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Building Trust with All Stakeholders Is Vital for Success: Implementing a Public-Private Partnership in the Electricity Sector in Guinea

Fragile and conflict-affected states (FCS) face specific socioeconomic and political challenges that hinder their ability to improve infrastructure and drive economic growth. Implementation of public-private partnership (PPP) transactions in FCS is usually hampered by weak institutional structures and capacity, limited or lacking PPP experience, and an uncertain business environment complicated by fragile politics and security issues. However, it is still possible for governments to define workable and desirable PPP arrangements that will help deliver public service and infrastructure improvements by attracting the necessary investments and expertise. This SmartLesson examines how IFC's PPP Transaction Advisory group (C3P), in collaboration with the World Bank and the government of Guinea, successfully introduced an innovative PPP in Guinea's national electricity utility by pooling World Bank Group resources and building the trust of our Guinea counterparts—and attracted private sector interest in Guinea amid ongoing political transition and a health scare from the Ebola epidemic.

BACKGROUND

Guinea's 12.28 million inhabitants[1] are served by one national electricity distribution utility, Electricité de Guinée (EDG), 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 C3P in January 2014 as the lead adviser to structure a performance-based PPP for EDG.

The PPP project was structured as a four-year performance-based management contract. The contract was funded by the World Bank under the Power Sector Recovery Project (PSRP), the $50 million blended grant/credit from the International Development Association to improve the technical and commercial performance of the national power utility. The PSRP was part of the broader development partner support to Guinea under its national Energy Sector Recovery Plan.

1 World Bank, 2014.

The project also benefited 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 unprecedented challenges, made even more difficult by travel restrictions because of the Ebola epidemic, which limited interactions with government counterparties.

EDG Headquarters in Guinea.

The performance-based management contract was signed in June 2015 with Veolia-Seureca, a French consortium, despite significant challenges posed by the Ebola epidemic, which was at its peak during this time. The private operator will ensure delivery of the much-needed improvements in EDG's operational and financial performance to achieve the key performance indicators established in the contract. The improved services—for nearly 300,000 households by the end of the four-year contract—are expected to increase the quality and reliability of power services in Guinea. Veolia started operations in September 2015. This PPP project was successfully closed in 18 months, which is exceptional, given the country context, and is well under IFC's average for closing comparable projects.[2]

IFC's technical-delivery skills were important to demonstrate credibility. However, interpersonal skills and collaboration, building trust with the client, were vital for success in Guinea's challenging environment. How you build your professional relationships and develop the trust of your various partners can determine the success of your transaction. IFC's PPP transaction team interacted closely with its client, the World Bank energy team, and the IFC-Bank country teams to overcome each challenge that emerged at each step in the process.

LESSONS LEARNED

Lesson 1: Maintain a close relationship with the World Bank Group country office team and leverage their network.

Identifying, and working with, government counterparts who are able to effectively manage and engage all relevant stakeholders is invaluable, particularly in a challenging and politicized environment like Guinea.

Contract negotiations with the preferred bidder, Veolia-Seureca, in the IFC office in Guinea. *(Photo by Ange Claver Kouassi)*

2 IFC's PPP Advisory division, part of IFC's Cross-Cutting Advisory Solutions Department (CAS), measures a closed project from project inception to when the PPP contract is signed between the government and the private partner. The average period for closings for its global portfolio is about 23 months.

However, not enough can be said about how important it is to align the activities between IFC and the World Bank to deliver successful projects to our clients. IFC's involvement was based on closely aligning itself with the World Bank's work in the power sector as far back as 2011. In 2013, when the Bank energy team was preparing to deliver its next power sector project, IFC worked on two fronts: with the Bank on the development of the PPP component on the Bank project, and with the Guinea government to offer transaction advisory services. This effort epitomizes the value of World Bank Group collaboration for the benefit of our clients.

During project implementation, C3P communicated continually with the World Bank energy team, the Bank procurement team, and the IFC and Bank country management units. The relationships the Bank Group country team had developed with the Ministry of Finance and the Presidency provided direct access to key decision makers. This privileged access ensured the client's responsiveness to key project issues that the C3P team flagged during the advisory mandate. The team relied on the Bank Group country office to sustain close communication and coordination with the Ministry of Energy and Hydraulics, EDG, the Ministry of Finance, and the Presidency, formally and informally.

Lesson 2: Identify and work with a dedicated government committee that is accountable for project delivery.

The team knew from the outset that the Guinea public sector's weak capacity for implementing PPPs would be a core challenge to successfully closing the PPP project. Therefore, the team focused its strategy on 1) advising the government to set up a dedicated project delivery team; 2) providing PPP capacity building; and 3) identifying key decision makers and facilitators early on in the process who were necessary to ensure that the project remained on track.

C3P worked with the government to ensure that a dedicated project delivery team was in place with a clear objective to deliver the project. Once the dedicated project delivery team (the Commission) was set up, the team interacted on a regular basis with the principal adviser to the Minister of Energy, who led the Commission. This adviser steered the Guinean authorities through each step of the project, which proved crucial in obtaining Ministry of Energy and Hydraulics approvals and (ultimately) in the successful award of the project. Once C3P's PPP transaction mandate started, the team continued to invest significant time in building the relationship with, and the capacity of, the key stakeholders through workshops and learning by doing. Just prior to starting its mandate, C3P had delivered a PPP pipeline and capacity-building study to the Guinean government. Weekly interactions took place via video conferences, conference calls, or face-to-face meetings. This approach was crucial in enabling these Guinean officials from the Commission to explain and justify critical decisions to EDG management and the Minister of Energy and Hydraulics. This also allowed the Bank Group teams and the Commission to be informed of all relevant information for the project in real time and to react accordingly.

IFC's encouragement to set up a competent body dedicated and committed to the task at hand helped decision making in the long run. In addition, by working with a dedicated Commission, the team preserved the institutional memory of the project, despite an unstable political environment that resulted in changes in the leadership in some institutions we dealt with. Although the principal adviser to the Minister of Energy was replaced one week before the signing of the management contract, the rest of the Commission remained available to continue working on the project. This continuity was critical for taking the project through the final stages of implementation.

Lesson 3: Build on the experience for joint delivery of a PPP project to truly work as one World Bank Group.

The IFC mandate started in early 2014, due in large part to the team's collaboration with the World Bank which had already started in 2011, the beginning of the Bank's power sector reform program in Guinea. Over time, an informal modus operandi was naturally established between IFC, the Bank, and the client, which enabled greater collaboration. However, reaching agreement on the procurement process and approvals required an innovative approach, and the IFC and Bank teams

had to learn by doing throughout the project to achieve a successful outcome.

This project pioneered an innovative hybrid approach in procuring a PPP for a distribution utility by combining World Bank procurement guidelines for consultants with a performance-based management contract. The management contract leveraged private sector involvement alongside donor financing to improve electricity services through targeted key performance indicators (KPIs). By structuring clear and measurable KPIs, the contract sets out a framework to ensure that performance improvements on key financial and operational metrics will meet the client's project objectives. Clear financial incentives were introduced to improve performance. The Bank Group's additionality was therefore clearly demonstrated in providing IFC's structuring expertise alongside the Bank's sector know-how and funding.

Achieving this innovative approach took time for the following reasons: 1) the project had to develop a realistic time frame and process for the required World Bank approvals;[3] 2) reconciling the use of Bank procurement guidelines for consultants with the requirements of a PPP project meant agreeing on a hybrid approach in which the procurement guidelines would not change but the contract would be based on a management services agreement template that was better suited to the project; 3) managing personnel changes during the bidding process led to reopening issues that had already been agreed on by the IFC and World Bank teams and the government; and 4) questions about a potential conflict of interest were raised because of IFC's close collaboration with the Bank on the PPP transaction, and this necessitated extensive discussions between Bank and IFC management.

3 Each key milestone in the PPP transaction required nonobjections by the World Bank, as the funder, as well as government approvals.

The lesson is to formally document the procurement approach to be undertaken, including communication and approval processes. This protocol would have set out a joint timetable with agreed deadlines, including approvals and the roles of each party. This approach would have provided more visibility in the procurement approach, timing, and required documentation of any delays, and it would have established the rules of engagement to ensure that any conflict-of-interest concerns are settled from the outset of the project. Based on this experience, the Bank Group can use the EDG management contract as a replication model for reforming and improving troubled utilities and introducing a PPP.

Contract-signing ceremony at Guinean Presidential House.
(Photos courtesy of Veolia)

Lesson 4. Interact closely and continually with authorities and bidders to overcome challenges in difficult situations.

The team was fully aware that attracting credible bidders to the project would be extremely challenging, given the FCS context in Guinea, and this situation worsened with the onset of the Ebola epidemic during the procurement phase. Therefore, strong marketing and interaction with potential bidders were critical for success. Sounding out the market of potential bidders is crucial for a good understanding of the level of interest in projects, especially in challenging locations and situations. This enabled us to make structuring decisions and recommendations that were appropriate for the project.

The team also held close discussions with the authorities and potential bidders on how the Ebola epidemic would affect the bid. One option was to delay the tender until after the Ebola crisis was declared over, but this did not satisfy the government's objectives. With consent and confirmation from the private sector on continued participation, the tenders proceeded. Therefore, the bid process had to be adapted to this crisis to be acceptable to the potential bidders. This approach involved very close interaction with potential bidders to reassure them during the process and encourage them to bid. To ensure that all bidders had access to the same key data, the project shared a comprehensive virtual data room with all of them, made site visits to EDG optional, and used video conferencing for the bidders' conference. In the end, the evaluation of bids took place in Senegal, to comply with travel restrictions to Guinea due to the Ebola crisis.

CONCLUSION

According to a SmartLesson from 2013, "Any project requires a champion: someone to articulate and refine the vision, guide progress, and advocate for support. For PPPs, political champions are particularly vital. ..."[4] This has been a core axiom for the success of IFC's PPP projects—from a political champion, to drive the political process and ensure government commitment, to an operational day-to-day champion, to drive the transaction at a technical level and to keep the political process on track. The project team succeeded in identifying and working with competent day-to-day counterparts to keep the project on track. However, in FCS such as Guinea, political instability brings more uncertainty, which can hamper the project. So we would argue that the concept of champions, and their close collaboration, extends to the project and country office teams. This project succeeded because of an exceptional alignment between the government champions and those champions that led the IFC, World Bank, and country office teams through close working relationships and communication at each step in the project. In FCS, it is important to build trust within the World Bank Group and with your client—and get your champions aligned and in place!

4 "A Winning Framework for Public-Private Partnerships: Lessons from 60-Plus IFC Projects," by Richard Florizone and Laurence Carter. http://smartlessons.ifc.org/smartlessons/lesson.html?id=1663.