

# Bujagali Umeme Eskom Mini-hydros

RVR  
Pioneer Easy Bus



Serena Hotel



**Ideas For Growth**  
INTERNATIONAL GROWTH CENTRE

## Uganda's PPP Experience

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# Highlights



- Government Commitment (2008/9 budget)
- Limited experience in PPPs
  - Concessions arising from privatisation
  - Sector driven concessions
- Ad hoc & poorly coordinated - mixed results
- PPP framework being developed
  - PPP Policy approved
  - PPP Bill approved by Cabinet

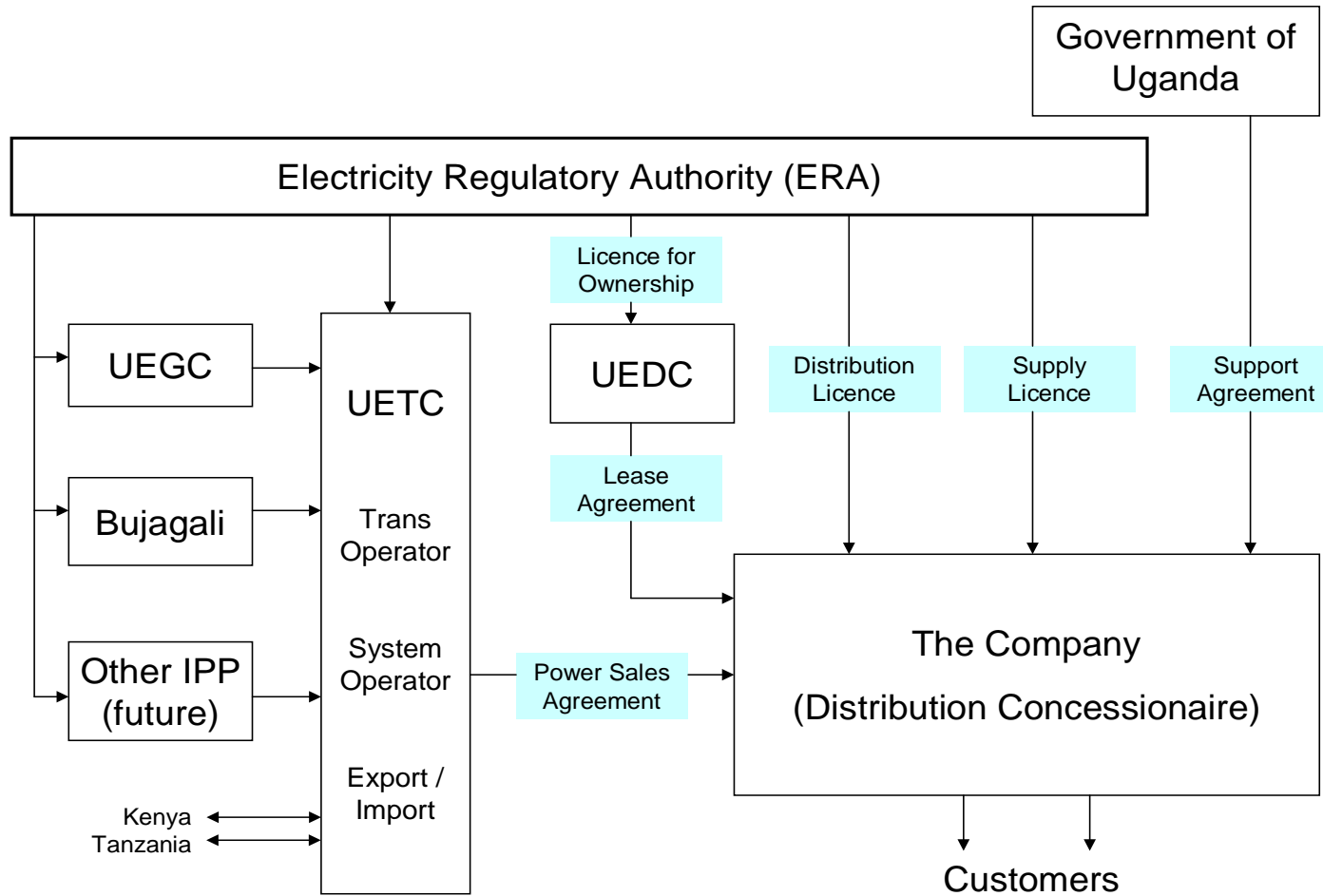


# Recent PPP Projects



Sector	Project
Transport	Rift Valley Railways Pioneer Bus Co – BRT
Energy	Bujagali Hydro Eskom - Hydro Umeme - distribution Aggreko Thermal Plant Mini-hydros – several West Nile Power – mini grid
Water	Small Towns Water Projects Kampala Ondeo Management Contract
Tourism	Serena Hotel
Business Infrastructure	Local Market Developments - several

# Structure of Umeme Concession



# Agreements provide for:



- Supply electricity within 1.0 km beyond existing grid
- 60,000 new connections in the first five years
- 25,000 new connections per year thereafter
- Quality of supply and customer service standards

# Impact of Umeme Concession



## Before Concession

- High system losses (35% to 40%)
- Low revenue collection rates (65% in 1996/97)
- High accounts receivable (7 months of sales in 1997)
- Poor quality service (frequent power outages and system breakdowns)
- Access at only 5% of population

## Performance after Concession

- System losses reduced to 27%
- Revenue collection at 98%
- Accounts receivable at 1 month
- Umeme servicing debts that it took over during concession
- Access to power > 10% of population

# Other benefits



- Tax generation ~ \$24m corp tax and \$33m VAT in 7 years
- Lease payments ~ \$110m in 7 years
- Investments >100m to date



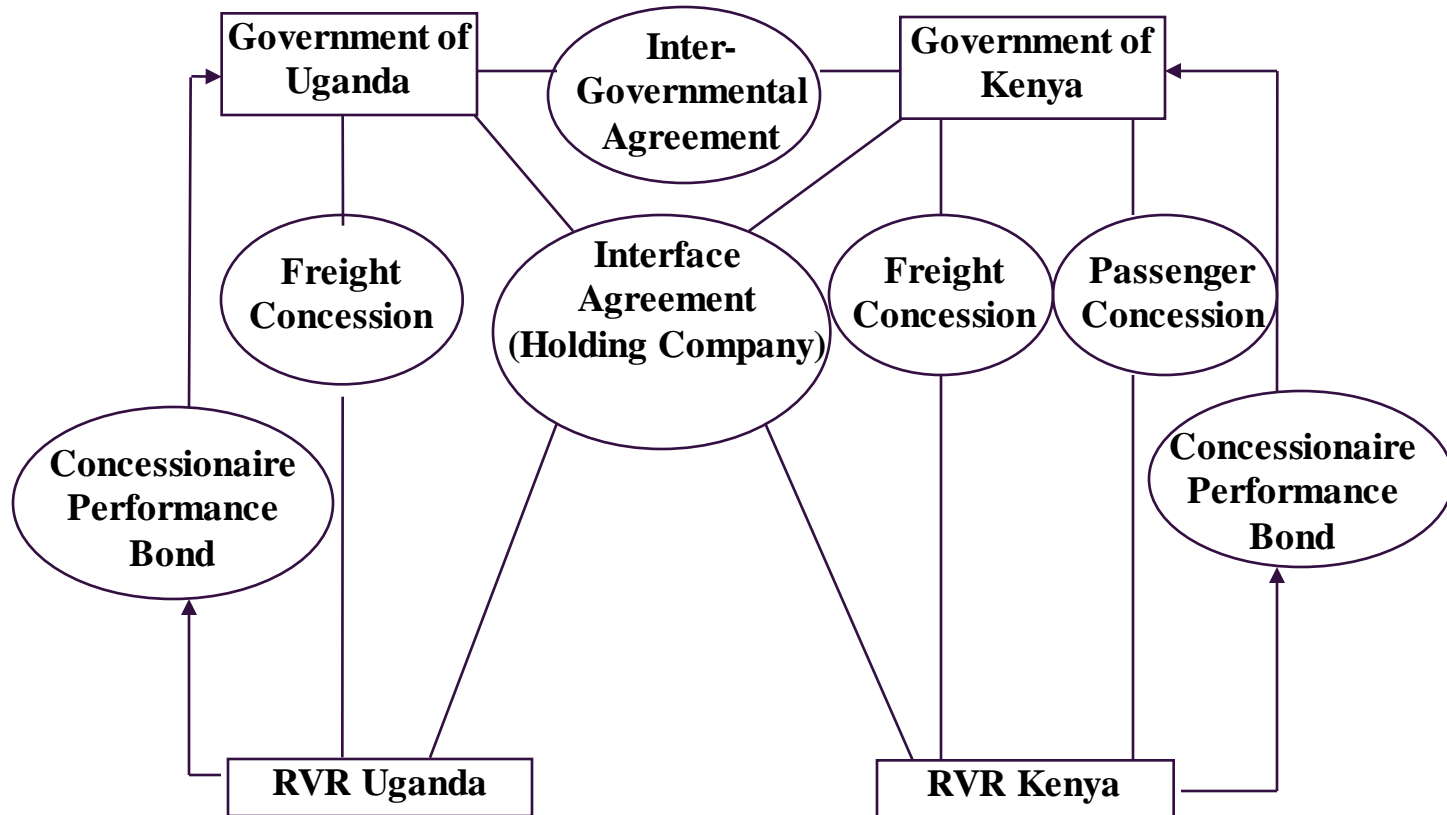
# Challenges



- Nature – 2006 drought
- High cost of heavy fuel oil for thermos
- Unfavourable forex movement
- Insufficient power – delays in Bujagali
- High expectations – inquiry by Parliament



# Rift Valley Railways - Concession Structure



# Rift Valley Railways – how it performed



## Concessionaire Obligations

- Meet specified freight volumes
- Investments in infrastructure and equipment
- Quality and frequency of passenger services (Kenya)
- Maintain infrastructure and equipment to set standard
- Conform to set safety standards
- Pay agreed concession fees

## Performance at restructuring

- Low freight volumes
- Investment targets not met
- Quality and frequency of passenger service not met
- Infrastructure and equipment not maintained per standard
- Safety standards not conformed to
- Defaulted on payment of concession fees

Restructuring

# Restructuring of the joint concession



- Reasons for poor performance:
  - Poor management
  - Lack of technical expertise
  - Inadequate funding
  
- Government Intervention:
  - Substitution of lead investor
  - Renegotiate agreements to provide for
    - Minimum investments of \$40m in 24 months
    - Obtain financing of \$54m in 24 months
    - New technical services agreement
    - Exclude certain assets from the concession
  
- Restructuring took a lot of time and effort, but resulted in:
  - New performance targets
  - New financing
  - Introduction of new technical services partner

# Lessons learnt



- Limited capital – local/foreign.
  - Rudimentary and nascent financial/capital markets
  - Recent global financial crisis
  - Recent trend of global interest in emerging markets may help.
- Transparent procurement process.
  - Need thorough review of feasibility of projects
  - Must have competitive tendering
- High expectations and perception problems.
  - Private sector viewed as the panacea for all infrastructure needs
  - Private sector is expected to deliver at any cost since they make “huge profits”.
  - Tendency to still view state enterprises as a means of resource distribution even at the risk of less productivity and efficiency

# Drivers for success



- Political commitment
- Political and economic stability
- Legal and regulatory reforms
- Technical and management capacity
  - To structure the project and procure the private party
  - To monitor the concession contract
  - To renegotiate
  - To management public perception and expectations



# When the going gets tough!



- Temptation for government to take back the project – but beware:
  - Cost of restarting the project under government may be too high
  - Set precedent and drive away foreign investors leading to reduction of private sector investments
  - Immediate burden on the national budget to meet capital and operating costs of the enterprise
  - Lack of credibility of government policies and programs
  - Litigation which may not enable government to immediately take over the project
  - Cost of buy out payments which may be large depending on when government proposes to takeover the project

# The tough gets going, otherwise???



- Lost opportunity to realize investments
- Increase in political risk profile of the country
  - Downgrading of credit rating
  - Investors will demand guarantees for future projects
  - Higher return on investment demanded by investors
- Drop in doing business index, hence discourage FDI
- Erosion of public confidence in contracting with government

# Examples of attempted policy reversals in Africa:



## ■ Zambia

- Following democratic reforms in 1991, Zambia embarked on several economic reform programmes. However, from mid-1995 onwards Zambia began to reverse a number of its reforms and deferred implementation of earlier commitments. Trade and foreign exchange reforms were affected and FDI plummeted. The outcome was that by 1999 poverty in Zambia had intensified

## ■ Ghana

- Ghana began implementing a comprehensive economic reform program in 1983. Despite major improvements in the economic situation for several years, reversal of several policies led progress to come to a grinding halt in 1991 and 1992 with spiraling inflation and runaway depreciation of the Cede. Despite efforts to resuscitate the economy, the government has since failed to vigorously promote the economic reforms



# Way forward?



- PPP Policy in place, however need
- Legal reforms to streamline PPP implementation – enact PPP Law
- Establish PPP unit to coordinate implementation of PPP program
- Build capacity of government departments and agencies to develop, procure and monitor PPP projects
- Ensure extensive stakeholder consultations during PPP project development, procurement and delivery
- Public awareness



Thank You

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