



Public-Private Partnership Stories

Liberia: Amended Management Contract for LEC



Photo © Travis Lupin

In post-conflict Liberia, IFC structured an amended management contract for the Liberian Electricity Corporation (LEC). The amended contract will extend access to electricity to an additional 75,000 people and implement a \$230 million reconstruction of the 78-megawatt Mount Coffee hydropower plant funded by grants from the governments of Germany, Liberia and Norway, and concessional finance from the European Investment Bank.

Mount Coffee, Liberia's main low-cost source of electricity was destroyed during a 14-year civil war, leaving the country dependent on expensive diesel generators. The reconstruction of Mount Coffee required a capable field-based manager and IFC was engaged to coordinate key stakeholders, assist with negotiations, and design the amended management contract which was signed in January 2013. The contract included an innovative tariff framework and governance structure, as well as requirements for plant operations and maintenance, and 15,000 additional connections.

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

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Installed power generation capacity in Liberia is expected to grow to more than 100 megawatts from the current 20 megawatts.

BACKGROUND

In 2003, after a bloody 14-year civil war, Liberia was a shattered country. Businesses and infrastructure were devastated, with the electricity sector particularly hard-hit. The Mount Coffee hydropower plant, the country's main source of electricity generation, was deliberately destroyed and looted, and its distribution network dismantled. Without power, efforts to reconstruct the country and foster economic development would be fruitless.

In 2007, an emergency power program used two-megawatt diesel generators to restore limited electricity in Monrovia. LEC restarted operations and began rebuilding its power infrastructure. Progress was slow because of a lack of technical and managerial capacity at LEC. To address this, the Liberian government, LEC's board, and their donor partners turned to IFC to design a management contract and conduct a transparent international tender to identify a private operator. The process culminated in April 2010 with the selection of Manitoba Hydro International (MHI) as the operator. By the end of 2012, LEC had made notable progress under the management contract.

However, power generation remained dependent on expensive diesel generators with a total capacity of 20 megawatts and one of the highest retail tariffs in the world. The government and its donor partners—Germany, Norway and the European Investment Bank—decided to support the reconstruction of the Mount Coffee plant which would provide up to 78 megawatts of generation capacity during the wet season. A key objective was to establish a project implementation unit within LEC, under MHI, to manage the reconstruction of the plant. The government and donor partners turned to IFC to coordinate the key stakeholders, assist with negotiations, and design the amended management contract to make this possible.

IFC'S ROLE

IFC was well positioned to advise on this project because of its knowledge of the initial management contract, market conditions, and public-private partnership models for the power sector.

IFC made recommendations on the obligations of the PIU, recommended a tariff framework for the plant, advised on the establishment and governance of a reinvestment fund, proposed revised targets, and made provisions for expansion of transmission and distribution beyond Monrovia.

TRANSACTION STRUCTURE

The amended contract structured by IFC contained several important provisions aimed at strengthening the development of the Liberian power sector in a sustainable manner:

- The establishment of a tariff structure and governance framework for the cash generated by the Mount Coffee

plant. Although the reconstruction of Mount Coffee is being financed with grants and some concessional financing by EIB, IFC implemented a provision in the amended management contract requiring LEC to purchase the power provided by Mount Coffee at a rate reflecting costs as if the project were financed privately. As a result, Mount Coffee is expected to generate about \$30 million annually when producing at full capacity and these funds will be placed in an escrow account and used to finance plant operations and maintenance, and future investments in Liberia's power sector. This pricing structure also maintains a cost reflective tariff and avoids creating market distortions and roadblocks to future private investment in new generation.

- An extension of the management contract by an additional 18 months to ensure continuity during the commissioning of Mount Coffee. The extension resulted in a requirement for at least 15,000 additional connections (bringing the minimum total contractual connections to 48,000) so that as much power as possible is used from the Mount Coffee Plant.
- Reinforcement of the provisions allowing the expansion of LEC's services outside the original service areas in Monrovia. Such expansion will be contingent upon a feasibility study that identifies service targets, funding, and remuneration, preferably dependent on performance targets.
- An obligation to put in place a private operation and maintenance contract specifically for Mount Coffee one year prior to the commissioning of the first turbine to ensure proper commissioning, operation, and capacity building of the whole plant.

EXPECTED IMPACT

- Installed power generation capacity in Liberia is expected to grow to more than 100 megawatts from the current 20 megawatts.
- A minimum of 15,000 new customers are expected to be connected to power under the amended management contract, which should result in an estimated 75,000 people in Monrovia having electricity for the first time since the civil war.
- Up to \$30 million annually is expected to be available for reinvestment in and expansion of the electricity system.



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