Managing Government Policies in Cameroon: Corporate Diplomacy Meets Track I Diplomacy

Mr. Andrew M. Vesey
Executive Vice President and President Latin America and Africa
The AES Corporation
Executive Summary

Operating in frontier environments requires a delicate balance of good business, positive community relations, and high-level diplomacy with various stakeholders. In the case of the AES Corporation, a major power company based in the U.S., a pivotal financial agreement with local shareholders in its Cameroonian operation, AES-SONEL—the promise of annual tariff adjustments — was threatened due to local political and social realities. The lack of revenue to be realized from the adjustment would potentially cause the local subsidiary to run out of cash and jeopardize its commitments to its customers, lenders and shareholders.

By first gaining a full and complete understanding of the policy objectives of the Government of Cameroon and then by continuously engaging in an open dialogue and holding numerous discussions with its various stakeholders (Government of Cameroon, US Government, local communities, international lenders, etc.), AES patiently and relentlessly communicated its commitment to operate as a responsible and a strategic partner for the development of the power sector in Cameroon and was able to achieve a positive outcome for all parties.

Background

The AES Corporation, headquartered in Arlington, Virginia, is one of the world’s largest power companies, with 132 generation plants and 14 utilities in 29 countries across five continents.1 AES has been operating in two African countries since 2001, when it acquired both a natural gas-fired generation plant in Nigeria and an integrated electrical generation and distribution utility in Cameroon.

In Cameroon, the government has a broad mandate to expand electrical service in the country, which has a population of 18 million and just under one million meter points (serving a total of 6-7 million people), and rolled out a privatization plan for the industry. Under this mandate, the government sold the majority of shares of its wholly-owned state power company, SONEL, to AES in 2001. AES-SONEL became a private company whose corporate purpose concerns all activities directly or indirectly related to the generation, transmission and distribution of electrical energy in Cameroon. AES acquired 51% of SONEL shares in 2001, upon privatization of the industry by government mandate. The state retains 41% of the shares, while the remaining 5% is reserved for employees. Today, AES-SONEL is Cameroon’s fifth largest company and its only power company, retaining a monopoly on the generation, transmission, and distribution of electricity in Cameroon for a 20-year concession period.2

The Cameroonian government’s investment privatization plan needed to ensure a reasonably competitive return for international investors like AES to come on board. Therefore, as part of the acquisition deal, AES-SONEL would be entitled to receive annual tariff adjustments

---

1 For more information, see the AES Corporation website, <www.aes.com>.
2 For more information, see the AES-SONEL website, <www.aes.com/sonel>.
(increases in consumer rates) to ensure capital for AES-SONEL to continue to invest in infrastructure renewal, expansion and improved service levels over the life of the concession agreement.

**Forcing Event**

Pursuant to the concession agreement between AES-SONEL and the government of Cameroon, AES submitted for review its annual tariff proposal in October 2009 that was to be enacted in early 2010. The requested partial tariff increase affected a very small percentage of the residential customers and had been supported by consumer associations. The added revenue had already been accounted for in AES’ financial planning to cover increased operating expenses, continued investment in infrastructure and payment of interest on the debt raised for that purpose from lenders, including some European and African development banks. Nevertheless, the tariff adjustment was later contested as Cameroon was undergoing at the time significant rising food prices and other consumer price increases in the country. In this climate and in spite of a history of mutual trust, the relationship between AES-SONEL’s partners came under pressure and the Government asked that electricity tariffs be frozen at 2008 levels.

The situation of uncertainty on the tariffs also worried the lenders who started to seek confirmation for their position before accepting additional drawing under the AES-SONEL infrastructure investment program. In this context, the construction of a new gas-fueled independent power plant, to be financed roughly by the same lender group also suffered major delays as lenders became concerned about the underlying health of AES-SONEL, the off taker.

AES had several factors—a legal agreement, a strong financial rationale, and an imperative to maintain electrical service for the entire country—on its side, but the government had to balance public policy and private market agendas.

**Response**

As it became clearer that the tariff adjustment was in true jeopardy, AES realized the impact of its financial situation - insufficient cash to maintain current operations including potential default on its debt obligations. Its first action was to enter a strict cash preservation mode of operations to allow the breathing room to work a solution. The company’s most important objective was to provide the government with sufficient space and time to comply with their commitment to the concession agreement. AES did this through one primary strategy: engagement and mobilization of its key stakeholders.

AES decided to initiate a strategy aimed at effectively communicating with its stakeholders around areas of mutual concern such as future regional investment and the social implications of the decision to freeze the tariffs. Multiple meetings were held between AES Corporate and AES-SONEL’s representatives and high level government officials and decision-makers during
which AES continuously reiterated its position and its commitment to pursue its investments in Cameroon and in Africa.

Lenders were also a core constituency of concern to AES, given the potential for AES-SONEL default. AES met with key lending organization executives to ensure that they were aware of the situation and of AES’ efforts to find an acceptable solution to all parties involved.

The goal of these approaches was to maintain an open dialogue and emphasize the necessity and importance of a strong partnership and cooperation amongst all stakeholders, particularly between AES-SONEL’s shareholders, for the country’s only electric utility to be able to continue to provide safe, reliable and affordable energy to the people of Cameroon.

In general, face-to-face meetings were a key method of engaging various stakeholders, as the level of formality and approach to communications in-country is quite different then it is in the U.S. context. Respect for local process and customs was essential to ensure transparent communication and gain the trust of the decision makers who would ultimately be responsible for the outcome of the situation.

Ultimately, the process resulted in a closer and better relationship with the Cameroonian government. The outcome of these strategies was that the Cameroonian government did not implement the tariff adjustment as originally requested. However, the government did provide alternate compensation for 2010 and 2011 to the company and finalized the arrangement just before the New Year (2011). The tariff adjustment process for 2012 is currently underway.

**Evaluation**

In the end, the outcome was positive and stakeholder relationship management proved key to AES’ success in achieving its business objectives.

AES has significant investments in Cameroon and has been committed to meet the Country’s energy needs since 2001. AES also strives to be a responsible citizen and is involved in a variety of corporate social responsibility programs. Additionally, AES is looking to introduce significant demand-side management initiatives to further promote safe and efficient use of energy helping to mitigate increasing tariffs. AES wants to be seen as a strategic partner and an example of successful US investment in its host country.

Infrastructure development is vital for any emerging country’s government seeking social and economic growth. Given the nature of the retail energy business, particularly when a foreign company operates it, it is crucial for that company to manage the interface with the public sector and maintain a positive relationship with all stakeholders. Stakeholder management is one of AES’ strategy pillars. It is programmed internally and all country managers are accountable for stakeholder mapping, political risk management, local relationship building and similar skill sets.
The relationship between AES-SONEL’s partners is now much stronger and AES’ overall success in Cameroon after 10 years of presence in the country will hopefully paved the road to growing interest and investments in the power sector in Africa.

**Conclusion**

- Understand all your stakeholders and their points of leverage and how to compel them to understand your point of view.
- Face-to-face meetings generally remain highly appreciated in countries where the level of formality may be different than in the U.S. The pace of decision-making may also differ significantly with what companies are accustomed to in the US. Respect for local practice and customs is essential for successful engagement.
- A large portion of the country manager’s time should be focused on understanding the customers’ needs as well as the political and public policy implications for their company’s operations in emerging and frontier economies. Companies that engage and interface well with the local communities and the public sector are often more successful than those that do not.
- US companies should make every effort to set a good example and be seen as a good partner for the host country. When issues arise, the company should be considered as “worth saving”