Public Private Partnerships

The Uganda Experience

Why Partnerships?

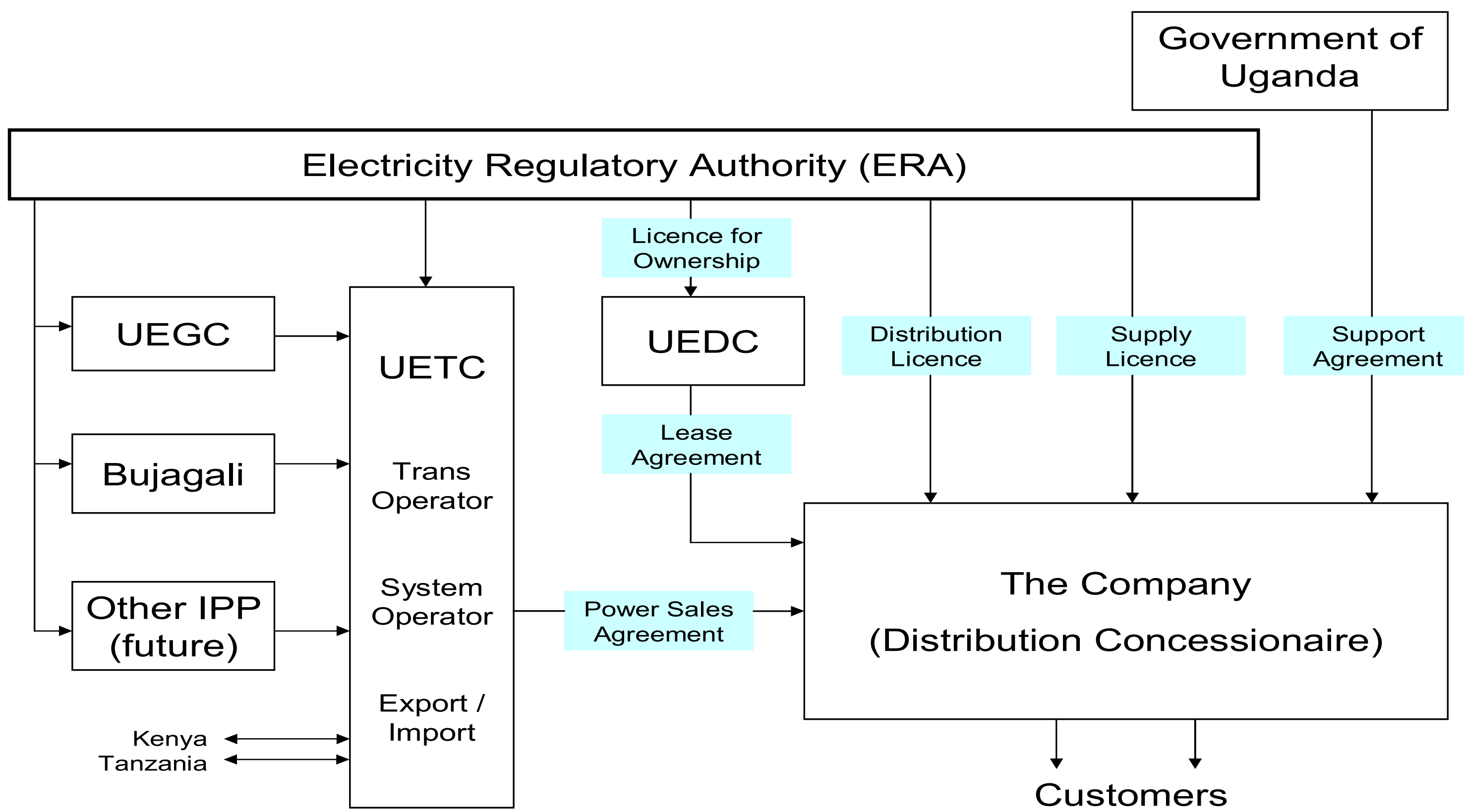
- **I**ncreased service level expectations:
  - Public demands more and better services.
- **P**ressures on public expenditure:
  - Limited budget for infrastructure dev’t.
  - Need to re-direct expenditure to social services – less attractive to Private sector.
- **E**conomic benefits:
  - Efficiency and productivity.
  - Reduction of financing burden.
  - FDI and economic growth.

From Privatisation to PPP's in Uganda

Sectors

- Telecoms – Fixed/mobile- SNO-1997 and Share sale of State Telecom company in 2000.
- Power 2004 – Concessions for existing assets in 2004&5, IPPs for new generation facilities now; introduction of guarantee facilities (IDA PRG) to mitigate risks.
- Railways 2006 – Introduction of third party lenders in addition to IDA PRG facility to buy down risk.
- Industrial Parks and Government office accommodation-Pipeline activities in offing.
- Social services – health, prisons- Next generation.

The Electricity Distribution Concession
The Contractual Structure



The Electricity Distribution concession
The Agreements

The Lease and Assignment Agreement provides for;

- 20-years Concession to maintain and operate the distribution network.
- An obligation to make minimum annual investments of US$65m over the first 5 years with at least US$5 in the first 18 months.
- The obligation to return control of the assets, including all new investments, to UEDCL at the end of the lease, but with a payment for any un-depreciated new assets.
- An obligation for UEDCL to complete the investments already financed and which were under implementation at the time (e.g. AfDB Urban Power Rehabilitation Project).

The Electricity Distribution concession
The Agreements

The supply and distribution licences provide for

- An exclusive right to supply electricity within the "footprint" of an area 1.0 km beyond existing grid.
- An obligation to provide service within the "footprint";
- An obligation to make at least 60,000 new connections in the first five years of the concession and 25,000 new connections per year thereafter (provided supply is sufficient to meet demand without consumers experiencing a drop in the quality of supply).
- Quality of supply and customer service standards.

The Electricity Distribution Concession
The Agreements

Payments made by the Consortium/Umeme Ltd.

- An upfront transaction fee of USD 1.4 million.
- An upfront concession fee based on UEDCL's accounts receivable.
- A monthly concession fee for the use of the UEDCL's assets, approximately US$ 18 million in the first year, which was the sum of:
  - UEDCL's existing debt service obligations
  - depreciation of UEDCL's assets
  - interest expense on new debt raised by UEDCL
  - UEDCL's administration costs, and
  - Government's return on assets

The Electricity Distribution Concession
The Agreements

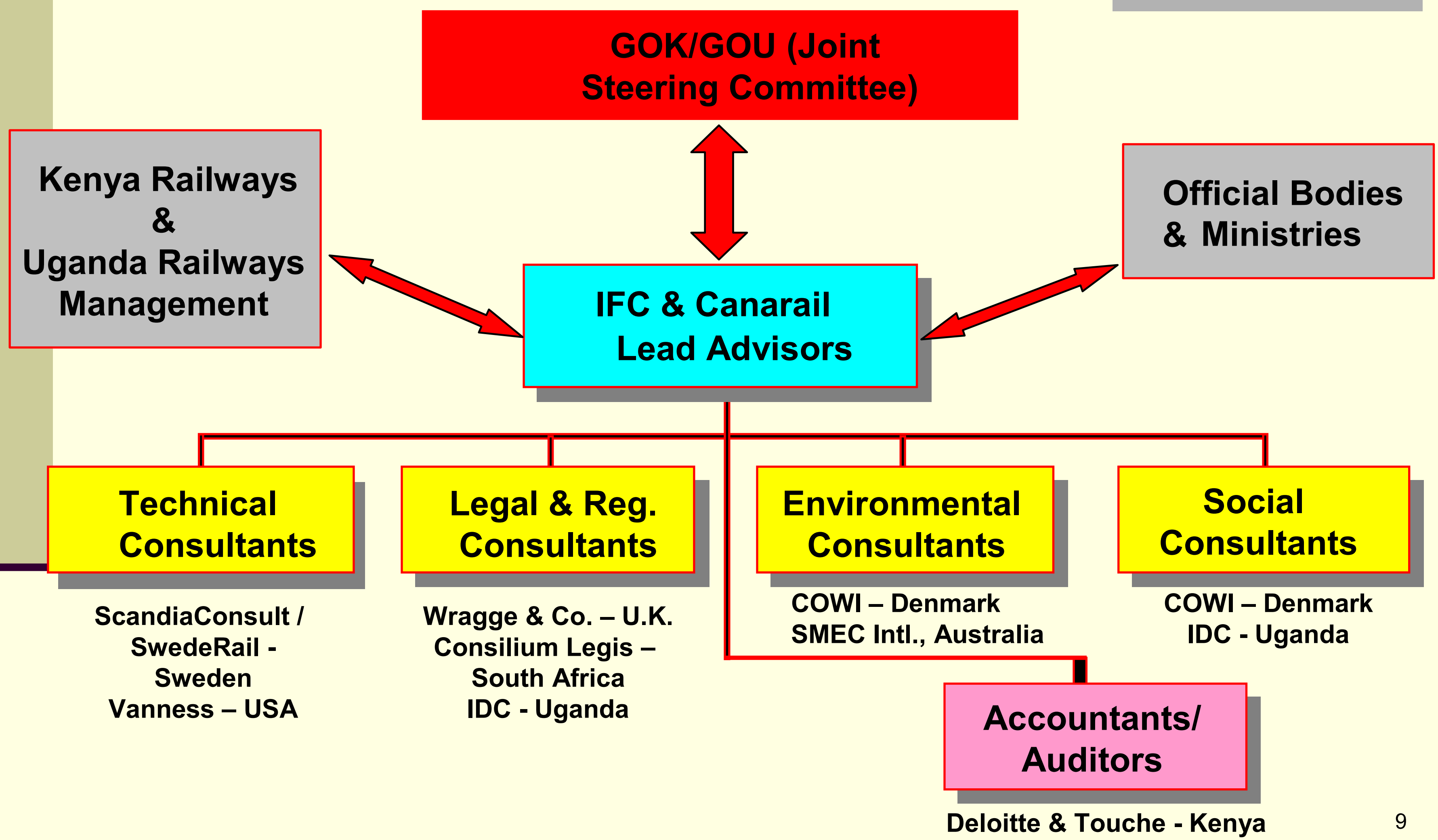
Direct support to buy down the tariff was provided by the Government through;

- The investment of US$ 3 million IDA funds in poles and transformers in each of the first two years of the concession
- The initial investment of US$ 5 million to initially finance capital investments.

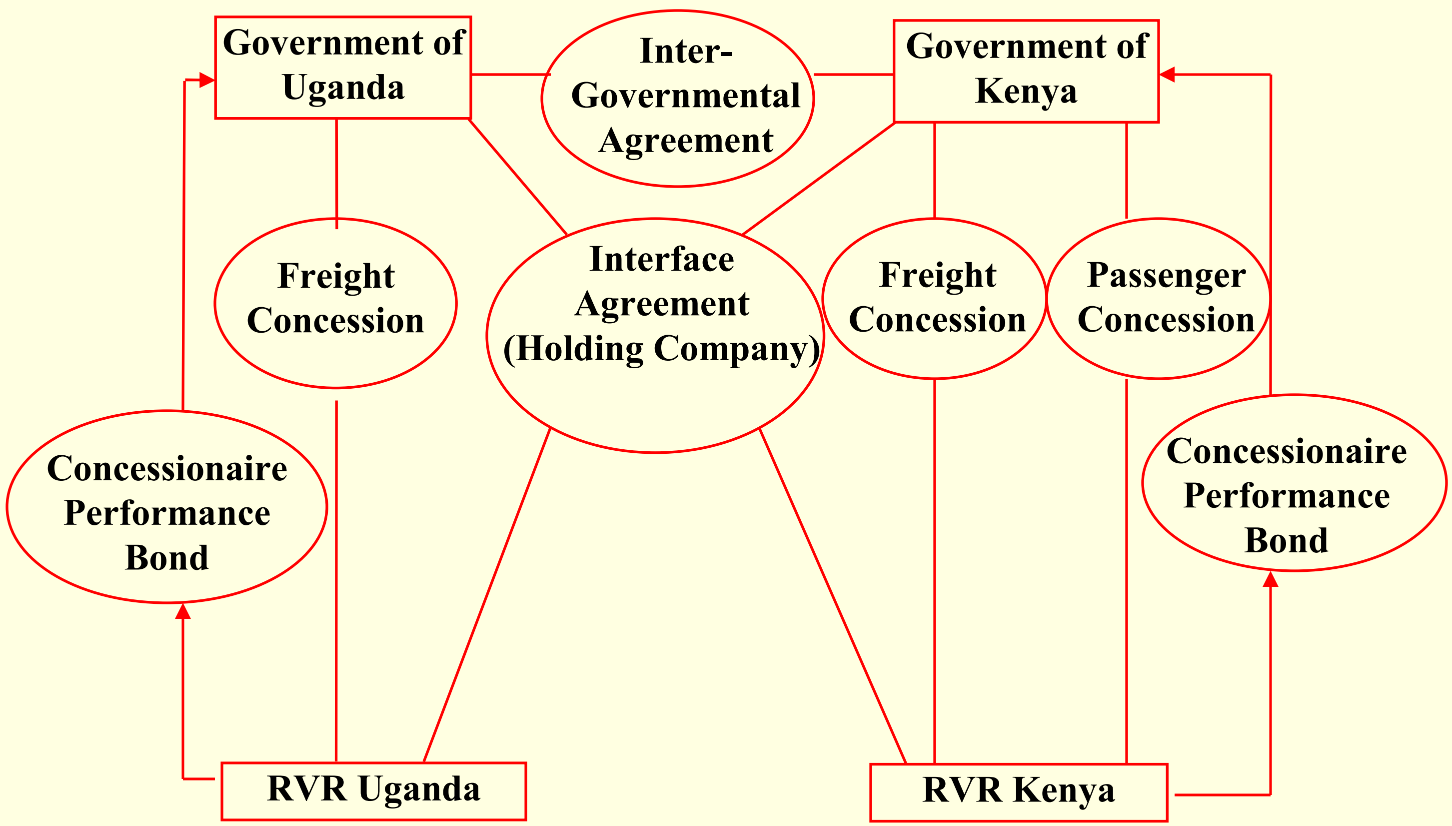
➲ By agreement with the Consortium, all benefits of such IDA financing would flow directly to the consumer.

➲ GOU undertook to cap the annual tariff increases within 10%- to avoid tariff shocks.

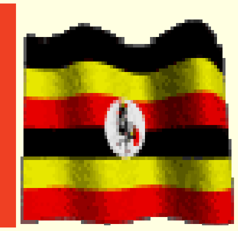
The Joint Railways Concession a Collaborative Effort: Maximizing the use of Global expertise



Joint Concession Legal Structure



Uganda- Drivers for Success



- Political and economic stability.
- Political commitment.
- Legal and regulatory reforms; PERD Act 1993, Communication Act 1997, Electricity Act 1999.
- Technical/management capacity-has evolved over time; fairly endowed with a well educated human resource base.

Challenges –The electricity crisis

- 6 months into the concession (Oct 2005) the water levels in lake Victoria dwindled, and the amount of power supply reduced from the pre-concession 250Mw to a mere 125Mw.
- By early 2006, the concessionaire’s power sales had reduced by 50% and as a consequence it was looking to make a substantial loss during its first year of operation.
- The Concessionaire was on the verge of terminating the Concession, they requested for Protection against the losses.
- Government agreed to give the protection during the crisis period to the extent that it was caused by the sector crisis.

Challenges: Restructuring the electricity distribution concession.

- **The protection agreed through the restructuring would fall away when the sector situation normalises or the relevant risks subside and was as follows;**
  - A Special Provision Period (SPP) was introduced during which the concessionaire would be able to charge to the tariff agreed additional operating costs caused by the crisis;
  - During SPP the Concessionaire would be able to recover on a quarterly basis losses caused by reduced sales as a consequence on the lack of supply of electricity;
  - During the SPP the concessionaire would waive the current provisions of the concession agreements which impose penalties for excessive increases in the bulk supply tariff.
  - The Concessionaire retained the right to exit the concession up until the earlier of Bujagali being commissioned, eight years, or there has been no SPP for two years;
  - The requirement for a performance bond was waived until normalcy, however minimum annual investment targets were agreed upon and the concessinaire would be in default if he did not meet the annual tagets leading to termination with penalties.

Challenges: Outcomes

- To-date the concessionaire has made investments in the region of USD 50 m in the first three years of the concession.
- Collections of energy billed has improved tremendously.
- However, the losses have not reduced, topping 37% currently, 1% short of the limit at which GOU has a right to terminate.
- High losses are attributed to increased theft due to high tarriffs because of the proportion of thermal electricity in the generation mix which is 40%:60% to hydro, but up to 90% of cost.
- The Concessionaire has appealed to GOU for support to halt the power thefts.

Challenges: Railways

- Following the recent civil strife in Kenya, the Concessionaire has notified GOU of the occurrence of the Political Risk Event (PRE).
- However, it can be argued that under the Uganda Concession, there is no PRE in Uganda.
- The Government is faced with a challenge to recognize the impact of the disruptions without going thru the PRE route, which has implications.
- Negotiations are already underway to deal with the losses incurred by RVR in the last two months since the Kenyan election.

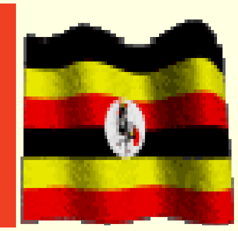
Cross cutting challenges

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

Cross cutting challenges contd.

- Lack of capacity to structure and manage complex projects.
- Public awareness of Govt intentions.
- Weak enforcement of the legal and regulatory framework.
- Government ability/willingness to pay on time.
- No PPP policy, procedures and institutional framework.

Need to further promote PPPs in Uganda

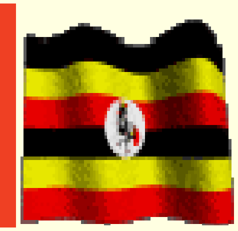


- Legal reforms:
  - Public Finance and Accountability Act.
  - Commercial laws, etc.
- Government commitment – to finance infrastructure projects through PPP to release funds for social services.
- Build technical capacity.
- PPP Unit to be the clearing house for PPP projects.
- Development partners – loan funds, project initiation, reign in on corruption.

Institutional Framework

- Current state:
  - No co-ordinated approach to PPPs.
  - Each Gov't department driving own projects.
  - No value for money studies carried out.
- Proposal:
  - Set up PPP Unit.
  - Agree PPP policy and framework.
  - Build technical capacity.

Support Required



- Technical assistance:
  - To set up PPP Unit.
  - To build capacity.
- Dialogue with development partners:
  - To invest – equity or debt in PPP projects.
  - Ensure transparency.
- Networking with other PPP Units.