

## IMPACT STORIES

# PPIAF Supports Private Sector Participation in Kenya's Energy Sector



With PPIAF support, the government of Kenya developed a successful strategy for restructuring the country's power sector to facilitate private sector participation in both generation and distribution. This support made possible government adoption of a new energy policy in 2004, which subsequently led to an initial public offering (IPO) in April 2006 of 30% of the shares of Kenya Electricity Generating Company (KenGen). Over \$109 million was raised by the IPO, the largest equity sale in the country's history.

Also in 2006, PPIAF transaction support led to the signing of a performance management contract for Kenya's electricity distribution company, Kenya Power and Lighting Company (KPLC). The contract helped boost operational efficiency, reduce system losses, and improve access to electricity.

Finally, in 2009, KenGen followed up the IPO with the nation's first public infrastructure bond offer, generating proceeds of \$335 million to be used to expand the utility's generating capacity. This transaction remains the largest bond issue ever sold in the country.

Kenya's long-term economic development plan, known as Vision 2030, recognizes that infrastructure, and in particular a reliable power supply, is vital in sparking economic growth. The level and intensity of commercial energy use in a country is a key indicator of the degree of economic growth and development. The challenges facing the power sector in Kenya include weak transmission and distribution infrastructure, high cost of power, low per capita power consumption, and low countrywide electricity access. Through the early 2000s, the lack of reliable energy supply in the country lowered the annual sale revenues of Kenyan firms by approximately 7% and reduced Kenya's annual GDP growth by about 1.5%. Electricity access in Kenya is still extremely low in comparison to that of peer economies. Kenya's countrywide rate of household access to electricity is about 20%, far below that of other African countries with similar per capita income levels.

### PPIAF SUPPORT

PPIAF's support to Kenya energy sector reforms came via three technical assistance activities from 2001–05, which aimed to restructure, and eventually privatize, the Kenyan power sector. The first and most important activity in 2001 was a large grant to carry out a comprehensive study to determine an optimal market structure for the power sector, one conducive to greater competition involving the private sector. The study evaluated various private sector participation options for both the generating company, KenGen, and the distribution company, KPLC, and made key recommendations on the future direction of the sector. The second activity in 2002 assisted the Kenyan government in designing and sponsoring a forum in February 2004 for key stakeholders and development partners to discuss the government's draft national energy policy paper, exchange ideas, and agree on the reforms needed to overcome obstacles limiting the exploitation of existing opportunities by either the public or private sectors. The third activity in 2005 helped the government engage the services of a transaction advisor, whose main objectives

were to support the preparation of a best-practice performance management contract for KPLC and help select a preferred management service provider.

## OUTCOMES

PPIAF's support in 2001 and 2002 helped the government lay the groundwork for private investment in the power sector. PPIAF's support for the stakeholder workshop to review the energy policy document was an important part of this process. The national policy paper on energy reflected many of the recommendations of the PPIAF-funded study and led to the adoption by the government of its new energy policy in 2004.

In October 2005 the Kenyan Ministry of Finance hired transaction advisors to prepare an IPO of 30% of the shares of KenGen. The flotation was completed in April 2006.

Negotiations on the KPLC management service contract were successfully completed with the preferred bidder in May 2006. The private partner began implementation in June 2006 for a two-year contract period.

## DONOR COORDINATION

PPIAF activities complemented on-going work under the Energy Sector Recovery Project supported by a number of other donors including the Agence Française de Développement, the European Investment Bank, the Nordic Development Fund, and the World Bank.

## IMPACTS

PPIAF's comprehensive approach to sector reform had positive impacts in Kenya on both power generation and distri-

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

bution. The KenGen IPO involved the sale of 659.51 million shares to 245,000 shareholders. The sale generated tremendous interest in the Kenyan equity market, which benefited a host of additional share sales, including the partial privatization of several other government-owned companies. The proceeds of the sale, the largest IPO in Kenyan history at \$109 million, helped diversify power generation sources and limit the need for overall power price increases.

The management contract led to gains on the distribution side in a number of areas including connectivity, overall business culture, and corporate performance. The most important impact was the increase of new customer connections from 67,000 to 120,000 in the first year, followed by a further 25% increase to 150,000 connections in the second year. In addition, system losses were reduced significantly from 19.6% to 17.6% by June 30, 2007, and voltage fluctuations were reduced by 130.2%. Furthermore, KPLC customers expressed widespread satisfaction with improvements in customer management practices. The contract lasted two years, but the government followed it up with a commercialized management structure involving many of the same international experts who led the team under the original management contract.

KenGen's public infrastructure bond issue, sold in 2009, is a major sector reform achievement triggered by PPIAF's work beginning in 2001. The bond issue, sold without backing by national government guarantees, was oversubscribed by about 70%, bringing in a massive \$335 million in proceeds. The sale of the 10-year bonds will help fast track the utility's power generation projects, which include the installation of an additional 1,500 MW of desperately needed generating capacity by 2012.

### RELATED PPIAF ACTIVITIES IN KENYA

- 2001: Restructuring and Privatization of the Power Sector, **\$524,850**
- 2002: Workshop on Power Sector Reform, **\$73,315**
- 2005: Transactions Advisor for KPLC's Performance Management Contract, **\$217,500**
- 2006: Design of a Public-Private Partnership (PPP) Unit, **\$312,500**
- 2007: Forum for Achieving Vision 2030 PPP Goals, **\$11,067**