Public-Private Partnership in Electric Power Projects: *the case of Laos*

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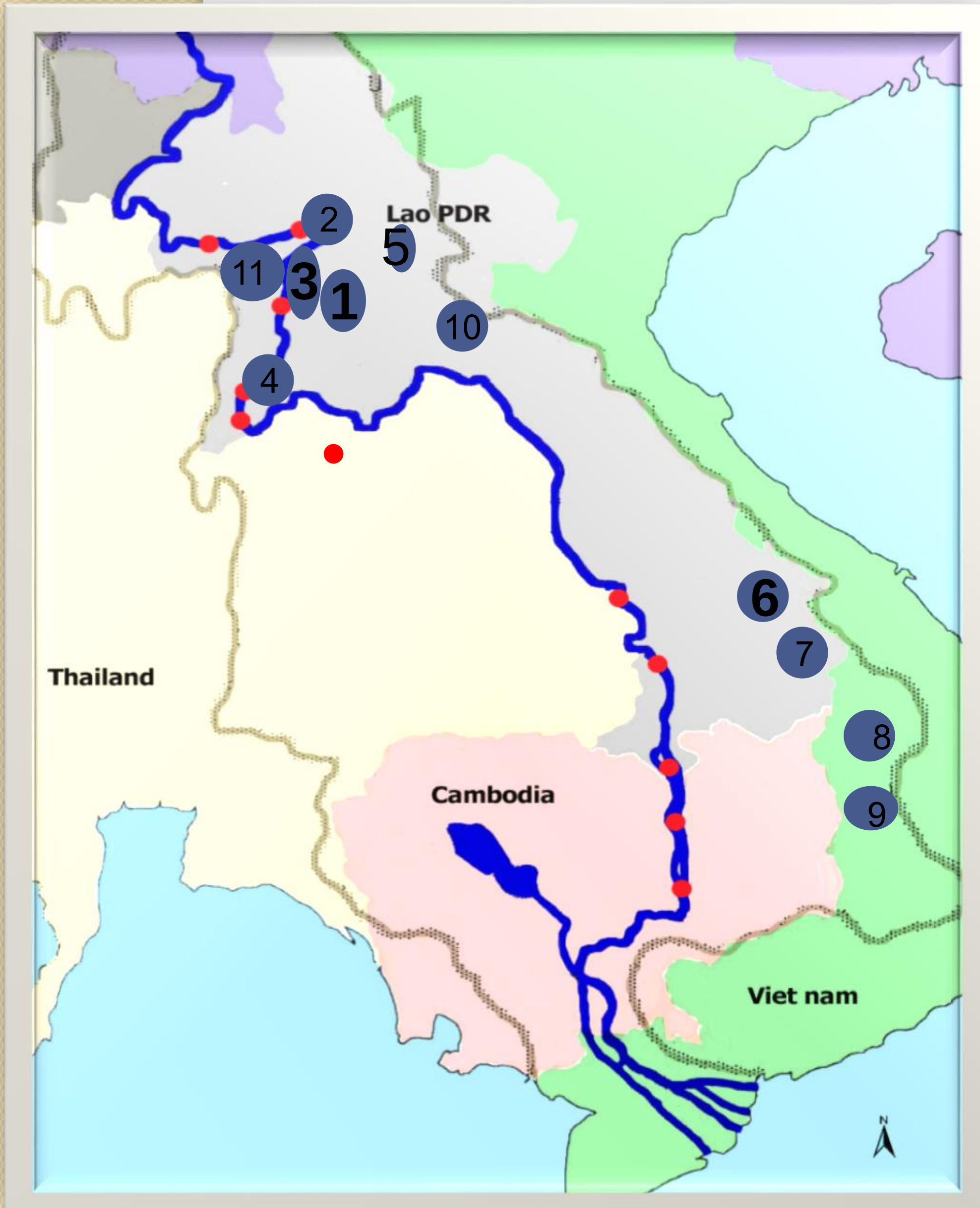
ODI, London
11-12 November 2015

Selected PPP Projects

(as of October 2015)



1. Nam Ngum 2	615 MW
2. Nam Ou Ph 1	540 MW
3. Nam Ngum 5	120 MW
4. Nam Lik 1	100 MW
5. Nam Kham 2 &3	190 MW
6. Theun-Hinboun	500 MW
7. Nam Theun 2	1,088 MW
8. Sekaman 3	250 MW
9. Houay Ho	150 MW
10. Nam Nhiep 2	180 MW
11. Hongsa	1,867 MW

Laos' Experience in Public-Private Partnership in Electricity Infrastructure

- Country's electrification profile
  - 1990~15%
  - 2000~70%;
  - 2015~90%
- Current installed capacity: 5,800MW
- Projects under construction: 4,000MW
- Projects under study: 10,000MW
- Power projects have been mostly developed by diverse participation with a PPP scheme
- Certain policy to frame the PPP scheme

Pertinent Policy for PPP

- Deregulation was first introduced in 1988, whereby privatization in the power generation and distribution has been promoted.
- Decentralization has helped the Lao government allocate certain functions to its local authorities (provinces) and to the private sector and the third sector
- Devolution has provided the Lao government a mechanism, whereby tax collection power are devolved to local authorities
- Deregulation + Decentralization + Devolution = Three-dimensional organization change
- A financing mode is to be chosen aptly

Concept of Project Financing

- New project developed on Build-Own-Operate-Transfer
- Ring-fenced project through special purpose company (limited liability company)
- Project cost comprising:
  - 30% as equity contributed by shareholders
  - 70% as debt financing sourced from commercial banks
- Lenders rely upon future cash flow of the project for interest and debt repayment
- Main collaterals for lending banks are the concession agreement, power purchase agreement, assets and rights of the project company as set forth in project's agreement
- No financial guarantee from the host country
- Guarantee from project investors limited to equity i.e. "**project financing" or "limited recourse financing"**

To Make Electricity Infrastructure Projects Commercially Bankable

- Electricity tariffs are framed by a long-run marginal cost concept
- Concession period is fixed for 30 years
- Private investors need an acceptable return on investment (ROI) to be secured
- Commercial lenders require a minimum debt service coverage ratio (DSCR) guaranteed
- Host government to adjust its fiscal policy in respect of government imposts to be imposed on project by project in order to help secure financial criteria of private parties

Parties involved in the Process

- Governmental agencies as a regulatory body
- State-owned enterprise as a minority shareholder (optional) and power buyer
- Private investors as majority shareholders
- Commercial banks as financiers
- International financial institutions (optional) as (equity) soft loan providers
- Networks such as non-governmental organizations and civil society as stakeholders

Thank you very much for your attention

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