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## Energy privatisation and reform in East Africa

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## 1. Introduction and summary

This paper reviews the experiences with electricity reforms and privatisation in three east African countries: Kenya, Tanzania and Uganda.

The first three sections review each country in turn, looking at the use of independent power producers (IPPs) and reforms in power generation, then at the distribution systems, and at major developments. A further section reviews the main multinational companies active in electricity in the region.

In conclusion, the paper discusses some of the main themes emerging, including the issues of pricing policies; investment and the role of public finance; the problems experienced with IPPs and the associated power purchase agreements (PPAs); proposals for regional integration; corruption and transparency; employment protection; and management service contracts.

## 2. Kenya

### 2.1. Coverage, unbundling and privatisation

10 per cent of the population is linked to the electricity supply network. In 1997, the publicly owned company, Kenya Power and Lighting Company (KPLC), was split into two parts: a new entity, the Kenya Power Company, now known as KenGen, took over all publicly owned power plants; and KPLC retained transmission and distribution.

The Government unbundled the electricity sector under pressure from foreign donors. Key donors, including the European Development Bank, Germany, Japan and the World Bank, threatened to pull out of the energy sector unless parliament proceeded with the enactment of an Energy Bill.

KenGen was 30% privatised by a listing on the Nairobi Stock Exchange in the third quarter of 2005. In 2006 KenGen reported record profits, which it attributed to growth in demand.

### 2.2. IPPs and private generation

Kenya currently has an installed capacity of 1147 MW. KenGen produces about 80 per cent of the power consumed in Kenya, mostly from hydro, which makes up about 75 per cent of its capacity. Most of Kenya's electric power is from the River Tana generated through the Seven Forks project in Eastern Province.

IPPs were set up from the mid-1990s onwards. The independent generators in Kenya have about 20 per cent of generation. These include:

- Tsavo Power, which owns the 74MW Kipevu 2 plant (the other plants at Kipevu are owned by KenGen. The main members of the Tsavo consortium are Globeleq (30 per cent) and Industrial Promotion Services (Kenya) Limited (IPSA) in consortium with the US utility, CMS (49.9 per cent). The World Bank holds 5 per cent.
- Iberafrica owns the Nairobi South plant, owned by, uses diesel and has a capacity of 57 MW. Union Fenosa of Spain owns 80 per cent of Iberafrica, while Kenya Power and Lighting Company's Staff Pension Fund own the remaining 20 per cent. Iberafrica's PPA was revised in 2004 following the audit report criticising the IPPs for charging inflated prices.<sup>1</sup>

Westmont Power, a Malaysian company, which operated a barge at Mombasa, was accused in 2003 of paying bribes to Samuel Gichuru, former chairman of the Kenya Power and Lighting Company. It was ordered to cut its tariffs in half, and left Kenya when its contract expired in 2004.

### 2.2.1. Corrupt procedures and inflated prices

An audit report on KPLC in 2004 exposed improper dealings, inflated prices and profiteering by the IPPs. The report “traced woes of the distributor [KPLC] to contracting of generators Iberafrika and Westmont Power”, and said of Iberafrika:<sup>2</sup>

“A single Independent Power Producer, Iberafrika, has raked in a mind-boggling Sh18.4 billion from Kenya Power & Lighting Company since 1997. The committee has written to the Kenya Anti-Corruption Authority to investigate weekly withdrawals at Iberafrika banker, Banque Indosuez, by a bodyguard of a former top official. The first was immediately advanced an unsecured Sh600 million and Sh700 million from its retirement benefit scheme on being contracted. Compared to a higher capacity IPP, Tsavo Power, Iberafrika supplied 36.8 per cent less power but received \$33 million (Sh2.6 billion) more. It says Iberafrika has several hidden costs which are catered for by a flawed power purchase agreement. .... KPLC engaged the overpricing IPP, Iberafrika, in 1997 without any advertising for tendering. The report faulted the firm for uncompetitively awarding the huge business despite its immense financial implications. Managing director (former) Samuel Gichuru later told the board that World Bank guidelines had been followed in the tendering .... the speed of the transaction indicated "the former managing director had some vested interests in these particular firms and the board may have been used only to rubber stamp the decision".

The contracts of both Iberafrika and Westmont were improperly awarded in breach of tendering procedures, Westmont’s PPA was backdated to start 13 days before it was signed, KPLC agreed to buy expensive fuel for Westmont and then re-purchase it at ‘exorbitant prices’, and Iberafrika’s contract stipulated that the company should be paid in US dollars.<sup>3</sup>

The report found that:

“The rates by the IPPs compare quite unfavourably with KenGen charges. Rates charged by KenGen have come down steadily over the years. Until July last year, when the rates were revised, KenGen charged KPLC Ksh2.36 (3 US cents) per kilowatt hour. The rates are now down to Ksh1.76 (2.2 US cents) per kilowatt hour. ....the four IPPs together raked in Ksh18.4 billion (\$235 million) as profits since they began their operations in 1997.”<sup>4</sup>

In 2004 the government decided to ‘phase out’ IPPs because of the inflated prices: “The Government will begin a gradual phasing out of independent power producers this year...who have in the past been accused of selling power to the electricity distributor at higher prices compared to state-owned KenGen.”<sup>5</sup>

### 2.3. KPLC and Management contract

KPLC has undergone corporate restructuring with a view to privatising it over the medium-term and ending its public monopoly over the distribution of electricity. This has caused significant job losses, and casualisation. In 2005:

“More than 200 workers have been sacked at the national electricity distribution company after a legal dispute. The Kenya Power and Lighting Company (KPLC) casual workers were dismissed on Wednesday this week, four days after they lost a High Court application seeking to block the sacking. Some of them had worked for KPLC on a casual basis since 1993. They left the company with cheques for between Sh9,000 and Sh12,000. They were among 1,000 employees who have sued the company demanding permanent terms.”<sup>6</sup>

In 2006, 332 former employees are still suing KPLC for failure to pay compensation for their retrenchment in 2000.<sup>7</sup>

KPLC is now the subject of a new management contract with Manitoba Hydro of Canada, despite the bad experience with the cancelled management contract of Net Group in neighbouring Tanzania.

The World Bank insisted that a management contract for KPLC had to be given to a private company, as conditionality for its US\$152-million financial assistance for the upgrading of KPLC's power distribution network. Performance targets are the connection of 400,000 new users to the grid, reducing systems losses

by 14.5%, and a reduction of monthly outages from.<sup>8</sup> The management contract was won by Manitoba Hydro International (MHI), against the Irish company ESBI and the Spanish company Union Fenosa. The contract with MHI started in July 2006 and lasts 2 years with a possible one-year extension. MHI have seconded a team of managers. The contract specifies that:

- transmission losses – through illegal connections and ageing wires - must be reduced by 14.5%;
- the rate of new connections should be raised from 70,000 realised in 2005, to 150,000 per year;
- monthly outages must be reduced from an average of 11,000 to 3,000

Alongside the contract “KPLC is poised to get additional funding from the Canadian Agency for International Development (CIDA), which has shown a special interest in the training component of the programme” (MHI is a Canadian company). The investment in improving the physical system will not come from MHI but from the \$153m Distribution System Reinforcement and Upgrade component of the Energy Sector Recovery Project (ESRP).project funded by donors.<sup>9</sup>

In mid-2006, before the start of the management contract, KPLC reported a 40% increase in profits, due to a 20% growth in sales, and was confident that the drought would not reduce earnings. A managing director had been dismissed in February 2006, which the union Ketawu opposed, saying that “he was removed because he had refused to engage in corruption”.<sup>10</sup>

#### 2.4. KPLC and Ken Gen pricing dispute

KenGen has sold electricity to KPLC at an artificially low price since 2003, when KenGen was directed to sell power to KPLC at Ksh1.76 per kilowatt instead of the previous wholesale rate of Ksh2.36 per unit. This deal had improved KPLC’s share price, but Ken Gen wanted to end it in 2006, which KPLC is resisting.<sup>11</sup> The union representing workers at KPLC, Ketawu, has threatened strike action because increasing Ken Gen’s charges would cause job losses:

“Mr Earnest Nadome, the Ketawu secretary general said before arrangements were made for KenGen to charge KPLC Sh1.76 per kilowatt of electricity supplied, a review of KPLC human resource needs had recommended that the company needed to terminate the services of 2,500 employees to be financially viable. By the time the lifeline tariff came into effect, Kenya Power had retrenched 500 employees. The company decided to spare 2,000 employees who were lined up for retrenchment, arguing that the financial pressure on its back had eased. Nadome said the proposed increase of bulk power tariff from Sh1.76 per kilowatt-hour to Sh2.36 per kilowatt-hour might force KPLC to revive the retrenchment programme with the employees as the ultimate losers.”<sup>12</sup>

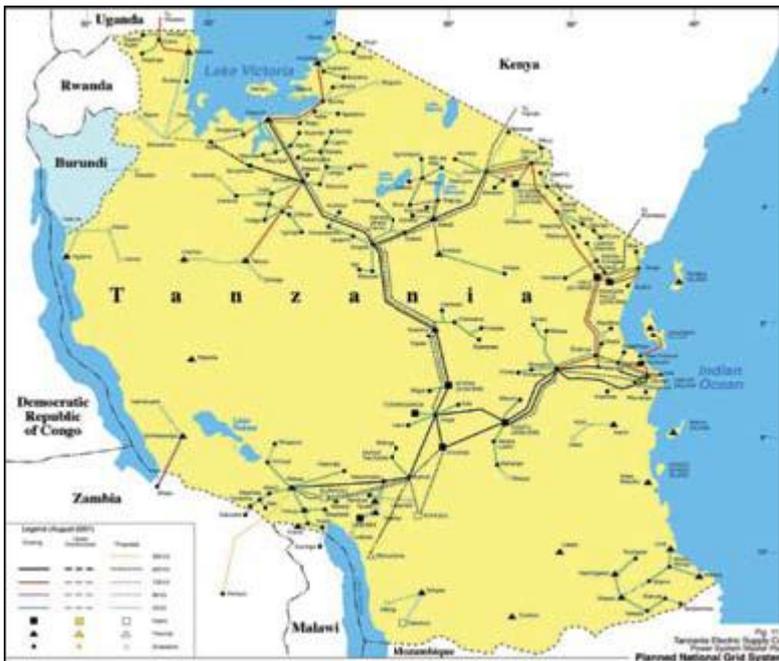
### 3. Tanzania

#### 3.1. General

About 10% of the population of Tanzania are currently connected to the electricity system. Tanzania has a total installed capacity of about 800MW. Tanzania has a hydro power potential of about 5GW, with only about 10 per cent tapped. About 560MW, of Tanzania's installed capacity is hydro powered. The hydro stations are located on the Pangani and Great Ruaha rivers. The Rufiji Basin Development Authority is presently studying the hydro potential on the river Rufiji. Tanzania is also planning transmission grid connectors with Kenya, Uganda, Zambia, and Mozambique.<sup>13</sup>

The organisation responsible for electricity generation, transmission and distribution in Tanzania is the Tanzania Electric Supply Company, known as Tanesco. The company is 100 per cent government owned and is responsible for 98 per cent of the country’s electricity supply.

Tanzania has been badly affected by droughts which have lowered the levels in hydroelectric plants around Lake Victoria.



### 3.2. IPPs and power generation

There are currently two independent power producers (IPPs) in Tanzania.

One is the 110MW Songas plant gas-fired plant, originally controlled by AES (60 per cent) but taken over by Globeleq in November 2002. In 2006 this experienced technical problems and failed to deliver power (see below under Globeleq). The other consortium members part-owning Songas are Tanesco, Tanzania Development Finance Company and Tanzania Petroleum Development Corporation (TPDC).

The other IPP is a US\$150m, 100MW diesel-fired independent power plant located at Tegeta in Dar-es-Salaam, owned by Independent Power Tanzania Ltd (IPTL), which is majority-owned by the Malaysian company Mechmar (the planned sale to another Malaysian company, Ranhill Power, was abandoned at the end of 2005). The plant has been very profitable for Mechmar, accounting for over half of the Malaysian company's total sales in 2002.

It sells its output under a 20-year power purchase agreement signed with Tanesco in 1995, which was soon exposed as too costly:

“The deal, however, provoked controversy as soon as it was sealed, with donors and energy experts saying that it was too expensive, the choice of technology doubtful and the projected demand for power exaggerated. Tanesco was forced to pay a steep price for electricity it did not require, since its major problem was not insufficient generating capacity but lack of gridlines. IPTL's electricity is said to cost 12 US cents per unit compared with the 7 US cents and 9 US cents per unit for power supplied by Tanesco. Additionally, Tanesco pays \$3 million a month in statutory costs.”<sup>14</sup>

Tanesco brought a successful court case against IPTL to compel it to reduce the cost of building the power plant by \$27 million from \$150 million.<sup>15</sup>

In 2006 the government was in discussions to nationalise IPTC, which would result in significant savings by reducing the cost of power:<sup>16</sup>

“If the deal is successful, the government will save as much as \$1.5 million per month. The Tanzania Electric Supply Company (**Tanesco**) currently pays Songas and **IPTL** a total of \$18 million from the \$21 million it collects every month.”

In July 2006 a further IPP contract was signed with Wartsila to build a 100MW gas-fired power station in Dar es Salaam. The plant is expected to be operating from May 2007.<sup>17</sup>

### 3.3. Tanesco

Tanesco was created following independence when the private electricity companies were nationalised and combined into a single state-owned company. Tanesco was described by analyst John Nellis in 1986 as ‘well-managed, profitable public enterprises’. Nevertheless, World Bank pressures led to proposals for unbundling and restructuring of Tanesco by the end of 2004, but privatisation was rejected as a policy option in 2006 when the government “despecified” Tanesco. There will therefore be no privatisation for the foreseeable future.<sup>18</sup>

In 2002 Net Group Solutions of South African, a private consultancy, was given a management services contract to run Tanesco, and in September 2004, under pressure from the World Bank, the contract was extended for a further two years, despite criticism of the high salaries paid to Net Group managers. In 2006 the Tanzanian government decided not to renew the contract because of poor performance: “Tanzania was dissatisfied with the quality of management provided by Net Group Solutions and added that the government was obliged to listen to the views of the public following complaints about the quality of service being offered by Tanesco.”<sup>19</sup>

The problems of power shortages continue, due to equipment failures, caused by Tanesco being ‘duped’ into buying poor equipment, and drought-related drops in levels at hydroelectricity dams: half of demand cannot be met. Tanesco continues to have a major financial deficit.<sup>20</sup> The Tanzanian government has prepared a five-year medium term financial recovery plan for Tanesco, and is requesting \$1 billion U.S. dollars to invest in the system to deal with the problems. In October 2006 the major donors “expressed reservation on the way the current power crisis in Tanzania had been handled and they have decided to study the matter again before deciding what to do next”, in a joint communiqué issued by the World Bank, the IMF, Sweden and Britain, after their five-day annual review.<sup>21</sup>

In June 2006 China agreed a \$200m US dollars credit to Tanzania to improve power transmission in the country. A project to lay transmission lines which consists of constructing new ones and renovating the existing ones will start early in 2007, run by a Chinese contractor, National Machinery and Equipment Import and Export Corporation (CMEC).<sup>22</sup>

### 3.4. Resistance and reversals to privatisation in Tanzania

The Tanzanian trade union congress and others have criticized the entire privatisation programme of the government. In addition to the failed electricity service management contract, a number of other privatisations have been failed to deliver what is expected and have been reversed:

- The private lease contract for the water service in Dar-es-Salaam, awarded in 2003 to a subsidiary of the British company Biwater, was terminated in May 2005, and taken back under public management.<sup>23</sup>
- In August 2006, the government bought back (for \$1) the 49 percent stake in the national airline, Air Tanzania, which it had sold to South African Airways for \$20 million in December 2002, because it had performed poorly and “The partnership did not operate within the agreed terms and conditions”.<sup>24</sup>
- 36 percent of the fixed line telephone company, Tanzania Telecommunications Co. Ltd., was sold in 2001 to a Dutch cellphone company, Celtel International, which took over the management of the company. This too was a failure, in 2005 their contract was renegotiated, and a new management company is now being employed.<sup>25</sup>

The World Bank office has acknowledged the extent of the problems:

“a senior private-sector development specialist at the Dar es Salaam World Bank Country Office, Lucy M. Fye, noted that while Tanzania has been relatively open to private participation in infrastructure over the past decade, inviting private participation in the telecom, energy, water and transport sectors, progress has been slow . . . . She said that as a result of the failure of the City Water project, the controversy that has dogged the privatisation of TTCL, and the recent ongoing wrangle over ATCL, the privatisation programme is currently perceived in a negative light and criticised for not living up to expectations.”<sup>26</sup>

## 4. Uganda

### 4.1. General

About 5 per cent of the population of Uganda are connected to electricity. Total installed capacity in Uganda is about 300MW, most of which is accounted for by two dams, the Nalubaale hydro-electric plant (177MW) and the Kiira hydro-electric project (120 MW). There is considerable scope for further hydro-electric and geothermal plants.

The Uganda Electricity Board, the Utility Company, which was government-owned has undergone restructuring and is in the process of privatisation. In 2000 it was unbundled into three main entities:

- The Uganda Electricity Generation Company Limited (UEGCL)
- The Uganda Electricity Transmission Company Limited (UETCL)
- The Uganda Electricity Distribution Company Limited (UEDCL)

UETCL remained in public ownership. In effect it is the 'sole buyer', buying all the output of generating companies and then selling it on to the distributor. In 2005-2006 it made a huge loss of Shs 19 billion, a result of having to use expensive thermal power to supplement the decline in power from huge drops in power output from the hydro plants, which had to stop letting excessive water out of Lake Victoria (the dams have been implicated in contributing to a major drop in the water levels at Lake Victoria.<sup>27</sup> UETCL buys power from private generation companies, while prices charged Umeme to end-users through the privatised distributor were held down.<sup>28</sup> In October 2006 the price charged by UETCL was doubled, from 120.6 Ugandan shillings (US\$0.06) per unit to 240.4 Ugandan shillings (US\$0.13) per unit<sup>29</sup>

### 4.2. IPPs and power generation

In December 2002, Eskom won a concession to operate UEGCL for 20 years, including the Nalubaale hydro-electric plant (177MW). It was the only bidder. It remains the main power producer in Uganda, as well as co-owner of the distribution concession (see below).

A number of temporary power plants have been installed and are operated by Aggreko. These include a 50MW thermal plant at Lugogo, a 100MW thermal plant at Kiira power station in Jinja, and another 50MW thermal plant will be installed at Mutundwe by 2007 after the World Bank's approval. An additional 50MW will be installed in Namanve.

UETCL also purchases power from mining companies Kilembe Mines and Kasese Cobalt Company.<sup>30</sup>

In mid 2006 Uganda or donors were supporting various kinds of private sector schemes for power generation in Uganda. They include:

- The Bujagali hydro-electric plant (250MW) was a particularly controversial project. It was to have been built by a consortium led by the US company, AES, but they abandoned the project in 2003. In 2005, the government had contracted with a new firm to build the project, the Aga Khan's IPS Ltd. based in Nairobi. In 2006, the project was being considered for financing from the World Bank and EIB; decisions are expected in the first quarter of 2007.
- The government is also asking for bids for a 200MW Karuma Falls hydropower project
- A World Bank loan of around \$100 million U.S. dollars for thermal power
- a government waiver of import duty, excise duty and withholding tax on most equipment used in electricity, announced in a paper on 'Meeting the needs of the energy sector investor through conducive tax policy,' at a workshop organised by the Energy Institute of Uganda in July 2006<sup>31</sup>
- a \$50m waste to energy plant in Kampala by US firm Global Investment Partners (GIP)<sup>32</sup>
- \$108m including \$43m from the World Bank expected from private schemes for small hydro power stations, co-generation in sugar mills and bio-mass-gasification plants, generating 50MW.<sup>33</sup>
- Approval of a new power project at Ayago North hydro-electric power station in northern Uganda by the Indian company Bharat Heavy Electricals Ltd<sup>34</sup>
- A proposal from Malaysian company Ranhill for a 350MW IPP Hydropower Project at Kalagala.<sup>35</sup>
- Investigation of geothermal energy potential<sup>36</sup>

#### 4.2.1. Education and municipal services cut to fund energy schemes

The 2006/7 budget actually provided funding of over 2% of GDP for energy, more than four times the allocation in 2004/5, to fund new power projects. These will be partly financed by increases in electricity prices, partly by an increased budget deficit, but in part by cuts in other public services, including the slowing down of the primary school education programme:

“by maintaining a very tight rein on spending outside the energy sector. Consequently, other sectors received little or no increase in funding in 2006/7, other than a few priority areas like education, where funds were specifically allocated toward a salary increase for primary school teachers. Indeed, the Government is introducing some of its priority programmes, such as universal post-primary education and the rural development strategy, in a phased manner to reduce their upfront costs.”<sup>37</sup>

A minister told the Urban Authorities Association in July 2006:

“Funds meant for local government transfers were diverted to energy production, the local government minister has revealed. Maj. Gen. Kahinda Otafiire said, “We panicked and diverted much of the money we would be giving to local governments to run programmes to power production. You have to bear with the situation.” ... he was reacting to complaints of shortage of funds and declining remittances from the central government”.<sup>38</sup>

This transfer of money from municipal services to energy projects reflects pressure from the World Bank and other donors. These donors were not satisfied that enough had been transferred to energy. In response to the budget:

“THE World Bank has issued a diplomatically toned but sternly worded warning over the government's failure to budget adequately for the energy sector in the 2006/2007 budget read by Finance Minister Ezra Suruma on Thursday”.<sup>39</sup>

The UK actually cut its aid funding to Uganda for this reason:

“The United Kingdom has decided to cut its budgetary support to Uganda for the financial year 2006/07 by £ 20 million. The move is a show of protest against bloated public administration expenditures, governance and allocation of inadequate resources towards the energy sector.”<sup>40</sup>

#### 4.2.2. Corrupt procedures

The government commissioned a 50-megawatt thermal power plant at Mutundwe in Kampala from a Norwegian company, Jacobsen AS, but in July 2006 the Inspector General of Government, Justice Faith Mwendha, cancelled the contract for impropriety.....and recommended the sacking of Engineer Dr Frank Sebbowa, the Chief Executive Officer of the Electricity Regulatory Authority (ERA) together with the regulator's Legal Counsel Mr J. Kwesigabo in relation to the deal because it was full of irregularities and illegalities:<sup>41</sup>

“Mwendha said her investigations had concluded that the procurement of the 50MW, meant to relieve the country of its biting power shortage, had been conducted in a manner that disregarded the law and set down procedures.....ERA failed to provide guidelines for a " fair, open and competitive process".....”

The deal also involved illicit obtaining of a grant from Norway and a bank loan which the government of Uganda would have been liable to repay:

“....ERA, Jacobsen, and Energy officials had "engaged in soliciting for a grant of Euros3.4 million on behalf of the government of **Uganda**" without the explicit approval of the Minister of Finance and later tried to cover it up.....wrote to the Royal Norwegian Embassy in Kampala to formally request for the grant.... contrary to the Public Finance and Accountability Act".....the government would [also] have been saddled with a loan of Euros 49.63 million from the Standard Chartered Bank in London after Energy officials failed to act against the company for altering the

terms under which it submitted its bid. She said she was told all that was needed was for the Ministry of Finance to accept the debt in writing.”

### 4.3. Privatised distribution: Umeme

UEDCL was privatised in May 2004 to a consortium known as 'Umeme' which is 56 per cent Globeleq (the investment arm of the UK government) and 44 per cent Eskom (the publicly owned integrated South African electric utility). The privatisation is not by the sale of assets, which remain owned by UEDCL, but by a 20 year concession, which makes Umeme responsible for investment, charges and management of the distribution system.

In 2005 Umeme increased prices by 24%, and again in 2006 by a further 37% .<sup>42</sup> An unsuccessful court case was brought on behalf of all Ugandans belonging to the Uganda Electricity Users Association (UEUA), claiming that the procedures used did not involve consumers and were not transparent as they are required to be under Ugandan law.<sup>43</sup>

The contract included an ‘opt-out’ clause: “The Umeme contract allows its international shareholders to opt out after 18 months in June 2006.”, and by then Umeme was making a loss. CDC had to deny it is pulling out<sup>44</sup> (unfortunately Eskom at the same time was reported as saying that it would pull out of all its investments in Africa outside South Africa). To obtain profitability, Umeme demanded price rises.<sup>45</sup> But Umeme has still not made a final commitment: the 18-month ‘trial period’ was extended to December 2006, and so Globeleq and Eskom can still decide to leave without suffering any penalty.<sup>46</sup>

Umeme has been arguing about the size of the lease payment it makes for use of the Ugandan network, and delayed payment of the \$24.3m due for the first 18-months until October 2006.<sup>47</sup> It has also been demanding a tax break, claiming it should benefit from half of the tax allowances of the state holding company UEDCL, which means a windfall to Umeme of £3.5million.<sup>48</sup>

In the first 18 months Eskom and Globeleq invested only \$5m in the system. In September 2006 they promised to invest a further \$100m., using loans rather than the shareholders’ equity capital of Eskom and Globeleq. It is not clear how much of the \$100m. will in reality be money from donors, rather than Eskom or Globeleq. Umeme has already benefited from: “an \$11 million loan from the World Bank affiliate International Development Agency to buy materials, which are now being turned over to Umeme. ... These materials were all supposed to be installed in the initial 18-months period, but were not.”<sup>49</sup>

The World Bank presents the whole transaction as an example of its “innovative” projects.

#### Chart A. World Bank and ‘innovation’ in Uganda’s electricity distributor

Project Overview	Innovative Concepts
<p>UEDC is the <b>first unbundled distribution network</b> being concessioned in sub-saharan Africa to a Consortium consisting of CDC Globeleq, (a wholly-owned subsidiary of CDC and Eskom Enterprises of South Africa. UEDC owns and operates the grid connected electricity supply infrastructure and is responsible for the retail of electricity to customers in Kampala and the outer regions. Under the <b>20-year concession</b>, the Consortium would be responsible for the operation, rehabilitation, and expansion of the distribution network. At the end of its term , the concession will revert to the Government of Uganda. The Consortium will be committing US\$65 million of investment capital to the project in the first five years of operation.</p>	<p>The project has a number of innovative features:</p> <ul style="list-style-type: none"> <li>▫ It will be the first time that IDA/World Bank would be providing credit enhancement support for a privatization operation as opposed to a greenfield project.</li> <li>▫ It will be the first time a Letter of Credit structure would be utilized as a means of providing IDA support.</li> <li>▫ IDA support was critical to securing the commitment of CDC/Eskom Consortium to the privatization. With a minimum IDA support of US\$8 million (by means of an existing IDA credit which remained undisbursed) about US\$65 million of investments is expected to be leveraged.</li> </ul>

Source:

<http://wbln0018.worldbank.org/inf/innovative.nsf/ECADocByUnid/A8C9A08E6A4F2B4E85256DF1006A4F8D?Opendocument>

## 5. Companies active in east Africa

Table 1. Multinational companies in electricity in Kenya, Tanzania, Uganda

Company	Home	Type	Country		% owned
<b>Globeleq</b>	UK	Gen	Kenya	Tsavo Power	30%
		Gen	Tanzania	Songas	70%
		Dist	Uganda	Umeme	56%
<b>Eskom</b>	South Africa	Gen	Uganda	UEGCL	100%
		Dist	Uganda	Umeme	44%
<b>Union Fenosa</b>	Spain	Gen	Kenya	IberAfrica	70%
<b>CMS</b>	USA	Gen	Kenya	Tsavo Power	50%
<b>Mechmar</b>	Malaysia	Gen	Tanzania	IPTL	70%
<b>Aggreko</b>	UK	Gen	All	(temporary plants)	
<b>Manitoba Hydro</b>	Canada	Dist	Kenya	(management)	-

### 5.1. CDC Globeleq

CDC is an investment company 100% owned by the UK government through its Department for International Development (DFID). Globeleq is an electricity company created in 2002 by CDC, and remains 100% owned by CDC – despite its headquarters in Houston, Texas. A recent report by War on Want – “Globeleq – the Alternative Report” details its worldwide operations and the problems associated with them.<sup>50</sup> This section examines its main African operations.

#### 5.1.1. South Africa: leaving Kelvin Power

In 2003, Bob Hart, CEO of CDC Globeleq, announced the acquisition of Kelvin, commitment to investing £25m in it, and to improving its environmental performance:

“We are excited by the prospects ahead for Kelvin, and .... We look forward to further significant expansion of our business in South Africa. .... CDC Globeleq will complete the US\$25 million investment being made to refurbish the plant, significantly improving its environmental performance and enhancing the supply of low price electricity to the 270,000 customers of City Power Johannesburg. “<sup>51</sup>

But by 2006 the venture had failed, technically and financially. CDC recorded losses of £15.6m on Kelvin, and announced it was pulling out.<sup>52</sup> The South African paper Business Day (wrongly describing Globeleq as a ‘US investor...’) commented:<sup>53</sup>

“The recent decision by US investor Globeleq to abandon its 95% stake in Kelvin power station is just the latest in a series of blows to hit SA's electricity market .... right now, we need all the additional power we can get. That is just one of the reasons why the failure of the privatisation of Kelvin power station is such bad news for SA, and Johannesburg in particular. ....The official line is that Globeleq pulled out due to "technical problems". After being refinanced to the tune of more than R370m, most of which was presumably spent on refurbishing, Globeleq could still get it to run only at about a quarter of its 600MW capacity.”

### 5.1.2. Tanzania: Songas

The same problems occurred with Songas, a new gas-fired power station in Tanzania. In 2002 CDC announced:<sup>54</sup>

“In Tanzania, CDC Globeleq is increasing its existing minority share to take a controlling interest in the project company Songas Limited. .... The project will bring indigenous gas to Dar es Salaam and use it to produce clean, reliable power for the capital and for the Tanzanian national grid. The Songas project comprises the construction of a gas processing plant on Songo Songo Island; the laying of a 225km pipeline from the island to Dar es Salaam; and the acquisition and conversion, from oil to gas, of Ubungo power station, an 110MW power plant in Dar es Salaam. CDC Globeleq will assume responsibility for completing the project and operating the power plant.”

But in 2006 Songas was not “reliable”. In March 2006 Songas broke down, worsening the electricity shortage which the country was already suffering, and the government asked for Songas’ contract to be reviewed:<sup>55</sup>

“Already reduced because of the drought which is emptying the reservoirs of the country’s main dams, the generation capacity of Tanzania Electricity Supply Company (Tanesco) was cut even further last week by the breakdown of the generator of one of its leading suppliers, the Songas company. ....the breakdown deprived Tanzania of 75 MW and the government plans to file suit against Songas and ask for damages and interest for failing to honor its contractual obligations. As in Uganda and neighboring Kenya, the devastating drought is forcing Tanzania to depend on private operators ...”

Once again, Globeleq seemed unable to cope with “Songas’s technical problems, leading to power cuts of 12 hours a day and which may now even extend up to 18 hours a day”.<sup>56</sup>

### 5.1.3. Uganda distribution: Umeme

Globeleq took over the Ugandan electricity distribution company in partnership with S Africa’s state-owned electricity firm, Eskom (Umeme is 56% owned by Globeleq and 44% by Eskom). Again there was the promise of safe and reliable electricity and long-term commitments (for 20 years):<sup>57</sup>

“...Umeme will manage and operate the electricity distribution system in Uganda for 20 years based on the concession agreements signed in May 2004. The electricity distribution network will be leased from the Ugandan Electricity Distribution Company Limited (UEDCL), an entity of the Government of Uganda. Umeme will invest capital to improve the network infrastructure and establish new connections. .... We are very excited about helping to improve the safety and reliability of electricity delivery to the people of Uganda.”

But in 2006 Umeme had introduced repeated price rises, was in dispute with Uganda over lease payments and tax breaks, and Globeleq and Eskom retained the right to opt out before the end of 2006 (see above under ‘Uganda’).

Globeleq also has an 11% stake in Azito Energie (Cote d’Ivoire), a 30% stake in Tsavo Power (Kenya), and owns 100% of Sidi Krir (Egypt), a 683 MW natural gas-fired power station.

## 5.2. Eskom

Eskom is the state-owned electricity company of South Africa. Eskom Enterprises was set up as a legally separate company in 1999, but 100 per cent owned by Eskom. It was seen as a commercial exercise, and in particular as a way for Eskom to find new business to replace the expected loss of generating and distribution activity under the plans for the liberalisation of South Africa’s electricity system, and also as a way of pursuing the objectives of NEPAD.<sup>58</sup>

At the height of its activity it was involved in 30 countries. It bought power stations in Uganda and Zambia, became a partner in the distribution company of Uganda, invested in rehabilitation and management of a power station in Nigeria, and a gas-fired development in Mozambique, had a number of consultancy contracts, and was anticipating buying Zesa, the Zimbabwean electricity company, and was getting “closer to achieving its goal of becoming Africa’s dominant energy supplier”.<sup>59</sup> It also diversified into telecoms ventures in South Africa and Lesotho.<sup>60</sup> Eskom sponsored an anti-union organisation in Malawi, and stopped deduction of union dues, according to the Nigerian energy union NUEE.<sup>61</sup>

The operations however began to encounter a variety of problems with cash-flow, re-specification of contracts, and profitability. In 2003 it had to write off two of its major telecoms investments, in the Second National Operator and Mountain Communications (Lesotho), resulting in losses of over R1bn, and closed the Nigerian operation.<sup>62</sup> The South African parliament discussed a cash injection to keep Eskom Enterprises viable, and in 2004 a 'revised business model' was imposed by government, 'non-core' activities were sold off, and Eskom Enterprises was reabsorbed into Eskom as a new Enterprises Division and given a new revised mandate to project manage and build the new capacity. It nevertheless planned to develop its activities outside Africa.<sup>63 64</sup>

Eskom's strategy in relation to the rest of Africa is still focussed on NEPAD: "Eskom's strategic intent envisages, among other things, pre-eminence in Africa as well as global stature. . . . . In accordance with the South African government's commitment to NEPAD, Eskom has established a dedicated NEPAD team. The mission of the team is to facilitate the mobilisation of Eskom's resources to promote, develop and implement NEPAD's related projects in the energy and, in particular, in the power sector. In addition to its operation within Eskom, a unit head has been appointed to lead the Energy Working Group of the South African NEPAD Business Group."<sup>65</sup>

It argued however that the investments were no longer an unequal relationship but reflected a new 'partnership' with other African countries: "Our involvement in the development or operational activities of energy utilities in other African countries called for a significant shift in our approach. Historically, South African state-owned enterprises had adopted the condescending position of organisations that went abroad to offer solutions. Our new thrust has been towards the development of partnerships with other utilities and their governments, in the understanding that we have common continental and developmental goals. This approach has led to a very high degree of acceptance and collaborative activity."<sup>66</sup>

In May 2006 it was reported that Eskom had decided to end all investments outside South Africa, although it was later claimed that the company would continue with Umeme, its joint venture with Globeleq running the distribution company in Uganda:

"Confronted by a shortfall in production, the state-owned South African utility Eskom announced last week that it would halt all investments on the continent and concentrate spending on the home market. In the late 1990s its affiliate Eskom Holdings advanced throughout Africa, acquiring interests in Libya, Nigeria, Mali, Zambia and Zimbabwe. The group's biggest project outside of South Africa is presently the management of the 250 MW Manantali dam that supplies Senegal, Mali and Mauritania. But Eskom is equally present in Uganda, where it runs Uganda Electricity Generation. In the other countries the group succeeded merely in setting up services companies - Lunsemfa Hydro Power in Zambia, EE Global West Africa in Nigeria - which it will be able to easily sell off or simply abandon. Still, the company's spokesperson Fani Zulu, said Eskom was still interested in several large-scale African projects such as the Capanda dam reserve in Angola, rehabilitation of the Inga 1 and 2 dams in Democratic Republic of Congo, extension of the coal-fired power plant at Morupule in Botswana, the Muela dam in Lesotho and extension of the Kapichira dam in Malawi."<sup>67</sup>

As at October 2006, Eskom continued to be present in Uganda through its ownership of power stations – purchased in 2002 – and its stake in the electricity distribution company Umeme (see above under Uganda for more details).

### 5.3. Union Fenosa

Union Fenosa is a Spanish electricity group with a wide range of international operations. It operates in East Africa only through its 70% stake in Iberafrica, which runs one of the IPPs in Kenya, and produced 387 million kWh in 2005. This was Union Fenosa's first ever international investment, in 1997: originally there was a 7 year PPA, which was then extended by a further 15 years. According to the company report, the output of Iberáfrica Power in Kenya rose by over 10% between the 1<sup>st</sup> half of 2005 and the 1<sup>st</sup> half of 2006; output had risen by 50% from 2004 to 2005.<sup>68</sup>

It is present in a number of countries in south and central America: Colombia, Guatemala, Mexico, Panama, Nicaragua, and is constructing a plant in Costa Rica. It also owns the distribution company in Moldova (former USSR) and a power station in Kenya.

Union Fenosa's profits in Latin America increased in 2003, but the company strategy is to reduce its investments in the area if they cannot produce higher returns: "Fenosa said it was willing to sell assets in Latin America currently considered strategic if they did not generate sufficient profits".<sup>69</sup>

The Dominican Republic privatized its electricity companies in 1999, selling shares in the power stations, and, separately, selling 50% stakes in the 3 regional distribution companies – 2 of them to Union Fenosa, for a total of \$211 million. The power companies increased charges by 51 percent, the distribution companies began to withhold payment of electricity bills in protest against 'abusive rates', the government tried to protect consumers from 42% of the price rises which added \$5 million per month to the costs of the state-owned transmission company CDE of \$5 million every month. Without the consumer price rises, the distributors could not pay, the power companies made increasing power cuts, and there were riots. In 2003 the government paid Union Fenosa \$434 million to renationalise the distributors, which led to disputes with the IMF, which insists on electricity price rises.

Union Fenosa may itself be the subject of a takeover bid from a bigger European company, as the electricity sector in Europe becomes more concentrated. A new owner may be less interested in retaining the international operations.<sup>70</sup>

## 5.4. Other

### 5.4.1. Manitoba Hydro

Manitoba Hydro is the public utility responsible for generating and distributing power in Manitoba, a province of Canada. It is 100% owned by the province and so is a public sector operator. Manitoba Hydro International Ltd. (MHI) is a wholly owned subsidiary of Manitoba Hydro, and has provided utility consulting, training and management services in over 60 countries.

MHI has already had contracts in Tanzania and Uganda: in Tanzania for 'Power System Maintenance Support Project' and 'Utility Management Services'; and in Uganda for 'Uganda Electricity Board – Billing & Collections Management'.

MHI also runs training projects, including projects in these three countries

In Uganda: "Institutional Training Support Program; The overall objective of this project was to provide training in Uganda and in Canada for staff of the UEB, in various disciplines related to electric utility management and operations. MHI provided training to economists and statisticians in the "Tariffs and Statistics" and "Corporate Planning" units with the principle of tariff rate designs. During the UEB staff attachments in Canada, they received additional training in Tariff Design and Cost of Service from their counterpart staff at Manitoba Hydro."

In Tanzania: "Power System Maintenance Support Project: The objective of this project was to establish a viable and self-sustaining transmission line and transmission substation maintenance organization within TANESCO. MHI staff provided advisory and training services to conduct a training needs assessment and develop a work plan, followed by the design and establishment of a routine maintenance program and maintenance management system. MHI trained TANESCO staff in the rehabilitation of transmission line and substation components and implemented maintenance procedures, and management systems for equipment information and inventories."

Its international projects also include a project in central America funded by the Canadian aid agency CIDA: "The objective of this CIDA project was to assist in the reform of the electrical sector in the six Central American countries (Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador). Overall concept was to encourage adoption of regional actions, cooperation and planning to achieve improved access to electricity, and to reduce capital requirements.

Components of the project included Gender Equity, Human Rights, Discrimination and Harassment. The objectives were to address Gender Equity/ Employment Systems Review Processes, Human Rights, Respectful Workplace Policies, Harassment and Discrimination Investigations and protocols.

The strategy was to accomplish better human rights practices by providing direct training and training materials to the employees of the utilities and their representatives.”<sup>71</sup>

#### 5.4.2. Aggreko

Aggreko is a UK-listed company which specializes in setting up temporary power stations. It has obtained good business in all three countries due to the drought and the need to seek urgent rather than long-term substitute sources of power. In 2006 it won a contract to install a plant at Embakasi: the 100MW power plant will account for about 10 per cent of the country's total generating capacity. With 100MW in a single location, this is the largest temporary power plant **Aggreko** has delivered. It is the fifth major contract in East Africa in 2006:

“In 2005, the company installed 50 MW in Uganda ... its first with the Ugandan Electricity Transmission Company. .... Recently, **Aggreko** also won contracts for provision of temporary power generation in **Tanzania**. **The Tanzania** contract was awarded by the Tanzanian Electric Supply Company (Tanesco) and is for the supply for two years of 40MW of gas-powered generation. The plant will be installed in Dar es Salaam and will be supplied with natural gas from the offshore Songo Songo gas field.”<sup>72</sup>

This business is highly profitable for Aggreko:

“In its fast-growing international power projects business, **Aggreko** has most recently unveiled contracts worth an estimated Dollar70m for the provision of temporary power generation in Uganda and **Tanzania**. It said the business would continue to grow thanks to new contract wins, although the growth rate may slow from the first half which saw 40per cent revenue growth and a 20per cent hike in trading profit... analysts said: "The results were around 10per cent better than we had forecast”.<sup>73</sup>

## 6. Discussion and conclusions

### 6.1. Pricing and subsidies

In all countries price increases are being used as a way of restoring the financial health of electricity companies. But these have a disproportionate impact on the poor, by making electricity even less affordable.

A recent paper by a World Bank economist has acknowledged the importance of maintaining subsidies and cross-subsidies for the poor:

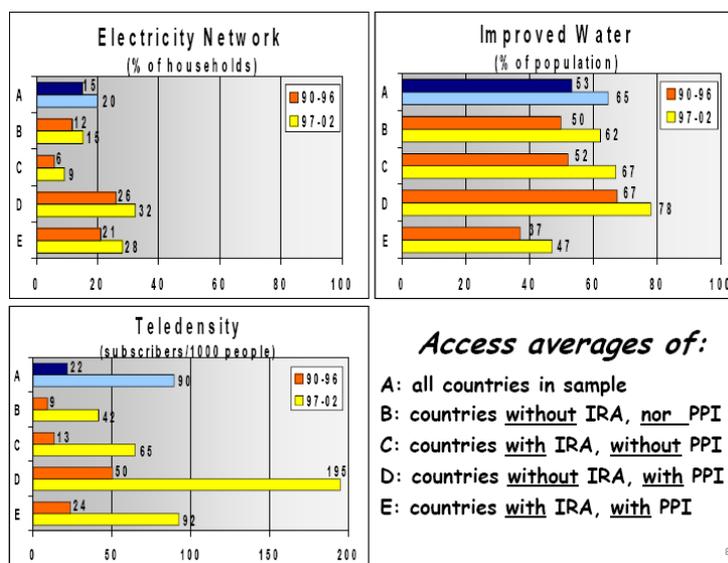
“when tariffs were redesigned to be more efficient, they sometimes became less progressive or more regressive (or both) than before the reform (such as when countries eliminated cross subsidies); .... direct subsidies and cross-subsidies are not always as bad as they are made out to be. .... The evidence suggests that the poor can be deprived of infrastructure services in many ways. They often need to benefit from a connection subsidy as so often mentioned by casual analysts focusing on the access problem but they also often need to benefit from a subsidy for what amounts to be a minimum level of consumption. Unaffordable consumption, even with access is useless and vice versa”<sup>74</sup>

Access to electricity is low in all three countries, but as in other countries the access for the poor is even lower. Pricing policies should be based on long-term commitment of public finance to expansion of the system to provide affordable electricity.

### 6.2. Investment, public finance, tax and bonds

The expectation that the private sector will be a significant source of the necessary investment is illusory. The general evidence is that only 10% of Africa’s investment needs for infrastructure were financed by the private sector, and neither private sector participation nor regulation makes any significant contribution to the extension of access to network services.<sup>75</sup> This obsession with the private sector distorts donor funding: “The large scale suppliers have tended to get a large share of the attention of the international community and of the donors even if they cater to only a small share of the population and most typically the rich.”<sup>76</sup>

Chart B. No benefit from private sector or regulation



Source: Estache: Africa’s Infrastructure 2006.<sup>77</sup>

In practice, donor finance is the most important source of funds. Even private investment in IPPs turns out to be a very expensive way for the government to borrow money, as the required repayments are excessive. Estache even warns against selective use of the private sector because of “cream-skimming problems in which a profit center is amputated from a public sector business at a higher net fiscal cost”<sup>78</sup>.

As Tanzania has worked out, in its plan to nationalise an IPP and save \$1.5m per year, publicly owned and financed power stations are much cheaper, because public finance is cheaper. This is also the view of the paper by Estache at the World Bank: “..... the main responsibility for financing many of the investment needs will fall onto the taxpayers rather than the residential users, at least in capital intensive transport and water and sanitation. ”<sup>79</sup> The public sector needs to use its tax base to finance investment by issuing bonds, and all three countries are now capable of doing that, as indicated in a recent article:

“When stockbrokers from around Africa met in Nairobi in late 2004 to discuss developments in the capital markets, they urged governments on the continent to encourage infrastructure bonds. They argued that Africa could only make a leap forward by surmounting the hurdles of decayed roads, slow telecommunication, unsafe airports, poor ports and railways services, among other infrastructural inefficiencies. A case study was presented by the **Uganda** Securities Exchange, which was experimenting with the bonds. At the USE, the bond in question was intended to finance power generation to plug a generation shortfall. The move to introduce infrastructure bonds in Kenya is likely to spur the next big move, besides initial public offers, for the Nairobi Stock Exchange (NSE), which has recently benefited from the listing of 30 per cent of KenGen.

In Kenya, analysts believe that the capital market can raise as much as Sh10 billion a month. This logic is derived from the fact that the Central Bank of Kenya regularly advertises for Treasury bonds, which are often oversubscribed. ....The Government is also exempt from income tax all interest income accruing from all listed bonds used to raise funds for infrastructure and social services, provided that the bonds shall have a maturity of at least three years. ...The fact that the CBK was able to successfully float a 10-year bond early this year and attract substantial interest from investors may have given confidence to the State, which has moved to encourage investors to enter the market, even for the first time, in a big way.”<sup>80</sup>

Donor policies need to adopt a positive and coherent approach to supporting finance for public services. The incoherent demand that the Ugandan budget should give more priority to energy had the effect of cutting spending on primary education. Instead support should be given for developing a stronger tax base.

### 6.3. IPPs and PPAs

The experience in all 3 countries, as elsewhere in the world, confirms that IPPs and their associated power purchase agreements are prone to corruption and long-term profiteering from excessive pricing. The trends in Kenya and Tanzania towards replacing IPPs with core generating capacity should be supported and encouraged. Uganda’s current policies should be changed, as they are highly likely to create a raft of profitable but corrupt and onerous power projects.

### 6.4. Integrating regional energy policies

The three countries are engaged in attempts at closer economic union through the East African Community (EAC) region. Energy should play an important part in this, and the donors should have a useful role to play: in July 2006 Mark Tomlinson, the World Bank's country director for regional integration, said – rightly – that power shortages would hurt the region unless the situation was addressed, and estimated that \$1.3 billion dollars was needed for additional power generation.<sup>81</sup>

However, the current plan in the East African Community (EAC) region is to create a regional electricity market, including “an East African power pool” and a high level of power supplies “to ensure optimum utilisation of energy available in the region”.<sup>82</sup> This is based on the idea of developing markets, liberalization, and trading of electricity. To enable the principle of market trading, the plan envisages spending \$1 billion on new transmission links alone – almost as much as the entire investment in generating facilities.

Yet there is now a volume of evidence suggesting that these policies are ineffective – including the detailed review of energy policies by the World Bank’s operations evaluation department (OED). There is no wholesale power market in any of the 3 countries, and they hardly work anywhere in the world. The OED review is full of warnings against this – a similar plan for a power pool in the Ukraine in the 1990s was a complete failure, and the OED report comments that this was predictable - “the introduction of an advanced

model of a competitive power market was bound to be a losing proposition” – and specifically warns against ‘standard’ solutions:

“Unbundling regardless of market size and country factors is questionable. The literature suggests that in most of the Bank’s smallest borrowers, particularly in Africa, unbundling is unlikely to facilitate the entry of private investors, particularly foreign ones. ....The application of a standard, sophisticated model in all situations did not produce the desired results. ....the attempt to leap from a totally non-commercial state-owned entity, run like a government department, to private commercial utilities did not work.<sup>83</sup>

The plan should be strongly opposed in its current form as being ideological, wasteful and contrary to all the weight of evidence. Instead, a regional plan based on shared funding for new generation, with a minimum of interconnectors to provide flexibility where appropriate, should be developed and funded by the donors.

### 6.5. Corruption, transparency, accountability, regulation, governance

There is clear evidence of corruption associated especially with procurement processes of all kinds, including the contracts with IPPs. One advantage of a strong public sector policy should be to reduce the opportunity for this kind of corruption. It also needs to be associated with a consistent public demand for total transparency of all documents associated with procurement contracts or privatisation, for public scrutiny and debate, and for firm disciplinary policies on officials and politicians implicated.

There is also evidence of corruption associated with employees at various levels. Proper pay levels and security of employment are necessary conditions for dealing with this, but transparency and effective disciplinary measures are again important.

### 6.6. Employment protection: Tanzania agreement

The impact on workers of restructuring and privatisation has been limited in Tanzania by agreements reached by the trade unions. When Tanesco was restructured in 2005, the union organized strikes and other pressures to protect workers against the impact. This resulted in an agreement in November 2005, which provided for retraining allowances for displaced workers, and a separate fund - the Tanesco Employees Fund, funded by Tanesco as a percentage of the management fee paid to Net Group. The unions are trustees of this fund, which is reviewed every 2 years. In addition, the union negotiated a new bonus system, and an agreement that if the company was privatized through an IPO, shares would be allocated to workers. Following this agreement, the workforce was cut by just 220 from 6000 employees, through volunteers only.<sup>84</sup>

### 6.7. Management service contracts in distribution: a review

The management service contracts in Kenya and Tanzania are not the only examples of this form of privatization in electricity sector. They have a poor record: in 6 countries (excluding Kenya where the contract is just starting) there have been two terminations, one disputed attempt to terminate, and significant problems in the other cases.

**Table 2. Management service contracts for electricity distribution**

Country	Electricity distributor	Dates	Yrs	Terminated	Private company	Parent country	Results	Comments
Kenya	KPLC	2006			Manitoba Hydro	Canada		
Tanzania	Tanesco	2002		2006	Net Group	South Africa	Terminated	Non-performance
Madagascar	Jirama	2005	2		Lahmeyer	Germany		CEO sacked
Namibia	Keetmanshoop	2001	15		SelCo	South Africa	Disputed termination	Alleged theft, invalid contract
Albania	KESH	2000			Enel	Italy		Price rises, disconnections
Azerbaijan	Baku and others	2002	25	2006	Barmek, Bayva	Turkey,	Terminated	Fraud, non-performance
Philippines	Mactan, Bohol, Camarines Sur				Salcon Power	South Korea		

Sources: see text

- In Namibia in 2001, the town of Keetsmanshoop awarded a “lucrative”<sup>85</sup> 15-year management contract to SelCo, a South African owned company listed on the Johannesburg stock exchange. The contract has been controversial and there is strong local opposition, criticism of poor performance and a High Court case over the legality of the lengthy contract. In November 2005 the municipality said it was terminating the contract, but this was overturned by a court ruling.<sup>86</sup> The ruling was aid by Selco to have increased its share value by 290-300%. The municipality argues that “SELCo conned the previous Town Council into the power supply deal with a lucrative royalty offer of N\$160 000.... the town had received between N\$80 000 and N\$90 000 in royalties.”<sup>87</sup>
- In July 2006 SelCo was publicly: “accused of 'exporting' two electricity transformers to Mozambique..... A senior municipal employee... said he was personally involved in removing the two transformers from Keetmanshoop. Originally, the equipment was sent to Pretoria for repairs but this was done allegedly without authorization from Government and from the Town Council and the transformers have since been transported to Mozambique, according to sources. SelCo reportedly uses the equipment on one of the projects it secured with the government in Mozambique.”<sup>88</sup>
- Madagascar contracted the management of its electrical utility to German infrastructure firm **Lahmeyer** International in February 2005, under pressure from the World Bank, which demanded staff cuts.<sup>89</sup> The company increased tariffs by 30% in July and 35% in November 2006, and another 10% increase was expected in 2007: in December 2005 however the new chief executive was sacked “not sufficiently specialised to lead Jirama out of its deep financial water into recovery”<sup>90</sup>
- Azerbaijan issued two separate management contracts for its distribution grids. Barmek, a Turkish-owned company was given a 25-year contract to manage the distribution grids of Baku and Sumqayit; Bayva was given a similar contract for the other distribution grids. In December 2005 the Bayva contract was ended, with the government claiming that Bayva had failed to deliver. In March 2006 the Azeri government started criminal proceedings against Barmek for “a failure to fulfil its contractual obligations, misappropriation state funds and involvement in financial frauds”: by July 2006 11 employees had been arrested.<sup>91</sup> The government terminated the contract in March 2006, and in August 2006 appointed new managers to the grids. “The government has also accused Barmek of failing to meet the investment program. The company invested just 10% of the promised \$70 million and has not paid for all of the electricity received from Azerenergy.” Barmek was threatening counter claims and arbitration at ICSID.<sup>92</sup>

There are similar contracts in the Philippines. The Camarines Sur Electric Cooperative (CASURECO IV), a small regional cooperative distributor, signed an ‘investment management contract’ in August 2006, with Salcon Power. Salcon already had contracts to manage other distribution companies in the Philippines, through Mecos, which has a 35-year franchise to run the electricity distribution in Mactan, Cebu; and BLCI, with a 5-year management contract for the Bohol Provincial Electric System. Salcon was originally created in 1994 to take on a 15-year contract to run and sell electricity from the Naga Power plant in the same area.<sup>93</sup> The new contract in the Philippines is reported to include an investment commitment as well: “Under the contract, Salcon will infuse risk capital amounting to P163 million for the rehabilitation of the cooperative. It will also provide management expertise...” The largest shareholder in Salcon Power is the South Korean state power company (Kepco), which bought 43.8% of Salcon Power in December 2005, and also owns two power stations.<sup>94</sup>

A management contract has also been used in Albania, where Enelpower – the international arm of the Italian electricity company Enel – won a management assistance contract for the electrical utility KESH in April 2000.<sup>95</sup> Enelpower have the power to disconnect non-payers, and the IMF has insisted that prices be increased to cover full costs. In 2006 KESH is cutting prices for business users, and increasing prices for households: and both households and businesses were being disconnected for non-payment.<sup>96</sup> The Italian Government has given Albania 4.6 mln euro (\$5.8 mln) to finance this management contract.<sup>97</sup>

Other countries have considered these contracts but not introduced them. Senegal, after two failed attempts at privatizing its electricity by sale, also failed in an attempt to set up a management services contract for its

electricity system: “a management contract was offered to Vivendi, but the French company's demands were considered too stringent and the offer was withdrawn.”<sup>98</sup> The state of Karnataka, in southern India, has considered using management contracts because there was no prospect of the state receiving good bids for the distribution companies; however there was even less interest in the management contracts, and in November 2006 neither privatization nor service contracts had been introduced.<sup>99</sup> The government of Ecuador was also discussing, in 2006, the possibility of management contracts for the country's electricity distribution services, as an alternative to privatization by sale.<sup>100</sup>

## 7. Notes

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- <sup>1</sup> East African Online February 23, 2004 Westmont Opts Out of Kenyan Operations
- <sup>2</sup> Africa News December 11, 2003: Energy; Energy Rip-Off: How Supplier Raked in More Than Sh18b
- <sup>3</sup> East African Online February 23, 2004 Westmont Opts Out of Kenyan Operations
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UEDCL should benefit from the capital allowances associated with approximately half of the fixed asset base (the assets purchased or invested in between 2002 and 2004), with Umeme Limited benefiting from capital allowances associated with the remaining property, plant and equipment. The difference between the two possible tax treatments is £3.5m (US\$6.0m) in deferred tax.”

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