Public-Private Partnership Stories

Guinea: Electricité de Guinée

Guinean's national power utility, Electricité de Guinée (EDG), is responsible for providing power generation, transmission, and distribution services across the country. However, electricity distribution under EDG suffers from weak governance, old infrastructure, poor maintenance of assets, frequent blackouts, high electricity theft rates and losses, poor billing and collection rates, and overall poor financial performance. To help address this, the Government of Guinea hired IFC as the lead advisor to structure a performance-based public-private partnership (PPP) for EDG.

The consortium Veolia-Seureca won the bid for a 4 year performance-based management contract, and the PPP agreement was signed in June 2014 despite significant challenges posed by the Ebola epidemic, which was at its peak during this time. The private operator will provide EDG with experienced staff to oversee operations, experts to bring complementary expertise to specific projects, such as IT systems, and much needed improvements in EDG's operational performance. Veolia and EDG staff will work closely together to achieve the key performance indicators that have been set in the contract. It is expected that the improved services, for nearly 300,000 households by the end of the contract, will increase the quality and reliability of power services in Guinea.

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

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BACKGROUND

Guinea's population of 11.45 million inhabitants (2012) is served by one electricity distribution utility, EDG, although its reach is limited beyond Conakry and some secondary cities. The urban electricity distribution sector is in a dire state. While Guinea has excellent potential for hydro power generation (6,000 MW) access to electricity is very low: 17% in urban areas and 3% in rural areas. Energy production for Conakry is about 130 MW while demand is estimated to be 240 MW (WB, 2011), which leads to large scale load shedding. Generation, transmission, and distribution infrastructure are dilapidated due to lack of investment and maintenance. EDG is hampered by high losses, poor billing and collection rates, and overall poor financial and managerial performance. Tariffs are also not at cost recovery levels. The poor performance of EDG is reflected in its inability to manage the system properly and efficiently, carry out the investment requirements needed to meet demand and foster further economic growth and development in the country, and present the market with a credible off-taker for future Independent Power Producers (IPPs).

In 2012, a $1.3 billion Energy Sector Recovery Plan which includes the introduction of a 3-5 year management contract for EDG was established. The Government of Guinea's strategy, supported by its development partners, includes opening the electricity distribution sector to private sector participation in order to transform EDG into a viable commercial entity. Given the poor situation of EDG, financial restructuring and a management contract structure were determined to be the optimal interim solution to improve and expand services. This could eventually pave the way for a concession scheme which involves greater risk transfer to the private sector and allows EDG to emerge as a credible off-taker for IPPs in the long-term.

IFC'S ROLE

In January 2014, IFC was engaged as the transaction advisor to the Government of Guinea to advise the Ministry of Energy and Hydraulics on the structuring and implementation of a PPP for EDG. As there was a lack of market appetite for a fully private option, the decision was made to implement a 4 year performance based management contract with the objective of improving the operational and financial performance of EDG.

The cost of the management contract for EDG was funded by the World Bank under the Power Sector Recovery Project (PSRP), the $50 million IDA grant/credit to improve the technical and commercial performance of the national power utility. The funding includes the management contract fees, capital expenditure in the energy sector, and technical assistance to the Ministry of Energy and Hydraulics. The PSRP was part of the broader development partner support to Guinea under its national Energy Sector Recovery Plan. The Project benefitted from close coordination with 10 donors who committed $790 million of funding to Guinea's Energy Sector Recovery Plan. Specifically, IFC assisted the government in designing the management contract and attracting and selecting a strong and reliable operator for EDG through a transparent and competitive tender process in the context of an unprecedented Ebola epidemic

TRANSACTION STRUCTURE

IFC proposed a transaction structure based on a four-year performance based management contract using a prescriptive approach in determining the obligations of the private operator. Under the management contract, the private operator payment is based on (i) a fixed fee for 7 expatriate managers, (ii) the delivery of seven specific missions that require short-term expertise implemented over the first two years and (iii) a performance based payment based on key performance indicators (KPIs). The three KPIs which trigger the performance based payment are: 1) metering ratio for existing customers, 2) improvement in collection ratesfor billed private consumers and 3) reduction of specific fuel consumption for thermal plants. An important part of the contract structure was to ensure that the private partner's obligations and key performance indicators were backed by funding for the required capital investments. This approach provided comfort to the government regarding specific investments to be undertaken by the private partner, and it also provided comfort to bidders that the cost of the management contract, and related investments, were secured in advance.

BIDDING

After a transparent and competitive bidding process, VeoliaSeureca consortium was selected as the preferred bidder in November 2014 and was awarded the management contract after negotiations with the Government. Despite the challenging environment in Guinea and the Ebola epidemic, the management contract was signed on June 19, 2015 and VeoliaSeureca took over EDG operation in September 2015. The four-year performance based management contract has a total value of EUR11.3 million.

EXPECTED POST-TENDER RESULTS

- Organizational restructuring of EDG including the comprehensive training of staff.
- Improvement of EDG's technical, commercial and financial performance.
- Improved electricity services to over 300,000 households.

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