



actis

Energuate

Helping to drive  
Guatemala's  
economic growth

July 2016

## Energuate

**Energuate is Guatemala's largest electricity network, incorporating two distribution concessions that provide services to around 1.6 million customers. It is the largest privately-owned power distribution company in Central America, and supplies electricity to 20 of the 22 departments in Guatemala, covering 94% of the land mass and serving the country's large rural population.**

### Context

Electricity is a scarce commodity in Latin America. Significant investment is required to modernise outdated power infrastructure, build new capacity and operate the electric grid. The supply and demand dynamics for electricity in Latin America, combined with a sustained regulatory shift towards private sector participation in the power sector since the 1990s, underpin the opportunity for Actis to make compelling investment returns whilst supporting economic growth through access to reliable, sustainable, and affordable power.

Guatemala is a particularly attractive investment destination for distribution. It has highly favourable sector fundamentals supported by a stable regulatory and tariff framework. Power demand has a strong growth track record, at 4.4% CAGR in the past 20 years – with future demand growth supported by organic growth and low relative consumption levels. Additionally, Guatemalan power regulatory bodies are amongst the most advanced in the region in terms of professionalism and transparency.

### The Actis approach

On the distribution side, we look for companies that have sustained growth potential and operate within stable regulatory frameworks that can benefit from Actis' deep expertise in improving key performance indicators and social and governance (ESG) best practices. The electricity distribution strategy is centred on increasing sales, market penetration and efficiency levels by strengthening management, processes and improving and expanding physical infrastructure.

We recognised the considerable potential of Guatemala's energy sector and sought an opportunity that would fit with our criteria. Actis' extensive experience gained through our successful management of Umeme, Uganda's sole electricity distribution business, meant we were confident of applying similar strategies with Energuate.

### What we did

Actis acquired Energuate (then known as DEOCSA/DEORSA) from Gas Natural Fenosa in May 2011. As with Umeme, we saw that the Guatemalan business was undermanaged and operationally inefficient.

Since acquisition in 2011, Actis rolled out a successful repositioning strategy and redesigned the organisational structure, replacing the CEO, COO and CFO. We worked closely with the new management team to 'localise' the look and feel of the business, as well as its operational capabilities.

We focused on creating customer centric solutions that enhanced the quality of service, including mobile payment offices; attending widely spread rural customers and introducing mobile on-site billing; a transparent, efficient and cost-effective initiative that helped improve our relationships with customers and shorten the commercial cycle drastically. Our open approach with customers and institutional stakeholders strengthened trust and credibility of Energuate and led to tangible solutions for customers and the business.

Additionally we enhanced operating performance by introducing key KPIs, including electricity losses; service quality and collections and embedding a strict health and safety culture in the company's operations, leading to a 90+% reduction in accidentality indicators.

### Responsible Investment

Many of Actis' energy investments are majority or wholly owned platforms. We are thus able to ensure there is a Head of ESG appointed at the platform level and to establish an ESG sub-committee to the Board. We periodically host meetings for portfolio company ESG managers globally to share best practice and discuss commonalities.

Established in 2011, the Actis Energy Impact Model assesses the value drivers in all our energy investments across six categories: Finance, People, Social/Community, Infrastructure, Environment and Governance. It helps us track a company's performance over time against these focus areas, and develop new targets as initial action points are progressed.

Actis' investment in Energuate delivered notable improvements right across the ESG spectrum.

### Governance

The business lacked effective governance when Actis invested. We appointed new senior management, instituted a local Board of Directors and created the internal audit function. We delivered comprehensive competence training focused on regulatory and compliance issues and rolled out new programmes to reinforce the company's values and principles.

Energuate increased its focus on the implementation of internal and external anti-bribery and corruption processes and a Code of Ethics and Direction Committee was also established.

### Safety

We created a hands-on Safety Committee and embedded safety across all Energuate's operations – a huge cultural change for the organisation. High profile messaging and communications ensured that employees and contractors were left in no doubt that this was a priority and their response was extremely positive. As a result, during our investment Lost Time Injuries (LTIs) reduced by 95%, contractor LTIs fell by 98% and fatalities were completely eradicated. Average lost days due to accidents were reduced from 84 per year to 4.

The company's EHS team focused on improving public safety awareness. It created a comprehensive action plan, which included hundreds of safety education visits to schools and local communities. A target emergency response time (to eliminate electrical risk) was also set; during Actis' investment, this reduced from 14 hours to 29 minutes between 2012 and 2014.

### Social

Guatemala's topography, linguistic diversity and relatively low levels of education combine to create considerable challenges for businesses such as Energuate. The company's Community Development Unit deployed native language speakers able to communicate in one of 25 local dialects, which significantly improved community relations.

In 2012 Energuate completed its first integrated audit process and obtained ISO 9001:2008 (Quality Assessment Scheme), ISO 14001:2004 (Environmental Assessment Scheme) and OHSAS 18001:2007 (Occupational Health and Safety Assessment Scheme) certification.

### How did we do?

When we took over, the business' image was in disrepair and relationships with stakeholders were fragile. Devolving autonomy to local management contributed greatly to the improvements across the business and under Actis' management, Energuate added over one million first-time Guatemalan electricity consumers to the network, while customer satisfaction rose by over 100%. Electricity losses, collections and other key performance indicators also improved significantly, driving improvements in financial results, with EBITDA growing by over 50% from US\$70m in 2010 to US\$107m in 2015.

We grew the business successfully and are proud to have supported Guatemala's economic growth by providing new and much needed energy infrastructure. In January 2016 we sold Actis 92% stake in Energuate to IC Power, a regional strategic player in Latin America's energy sector.