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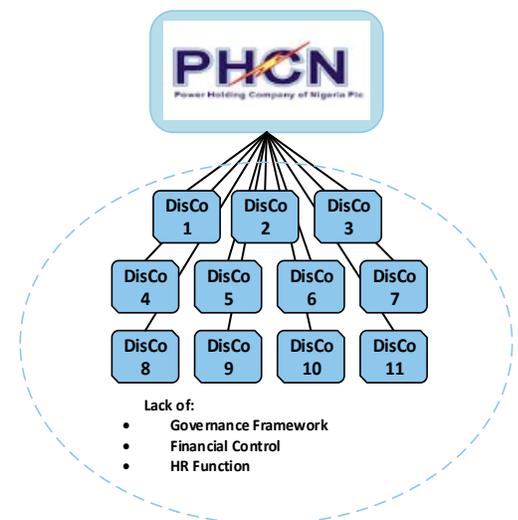
# Power Sector Reform: DisCo Sustainability

## Executive Summary

- Nigerian Power Distribution Companies (DisCos) lacked the basic governance structure and internal processes to operate as independent private entities. Reform was a pre-requisite for generating investor appetite.
- The NIAF-led “DisCo Roadmap” devised the critical path necessary for all 11 DisCos to achieve a state of readiness necessary for operating within the Transitional Energy Market (TEM).
- International expertise in corporate governance, legal and finance was assembled in Nigeria to provide support to BPE & PTFP in improving DisCo capacity.
- NIAF’s intervention successfully implemented the revised processes across each of the 11 DisCos ensuring their continued operation as a going concern.

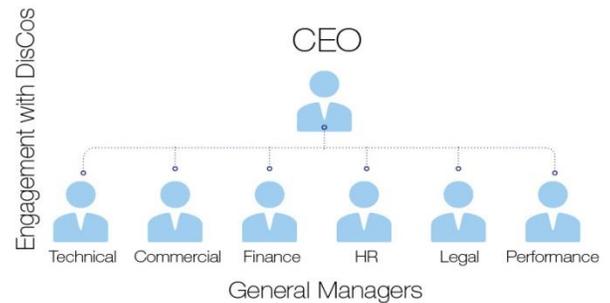
## The Challenges

- The failed attempt at Power Sector Privatisation in 2005 left the PHCN Successor Companies (SCs) as “headless” entities with neither formal governance structure nor management capacity.
- Chronic underinvestment in skills, systems and infrastructure meant that Discos lacked a basic capacity to fulfil their functions in an unbundled sector.
- With no incentive to secure a revenue stream, inefficient billing and tariff collection was widespread throughout the network.
- Additionally, DisCos operated in an informal environment characterised by standard industry-wide practice rather than legally binding contractual arrangements.
- NIAF was operating in an environment where the risk of a loss in momentum threatened to unravel the entire reform process.



## The NIAF Approach

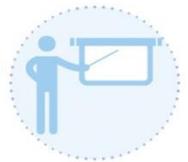
- NIAF II, benefited from a vast depth of institutional knowledge and client relationships carried forward from Phase I (2007-2011). Little time was wasted in establishing the programme's credentials with clients.
- Identifying the performance gaps between DisCo's capacity and requirements under TEM, NIAF developed a three component approach to reform of governance, finance and HR, driving urgently required internal change.
- DisCo "TEM Awareness Workshops", organised in partnership with the Presidential Task Force on Power (PTFP) built capacity across DisCo senior leadership in:
  - Governance and the responsibilities of the board of directors;
  - Management information, systems and financial reporting;
  - Settlement processes and the interface with the Market Operator;
  - Contracts & Negotiation;
  - HR functions including staff incentives and appraisals.
- Piloting this model for engagement with the Abuja Electricity Distribution Company, these workshops were rolled out across both Northern & Southern DisCos. Internal 'TEM' champions were appointed to drive TEM implementation internally.
- Independent reviews of five-year historic financial statements were carried out across all DisCos to evaluate the impact of financial management on the sustainability of each company.
- NIAF's engagement identified additional areas of support resulting in subsequent interventions targeting;
  - Evaluation of DisCo losses
  - Quality Assurance for tariff revision
  - Review of DisCo business plans



DisCo Roadmap  
Developed

11

TEM Awareness  
Workshops



2

TEM Simulation  
Tests

11

DisCo TEM  
Champions  
Appointed



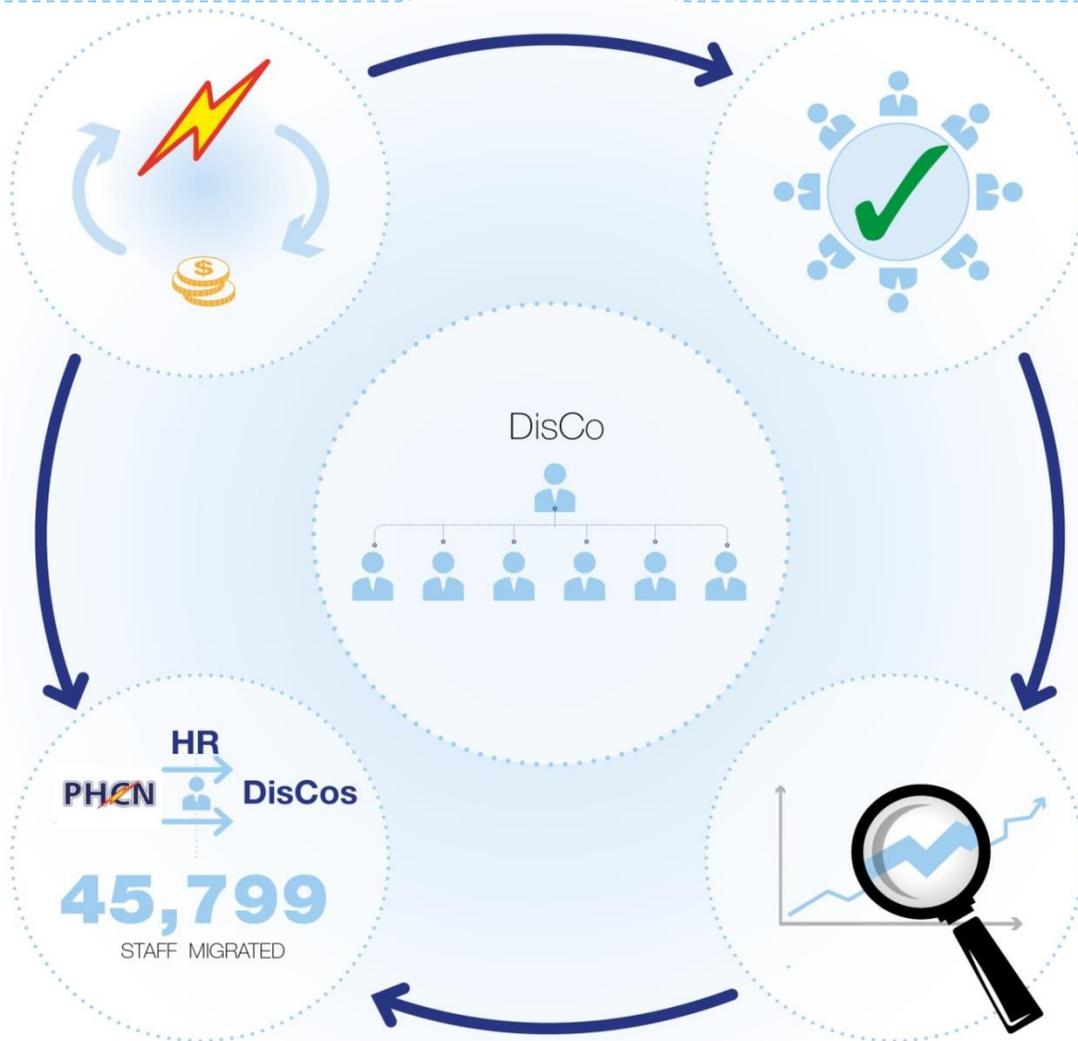
Northern & Southern  
DisCo Commercial  
Awareness Training

## The Outcomes

Improved billing and collection performance through:

- Development of formal policy for debt collection
- Establishment of robust **metering process**
- Performance monitoring of billing accuracy
- **39% increase** in remittance from DisCos to Market Operator post-privatisations

- **Boards of Directors** established with delegated authorities and exercising oversight across all 11 DisCos
- Effective chain of command improves **accountability mechanisms** between board and management



- HR department embedded as core DisCo business function
- Induction programmes delivered for **45,799** migrated staff
- Successful labour negotiations securing **N371 Bn** severance package
- Employee performance based contracts implemented

Greater financial transparency for operators and investors through:

- Identification of financial control weaknesses
- Development of **Monthly** and **Quarterly** financial reporting capacity
- Integration of **financial KPIs** as a basic management information requirement