



# Public-Private Partnership Stories

## Afghanistan: DABS Kandahar



Afghanistan's national power utility, Da Afghanistan Breshna Sherkat (DABS), is responsible for providing power generation, transmission, and distribution services across the country. Following its incorporation in 2008, DABS struggled to provide sustainable service, particularly in the south of Afghanistan. To help address this, DABS hired IFC as the lead advisor on a performance-based public-private partnership (PPP) for one of its regional divisions. The PPP agreement was signed in August 2014.

Power Generation Solutions, headquartered in Dubai, United Arab Emirates, in coordination with Afghanistan Holding Group, a local Afghan company, won the bid for a 4-year management support contract to improve the financial and operational performance of DABS' Kandahar Operations Center (KOC), its regional division responsible for the provinces of Kandahar, Helmand, Uruzgan, and Zabul. The winning proposal mobilized \$27.5 million in grant funding from the United States Agency for International Development (USAID) to support contractor fees and additional network investment. The project is expected to provide improved electricity services to 300,000 people and over 10,000 businesses across the four provinces.

*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

Da Afghanistan Breshna Sherkat (DABS) faces major operational challenges that affect its ability to provide sustainable services that meet power demands across Afghanistan. These challenges are particularly prevalent in the south of Afghanistan, which has not been connected to the well-supplied transmission network in the north, and has access to less than 35MW of generation capacity. Despite significant investment in the transmission and distribution network, losses in the Kandahar Operations Center (KOC) were estimated to be in excess of 60%. The average billed tariff of \$0.07 per kWh in the KOC did not come close to meeting the average generation cost, before losses, of over \$0.50 per kWh. DABS, in partnership with USAID, recognized the importance of access to electricity for economic development, and appreciated the potential benefits of a private contractor to improve KOC's financial and operational performance, in order to put it on to a path towards sustainability.

## IFC'S ROLE

Despite continuous underperformance in the KOC, and significant capital investment in the transmission and distribution network, DABS had been unable to improve the financial and operational performance of the KOC. Therefore, in November 2012, DABS engaged IFC as the lead advisor on the structuring and tendering of a performance-based PPP. IFC's unique experience with PPPs, especially the successful tendering of a management contract for the Liberia Electricity Corporation, was seen as a major plus by both DABS and USAID. In addition, DABS appreciated IFC's reputation for transparency and attracting internationally reputable bidders, particularly given Afghanistan's challenging business environment.

IFC's mandate included helping to select, through a transparent competitive process, a private contractor to reduce aggregate technical and commercial losses through a program of management support, training, and performance based payments. IFC provided strategic recommendations on the appropriate transaction structure, including defining the range of activities to be transferred to the private contractor and designing an appropriate incentive mechanism.

## TRANSACTION STRUCTURE

IFC proposed a transaction structure based on a 4-year management support contract. The management support contract divided the project into two distinct but complementary work streams: (i) administrative support services and (ii) revenue improvement services. To match the two work-streams, payments under the contract are split into a fixed management fee to cover contractor personnel costs, and a series of performance-based fees structured around the reduction of aggregate technical and commercial losses.

The agreement also sets out a comprehensive penalty regime to

penalize the contractor for failure to meet performance targets and timelines and for any failure to meet agreed contractor staffing provisions.

The structure of the agreement takes into account the unique operational and security challenges in Afghanistan and through a simple and measurable set of performance objectives balances the risk allocation fairly between the private contractor and the KOC.

## BIDDING

Five bidders were pre-qualified in September 2013 and one bidder withdrew during the tendering process citing security concerns. Four bids were subsequently received in April 2014. Following a comprehensive technical and financial evaluation, Power Generation Solutions/Afghanistan Holding Group Consortium won the bid for the management support contract. The winning proposal included total available contractor fees of \$23.4 million, with \$4.1 million available for additional network investment. The proposal included many innovative implementation solutions such as mosque forums to promote community engagement and a commitment to provide free solar power lighting to low income customers to reduce theft from the network.

The contract is the first-ever performance based PPP agreement in Afghanistan and was signed in August 2014.

## EXPECTED POST-TENDER RESULTS

- Leverage \$27.5 million grant funding from USAID to support contractor fees and additional network investment.
- Provide improved electricity services to 300,000 people and over 10,000 businesses.
- Reduce aggregate technical and commercial losses by 7% per annum in the second, third, and fourth contract years.
- Install 50,000 meters.
- Provide continuous training to over 350 staff in the KOC.
- Improve customer care services through the management of two new customer care centers.

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