



# The Bumbuna Hydro-electric Project

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A case study on private sector  
involvement through bilateral loans

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# Background

- Construction of a dam on the Seli River, a 50 Megawatt power station and transmission line
- 40 year history
- Context of power shortage
  - In 2005 only 11 megawatt capacity
  - Only 5% of population with access to electricity
  - High cost



# Project initiation

- Early 1970s a Swiss firm developed a 15 year electricity supply plan, which identified Bumbuna area for dam and station
- In 1972/3 Italian firm Salcost subcontracted feasibility study to 2<sup>nd</sup> Italian firm
- Reviewed in 1974 by third Italian firm (Studio Pietrangeli, SP) who advised another feasibility study after hydrology study
  - Accepted in 1980 by GoSL + WB
- SP then prepared tender documentation (1981/2-1983)
- But in 1981, Salcost negotiated single-source contract deal with GoSL, funded through loan (USD 20 million) underwritten by Italian government
  - Construction camp and preliminary works
  - Contract signed pre-loan
  - Other donors withdrew
- 1983 WB asked for scaled down plans from SP.
  - 2<sup>nd</sup> dam removed
  - Inspection chamber removed (consequences in 2009)
- In 1985 WB withdrew



# Project continuation up to Civil War

- But GoI continued funding
  - 1988 next contracts with Salcost
  - In 1989 USD112 million loan agreed
- In 1991 AfDB signed agreement with GoSL
  - Allowed work to continue to 1992
- In 1993 further contracts signed (not started)
- But in same year funding dried up and 1988 contracts were suspended
  - After debt write off by GoI (USD100 million turned into grants of USD132 million)
- In 1993 AfDB provided funding which allowed 1988 contracts to continue and one 1993 contract to start
- Up to 1997, when construction work was 85% complete
- Then civil war – standstill to 2002



# Post Civil War

- Project re-financing agreement - Salcost inspected site
  - Work could continue
  - But transmission lines subsequently damaged 2004 to 2007 – repaired by 2009 (OPEC funded)
- In 2005 contract addendum for 1988 and 1993 contracts
- In 2007 work suspended due to lack of financing
  - Salcost said gov owed USD38 million plus USD6 million interest from 1990s
    - Never audited
    - Private bank / World Bank risk guarantee deal fell through
  - But newly elected gov secured funding and in 2008 reservoir was allowed to fill for first time 30+ years after first studies
  - First electricity generated in 2009



# But...

- Salcost did not give up claim to debt
- Negotiated deal with energy ministry to own 51% of new Bumbuna Dam Company
  - Rights to cashflow for 20-25 years
  - Deal went through Cabinet but halted in Parliament
- In Nov 2009 responsibility and risk passed from Salcost to Bumbuna Hydro Power Agency (BHPA)
  - No guarantees on project
- Who will run project?
  - Salcost likely to be contracted



# Forward work and management

- Gol pledged USD25 million for next phase preparatory work
  - Construction of 2<sup>nd</sup> dam
  - Gol argues it will not prejudice results of international tender
- Infrastructure cannot handle load
  - Only half capacity
  - Further loans to upgrade infrastructure

# Project Budget

Year	Italian Govt	ADB		GoSL	DFID	OPEC	Total*	%
		Loan	Grant					
							\$US mill.	
1982	20.0						20.0	7%
1989	112.0**						112.0	38%
1990		41.7	3.3				45.0	15%
1995		23.5					23.5	8%
2004	23.4						23.4	8%
2006						10.0	10.0	3%
2008	15.6	11.2		6.5	9.1		42.4	14%
Various				21.7			21.7	7%
<b>Total</b>	<b>171.0</b>	<b>76.4</b>	<b>3.3</b>	<b>28.2</b>	<b>9.1</b>	<b>10.0</b>	<b>298.0</b>	<b>100%</b>
<b>%</b>	<b>57%</b>	<b>26%</b>	<b>1%</b>	<b>9%</b>	<b>3%</b>	<b>3%</b>	<b>100%</b>	

Source: Bumbuna Hydroelectric Project PIU (NPA), GoSL additional financing figure obtained from AfDB





# Questions

- What risk was faced by project in early 1980s and how could it have been avoided?
- What risk is faced now and how can it be mitigated?
- What other experience of risk in bilaterally financed projects and tender processes?