



Public-Private Partnership Impact Stories

Liberia: Liberia Electricity Corp.



For the first time after nearly 20 years of almost no electricity, the 1.5 million citizens of Monrovia have access to commercial power services thanks to a management-contract set up with the assistance of IFC and a group of international donors.

In April 2010, IFC concluded the design and tendering of a five-year management contract for the Liberia Electricity Corporation (LEC), the electricity utility in the capital city of Monrovia. Manitoba Hydro International (MHI) of Canada was awarded the management contract, and took over LEC operations on July 1, 2010. The European Union, Norway, USAID and the World Bank are providing \$50 million in donor funds for the operator to greatly expand and improve electricity services in Monrovia between 2010 and 2015.

The results of a post-completion evaluation done in March 2013, show that 6,000 new electricity connections have been set up and 32,430 people have benefited from new or improved access to power. Based on the current growth rate, it is expected that 390,500 people will have access to better services over the life of the project, exceeding the original estimate of 150,000.

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

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The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

BACKGROUND

Liberia is Africa's oldest republic, but it became better known in the 1990s for its long-running civil war. The conflict, which lasted nearly 14 years and ended in 2003, left the country in economic ruin and its infrastructure devastated. The country's prior generation capacity of approximately 180 megawatts (MW) and accompanying distribution network were totally lost, and as a result commercial electricity services in the country were non-existent. LEC, the state power company, had no infrastructure, no fuel source, and no customers.

When the President Johnson-Sirleaf took office in 2006, she promised to launch an emergency power program in Monrovia, the capital city. "Small light today, big light tomorrow" became the government's motto. As part of this goal, in July 2006, an international donor group formulated an Emergency Power Program to restore power to some parts of Monrovia. In 2007, with 2 MW of imported generators, LEC was revived and started commercial operation with 450 customers and a row of street lights for the first time since the war. Since then, the generation capacity has been increased to 10 MW and the transmission and distribution network has been expanded.

However, despite these improvements, progress was slow. The lack of institutional capacity within LEC as well as differing donor objectives and procurement procedures were hampering progress. The government was becoming increasingly eager to speed up the process by introducing private-sector investment and expertise.

IFC'S ROLE

In 2007, the Government of Liberia sought the assistance of IFC to help bring private sector participation into the power sector. As there was a lack of market appetite for a fully private option, the decision was made to implement a three- to five-year management contract with the objective of improving the operational and financial performance of LEC, rebuilding the electricity system in Monrovia, and significantly expanding access to electricity. Donors agreed to finance the investment needs for the expansion of the distribution system in Monrovia, as well as the fees of the management-contract operator.

Specifically, IFC assisted the government and the donors in designing the management contract and carrying out an international competitive bidding process to select an operator for LEC. IFC fostered close coordination among the various stakeholders to achieve commitment from the government and the company, and consensus among the donor community on an incentive-based structure for the management contract. This also entailed designing an effective framework for donor financing of the investments to rehabilitate the electricity system in Monrovia.

TRANSACTION STRUCTURE

IFC recommended a five-year management contract to allow the operator sufficient time to implement the substantial infrastructure investments needed and to make the necessary improvement in training, systems, and capacity building required.

Under the management contract arrangement, the private operator is paid a pre-agreed fixed fee to manage the utility with partial transfer of operating risk, but has no financial exposure through investments. There are performance targets built into the contract, with bonus and penalty payments associated with them. The targets are based on four indicators: number of new connections (at least 20,000 over five years), improvements in collection rates, improvements in operational efficiency, and reduction in losses.

Since the operator is also tasked with rebuilding the electricity distribution system and expanding access to electricity services in Monrovia, the contract includes competing incentives to encourage the operator to balance the rapid expansion of services with improvements in the financial viability of LEC.

IFC also designed the management contract as a framework agreement between the operator, the government, and the donors, with references to bilateral agreements between the donors and the government for the provision of investment funds as well as the amount of funds available for each year.

BIDDING

MHI of Canada, NTE of Norway, and Siemens of Germany submitted proposals for the LEC Management Contract. MHI proposed the most experienced management team and bid the most aggressive performance targets for new connections (over 30,000 new customers), reduction in losses, and improvements in collections. The contract was signed in April 2010, and MHI took over LEC operations on July 1, 2010.

POST-TENDER RESULTS

- 32,430 people have benefited from new or improved access to power, including over 6,000 new electricity connections.
- As a result of the project, peak load has more than doubled, and fuel efficiency has increased by 33 percent.
- The improved operational efficiencies resulting from the management contract have led to an increase in revenue collection by LEC of 160 percent, and a reduction in losses of 21 percent.
- Based on the current growth rate, it is expected that 390,500 people will have access to better services over the life of the project, exceeding the original estimate of 150,000.

** Results are from a post-completion evaluation completed in March 2013.*

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