

- Development Loan Example

Mavuzi and Chicamba Hydropower stations in Mozambique are being refurbished with the support of a development loan from Sida. Through this project EDM, the state-owned power utility, is able to increase the supply of clean energy to the local market, which is crucial for the on-going rural electrification programme. As energy demand is high in the Southern African region generally, any excess energy can be sold into the regional power pool, generating foreign exchange earnings.

The problem and the opportunity

Mozambique has abundant energy resources, not least in the form of clean hydropower. The bulk of this energy is generated in the Cahora Bassa power station, which is operated by an independent power producer. Most of this energy is, however, contractually committed to be sold to the neighbouring countries. As Mozambique had embarked on a programme aimed at increasing electrification of the country, also in the rural areas, the need for the country to increase energy supply for its own needs was fast becoming urgent when the project was proposed to Sida for funding in 2003.

Mavuzi and Chicamba hydropower stations are two of EDM's three main hydropower stations, located in the Tete and Manica provinces of Mozambique. The power stations, which were built in the 50's and 60's, were run down due to lack of proper maintenance, running at only 70% of capacity. With peak power demand being projected to exceed available power in 2010 the possibility of increasing power generation capacity in these two plants was highly attractive, both economically and financially for EDM.

EDM is the state-owned power generation, transmission and distribution company. Coming from a legacy of poor management of both the power assets and the company EDM was, at the time of the Sida intervention,

financially very weak and unable to provide the equity that would have been required for the project to be able to raise sufficient funds on commercial terms.

At the outset of the project 12% of Mozambican households were connected to the national grid, with a very uneven spread of levels from over 30% in Maputo to under 2% in Cabo Delgado in the north. Transmission is a major cost element in a large and sparsely populated country such as Mozambique. The fact that the two power stations are located in the central and north western part of the country therefore further enhances their ability to support electrification in the remoter parts of the country.



The structure of Sida's support

Sida was approached for funding of the two power stations in 2003. Following in-depth feasibility studies and protracted negotiations with a potential private partner it was decided that Sida would support the project with a development loan with a grant element of 60% of the investment through the Government of

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Mozambique. As the final project price, after tendering, was substantially higher than the feasibility studies anticipated, the grant element was reduced to 35%. The grant, which would be converted by the government to an equity investment into EDM, would enable the company to raise the balance of the financing in the form of a loan on market terms.

To ensure that the refurbishment of the power stations becomes long term sustainable, the project also included institutional capacity building at EDM, specifically targeting operation and maintenance competence.

How Sida's key principles and conditions apply

Additionality: Due to EDM's weak financial structure no commercial actor was prepared to fund the investment without the support of additional equity and/or grants. The only other main donor to the sector, Norad, was not prepared to further increase its funding of energy investments.

Market Distortion: Since no other actor would offer the funding, it also meant that the operation was non-distortionary i.e. not interfering with market conditions.

Risk-Sharing Partnership: Sida's development loans should always be provided in complement to other funding. In this case Sida provided 35% of the total financing needed as a grant, while 65% was raised by EDM on market terms and conditions.

Sustainability: The refurbishment of the two hydropower stations was an investment with a high economic rate of return and allowed the continued long term use of existing clean energy infrastructure. The

additional support to EDM aimed at capacity building in O&M further enhances the likelihood of the investment being sustainable.

Eligibility: Sida contributions must be supported by a country and/or sector strategy. In this case both Sida's country strategy, supported both by the Swedish Policy for Global Development and the Policy for Africa, included energy as one of the three main sectors for Swedish support.

Summary

Country:	Mozambique
Implementing Partner:	Government of Mozambique
Co-financier:	KfW and AFD
Direct Beneficiaries:	Electricidade de Mocambique, EDM
Indirect Beneficiaries:	Mozambican energy customers
Value of grant	SEK 300 million
Value of co-financing on market terms:	KfW: 18M Euro AFD 50M Euro.
Duration:	2009-2015