

LAD CASE STUDY

Using Private Equity to Improve Power Distribution in Uganda

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LAD

ABOUT LAD

The Leadership Academy for Development (LAD) trains government officials and business leaders from developing countries to help the private sector be a constructive force for economic growth and development. It teaches carefully selected participants how to be effective reform leaders, promoting sound public policies in complex and contentious settings. LAD is a project of the Center on Democracy, Development and the Rule of Law, part of Stanford University's Freeman Spogli Institute for International Studies, and is conducted in partnership with the Johns Hopkins School of Advanced International Studies. LAD gratefully acknowledges support from the Omidyar Network.

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Introduction

It is summer 2004. Fred Kalisa, the Permanent Secretary in the Ministry of Energy sits in his Kampala home on the eve of one of the biggest moments in his political career. Kalisa had dedicated the past ten years of his life to building Uganda's energy sector and two summers ago he had spearheaded the government's wide-reaching Energy Reform drive. That effort split the vertically-integrated Ugandan Electricity Board (UEB) into three distinct state-owned companies to manage generation, transmission and distribution, respectively. The next few weeks would likely determine how much that hard work paid off, in what was to potentially be Africa's first electricity distribution concession granting and privatization. Kalisa knows the stakes are high. After several private companies had pulled out of the negotiations to join the concession, he is left with only one potential partner, a newly formed parastatal organization from London and Johannesburg along with potential support from the World Bank. The main problem with the sector is that current tariffs or rates are insufficient to cover operation and maintenance costs, let alone necessary future investments. Privatization or a PPP will require raising tariffs but Kalisa is under great pressure to secure terms favorable to the people of Uganda. At the same time, he knows this is the last chance for any deal at all so he fears being held hostage to the bidder's demands and will need to convince the public to accept higher rates. What should be his strategy to do that?

Recent developments in Uganda

The Republic of Uganda is a landlocked country within the Nile basin, in the Great Lakes region of Africa; Yoweri Museveni serves as both the head of state and the head of government and has been in power since 1986. He was involved in the rebel movements that removed previous leaders Idi Amin and Milton Obote from power. He has the support of his appointed cabinet and other government ministers, so much so that their policy decisions are seen as effectively coming directly from the top.

Museveni was initially seen by the West as a reformer and was a darling of the international financial institutions (IFIs) due to his successful adherence to the IMF's structural adjustment programs and privatization initiatives. However, his stock has since fallen rapidly due to recent political developments. After his 2001 re-election, Museveni's backers have campaigned to loosen constitutional limits to allow him to stand again next year, prompting concern about his desire to cling to power. A confidential World Bank report was recently leaked suggesting that the lender may even reign in its non-humanitarian lending as a consequence.

Chris Walker prepared this case under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.

Economic progress has been rapid. The 1990s saw the Ugandan Government (GoU) engage in a broad reform agenda, with policies aimed at pursuing macroeconomic stability in combination with export-led growth fueled by privatization and economic liberalization. These policies, along with the country's abundant natural resources and attempts to achieve price stability have attracted overseas foreign development institutions (FDI). A lot of work remains to be done, but the annual inflation rate has steadily dropped from 240% in 1987 to average around 5% in the early 2000s, while GDP growth has steadily risen. Summary demographic and economic statistics are outlined in the Appendix. However, parallel to the emerging concerns about Ugandan governance, the rapid economic progress of the past decade has since stalled, partly due to the state's dependence on under-performing, heavily subsidized public enterprises. The power sector is one of the worst.

Electricity Sector in Uganda

Just four years ago, Uganda's rate of access to electrical power was the lowest across Africa, and power losses were among the highest. A World Economic Forum Global Competitiveness Report identified major concerns in the sector including inadequate supply, rampant corruption and poor access to financing. The country's tropical climate and widely distributed population makes providing reliable energy challenging, but years of underinvestment have also contributed to the problem. An adequate supply of electricity is seen as a necessary condition for development but as a general rule, the sector sees low investment because the enterprise is highly capital-intensive. This is not a problem unique to Uganda; the IFC reports that electricity utilities across Sub-Saharan Africa lose roughly a quarter of all energy consumed simply due to operational inefficiencies.

The majority of the electricity in Uganda is generated via hydropower. Owen Falls, a dam built in the 1950s at a waterfall on the White Nile, remains the primary source. Two subsequent phases of construction in 1996 and again this year have increased the power station's capacity to 270MW, but generation remains highly dependent on water levels in Lake Victoria. A recent drought, which started in earnest last year has resulted in lower water levels, and could prove problematic if it persists. A 50MW thermal generation facility is due to come on stream later this year, and other projects are in the pipeline for the next 3 to 5 years. This extra supply is unlikely to meet burgeoning demand (currently growing at 10% per year) fueled by the bubbling domestic economy and pent-up demand from load-shedding.

Load-shedding is the intentional shutdown of electricity supply for periods of time over different parts of the distribution network. It tends to be the last resort for distribution companies to avoid complete system blackouts. At the current juncture, it is estimated that firms will lose on average 90 operating days per year due to power cuts, a problem that will only escalate as demand rises. Without the needed infrastructure overhaul, a substantial section of the population may soon be without electricity, and the lack of diversification in generation makes it highly susceptible to exogenous shocks. If the drought intensifies, supply that is already failing to meet demand may actually shrink.

The World Bank has attributed the sector's problems to weak management and the fact that the Ugandan Electricity Board (UEB) lacks autonomy. A lack of autonomy means that UEB is

susceptible to political pressures to keep rates low and does not always have the authority to take measures necessary for long-term viability. UEB was a public monopoly with many investment challenges, no sustainable cash-flow and high losses. It was therefore a welcome development when the GoU began to implement mass public sector reforms.

2002 Reforms

Given the success of initial privatization reforms in the sector, the government viewed further asset sales and concession grants as cornerstones of its longer-term strategy. A new power act passed in late 1999 established the Electricity Regulatory Authority (ERA) as an independent sector regulator, with *de jure* freedom from political influence. An electricity disputes tribunal was also established to resolve all matters ranging from generation to consumption. The ERA created the tribunal's guidelines, with the aim of increasing accountability in the sector and creating a one-stop-shop for all grievances.

The Power Act requires that any policy directive from the Ministry of Energy be clearly documented and that "policy shall not adversely affect or interfere with the performance of the functions and exercise of powers of the Authority." Nonetheless, the Ministry of Energy retains the right to launch "special committees" in order to investigate tariff pricing, even though this function is a clear pillar of the ERA's mandate. The ERA can also be summoned before parliamentary committees to report on its activities as an assurance of accountability, and its annual budget must be approved by both the Minister of Energy and the Minister of Finance.

The act also permitted the privatization of UEB to allow competition within the market, and in early 2000, UEB was unbundled into three separate entities to manage generation (UEGCL), transmission (UETCL) and distribution (UEDCL), respectively, and privatizations were sought via concession granting. The pre-privatization shareholder was the Ministry of Finance. Sweeping changes were made to the management of the teams, in order to signal the major shift away from past practices.

The utility company Eskom, a parastatal owned by the South African government, won rights to the generation contract. Eskom's managing director, Paul Mare, also took control of the generation arm after the unbundling. The GoU had initially considered selling the entire electricity sector to the private sector, but both the Ministries of Finance and Energy feared that doing so would prove to be too politically charged. Creating a private business managing government-owned assets (a public-private partnership) was deemed the more appropriate strategy.

After the successful acquisition by Eskom, Uganda officials were optimistic about granting the remaining two concessions. To date, there had been no successful concessions granted for unbundled distribution networks in Sub-Saharan Africa, so the GoU was therefore keen to set the precedent. While previous reforms have gone well, signing this contract would be considered the best yet, and would buy precious political capital with the country's external creditors.

Unfortunately, recent developments in global financial markets have made the next steps somewhat more challenging. Risk appetite among international investors is low after the collapse of the energy behemoth Enron in the USA and investors have re-assessed the profit potential in

relatively small and under-developed markets, such as Uganda. When the tenders were first offered for the distribution concession, six companies showed an interest. However in light of these recent international events, each of those six potential bidders gradually pulled out of the process, despite the GoU's heavy marketing.

Domestic Problems

Considerations beyond the state of global markets also prompted investors to withdraw. The six private investors were concerned about UEDCL's poor financial performance. UEDCL created huge losses and was totally dependent on government subsidies to survive. This made it hard, indeed impossible, to provide a reasonable return on investment or to finance the necessary investment required to make the distribution entity financially viable. The failed bidders also pointed to poor commercial performance manifested through low collection rates (around 50% of sales), low coverage rates (around 5-10% of the Ugandan population) and high losses (greater than 30%). Non-payment by many entities was also a major source of concern. The biggest culprit is the government itself, which hardly sets a good precedent for negotiations.

Technical Problems

The electricity system itself is in poor shape. A long-term lack of investment has left the grid at the point of collapse with a huge backlog of maintenance tasks. As a result, there are frequent faults in the system and supply interruptions. With an extended network, including long power lines, the Ugandan system already has a naturally high level of technical losses (loss of power along the lines), but the lack of maintenance has exacerbated the problem. The climate has also contributed to the problems; the system often completely shuts down in poor weather, particularly during heavy rain.

Significant investments are required to upgrade the system and reduce the technical losses. The World Bank has estimated that approximately \$500bn is needed to fix the system. As one example, most utility poles need significant repair or replacement. To pay for this investment, the government would have to underwrite a huge subsidy or significantly raise tariffs.

Compounding the infrastructure problems, the government has failed to prosecute those caught either defaulting or thieving supply (via illegal hookups to the grid) and as such both have become commonplace. A recent audit noted that many current employees have taken bribes for illegal connections, a phenomenon which is rife across the entire system. Finally, health and safety measures are either poorly enforced, or non-existent. There is little to no documentation and a dearth of competent and trained staff.

Institutional / Political Problems

The institutional and political problems within the distribution sector far outweigh the technical ones however.

After a 20-year ban, the government recently held a successful referendum to restore the multi-party political system. At this stage it is unclear what the full effects will be but President

Museveni looks likely to use the vote as an argument to remain in power. There is the risk that some institutions, including those directly involved with the concession granting, may see personnel change and/or be overhauled at short notice, fostering a culture of uncertainty and moral hazard.

Although the ERA acquired *de jure* independence three years ago, the agency lacks the authority to make truly independent decisions and is instead an ancillary arm of the government. The market perception is that the ERA is at worst prone to political interventions, and at the very least, lacks the track record of successful decision-making necessary for the task. Over the past decade, some government officials have ordered UEB's distribution arm to stop collecting money, a clear breach of independence. Additionally, the Minister for Energy is charged with appointing the 5-person ERA Committee and designating the chairperson. While this doesn't necessarily suggest interference, it does at least provide a direct channel for it to operate.

Allegations of corruption have also plagued other projects within the sector. The lack of competitive bidding raised questions about the Bujagali Hydro Power Project, a \$550m project north of Lake Victoria approved in 1999. It was later revealed that a Ugandan government minister had received a payment the same year from a subsidiary of the project's Norwegian-based main contractor, prompting the World Bank to pull out of the project entirely.

Tariffs

Below market-price tariffs and the deficit in generation capacity caused regular load-shedding. In the past year (2003), the government has tried various remedies to avoid raising rates, including importing power from Kenya and temporarily renting its oil fields. Historically, the government had heavily subsidized the electricity sector to prevent necessary tariff hikes, but the scale of the required overhaul combined with Uganda's worsening fiscal position now makes this policy infeasible. Yet, most Ugandans have come to expect cheap and abundant electricity. They regard electricity as a public good and any attempts to privatize it as a form of disempowerment. Accordingly, consumers who have seen electricity tariff rates unchanged for much of the previous decade will oppose the increases necessary to improve the system's operations. Not surprisingly then, the 100% rate increase the ERA imposed in 2003, to cover a small portion of increased costs and deferred maintenance costs prompted street demonstrations and media criticism.

Kalisa and the GoU now face the difficult task of both ensuring that the higher tariffs remain affordable for consumers while also allowing the concessionaire to raise them to at least the market-clearing rate. The failed tender is a clear signal that few, if indeed any investors are willing to risk their own capital in this international and political environment. Moreover, any indication that the government is interfering to disrupt market rates might prove to be a step too far for future investors.

Tariff rates are raised largely to cover the costs of distribution. Electricity distribution involves establishing and maintaining connections to UEDCL's 230,000 customers. The company currently employs around 1100 workers, many of whom may lose their jobs in the concession process. UEDCL purchases electricity in bulk from its sister transmission company (UETCL) and

then distributes directly to customers. Contract sales are conducted largely in Ugandan shillings, but the purchases from the transmission company have a significant USD component. The tariff structure contains some foreign exchange-hedging protection to account for exchange rate movements, though it is not done in a rigorous way and rarely account for surges in inflation. The distribution-specific costs include maintaining the network of distribution cables, and managing the voltage transformation of the system. UEDCL presents its revenue requirements to ERA, which then advertises the proposals, allowing the public to comment. Meetings are held in Kampala where consumers and lobby groups can attend. The principal lobby groups are the manufacturers (Uganda Manufacturers Association) and Kampala Traders. There is then a consultative process, which takes place between ERA and the GoU, concluding in “appropriate” tariff rate setting.

Concessions, DFIs and access to capital

Concessions via public-private partnerships (PPPs) offer access to capital in the context of nascent and rudimentary capital markets. The PPPs usually involve DFIs which help investors get over the hurdle of allocating adequate capital and act to bridge the gap between state-sponsored aid and private investment. DFIs often provide financing and advisory services alongside ancillary services such as the promotion of market openness and best practices. Since the potential private sector bidders for the Ugandan concessions have all pulled out, the GoU’s last chance is to create a PPP in conjunction with a DFI.

The institutional players

Umeme

Umeme was established by a consortium of Globaleq (the investment arm of the Commonwealth Development Corporation (CDC, see below)) and Eskom. The company was specifically created for the purposes of this concession negotiation with an aim of taking control of the nation’s entire distribution network.

Commonwealth Development Corporation

Founded in 1948, CDC is the UK’s development finance institution, wholly owned by the UK government. It is the world’s oldest of its type and has a long history of successful private sector investments. Since many developing countries struggle to fund necessary investments, CDC plays the valuable role of providing capital and benefits in comparison to other sorts of development financing.

Like more traditional private equity companies, CDC makes long-term private investments in established companies, with the basic goal of gradually increasing their value before exiting for a profit. Since it is a long-term investment vehicle, CDC is well positioned to make substantial corporate governance and management improvements. Private equity investors are known to pursue a very active investment strategy compared to other sources of finance, given their basic goals. They require considerable due diligence before any deal; they often overhaul management teams; and provide clear guidance on governance, social and environmental policy. CDC provides and adheres to an investment code that ensures minimum requirements for responsible business operations are met in line with international best practices. CDC tends to invest directly into

companies through equity or debt financing but can also invest indirectly through fund managers that are aligned with their broad aims of fostering private sector development.

The most common source of private equity deals are leveraged buyouts, where large amounts of debt financing are used alongside relatively small amounts of equity finance. The leverage term refers to the role that debt plays in achieving equity returns. The cost of capital of debt is much lower than it is for equity, meaning that returns on the equity increase in line with the share of the debt in the deal (the higher the debt component, the higher the potential equity returns). As equity returns start to accrue, the optimal balance between debt and equity in the investment is eventually reached. However, in order to fund these types of deals strong cash flow is required as collateral for the debt and this area of the company's balance sheet will be closely scrutinized.

CDC differs from traditional private equity companies because, as a development finance institution, it pursues a concurrent goal of eradicating poverty and improving economic development through its investments and social mission. However, while CDC has a long investment history, it has never invested in the distribution arm of the power sector, which may concern the GoU as it seeks expertise to ensure the privatization process runs smoothly. However, GlobalEq, which was launched through CDC, has worked extensively both in the region and the sector and has been described by Portfolio Manager and CEO Mikael Karlsson as "the best energy team in emerging markets." CDC was one of the initial six bidders in the failed tender. While CDC decided against going it alone in the venture, senior executives within the organization wrote to the GoU, highlighting many of the issues (outlined above) that were stumbling blocks and suggested that were they rectified, talks could continue.

Eskom

Eskom is an electrical utility owned entirely by Government of South Africa. It has already won the contract for the generation concession and has significant experience in the field. Paul Mare, head of Eskom, became managing director of UEB during the privatization and unbundling period, starting in 1999. After the unbundling, he also became the MD of the generation arm (UEGCL).

World Bank

The GoU has already sought the guidance from the World Bank throughout its reform process and a strong relationship has been established. They have offered to play a role in the negotiations, and they are also keen to help the GoU take a further step from managing the sector directly to regulating a private operator.

One area where the GoU may seek help is through partial risk guarantees (PRG), which can be used to provide liquidity to the private stakeholder in the event of non-compliance from the government or failure to fulfill the contractual obligations. Providing a PRG would be considered a big favor from the World Bank however, and the GoU must be careful when considering spending all of its political capital with the institution during the negotiations.

The decision

General overview of the decision

Fred Kalisa, the permanent secretary within the Ministry of Energy, has been tasked with negotiating a concession that favors the Ministry. A close ally of Museveni, Kalisa knows that if he and his team push for conditions that are too onerous, Umeme might back out, leaving them with no contract bidders. It is often the case in these types of negotiations that expectations are set too high, and the private body is expected to deliver at whatever cost since they can often make huge profits. However, Kalisa also risks political fallout if he agrees to a very lenient deal and is seen as selling Uganda's assets on the cheap. That said, he is fully aware that the government is negotiating from a position of relative weakness and does not have a huge amount of leverage.

As part of the wide energy sector reforms, Kalisa has already helped establish several institutions that will play a key role in the negotiation process, including the ERA. But he also knows that he will have to persuade investors that they will be able to work in a well-regulated, market economy. Kalisa is also shrewd enough to understand that there will be no going back from this agreement, and once they're in, they're in. The cost (both financially and politically) of renegeing on any contract and restarting the project through the government would be huge, and in all likelihood, foreign investors would shun the country.

Domestically, Kalisa knows that Museveni and his administration is growing tired of street protests and needs to carefully consider where the burden of payment for the necessary investments will fall, as sharp rises in tariffs will likely prompt fresh waves of protests and/or thefts. The GoU may need to retain some control over the ERA since its role is to ensure "fair" prices for tariffs. Museveni has trusted Kalisa to make the correct calls politically, and he can consult his technical team for assistance. Kalisa has already assembled a capable technical team to work with him in this process. Irene Muloni, managing director of UEDCL and David Ssesabi, director of the Ministry of Finance's Privatisation Unit, along with an official from the Attorney General's office will drive the negotiations. Muloni and Ssesabi are both seen as highly competent technocrats with political aspirations. They are likely to pursue the negotiations from a largely technical angle, but understand that they also effectively remain accountable to their respective ministers. Kalisa holds a significant degree of leverage over them both as well.

If an agreement is reached, Kalisa will present the terms to a steering committee, bringing several key cabinet ministers on board, before a decision is finally taken by the Divesture, Reform, Implementation Committee (known as the "great committee"), which exists at the highest level of government. Before heading into this week's meeting with Umeme, Kalisa has prepared some broad points of discussion. He will have the final say on their strategy during the negotiations, but will want to make sure his team is on the same page with respect to the following important areas:

Government Guarantees

Kalisa understands that Umeme will refuse to sign the concession agreement unless there is adequate protection from political interference in their decision-making. Simply providing full autonomy of decision-making is itself a risky strategy. Since it is a brand new company, Umeme

has no track record of success, even though it has emerged as the child of two respected DFIs. Ultimately, Kalisa is an elected official lobbying on behalf of the people, and must ensure that a fair deal is negotiated for the country. He has dedicated many years to the energy sector and wants to finish this process by creating a system that works. However, given his own political aspirations, Kalisa is also wary of rocking the boat too much. Attaching his name to a failed project, or worse, one that sparks public protests is unlikely to be viewed favorably by the Ministry or Museveni.

But Kalisa is fully aware that some guarantees must be sewn into the agreement, for example, non-termination of the contract and government guarantees that the power bills will be paid in full. This latter agreement has not been adhered to in the past, and the government has turned a blind eye to previous periods of non-compliance. Umeme is understandably looking to protect its business, so seeks assurances that payments will be met and will be vigilant on this issue. However, creating a system that ensures this happens is challenging in light of limited budget allocations and a culture of non-payment, even within government ministries.

The amount that the government will be required to pay is of course a function of tariff prices. The lower the total tariff collections, the higher the burden on the government to make up the rising costs of electricity generation with subsidies. Disaggregation of tariff prices is likely a sensible strategy (see below) to ensure that the less price-sensitive electricity consumers are liable for a higher burden. Measures to make the public aware of the government's funding tradeoff should also be considered to prepare them for higher rates.

On termination guarantees, creating a security package that creates comfort for the lenders and protects the investor is tough. There are many questions to consider, for example, if the government terminates the contract, what costs should they be liable for? And what should the concessionaire receive in such an event? Termination must work in both ways in the contract however, and the GoU must ensure that if the concessionaire itself terminates they too will get punished.

Tariff Pricing

It is clear that tariffs will need to rise, partly to cover operating expenses but largely to fund the necessary investment. Any private investor would require this in return for investment. The initial investment is required for a complete overhaul of the system to reduce both technical and non-technical losses. Is the public willing to pay for this, or will there be new protests that could further destabilize the government? And how will the media react? The government could subsidize the difference between Umeme's revenue needs (verified by the ERA) and the price it will charge consumers, but it will want to gradually reduce its involvement over time.

The key to a successful tariff pricing will be to differentiate between prices charged to electricity consumers and place the burden on the price-insensitive groups. Consumers fall into two broad categories: business and residential users. Business users tend to be interested in reliability more than low prices and are therefore less price-sensitive, particularly the larger corporations. Kampala Traders is a support organization that aims to mobilize smaller local business in the city while UMA looks after the interests of the larger manufacturers. Residential users tend not to

lobby collectively, nor do they have an active consumer activist lobby group. However, they are free to attend the ERA meetings and also pressure their respective members of parliament (MP). The political leverage of highly price-sensitive consumers depends heavily on the power of respective MP – those with powerful representatives in Parliament will be able to halt ERA tariff hikes while those whose members do not have as much clout will not. It is crucial for Kalisa to enlist the support of the larger, less price-sensitive users along with weaker groups in order to blunt powerful residential consumers in the reform process.

Kalisa's options for tariff strategies range from allowing Umeme and the ERA to increase prices to market-clearing rates (with obvious risks) to pressuring the public to accept higher rates, while convincing them that this money will not be lost to corruption or market inefficiencies and instead will fund critical improvements in the nation's power system.

An alternative policy could be to instead focus on reducing the generation component of the tariff. It may be possible to source power from overseas (at cheaper rates) or better synergize with the newly privatized generation sector. In this scenario, distribution tariffs (which include generation costs) may not need to rise so dramatically.

Finally, Kalisa might consider a system of cross-subsidies—charging higher rates to one group to subsidize another. The electricity sector has often used cross subsidies as a vehicle to extend supply to underserved areas. They generally involve lump-sum transfers from one cohort to another (so as not to disrupt the price allocation mechanism by applying it to marginal rates).

The ERA

Since the ERA has already been established as part of the wider sector reforms, the GoU has a ready-made, albeit nascent, institution to govern the electricity sector. As noted however, its lack of track record and somewhat checkered history suggest that Umeme will seek assurances about its independence. However, true ERA independence may not be optimal for Kalisa and his team since they understand that the ERA, in setting tariffs, must take into account the public's reaction to price hikes as well as political lobbying (from consumer and manufacturing groups) alongside Umeme's wishes. There is likely a “politically acceptable” ceiling on tariff levels.

The ERA is staffed with technocrats who, while often over-ruled, have the ability to do a good job. However, Ugandan law dictates that their capacity to act will be bound by the specifics of the negotiated contract so that will be a key point of discussion. In essence, Kalisa does not want the ERA to become an island beyond the government's control in spite of what the World Bank and/or Umeme are likely to suggest.

Targets, losses and investment

In the long run, Kalisa needs to clamp down on electricity thefts and non-payment/defaults. High electricity losses are due to, among other things, the poor condition of the network, theft, non-payment, and low collection rates. Kalisa is fully aware that the biggest culprit of non-payment is the government itself, which hardly sets a good precedent for negotiations on this issue. Umeme will seek strict guarantees of payment from government entities. Should Kalisa and his team

soften them in order to start the negotiations on a good footing even as he understands that budgeting issues are unlikely to disappear over the medium term? Or should he take a harder line?

Successful network connection targets should be used as the mechanism with which Umeme are held accountable and can also be applied to collections, investment and losses. If reasonable targets are set, then the government may be able to begin to prime consumers for higher tariffs. An absence of clearly defined targets runs the risk of somewhat arbitrary attacks from parliament and consumers. They are an objective way of tracking performance and can be compared with similar targets in other countries. With current system losses around 35%, what level of improvement should be considered progress? Termination and guarantees within the contract could be made conditional on these thresholds.

The primary purpose of the negotiations is of course to secure much needed investment in the sector. The World Bank has provided estimates of the total cost required to overhaul the system, but what proportion of that amount is reasonable to request from the concessionaire, and over what time horizon? Capital can be used to both refurbish and fix the current system, as well as to extend its reach to increase the capacity of potential future sales. The only real alternative for the GoU is to make the investment itself, which is implausible given budget constraints.

Kalisa's challenge

The World Bank and Umeme are likely to seek deep reform of the ERA, but will this leave the GoU at the mercy of rocketing tariffs? How can Kalisa appease lobby groups and members of parliament who are lining up to strike down any deal, regardless of its components? How much of the security package can be pushed to the World Bank to provide, and how much will the government need to sacrifice itself?

Kalisa knows the stakes are high for this week's meetings. He needs to negotiate on these points and more, ensuring that Ugandans get a good deal but also that Umeme does not back out in what is likely the last chance for UEDCL. What should his strategy be?

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Appendix: Charts and Tables

Figure 1: Map of Uganda



Source: Encyclopedia Britannica

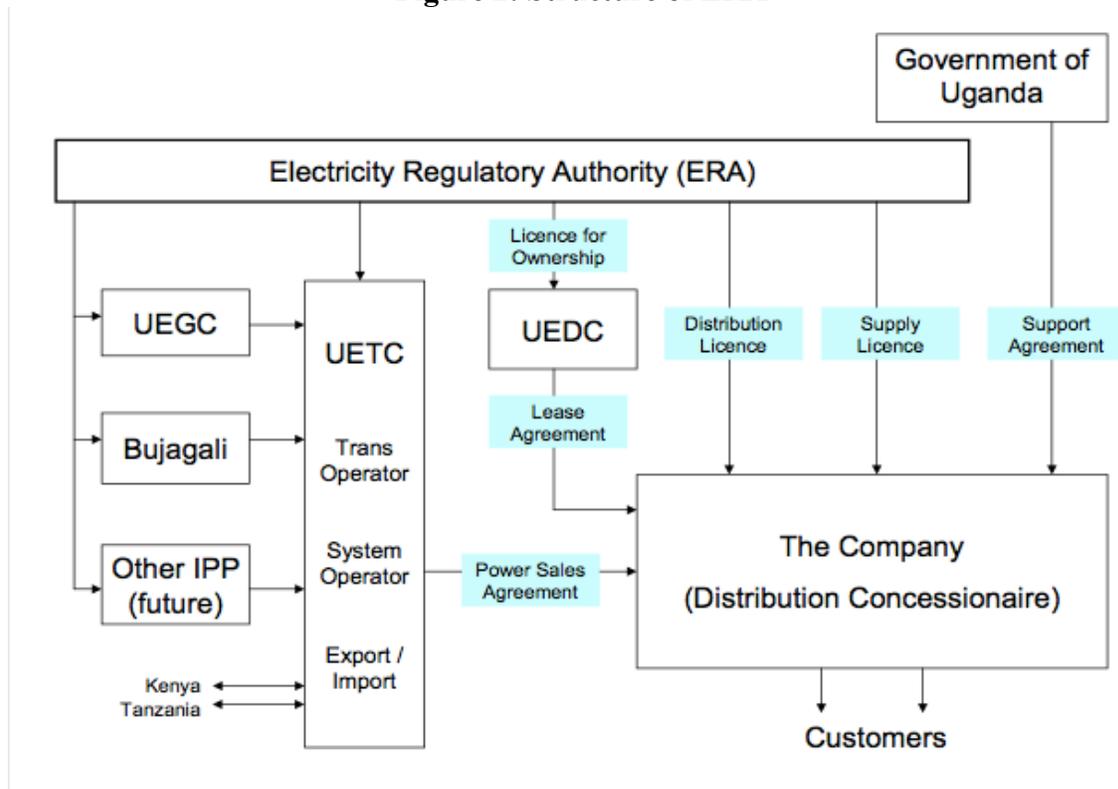
Table 1: Summary Demographic and economic statistics

	1998	1999	2000	2001	2002	2003	2004	2005
Population growth (annual %)	3.10	3.14	3.21	3.29	3.35	3.39	3.40	3.39
Urban population growth (annual %)	3.81	3.85	3.92	3.99	4.06	5.25	5.56	5.53
GDP growth (annual %)	4.91	8.05	3.14	5.18	8.73	6.47	6.81	6.33
Tax revenue (% of GDP)	10.02	11.45	10.44	10.44	11.18	11.26	10.69	11.76

	1990	2000
Access to electricity (% of population)	6.80	8.60
Access to electricity, rural (% of rural population)	1.50	2.40
Access to electricity, urban (% of urban population)	49.35	53.72

Source: World Bank

Figure 2: Structure of ERA



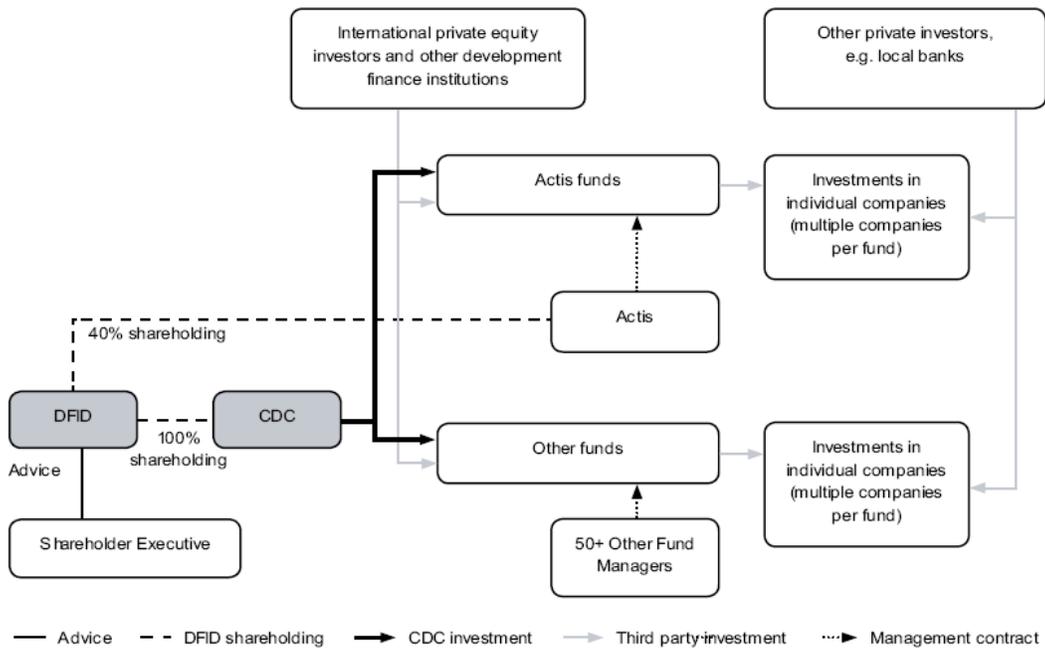
Source: Government of Uganda

Figure 3: Energy sector protests in Kampala, 2011



Source: <http://www.newvision.co.ug/mobile/Detail.aspx?NewsID=628423&CatID=1>

Figure 4: Structure of CDC



Source: <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/607/607vw14.htm>

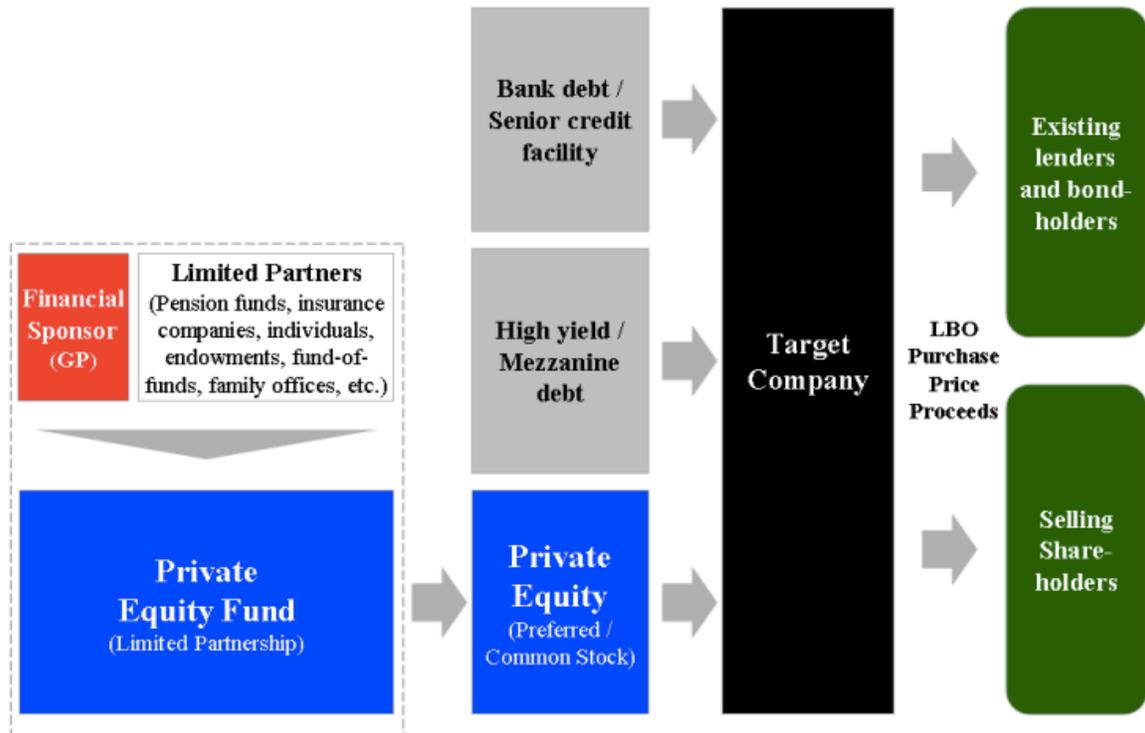
Figure 5: ERA Mandate

Our mandate is outlined in the Electricity Act 1999 and further detailed out in our 3–year Business Plan and 10-year Strategic Plan. The functions of the ERA as laid out in the Act are:

- a. To issue licenses for;
 - i. the generation, transmission, distribution or sales of electricity; and
 - ii. the ownership or operation of transmission systems;
- b. To receive and process applications for licenses;
- c. To prescribe conditions and terms of licenses issued under this Act;
- d. To modify licenses issued under this Act;
- e. To make and enforce directions to ensure compliance with licenses issued under this Act;
- f. To establish a tariff structure and to investigate tariff charges, whether or not a specific complaint has been made for a tariff adjustment;
- g. To approve rates of charges and terms and conditions of electricity services provided by transmission and distribution companies;
- h. To review the organization of generation, transmission and distribution companies or other legal entities engaged in the generation, transmission and distribution of electricity to the extent that that organization affects or is likely to affect the operation of the electricity sector and the efficient supply of electricity;
- i. To develop and enforce performance standards for the generation, transmission and distribution of electricity;
- j. To encourage the development of uniform electricity industry standards and codes of conduct;
- k. To establish a uniform system of accounts for licensees;
- l. To advise the Minister regarding the need for electricity sector projects;
- m. To prepare industry reports and to gather information from generation, transmission and distribution companies;
- n. To prescribe and collect license fees;
- o. To provide for the procedure for investment programmes by transmission and distribution companies;
- p. To approve standards for the quality of electricity supply services provided;
- q. To approve codes of conduct in respect of the operation of transmission and distribution systems;
- r. To acquire information and carry out investigations relating to any of its functions; and
- s. To perform any other function that is incidental or consequential to its functions under this section, or as may be conferred on it by any other law.

Source: <http://era.or.ug/index.php/about-us/2013-10-15-15-57-40/functions-of-era>

Figure 6: Typical private equity transaction



Source https://upload.wikimedia.org/wikipedia/commons/f/f3/Leveraged_Buyout_Diagram.png