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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project</th>
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<tbody>
<tr>
<td>Transport</td>
<td>Rift Valley Railways</td>
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<tr>
<td></td>
<td>Pioneer Bus Co – BRT</td>
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<tr>
<td>Energy</td>
<td>Bujagali Hydro</td>
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<td></td>
<td>Eskom - Hydro</td>
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<td></td>
<td>Umeme - distribution</td>
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<tr>
<td></td>
<td>Aggreko Thermal Plant</td>
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<td></td>
<td>Mini-hydros – several</td>
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<td></td>
<td>West Nile Power – mini grid</td>
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<td>Water</td>
<td>Small Towns Water Projects</td>
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<td>Kampala Ondeo Management Contract</td>
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<tr>
<td>Tourism</td>
<td>Serena Hotel</td>
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<tr>
<td>Business Infrastructure</td>
<td>Local Market Developments - several</td>
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</table>
Structure of Umeme Concession

Electricity Regulatory Authority (ERA)

UEGC

Bujagali

Other IPP (future)

UETC

Trans Operator

System Operator

Export / Import

Licence for Ownership

Lease Agreement

Power Sales Agreement

Support Agreement

Distribution Licence

Supply Licence

The Company
(Distribution Concessionaire)

Customers
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

<table>
<thead>
<tr>
<th>Before Concession</th>
<th>Performance after Concession</th>
</tr>
</thead>
<tbody>
<tr>
<td>High system losses (35% to 40%)</td>
<td>System losses reduced to 27%</td>
</tr>
<tr>
<td>Low revenue collection rates (65% in 1996/97)</td>
<td>Revenue collection at 98%</td>
</tr>
<tr>
<td>High accounts receivable (7 months of sales in 1997)</td>
<td>Accounts receivable at 1 month</td>
</tr>
<tr>
<td>Poor quality service (frequent power outages and system breakdowns)</td>
<td>Umeme servicing debts that it took over during concession</td>
</tr>
<tr>
<td>Access at only 5% of population</td>
<td>Access to power &gt; 10% of population</td>
</tr>
</tbody>
</table>
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

- Inter-Governmental Agreement
  - Freight Concession
  - Passenger Concession
  - Concessionaire Performance Bond
- Government of Uganda
- Government of Kenya
- Concessionaire Performance Bond
- RVR Uganda
- RVR Kenya
Rift Valley Railways – how it performed

<table>
<thead>
<tr>
<th>Concessionaire Obligations</th>
<th>Performance at restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet specified freight volumes</td>
<td>Low freight volumes</td>
</tr>
<tr>
<td>Investments in infrastructure and equipment</td>
<td>Investment targets not met</td>
</tr>
<tr>
<td>Quality and frequency of pax services (Kenya)</td>
<td>Quality and frequency of pax service not met</td>
</tr>
<tr>
<td>Maintain infrastructure and equipment to set standard</td>
<td>Infrastructure and equipment not maintained per standard</td>
</tr>
<tr>
<td>Conform to set safety standards</td>
<td>Safety standards not conformed to</td>
</tr>
<tr>
<td>Pay agreed concession fees</td>
<td>Defaulted on payment of concession fees</td>
</tr>
</tbody>
</table>
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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