-to-actis>





takeover from AES SONEL in 2013. The National Hydrocarbons Company (SNH) has been the supplier of natural gas since 2008. GCMS has been providing management supervision since 2014.

2.2.3 Peculiarities and issues regarding the PPP of the Kribi Power Plant project

Even though the Kribi Power Plant and Extension project's PPP is managed under the law on partnership contracts, the project is not part of the CARPA portfolio. It falls under the sectoral oversight model, meaning that it is directly managed by the Ministry of Energy and Water beyond the expertise assistance of the CARPA. This exposes the project to risks including corruption, weak regulation and limited technical capacity to protect the interest of the State.

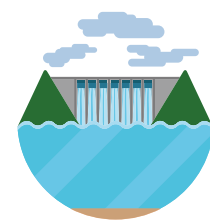
The history of this PPP also shows that the private partner is essentially made up of foreign investors, as nationals are rather absent in the model, which favoured Foreign Direct Investment (FDI). Having domestic investors as part of the financing package would have been a positive factor in terms of impact on the national economy and positive and progressive technology transfer. Domestic banks were indeed part of financing package, but actually these banks too are generally extensions of foreign banks.

2.2.3 The impacts of the project

The Kribi Power Plant and Extension project has had both negative and positive impacts at different levels, including social, economic and environmental. The 216 MW of electricity supplied by the plant increased Cameroon's generated capacity to 1,233 MW. The power production was structured in such a way that 58 percent was aimed for hydroelectric plants supply that is 720 MW and 41 percent for thermal power plants supply that is 513 MW. The power plant temporarily filled the country's electricity production deficit and diversified electricity production, pending the launch by the government of a large hydroelectric program in 2017, aiming at a capacity of 6,000 MW. In that respect, the Lom Pangar dam, played a major role in reinforcing and stabilizing power

generation on the Sanaga river, while other dams complemented the country's power production landscape (Meve'le, Mekin, Natchigal...).

Access to Electricity - Access to electricity in the cities of Kribi, Edea, Douala and even the capital Yaoundé improved greatly, changing the social condition of many households. Poverty Reduction - The project has certainly had an effect on poverty reduction, as many activities hindered by the lack of electricity could be boosted, changing life styles. An assessment by the World Bank, regarding an IDA guarantee of US\$40 million, indicates that through this Project, the institution was supporting a critical part of the "Vision 2035" (World Bank, 2019). This is relevant, as the project addressed a number of key objectives of the national development strategy, including among others Cameroon's objective of achieving shared growth. However, the country is still far from achieving all development objectives linked to energy production. Cameroon looks forward to valuing its hydropower development potential, the third largest in Sub-Saharan Africa (over 12,000MW) more. Clean Energy Production - The project contributed to increasing the level of clean energy production in Cameroon by reducing reliance on thermal power generation using traditional more polluting fuels. In fact, the summary Environmental and Social Impact Assessment (ASIA) of the Kribi Power Plant Project indicates that its level of gas emissions by burning natural gas, even at maximum capacity, would not lead to an exceedance of the World Health Organization (WHO) guidelines for concentrations of NO2, SO2 or PM10. The level of pollution of the Kribi Power Plant is thus minimal.



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17 https://ruor.uottawa.ca/bitstream/10393/39162/1/RebeccapurdyFinalVersionMRP.pdf  
18 https://www.afdb.org/sites/default/files/documents/environmental-and-social-assessments/cameroon\_-\_kribi\_ii\_power\_project\_-\_esia\_summary\_.pdf

# 3 ANALYSIS AND RECOMMENDATIONS - A look at the Kribi PPP effectiveness and impact

## 3.1. Effectiveness and Impact

The Kribi Power Plant and Extension project's case is indicative of the kind of results that can be achieved through PPPs, in terms of: effectiveness and impact including risk management and cost-benefit considerations on the one hand and developmental and debt sustainability factors on the other hand; as well as alternatives. It is therefore imperative and useful to examine this PPP model in terms of how it has been beneficial or not.

### 3.1.1 Effectiveness of the Kribi Power Plant PPP model

The Kribi Power Plant and Extension project capitalized on a low-cost generation resource. According to the World Bank, it provided the Cameroonian Government with an opportunity to increase the availability and reliability of electricity supply using a low-cost generation resource (gas), available in the country thereby creating positive value for the economy. The World Bank was instrumental in:

- (i) mobilizing substantial commercial lending to support the least cost investment projects necessary to spur growth;
- (ii) helping the development of local financial markets to provide project finance with longer term maturities; and
- (iii) reducing the exchange rate risk of the national power generation and distribution company (AES SONEL) which generated its revenue in local currency (World Bank, 2019).

This is indicative of some level of effectiveness and gains in the financing area, as the Project was in line with the World Bank Group's Sustainable Infrastructure Action Plan which encourages increased cooperative approaches among different institutions of the World Bank Group, the donor community and the private sector. A sustainable financing was thus made possible that allowed the project to be implemented fully and achieve its development objectives. However, regarding risk analysis, the corresponding PPP model poses a policy space issue. It is accompanied by extensive de-risking measures actually imposed by the Bretton Woods' institutions onto developing countries, with a view to promoting and supporting private investments, whereas these investments happen to be essentially held by foreign than by domestic investors insignificantly represented in the financing scheme.

### 3.1.2 Risk management and cost benefit considerations

Looking at its results, the Kribi Power Plant and Extension Project's PPP has been demonstrated to be cost-benefit effective. Participation of local commercial banks in the financing package of the project was conditioned by political and regulatory risk mitigation. It was made known to the Government of Cameroon by private lenders that without adequate credit enhancement mechanism to deal with perceived uncertainty and risks related to government performance, they would not be able to provide loans. A wider World Bank Group participation was thus needed to meet the total project costs, by compensating insufficient private sector financing. The Government had to request for an International Development Agency (IDA) Guarantee to facilitate the participation of local banks through long-term, local currency



denominated debt, where these banks were used to providing short-term corporate finance at high cost to the national electricity company before.

The 100 percent guarantee covered a loan amount of CFA 40 billion, that is about 31 percent of overall project debt, with a 14-year maturity. Equity represented 25 percent of total project costs and was provided by the Government of Cameroon and AES Corporation. The World Bank expressed satisfaction that “apart from backstopping political and regulatory risks under the GCA, the IDA Guarantee entailed an innovative financing design that helped both overcome structural limitations in the local financial markets that prevented long-term lending and minimize the impact of local loans on the bulk supply tariff. It was estimated by the World Bank that regulatory restrictions in Cameroon’s financial market limited the intermediation of liquidity toward long-term productive investments (World Bank 2019).

The PPP model implemented in the Kribi Power Plant and Extension project is based on instruments that concentrate all the risk on one of the “Ps” (the Public party), while the other “P” (the Private party) is spared any risk and put in a position to earn the biggest share of the profits, in proportion of its majority capital share. Despite any advantage attached to the model, there are clear evidences that it may impose serious limitations on the policy space of the government, in a strategic sector for the country, considering the social importance of electricity. The imbalance in the risk sharing is a serious issue with this PPP model, as it goes against the very principle that governs risk sharing in business whereby the associate who takes the more risk earns the most profit.

3.1.3 Developmental and debt sustainability factors

The PPP financing model has an impact on a country’s debt situation, as it gives way to additional known and potential costs incurred by the Government to procure services from the private partner and to the obligation to honour calls on guarantees. The influence of the PPP is much the same as if the State had borrowed to finance public investment and provide a service

itself. Fiscal adjustments are thus needed to factor in PPPs in the debt sustainability analysis. The IMF sees two ways to do this: (1) PPP obligations including related future service payments less contractual receipts from private operators and calls on guarantees less contingent receipts from private operators, or (2) PPP costs are counted as future primary spending. In the first case, debt sustainability is judged by reference to public debt plus PPP obligations whereas in the second it is judged by reference to public debt alone.

These considerations notwithstanding, PPPs generate additional liabilities for the State beside direct public loans. Because of the unfair risk sharing in the World Bank model, these liabilities in terms of effect on the debt situation are very close to public loans. However, PPPs also provide assets, gains or revenues. All should be factored in the debt sustainability analysis. In the case of the Kribi Power Plant and Extension project, the gains to consider for the State are more likely in the form of potential reduction of electricity tariff compensation spending or fiscal revenue renouncement vis a vis the power provider. Never-the-less, there is an obvious developmental impact attached to the fact that the PPP model in this case allowed quasi-direct redistribution of a natural resource (gas) yield to citizens, through better access to electricity.

3.1.4. Impact on Democratic Accountability -

3.2 Conclusion and Recommendations on alternatives

In addition to the limited regulatory space for the government and the absence of domestic private investors in the scheme, the main issue with the PPP model applied to the Kribi Power Plant and extension model, based on the World Bank approach, with instruments that favour the private party of the partnership is the risk and benefit sharing formula. 100 percent financing risk goes to the Public party against 0 percent for the Private party, whereas 56 percent benefit goes to the Private party and 44 percent to the Public. This is the visible part of PPPs’ unfairness to which should be added hidden ones, embedded in the related partnership contract in term of fiscal and pricing advantages that reduce the share of revenue earned by the state.

These advantages are sometimes exaggerated, reason way disclosure of the full content of partnership contracts is not always guaranteed.

It is crucial to look toward alternative options to PPPs as presently formulated which address these issues. Risk sharing could be reviewed so as to get the private party bear part of it, even if that would mean a minority share but more than 0 percent. All the same one could see the Public party take the maximum share of the capital of the entity at the helm of the PPP and thus of the profits. This indeed may render PPP financing less attractive for potential private investors, but it is a negotiation space that developing countries have to get reopen and be prepared to shape measures in response to the reluctance of potential investors, including a better mobilization of domestic resources.

Concretely, a number of actions could be taken at different levels to adjust the course with regard to PPPs in Central Africa.

3.3 Country level action

At country level the legal framework could be adjusted to specify the systematic involvement of domestic private investors, in a spirit of grooming an effective private sector, through guided collaboration with foreign investor, and specific supports. This model has had success in Singapore for instance with the instrumental role of the Singapore Enterprise Development Board. The government could also shape negotiation lines

to follow in preparation of PPPs and enhance the actions of the CARPA for all PPP cases, so as to ensure harmonisation and better protection of State interest.

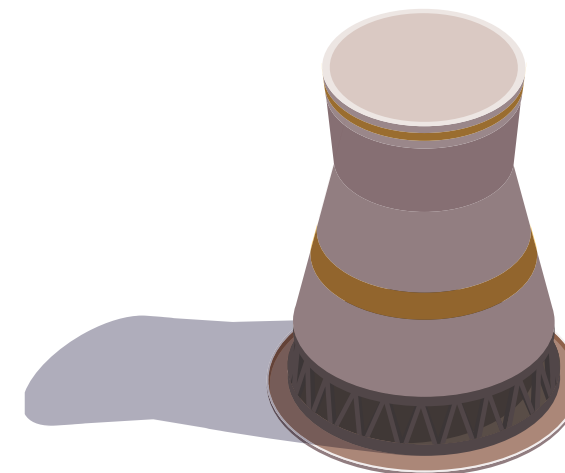
While adjusting the PPP model that aims at a better exploitation of national natural resource for boosting the national economy and ensure effective redistribution of wealth as with gas in this case, emphasis should be put on domestic resources mobilisation.

3.4 Regional level action

At regional level, it is essential to have concerted and harmonized actions with regard to PPPs in all sub-regions, looking at grooming domestic private sectors through coordination and specific supports. This could be done through the creation of new legal instruments or the adjustment of existing one.

3.5 Global perspective

Globally, it is about time to reconsider the private sector financing instruments, including the PPPs guidelines to build a fairer model, mindful of the policy and regulatory space of developing countries. This may sound unacceptable for neo-liberals, but it is the way to go, as fair business could generate more business. While requesting for reforms to protect private investors interests, measure need to also be taken to ensure that there is enough regulation to avoid off track behaviours that may lead to issue such as Illicit Financial Flows, corruption and frenetic search for tax heavens.



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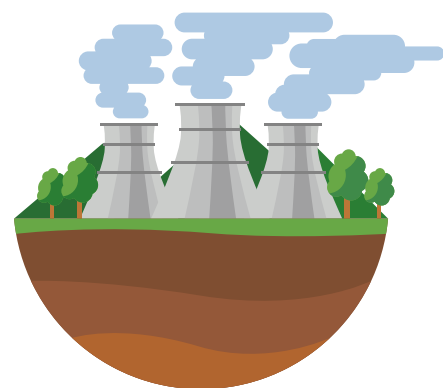


## CONCLUSION

It is an indisputable fact that the Addis Ababa Action Agenda (AAAA) has set the pace for a paradigm shift in Financing for Development, with the spirit of using public funds to leverage available and idle private financing. Whether this shift makes it possible or probable that the SDGs and the Paris Climate goals risk not to be pursued at the margins depends on the way private financing instruments such PPPs are designed and implemented. At this stage, there is a globally imposed imbalance between the protection of the interest of the private sector and those of the public sector.

Developing countries are particularly at disadvantage because they continue to appear on the global development financing markets in a weak negotiation position, due to the fact that they do not effectively factor in their potential assets. The issue is not necessarily rejecting PPP as an instrument for financing development, but rather to harness its advantages. This has to be done through a serious review of the principles that guide the corresponding financial model, so as to get to more global fairness.

The Kribi Power Plant and Extension project in Cameroon illustrates what happens in Central Africa with the implementation of PPPs. The scheme shows some level of effectiveness and real development advantages, but also drawbacks. Government policy and regulatory space is seriously limited by the World Bank PPP guidelines and domestic resources are yet to be used at their full potential, including in terms of specific support to domestic investors to involve them better in PPPs. Addressing these drawbacks could make PPPs a reasonable development financing instrument. This obviously does not seem to meet the general global trend of thought, particularly in spaces such as the G20 or even at the level of the Bretton Woods Institutions, and may lead to mitigating the attractiveness and effectiveness of PPPs.



*The Kribi Power Plant and Extension project in Cameroon illustrates what happens in Central Africa with the implementation of PPPs. The scheme shows some level of effectiveness and real development advantages, but also drawbacks.*

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