

## **The Shortcoming of Blended Financing in Development Cooperation within the Energy Sector in Cameroon: Show-casing the Dibamba Thermal Power Project.**

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### **Summary**

The Dibamba Thermal Power Project (DTPP) of Yassa, Douala, Cameroon was funded through a Blended Financing (BF) mechanism, which supported both the construction and operational phases since 2008 to the present. The following case study of DTPP examines the development outcomes as well as the limitations using BF resources in a large project.

This €240 million project was funded through a debt-financing package from two Development Finance Institutions (DFIs) -- the German Investment and Development Corporation (GED) and the French PROPARCO – as well as from four Multilateral Development Banks (MDBs)--the African Development Bank (AfDB), the Central African Development Bank (BDEAC), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IFC and MIGFA have had special roles as Private Sector Instruments (PSIs) of the World Bank Group to develop 86MW of electricity to prevent load shedding during Cameroon’s dry season.

Based on well-researched evidence this case study evaluates issues affecting the use of Official Development Assistance (ODA) to crowd in additional private capital through BF mechanisms. It analyzes development outcomes and shortcomings of a project as a means to leverage ODA policy formulation. It provides an appraisal of blended financing inside the context of issues in Cameroon’s energy policy.

The study provides an assessment of the DTPP with respect to development effectiveness principles. Its focus is development results; an appraisal of compliance with social, environmental, labour and human rights standards; and the development of objective criteria to engage with the private sector through the use of ODA funds.

It concludes with strong actionable recommendations to roll back core issues affecting the use of BF in the future. The study maintains that there must be a paradigm shift in the use of ODA funds when engaging with private actors. It asks civil society to strategically promote the implementation of effective development cooperation policies when ODA funds are blended to support private actors. They can do so through multi-stakeholder dialogue in multilateral and bilateral policy arenas in their countries as well as at regional, continental and global levels.

**1. Context:**

Development cooperation partners have made many attempts to define Blended Financing (BF) within the landscape of the Sustainable Development Goals (SDGs). Thus far, the Organization of Economic Cooperation and Development (OECD) has defined Blended Financing as the strategic use of development finance for the mobilisation of additional finance towards the SDGs in developing countries, with ‘additional finance’ usually referring to commercial finance.<sup>1</sup> This is a growing practice with 17 of the 30 DAC members carrying out blended finance activities as January 2018 and more donors are looking to enter this field. Official development finance plays an important role in unlocking an additional US\$81 billion in private finance for development over four years (2012 to 2015) based on recent OECD analysis.

In January 2018 the OECD DAC published five elaborate principles to guide the implementation of BF by its member countries in the Global South:

**Table 01: OECD DAC Principles on Blended Finance<sup>2</sup>**



The use of Private Sector Instruments (PSIs) and the increasing use of BF in the Global South has prompted the OECD DAC to encourage the implementation of projects using the BF model adheres to the aforementioned principles. To date no best practices examples exist but there are documented case studies from the Global South that clearly outline the shortcomings of BF in development cooperation, particularly in the energy sector.

This case study relies on key informants interviews and focus group discussions as well as a desk review of DTTP literature. Prior to analyzing the outcome of case study proper, it is vital to present Cameroon’s energy policy and context.

Since 1998, Cameroon has witnessed 20 years of transformational energy policy reforms that have focused on the building of a pro-private sector, investment-friendly energy climate. In practice that has meant that Cameroon’s energy management has transitioned from a state electricity monopoly corporation (SONEL) into a mixed public-private energy policy investment model. The government of Cameroon participates at multiple levels in the energy value chain as a regulator, equity investor, energy producer and transmitter in partnership with private corporations.

After 2006 the government accelerated its energy policy reforms towards this mixed public-private energy policy investment model. The energy value chain has been overhauled into five main operators:

- **Energy production operator:** The Cameroon's government drive to harness untapped hydropower (second in Africa after the Democratic Republic of Congo) prompted the creation of the Electricity Development Cooperation (EDC) in 2006. The intention has been to sell energy within Cameroon and to neighbouring countries;
- **Energy transmission operator:** In an attempt to resolve the unequal urban-rural electricity access divide, the government was obliged to create a National Energy Transmission Corporation (dubbed SONATREL) in 2013 to modernize its electricity grid and to accelerate rural access;
- **Energy distribution operator:** The British owned electricity distributor corporation Energy of Cameroon (ENEO Cameroon) is responsible for selling finished energy products and services in Cameroon;
- **Independent Power Producers (IPPs) were accepted in 2001 to pull in additional private capital for energy:** Cameroon is currently witnessing a surge in IPP investments. including the Dibamba Thermal Power Project (DTPP), Kribi Power Development Cooperation (KPDC), and other natural gas fired IPPs; and
- **The Rural Electricity Development Agency created in 2002:** This Agency has as a mandate to accelerate rural access to electricity by ensuring an additional 20% rural access in Cameroon by 2030.

In a bid to accelerate energy access in Cameroon, a subsidiary to AES SONEL was awarded to the Dibamba Power Development Corporation (DPDC) in 2008. They were given the right to develop 86 MW of energy dubbed the Dibamba Thermal Power Project (DTPP) as an IPP. The DTPP was designed to meet the growing public and industrial demand for electricity and to avoid load shedding during the dry season. As noted in the introduction, this case study assesses the development outcomes and shortcomings of the DTPP, a project that has been funded through a Blended Finance (BF) mechanism.

Funders for DTPP have included concessional ODA loans from two Development Finance Corporations (DFIs) – the German Investment and Development Corporation (GED) and the French PROPARCO. It was also financed by four Multilateral Development Banks (MDBs)-the African Development Bank (AfDB), the Central African Development Bank (BDEAC), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The DTPP project was approved for funding by the above-mentioned DFIs and MDBs in alignment with Cameroon's development priorities within the energy sector.

As a private partner AES SONEL received a €240 million debt-financing package from the GED, PROPARCO, AfDB, BDEAC, IFC and MIGA.<sup>3</sup> The table below shows the amounts each contributed. Not all the figures are available due to the limited disclosure policies on the part of some donors.

On 16 June 2014, Globeleq, a British Owned company took over the assets of the DTPP with the Republic of Cameroon retaining its minority shares of 44%. Globeleq is wholly owned by Actis, the British owned emerging markets fund manager, which has also acquired a majority stake in ENEO Cameroon<sup>4</sup>.

The DTPP was consolidated in 2014 with the receipt of a €23.3 million guarantee from MIGA to cover the investment by Globeleq Energy Holdings and guarantee its future earnings for a period of up to 20 years against the risk of breach of contract.<sup>5</sup>

**Table 02:** lists of donors regarding amounts blended and kind support towards the DTPP.

No	Donors	Type of donor	Amounts blended	Kind of Support
a	The African Development Bank (AfDB)	MDB	€ 26 million <sup>6</sup>	Infrastructural development
b	The Central African Development Bank (BDEAC)	MDB	Not available	Infrastructural development
c	The German Development and Investment Corporation (DEG)	DFI	Not available	Infrastructural development
d	The International Finance Corporation (IFC),	MDB	€22 million <sup>7</sup>	Technical support and Infrastructural development
e	PROPARCO	DFI	Not available	Infrastructural development
f	The Multilateral Investment Guarantee Agency (MIGA)	MDB	€23.3 million	Guarantee against risks-breach of contract and future earnings.

It is important to recognize that there are serious reporting challenges in a project like this one, where multiple donors are involved. For instance, the DTPP still lacks a published, harmonized report that has been endorsed by all the donors. As well, there is little harmonized reporting on the DTPP's key project outcomes, making it difficult to access vital data. The practice of financial secrecy and limited sharing amongst donors has greatly reduced the availability of information related to the real

impact of projects like DTPP, which are funded through BF mechanisms, both at the micro and macro levels of the economy.

## **2. The Case Study Outcomes**

### **2.1 Analyzing the DTPP project outcomes according to development effectiveness principles:**

#### **Development cooperation should promote national self-reliance**

During the construction phase, the DTPP plant and equipment were imported via the port at Douala, and then transported to the site by the Douala-Edea road. Most of the electricity equipment and spare parts were produced outside Cameroon during the construction and operational phase. Also, specialized staffs, primarily engineers and technicians, were contracted externally. Both factors reduced technological transfer and made it difficult for Cameroon to replicate and sustain the project without dependence on foreign expatriates, technology and spare parts. Only non-specialized staff, such as security personnel and cleaners and were employed locally.

#### **Development cooperation should help empower people to claim their rights and promote social inclusion**

The DTPP focused on stimulating and sustaining industrial growth during Cameroon's dry seasons rather than increasing rural access to energy. Therefore, its capacity to reduce rural poverty was limited. Community social services, such as health facilities, schools, football fields, potable water, markets and paved roads were not included in the Environmental and Social Impact Assessment (ESIA). They were completely left out as a social development package for the Dibamba neighboring communities.

The list of those affected by land expropriation, resettlement and crop compensation were not published. Lack of transparency on these aspects could open the door to bad practices by state civil administrations that can negatively affect the local communities.<sup>8</sup>

During the operational phase of the DTPP approximately 34 jobs were created to ensure the power station operates 24 hours/day.<sup>9</sup>

#### **Development cooperation should promote policy dialogues on development strategies, policies and programs**

While this project was able to consolidate a Public-Private Partnership (PPP) in Cameroon's energy sector, it failed to integrate the voices of civil society and social partners, such as trade unions. There was limited involvement of civil society or grassroots communities during the process of undertaking the ESIA, as is required by Cameroon's ESIA law.

According to the operational procedures established by the Ministry of Environment (MINEF) civil society and affected grassroots communities must actively participate in validating the launching of the ESIA report through a public hearing meeting. Due to the limited information disclosure policies by DTPP partners it is not possible to confirm whether a public hearing had taken place. The process for a public hearing is a vigorous process that requires the involvement of civil society actors with strong background in the area and issues, and the consultation must be documented with a public report validating it. To date, none of such report exists.

### **Development cooperation should adhere to and implement the highest standards of openness and transparency**

Vital data on the DTPP's key project outputs and development results was highly protected with some data being classified as confidential. The World Bank as of December 2015 had declassified very little information about the DTPP. Also, the reporting process for donors involved in the DTPP was never harmonized and put in the public realm. Monitoring and reporting were based on self-reporting as per the contractual arrangements of each partner. There is no independent monitoring and reporting of the DTPP.

Another difficult aspect is the financial secrecy and the opaque nature of project management. For example, the lump sum for the entire project was publicly shared, but there is no breakdown of specific financial operations or the investment vehicles used. Strong levels of transparency and accountability are critical to control and avoid illicit financial flows.

In June 2016 the Cameroonian government jump-started a tax reform capacity building program with the Organization for Economic Cooperation and Development (OECD). This is a positive move as its objective is to mitigate illicit financial flows in Cameroon by Multinational Corporations.<sup>10</sup> There is still much needed to be done in order to achieve the desired results of transparency and accountability.

### **2.2 Private sector compliance with social, environmental, labour and human rights standards**

To date, there has been no independent monitoring of the DTPP or an evaluation to verify the effectiveness of the ESIA mitigating measures that were predefined in the ESIA. Among these ESIA mitigating measures, from construction to the operational phase, it is worth noting that a good number of issues have not been addressed, namely:

- The entry and exit road to the project site was not completely paved to the ESIA benchmark of 800 meters beyond the second gate from the main road. Integrating public fire safety protection measures into the DTPP project requires that the entire project site is constructed with entry and exit paved roads. There is a lack of gutters and green belts, which can limit the impact of soil erosion and potential oil spillages from the DTPP facility.
- The legal occupants and property owners of land designated for the high-tension grid were resettled and compensated in an opaque manner prior to the launching of the DTPP. But

regrettably, a few years later, there was gradual encroachment by former settlers and illegal occupants into the high-tension grid area beyond the 15 meters space limit required by law. The building of houses and businesses under high-tension grid lines without respecting this 15 meters security border can be partly attributed to the non-involvement of the civil society in the implementation of the ESIA. Building directly under the high-tension grid line is not only in violation of the 1974 land resettlement and expropriation law, but also happened without due consideration of the long term damaging to health by electromagnetic waves as well as the risk of electrocution, as noted in the ESIA study. The government civil administrator of the Yassa district area, and particularly the board chair of the land tenure committee is aware of these illegal occupations and has done virtually nothing to prevent the ongoing encroachment as required by 1974 land law.

- According to the ESIA of the DTPP, green belts must be developed in order to shield communities from encroaching closely into the DTPP facility. Today, community members and industrial complexes are building very close to the project site without a due consideration for fire safety and sewage disposal mitigation measures.
- It was first predicted that the facility would transition from an oil-powered system to a natural gas powered system. This came with the discovery of commercial quantities of natural gas 10 kilometers southwest of the project site at Logbaba and was seen as one measure to mitigate global warming effects. This measure is still pending.
- The complaint redress mechanism implemented by the donors was too complex and inaccessible for the barely literate project site workers and the affected grassroots communities. The IFC Compliance Advisor Ombudsman (CAO) allows for a civil society entity to submit a report on behalf of an individual or communities through a confidential procedure. The complaint redress mechanism for the DTPP was not well known by the affected communities and workers, making it an ineffective mechanism for addressing development results. Proper compensation for workers who are fired is difficult to address because of the complexity of the Mechanism. This has been further affected by corrupt malpractices in filing legal complaints in Cameroon.<sup>11</sup>

**Table 03:** Encroachment into the high-tension grid line.



### **2.2.1 Limited Reporting of the Environmental and Social Impact Assessment (ESIA) Aspects of the DTPP**

The DTPP is classed as a Category B Project under the IFC Project Categories and Category 1 under the AfDB.



According to the IFC, Category B projects entail business activities with potentially limited adverse environmental or social risks. The impacts from Category B project are expected to be few in number, and be generally site-specific, largely reversible, and readily addressed through mitigation measures.<sup>12</sup> For the AfDB, a Category 1 project shall be disclosed to stakeholders for 120 days for public sector projects and at least for 60 days for private sector operations<sup>13</sup>. Unlike the IFC for the same project, according to the AfDB, Category 1 Projects have significant impacts, which require detailed field reviews and an Environmental and Social Impact Assessment (ESIA)<sup>14</sup>.

The ESIA study<sup>15</sup> of the DTPP was done in compliance with the domestic 2005 Cameroon-ESIA law. It also adhered to the international best practices from the IFC Performance Standards, IFC Environmental, Health and Safety Guidelines and the World Bank Operational Policy (OP) 4.01. This law requires that AES SONEL make the ESIA's report publicly available in a place that is accessible to the affected groups and local CSOs.<sup>16</sup> To date it is not possible to confirm whether such an event has taken place. There are no documented reports to attest to a public consultation, and it is difficult to find a reliable informant who can corroborate on behalf of the affected community.

Significant long-term ESIA impacts have been identified from an analysis of the proposed DTPP construction and operational phases. However, no independent third party has been assigned to report on the core ESIA outputs. The result is that there is primarily a voluntary engagement on social and environmental impacts, rather than a mandatory reporting for greater transparency, as is required by development effectiveness principles.

In terms of other limitations, key issues regarding Illicit Financial Flows (IFFs) were not highlighted as major long-term impact for the DTPP and no mitigating measures were recommended to fight against illicit flows.

### **2.3 Develop objective criteria for private sector engagement with ODA funds as derived from the DTPP**

Engaging ODA funds to catalyze commercial capital from the private sector requires the development of guidelines to ensure that the desired development results are achieved. Equally important is need to make certain that these results are sustained over time by all relevant development actors without abusing the rights of individuals and affected communities. In this regard, it is necessary to consider the following criteria upon awarding BF contracts to private actors:

- As recommended by the World Bank Group,<sup>17</sup> a thorough consultation with civil society and affected communities should be undertaken to ensure that the concerns of grassroots communities are integrated into a BF project;
- Donors should adopt a public disclosure policy for all aspects affecting grassroots communities, including key project outputs, development results and compensation packages;

- Civil society should be involved as an independent third party evaluator regarding ESIA mitigating measures in the short and long term;
- A holistic social development model should be created for all projects funded through BF as a means to mitigate inequality and extreme poverty. Social services such as potable water, schools, markets, access to energy and sporting facilities should be included;
- Decent jobs for youth and women should be protected by ensuring that it is a key performance dimension of the ESIA;
- An enabling workplace policy with transparent complaint redress mechanisms should be created. This will guarantee the protection of trade unions and the designation of labour representatives to defend worker rights;
- Vital information on private sector contributions in projects funded through BF should be disclosed. This will ensure that private actors are held accountable in case of breach of commitments; and
- A robust and transparent financial/tax declaration system for private corporations benefiting from blended finance funding resources should be developed and implemented.

### **3. Recommendations**

#### **Recommendations to the recipient government:**

- Recipient countries should develop a mandatory ESIA compliance regulatory framework for all private corporations funded through BF. A specific ESIA regulatory agency should be established for this purpose.
- Mandatory disclosure policies and open data practices should be developed that require both donors and private actors to publish development results and ESIA mitigating measures.
- To prevent corruption, bad practices and exclusion, the names of final beneficiaries earmarked for land expropriation, resettlement and crop compensation must be published and made publicly available. The law that guaranteed fair compensation must be respected, but the issue is implicit corrupt practices of adding of ghost names for private gains by government civil administrators.
- The recipient country should create the necessary enabling environment to ensure the participation of civil society actors, including trade unions, in the independent monitoring and evaluation of ESIA mitigating measures.
- To ease sustainable technology transfer and decent jobs for local workers, the recipient countries should provide reasonable tax incentives to private actors.

**Recommendations to donors:**

- Strengthen transparency and accountability policy frameworks by developing an elaborate disclosure policy for projects funded through BF to ease the process of holding actors accountable;
- Integrate a Human Rights Based Approach in the implementation of ESIA by “obtaining the prior and informed consent of affected communities” through consultations with affected grassroots communities and the civil society;
- Ensure that every donor is required to have an independent complaint redress mechanism. Civil society and trade unions should be included as an independent entity to carry out systematic monitoring and evaluation of BF projects;
- Publish the financial contributions of private sector actors as well as the developmental added-value before a project begins;
- Establish a transparency model to fight against Illicit financial flows by ensuring that this concern is incorporated into the ESIA as a likely long-term impact that requires special monitoring; and
- In situations where multiple donors are funding one project through BF, ensure a harmonized reporting system is set up to report on key project outputs and development results.

**Recommendations to private corporations:**

- Develop internal complaint redress mechanisms for workers so that conflicts are promptly resolved; and
- Mobilize additional resources to build technological training facilities and spare parts production units in the recipient country to ease technology transfer.

**Recommendations to the civil society**

- Accompany and support affected communities by ensuring the compliant redress mechanisms as well as ESIA outcome and mitigating measures for projects funded through BF are in the public realm.
- Develop the capacities of beneficiaries so they can file admissible complaints in case of abuse and breach of commitments;
- Provide monitoring and evaluation on the ESIA mitigation measures as a way to fight against poor reporting standards; and
- Develop a detailed scorecard to measure the development effectiveness of BF projects and to appraise private sector added-value in their construction and operational phases.

#### 4. Conclusion

Civil society must seize this opportunity to undertake strategic advocacy with key stakeholders across ODA policy-making arenas ranging from bilateral to multilateral donor agencies, including effective development cooperation platforms. It is absolutely vital for civil society to develop an elaborate blueprint on how to effectively implement the key recommendations that resulted from this study in both the short and medium term.

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<sup>1</sup> OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals, January 2018, page 3.

<sup>2</sup> Ibid page 5

<sup>3</sup> Multilateral Development Banks' collaboration: infrastructure investment project briefs, Cameroon: Dibamba Power Plant, overview-page 1, [https://library.pppknowledgelab.org/documents/2881?ref\\_site=kl](https://library.pppknowledgelab.org/documents/2881?ref_site=kl)

<sup>4</sup> Globeleg acquires Cameroon generation assets, <https://www.globeleg.com/globeleg-acquires-cameroon-generation-assets/>, April 03, 2018.

<sup>5</sup> World Bank 2016: <http://documents.worldbank.org/curated/en/701211468186859142/Cameroon-Dibamba-power-plant>

<sup>6</sup> Cameroon - AfDB Approves Euro 26 Million Senior Loan to Dibamba Power Project, <https://www.afdb.org/en/news-and-events/cameroon-afdb-approves-euro-26-million-senior-loan-to-dibamba-power-project-6645/>

<sup>7</sup> Dibamba oil-fired power plant, Cameroon 8TH JULY 2011 BY: LINDIWE MOLEKOA, <http://www.engineeringnews.co.za/print-version/dibamba-oil-fired-power-plant-cameroon-2011-07-08>, sourced online-April 03, 2018.

<sup>8</sup> Outcome from FGDs.

<sup>9</sup> Ibid page 6

<sup>10</sup> The Director of North South Cooperation-Ministry of Economy, Planning and Regional Development (MINEPAT).

<sup>11</sup> For instance, since 2014 there has been a complaint of a worker who was abusively fired. It took more than two years to engage in mediation and seek lasting remedies with the CAO of the IFC. This lengthy, formal process discourages potential complainants. In this case, the complainant did not obtain an adequate redress from Cameroonian and was bound to make recourse to the CAO of the IFC.

<sup>12</sup> IFC, ENVIRONMENTAL AND SOCIAL CATEGORIZATION, [http://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/es-categorization](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization) April 03, 2018.

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AfDB launches revised version of its Environmental and Social Assessment Procedures for 2015, 17/11/2015, <https://www.afdb.org/en/news-and-events/afdb-launches-revised-version-of-its-environmental-and-social-assessment-procedures-for-2015-15013/> .

<sup>14</sup> AfDB Business Bulletin January 2011, page 4, <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Procurement/Project-related-Procurement/ADB%20Business%20Bulletin%20of%20January%202011.pdf> , April 04, 2018.

<sup>15</sup> Dibamba Power Project, 88MW Thermal Power Plant & 90kV Transmission Line, Environmental and Social Impact Assessment Final, January 2008, Scott Wilson.

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<sup>16</sup> Idid page 7

<sup>17</sup> Mr. Abel Bove, Governance and Civil Society Office, World Bank, Cameroon Program Office, April 02, 2018.