

Public-Private Partnership Stories

Afghanistan: Mazar IPP

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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Three decades of conflict have left Afghanistan's power system battered. More than half of the population has no access to electricity and those connected to the grid suffer from frequent, lengthy power blackouts. Expensive generation is prevalent, and the country has entrenched poverty and stifled economic growth.

The Ghazanfar Group, a leading private conglomerate, will build and operate a 50-megawatt gas-fired power plant, known as the Mazar Independent Power Project (IPP). The plant will be located near Mazar-e-Sharif, Afghanistan's fourth largest city and a growing industrial hub. Once operational, it is expected to supply electricity to around one million people, boost the country's domestic power supply, and reduce dependence on imported power. The project will also result in the creation of almost 200 direct and many more indirect jobs.

IFC played a key role in making the deal possible, bringing in complementary skills across the World Bank Group to ensure delivery on the project. IFC's Transaction Advisory Services engaged early with a private sector partner, the Ghazanfar Group, and the Government of Afghanistan (GoA) on legal, financial, and technical issues leading to bankable project documentation. IFC's Investment Infrastructure team acted as the lead arranger, working to provide debt financing for its own account and mobilize debt financing from other development finance institutions. Working closely with IFC, the World Bank provided advice to the GoA, including regulatory matters and ancillary infrastructure.

BACKGROUND

Afghanistan imports almost 80% of its power supply, largely based on short-term contracts from its Central Asian neighbors. Home to more than 35 million people and a growing population, the GoA is focused on decreasing reliance on imported fuels and increasing electricity to meet demand by developing its own power generation sources.

As mandated by the Ghazanfar Group to help structure an IPP under a public-private partnership model, IFC's Transaction Advisory Services and Investment Infrastructure teams engaged with the GoA and the Ghazanfar Group on legal, financial, and technical issues. IFC also worked with the GoA and the Ghazanfar Group to structure a balanced bankable framework.

The Mazar IPP project will be the country's first independent power plant funded entirely by the private sector, and the first to use domestically produced natural gas—a clean-burning and affordable fuel source.

IFC'S ROLE

IFC leveraged both its advisory and investment teams to support the GoA and the Ghazanfar Group in structuring the project agreements, assisting in negotiations, and mobilize debt financing from other development finance institutions. The proposed investment, advisory interventions, and guarantees, will support the government's strategy to open the IPP market in Afghanistan.

IFC's upstream work to develop the bankable project agreements can be leverage and serve as a template for future IPPs in the country.

TRANSACTION STRUCTURE

The project will involve the development, construction, operation and maintenance of a 50MW green-field, indigenous gas-based power plant. The Project Sponsor, Ghazanfar Group, will be investing in the project through a newly created SPV: the Afghan Power Plant Company Ltd. It will sell the electricity over the next 20 years to Da Afghanistan Breshna Sherkat (DABS), the country's national utility company, which operates and manages power generation, imports, transmission, and distribution throughout Afghanistan. Over the concession term, gas will be supplied by Afghan Gas Enterprise. The GoA will be backstopping the power purchaser and gas supplier obligations through an Implementation Agreement and Guarantee Agreement.

The project documents developed for this project were signed in January 2018 and are expected to serve as a template for the GoA.

MAXIMIZING FINANCE FOR DEVELOPMENT

IFC's Transaction Advisory Services and Investment teams collaborated to provide upstream structuring services to develop a bankable transaction structure and documentation for the project. IFC Investment is evaluating the transaction for participation in project loan and for mobilization of funding through other financial institutions as well as exploring the use of Blended Finance and/or the Private Sector Window (PSW) as additional tools to crowd in financing.

In addition to advising the GoA on regulatory matters and providing technical support on gas supply infrastructure, the IDA is expected to provide an IDA payment guarantee to Afghan power utility DABS. MIGA is also exploring providing cover for the equity provider and debt syndicate.

Together, the World Bank Group and the GoA are connecting Afghans to reliable power.

EXPECTED POST-TENDER RESULTS

- Increase access to stable, domestic electricity for over one million Afghans.
- Improve energy security and reduce reliance on other countries for electricity imports.
- Private sector participation in the electricity generation sector for the first time.
- Demonstrate the viability of a well-structured transaction to unlock additional IPPs to help close the energy deficit.