

**GLOBAL BEST PRACTICE(S) AND  
ELECTRICITY SECTOR REFORM IN UGANDA**

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## **Abstract:**

*This working paper analyses recent electricity sector reforms in Uganda. The empirical findings suggest that global best practice(s) are a problematic basis for promoting policy transfer. This finding has significance for debates regarding globalisation and its impact upon developing states, as these best practice(s) are increasingly a key element of international policy transfer, and thereby in the broader policy impact of globalisation. The paper first identifies the configuration of policies that constitute global best practice(s) in the electricity sector, and second evaluates the success of this policy agenda in the context of electricity sector reform processes in Uganda.*

## **Keywords:**

Global best practice(s), policy transfer, electricity sector, Ugandan Politics, Uganda

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This working paper analyses recent electricity sector reforms in Uganda. The empirical findings suggest that *global best practice(s)* are a problematic basis for promoting *policy transfer*. This finding has significance for debates regarding globalisation and its impact upon developing states, as these best practice(s) are increasingly a key element of international policy transfer, and thereby in the broader policy impact of globalisation. The paper first identifies the configuration of policies that constitute global best practice(s) in the electricity sector, and second evaluates the success of this policy agenda in the context of electricity sector reform processes in Uganda.

Utilising the policy transfer approach to address policy processes in a developing state context is also a response to some significant limitations in the broader globalisation literature. First, there is a tendency to ignore developing states, or to assume that theories and practice derived from OECD states should apply to less economically advanced states. In fact, claims for globalisation require testing in a range of empirical contexts, including developing states, and this paper pursues exactly this line of research. Second, globalisation has been described as the most underspecified and overused concept in the contemporary study of politics (Devetak and Higgott 1999: 483). The policy transfer approach provides a consistent framework through which globalisation can be understood and analysed.

Policy transfer refers to processes whereby knowledge concerning policies, administrative arrangements, or institutions travel across states, sectors, and periods, and is explicitly utilised by public policy analysts to address the changing nature of policy-making under conditions of globalisation (see Simmons *et al* 2004: 29; Stone *et al* 2001: 5-10; Stone 1999: 53-7). This paper identifies and assesses agents of policy transfer, as well as evaluating the global best practice(s) policy agenda for the electricity sector, as this is the policy framework which is being transferred. A range of interactions between Ugandan policy-makers and agents of policy transfer are identified in the context of these best practice(s)

Analysts suggest a number of reasons why policy transfer failure may be problematic, which the Ugandan case study confirms. Policies that are transferred may be partially implemented or adapted to meet different circumstances, or may simply exhibit different ‘performance characteristics’ in this new context which contradict the intent of the reform process. Policy-makers may also select institutions or policies irrespective of their original purposes, either to resolve their own policy problems or as a reflection of their normative ambitions. Even more

salient is the possibility that poor developing states simply lack the capacity to properly implement selected policies. Policy transfer is therefore contingent, taking place in a particular historical, political, economic, and institutional context: success in one sector or state will not necessarily be repeated elsewhere (Levi-Faur 2002: 8; Stone 1999: 53-7; Stiglitz 1999).

Given uncertainty and complexity in both existing institutional frameworks and policy outcomes, policy transfer in the form of uncritical emulation by developing states is both undesirable and unlikely. In practice, attempts at emulation will necessitate forms of adaptation and learning, even if these are the lessons of policy transfer failure (see Simmons *et al* 2004: 31-5; Rodrik and Subramanian 2003: 33; Stiglitz 1999; 1999a; Turner and Hulme 1997: 52-3). A power relation also exists in policy transfer processes, such that OECD states and powerful multilateral donors become ‘rule-makers’, while developing states become ‘rule-takers’. This affects the legitimacy of policy transfer processes, such that the ‘benefits, costs, and implications’ of such processes remains unclear, particularly in developing states. Policy transfer is, however, transforming contemporary public policy in practice, and therefore provides an important framework for understanding processes of policy change and institutional reform under conditions of globalisation (Levi-Faur and Vigoda 2004; Simmons *et al* 2004; Levi-Faur 2002: 2; Larmour 2002: 152; Stone 1999: 57).

## **Global Best Practice(s) in the Electricity Sector**

This section identifies the configuration of policies that constitute global best practice(s) in the electricity sector. These global best practice(s) provide both explanations for electricity sector inefficiencies and a set of solutions. At the global level, electricity sector best practice(s) are promoted by a range of supra-state agencies and organisations. A World Bank/European Commission programme for example produced a “Check List” of global best practice(s) in the electricity sector in 2001, titled *Private Participation in Mediterranean Infrastructure*. In 1999 an OECD/International Energy Agency (IEA) publication – *Electricity Market Reform* – explicitly sought to disseminate the ‘lessons learned’ by states that have already engaged in electricity sector reform (read OECD states), as well as advocating ‘benchmarking’ against such experiences (see Victor *et al* 2004: 2; Thomas 2004:

4; Levi-Faur 2002: 17-8; 1999: 185-201; Turkson and Wohlgemuth 2001: 143; Müller-Jentsch 2001; World Bank 2001c: 2-22; 2000a; 2000; 1996; 1993; IEA 1999).

It is widely recognised that the core difficulty for developing states in regard to electricity sector reform is that this sector is heavily capital-intensive. Direct government financing and utility revenues have proved insufficient to meet investment needs, while unilateral and bilateral donors are increasingly unwilling to finance investments in this sector. This is in part due to their own budgetary constraints, but also reflects the position – embodied in the global best practice(s) policy agenda – that the historical dominance of the state in the electricity sector, usually through a nationalised and monolithic form of electricity utility, directly led to the economic problems many state electricity sectors in the developing world faced by the 1990s. These include inefficiencies in operation, finance, management, regulation, and maintenance, massive over-employment, regular and chronic system failures, increasing sector costs, and declining utility revenue (Turkson and Wohlgemuth 2001: 143; World Bank 2001c: 12; 2000a; 2000; 1996; 1993; IEA 1999: 9; Levi-Faur 1999: 176-80; Gray and Schuster 1998: 6-7; Izaguirre 1998: 1; Dunkerley 1995: 929-35; Lock 1995: 956-64).

The following 4 sub-sections detail the solutions to these electricity sector problems advocated as global best practice(s).

### **1) Industry Restructuring.**

Under the aegis of industry restructuring, vertically integrated government monopolies are to be ‘unbundled’ into separate generation, transmission and distribution sub-sectors. The generation and distribution sub-sectors are to be divided into competing entities, and liberalised to allow foreign competition. The transmission system operator must ensure non-discriminatory transmission services at competitive prices (Müller-Jentsch 2001; Besant-Jones and Tenenbaum 2001: 7; IEA 1999; Levi-Faur 1999: 185-6; Dunkerley 1995: 930; Lock 1995: 958-9).

### **2) New Regulatory Framework**

As the role of the state shifts from owner/operator to regulator, regulatory overhaul is required. The regulatory framework is also important because of the incentive structures

it creates for potential private investors. Further, regulatory reforms are taken as evidence of a ‘credible’ reform process when they promote transparency and the separation of operation and regulatory functions, and crucially, provide for an independent regulatory agent, which is not subject to short-term political pressure. Such reforms are promoted as part of global best practice(s) by the IMF, World Bank, IFC, ADB, national development agencies, and a range of corporate interests (Victor *et al* 2004: 18-20; IEA 2001: 3-19; 1999: 39-45; World Bank 2001c: 12; 2000b; Turkson and Wohlgemuth 2001: 142; Besant-Jones and Tenenbaum 2001: 13; Müller-Jentsch 2001; Levi-Faur 1999: 185-6; Izaguirre 1998: 8; Lock 1995: 955-9).

### **3) Market Pricing**

All prices in the electricity sector should reflect ‘true economic costs’, through supply and demand in competitive markets. This is deemed critical to attracting private investors, promoting competition, and raising efficiency in the electricity sector. In practice, this usually means raising average tariff revenues, with the aim of ensuring the economic viability of utilities. Historically, developing states have tended to subsidise tariff levels on a seemingly permanent basis, which according to global best practice(s) threatens the economic viability of the entire sector (Müller-Jentsch 2001; IEA 2001: 11-9; 1999: 38; Besant-Jones and Tenenbaum 2001: 12; Izaguirre 1998: 8; Dunkerley 1995: 938; Lock 1995: 959).

### **4) Privatisation**

The three prior reform processes reduce the political risk for private investors, such that privatisation and private participation can occur. Private sector involvement will provide the necessary capital investments, and increase levels of competition and efficiency. Unbundled utility companies will be transformed into commercially viable entities ready for privatisation, while the private sector also builds/owns/operates new power plants. The lack of local capital in most developing states means that in practice foreign participation is a necessity. Global best practice(s) for private participation in the generation sub-sector is the independent power project (IPP) model (Victor *et al* 2004: 1-2; World Bank 2001c: 12-4; Müller-Jentsch 2001; Turkson and Wohlgemuth 2001:

143; Bayliss and Hall 2000: 3; IEA 1999: 101; Levi-Faur 1999: 176-86; Izaguirre 1998: 8; Dunkerley 1995: 929-32; Lock 1995: 955-7).

## **Reforming Uganda's Electricity Sector<sup>1</sup>**

Uganda is indeed representative of electricity sector problems that face developing states. Dominated by a vertically integrated public utility, the Uganda Electricity Board (UEB), the Ugandan electricity sector's massive inefficiencies, constant losses and inability to service debt are well documented. Electricity prices in Uganda were extremely high relative to world and regional standards, yet UEB was a constant financial drain on government. UEB was subject to regular political interference, as the Minister for Energy controlled key appointments, gave policy directives, and could veto tariff changes (Utility Reform Unit 2002: 3-4; World Bank 2001: 26; Parliament of Uganda 2001a; 1999: 14; 1999a: 5; AFREPEN 2001: 1; Ministry of Finance 2000: 2; Government of Uganda 1999: 1-7 London Economics 1999: 3-28; 1999a: 9-10; ESMAP 1996: 23-6).

Uganda is one of the lowest per capita consumers of electricity in sub-Saharan Africa, with only 5-6% of Ugandans having access to electricity in 1999, and less than 1% in rural areas where the vast majority of Ugandans live. Generation capacity in Uganda was also extremely limited. Since its construction in 1954, the 150 MW hydroelectric dam at Owen Falls produced over 98% of all electricity in Uganda. However, by the early 1990s the station was run-down, with capacity as low as 30-50 MW in practice and supply unreliable, such that serious shortages, voltage reductions and load shedding problems were commonplace. By increasing input costs for production in other sectors of the economy, these problems created a disincentive for investment (Bosshard 2002: 12; World Bank 2001: 7; Ministry of Finance 2001: 74; 2000: 2; 1999: 99; Uganda Investment Authority 2001: 10; Mubazi 2000: 42; Government of Uganda 1999: 1-2; Parliament of Uganda 1999: 14; London Economics 1999: 3-4; ESMAP 1996: 23).

Plans for electricity sector reform in Uganda closely follow global best practice(s). The core aim is to increase sector efficiency through private sector participation and increased competition. Privatisation was held to be necessary both because of the non-transparent

relationship between the government and UEB, and because capital investment requirements for the sector clearly exceeded the government's financial capacity. Both governmental and donor sources note that multilateral and bilateral donors made private participation in the electricity sector a condition of lending activities (Uganda Investment Authority 2001: 7; Ministry of Finance 2001: 73-5; 2000: 3; Government of Uganda 2000; 1999: ii-iii; London Economics 1999: 11-3; 1999a: 11-2; ESMAP 1996 v-vi). Private sector involvement, therefore, was intended to ensure that the government's four key goals for the reform process were met:

- 1) To extend electrification, particularly in rural areas**
- 2) To increase generation capacity to meet growing domestic and export demand**
- 3) To ensure an adequate and reliable supply of electricity to consumers at least cost**
- 4) To ensure that the electricity sector is financially viable, without need for government subsidies**

The strategy for achieving these reform ambitions also followed global best practice(s) prescripts, as in March/April 2001 UEB was 'unbundled' into generation, transmission, and distribution sub-sectors, with privatisation or private sector management and new investments planned for each sub-sector. Further, private participation was to be achieved either through the IPP model, or through leasing existing generation sub-sector assets to the private sector. Government's obligation was to ensure commercial tariff levels, and to guarantee the market for electricity through power purchasing agreements (PPAs) (Ministry of Finance 2003: 3-4; 2001: 75; Utility Reform Unit 2002: 2-3; Parliament of Uganda 2001: 5; Uganda Investment Authority 2001: 7-8; Government of Uganda 1999: 411; London Economics 1999: 1-5; 1999a: 26; ESMAP 1996: 4).

Both governmental and non-governmental sources in Uganda argue that the NSP explicitly sought to emulate global best practice(s) for the electricity sector. A government 'Task Force' visited a number of African and Asian states with the explicit aim of learning from international experiences, and crucially, to emulate global best practice(s) in Uganda's

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<sup>1</sup> This empirical section relies heavily on interview material. Interviews were carried out in Kampala in 2003.



electricity laws and regulatory framework. When the Ugandan government introduced the new regulatory framework, it featured an independent regulatory agency, free from day-to-day political interference, particularly in relation to tariff levels. The new *Electricity Act (1999)* passed by Parliament on November 1 1999 was written with assistance from the Norwegian government and a range of private consultants (Utility Reform Unit 2002: 2; Ministry of Finance 2001: 75; Uganda Investment Authority 2001: 7; Government of Uganda 1999: 15-7; Parliament of Uganda 1999a: 6; London Economics 1999: 5; 1999a: 26; ESMAP 1996: 27).

Indeed, external agents in the process of policy transfer of global best practice(s) in Uganda's electricity sector are clearly evident. A number of reform strategy documents were released between 1996 and 1999, beginning with the World Bank's ESMAP report, and culminating in the January 1999 *Uganda Implementation Plan: Power Sector Restructuring and Privatisation*, produced by the UK-based consultants London Economics<sup>2</sup>. These consultants were effectively given a free hand, as the Ugandan government stated that they 'should not feel constrained by any of the proposals' made in previous electricity sector reform strategy documents. This report was evidently grounded in the global best practice(s) policy agenda for the electricity sector, and crucially, it formed the basis for the final governmental policy document for electricity sector reform, the June 1999 *New Strategic Plan (NSP)* (see Government of Uganda 1999; London Economics 1999).

## **The Electricity Sector Reform Process**

### **A) ESTIMATES**

At the core of Uganda's electricity sector reform strategy are a series of estimates for Uganda's economic growth, export revenue growth, aid flows, electricity tariff increases, customer base expansion, and reductions in technical and non-technical losses (Bosshard 2002: 3-5; IFC 2000; London Economics 1999: 19). Plans to increase generation capacity in

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<sup>2</sup> For this consultancy's background in electricity sector reform and privatisation, as well as its links to other agents promoting global best practice(s) in the electricity sector such as the World Bank, see: <http://www.londecon.co.uk/About%20LE/frmabout.htm> However, this consultancy did not respond to requests

Uganda are effectively attempts to meet projected increasing demand in the predicted context of increasing rural electrification (Uganda Investment Authority 2001: 8; IFC 2001: 14). Generation capacity increases will be justified if this projected demand eventualises, as the resulting revenue increases should be sufficient to resolve the sector's financial problems. Crucially, however, these estimates are subject to extensive criticism.

The World Bank, IFC and ESMAP predict that economic growth rates in Uganda between 2001 and 2010 will be 6.3% per annum, the same as between 1990 and 1999. Electricity demand growth forecasts are equally optimistic, ranging from 6-9% in this same period (Bosshard 2002: 13; Utility Reform Unit 2002: 4; World Bank 2001: 21; IFC 2001: 13; ESMAP 1996: 4). It has also been observed that World Bank/IFC projections of the number of connections in Uganda by 2006 rose from 264,000 – too few to support extra generation capacity – to a more favourable 396,000, in under 6 months (Bosshard 2002: 18; World Bank 2001: 32; 2001a: 28). Furthermore, in regard rural connections by 2010, the World Bank/IFC Bujagali PAD and the World Bank *Uganda: Energy for Rural Transformation* PAD, both released on November 14 2001, respectively offer estimates of 222,200, and an 'optimistic' 125,000, without explanation for the disparity (Bosshard 2002: 19; World Bank 2001: 62; 2001a: 12).

However, the 1990s was clearly a period of economic recovery after two decades of mismanagement, and indeed, economic growth since 2000 has averaged 4-5%, with export revenue also below predicted levels. Actual electricity demand growth rates have since 1996 been around 2% (Bosshard 2002: 10; IMF/IDA 2002: 7; 34; IFC 2001: 11; Uganda Investment Authority 2001: 7; ESMAP 1996: 4). Demand projections appear to assume that electricity prices will be lower, such that increased rural electrification becomes viable. One NGO report concludes that this set of over-optimistic projections constitute a potential disaster for Uganda. As the Bujagali PAD stated, if actual figures were below baseline projections, the resulting financial problems would require government to further raise tariff levels (Bosshard 2002:19; World Bank 2001: 42). The consultancy London Economics nevertheless argued that these demand growth forecasts were "a suitable basis for planning

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for interview regarding their role in Uganda's electricity sector reform programme; nor can any information in this regard be found on their website.

the future development of Uganda's power sector" (Parliament of Uganda 1999: 14-5; London Economics 1999: 5).

## **B) GENERATION**

As electricity sector reforms would not be donor-financed, the private sector was deemed the only feasible long-term option for investment in and management of Uganda's electricity sector. As a result, the Owen Falls power station and Owen Falls Extension, comprising the totality of Uganda's generation capacity, were contracted as a single concession to private sector management. The South African state-owned power company Eskom took over management on April 1 2003 (Utility Reform Unit 2002: 1-5; Government of Uganda 1999: iii).

While the concession was, according to Utility Reform Unit sources, favourable to government, a power purchase agreement (PPA) guarantees the concessionaire that the transmission company will make capacity-based payments (Utility Reform Unit 2002: 5). There is clearly a strategic risk in leasing the entirety of Ugandan generation capacity to a single private operator, and guaranteeing payments regardless of how much electricity is consumed. However, it was widely held that Uganda's market conditions made it difficult, initially at least, to introduce competition. The Ugandan government also believed that competition in the generation sub-sector would be achieved through IPP investment.

Indeed, electricity sector reform in Uganda began with President Museveni offering the private sector an IPP site at Bujagali for hydroelectric development. Back in 1994, a memorandum of understanding was signed between the Ugandan government, and a subsidiary of one of the world's largest electricity sector producer-investors, the US-based Apple Energy Services. A Power Purchase Agreement (PPA) and Implementation Agreement (IA) were finalised on December 8 1999. The Bujagali Falls project will produce 200-250 MW, and so should provide a long-term solution to generation shortfalls (Bosshard 2002: 5; Parliament of Uganda 2001: 2-3; Ministry of Finance 2001; 74; 2000: 3; Uganda Investment Authority 2001: 7; London Economics 1999: 21).

However, as Utility Reform Unit sources note, the project was heavily delayed for a range of political, financial, and environmental reasons. For a start, the Chair of the *Parliamentary Committee on Natural Resources* was able to instigate an investigation of the Bujagali project after projected government guarantees for the project rose from US\$350 million to US\$500 million under pressure from AES. AES was badly hit by the Enron collapse, which caused the global market for electricity investment to crash from a total market value of US\$14 billion in 1996, to less than US\$3 billion by 1999. The Utility Reform Unit was forced to seek increased donor funding for Bujagali, while AES eventually withdrew from the project altogether<sup>3</sup> (Victor *et al* 2004: 2; World Bank 2001c: 7). Environmental groups also managed to create delays by claiming the project suffered from widespread corruption. This accusation was only too believable in Uganda, despite a World Bank report refuting this claim (Bosshard 2002: 21; World Bank 2001b).

The Bujagali IPP and IA effectively assigned all the project risks to the Uganda government, while guaranteeing AES financial immunity from water flow variations, changes in the law, and exchange rate fluctuations. Primarily, however, AES profitability was ensured through government guarantees of UEB's capacity payments, regardless of how much electricity was sold, for a period well into the future. These payments covered repayment of debt, return on equity, taxes, operations and maintenance, while bonuses included in the contract were virtually guaranteed, such that AES was also guaranteed that project costs would not exceed these capacity payments<sup>4</sup>. The impact of these guarantees on Uganda's budget, balance of payments, and interest rate levels were unevaluated, such that the Ugandan government was unaware of its potential obligations to AES (Bosshard 2002: 3; IMF/IDA 2002: 3; London Economics 1999: 7-11; Parliament of Uganda 1999: 10).

With the state-owned transmission utility (UETCL) as the single buyer in the electricity market, it was argued that the private sector was unlikely to invest large amounts of capital without such guarantees. Should the Bujagali dam have been completed under AES auspices by the projected date of 2005, Uganda would have reached a total capacity of around 460 MW, for a forecast peak demand of around 500 MW. Given the lack of an export agreement, and criticism of demand projections, there was at least some risk that demand would be

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<sup>3</sup> See <http://www.corpwatch.org/article.php?id=8250>

<sup>4</sup> Annex D, table 4 schedule 1 of the IA specifies maximum capacity payments (London Economics 1999: 8).

insufficient for existing capacity, with potentially serious financial consequences (London Economics 1999: 21). Following AES's withdrawal, the future of private investment and management for the project remains unclear, despite continued support from a range of international financial institutions, and new private sector participants as of late 2005<sup>5</sup>.

### **C) DISTRIBUTION AND RURAL ELECTRIFICATION**

It is also important to note that the generation sub-sector reforms undertaken in Uganda assume that the distribution sub-sector is able to sell the government-guaranteed increased generation capacity. The unbundled distribution sub-sector company needed to be more efficient and financially viable, or government would be required to subsidise the now privatised electricity sector – an outcome contradictory to the 4th key objective of electricity sector reform. A crucial issue for the Ugandan electricity sector therefore is grid expansion and rural electrification, which would require massive investments (Bosshard 2002: 15; Ministry of Finance 2001: 74; 2000: 3; World Bank 2001: 43; AFREPEN 2001: 1; Government of Uganda 1999: 6-13).

However, allowances were not made for investment in the distribution sub-sector, which currently supported only a 240 MW peak demand. Planned investments of around US\$77.1 million for maintenance of existing facilities were entirely insufficient, while to increase distribution capacity by an extra 210 MW by 2005 would cost at least an unbudgeted US\$300 million (Bosshard 2002: 16; Utility Reform Unit 2002: 4; Uganda Investment Authority 2001: 7; IFC 2001: 29; World Bank 2001: 21; London Economics 1999: 6-27).

World Bank and government sources all argue that the private sector could not finance a massive expansion of rural electrification. UEB, meanwhile, had between 1995 and 2002 only managed to extend the grid by around 1%. According to a Parliamentary study initial connection costs remained prohibitive, such that the idea that increased generation capacity would be absorbed by growing rural demand remains problematic (Parliament of Uganda 2001a: 7-9; Government of Uganda 1999: 7). This contrasts starkly with rural demand growth projections, as well as a 1996 ESMAP report arguing that Uganda's rural population is

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<sup>5</sup> See: <http://www.irn.org/programs/bujagali/index.asp?id=031124.rethinking.html> and

increasingly able to financially support rural electrification. The government had optimistically argued that private sector competition would serve to cut costs and allow for reduced tariff levels, making rural electrification more feasible (Uganda Investment Authority 2001: 8; Government of Uganda 1999: 15; ESMAP 1996: x-xi).

Nevertheless, government had recognised in the NSP that despite private sector involvement, continued subsidisation of rural electrification would be necessary. Under the new *Electricity Act* the government could abolish general subsidies, but would finance targeted subsidies through a direct levy of 2.5% on tariffs (the Rural Electrification Trust Fund or RETF) (Ministry of Finance 2001: 74; 2000: 3). The rest of the *Energy for Rural Transformation* (ERT) project remains World Bank financed. The Rural Electrification Fund (REF) is worth around US\$375 million over ten years, and aims to increase rural electrification from 1% to 10%, or around 500,000 extra customers, in this period (Utility Reform Unit 2002: 4; Uganda Investment Authority 2001: 8).

In order to reduce the budgetary implications of Uganda's share of continued rural electrification subsidies, the government again pursued global best practice(s) electricity sector reform. The distribution segment of UEB was to be transformed into the maximum number of viable distribution companies, large enough to attract private sector operators. Government hoped that this would be sufficient to revitalise the distribution sub-sector, and through increased efficiency both minimise tariff levels, and raise enough revenue to cover generation, transmission, and distribution sub-sector costs.

However, the number of 'viable' distribution companies turned out to be a single entity, a consortium of CDC (a UK government parastatal) and Eskom, which leased distribution sub-sector assets under a long-term concession. Once again, reforms did not result in increased competition, despite the government's position that maximising competition was a prerequisite for the private sector to promote distribution sub-sector efficiency. The government's priority was in fact to ensure the success of the new distribution concession, by guaranteeing the revenue flow from UEB's entire customer base (Utility Reform Unit 2002: 1; Ministry of Finance 2000: 4; Government of Uganda 1999: 6-13; London Economics 1999a: 57).

Contractual obligations required the consortium to make significant investments in the distribution sub-sector (US\$480 million over the twenty-year concession period), specifically in regard to expanding rural electrification. Such investments would increase overall sector profitability and relieve the government of its financial burden (Utility Reform Unit 2002: 4). However, the planned resultant market structure means that both generation and distribution utilities must have price agreements with and either buy from or sell to the sole state-owned transmission (UETCL). The consortium was therefore given a US\$20 million fund as a guarantee against below-market rate tariff levels. Indeed, tariff levels for end-consumers will determine the profitability of the various sub-sectors, and determine the financial liability of government, which has effectively guaranteed profits for both distribution and generation sub-sector private actors.

#### **D) TARIFF REFORM**

The viability of the Ugandan electricity sector therefore depends on the tariff levels set by the new Electricity Regulation Authority (ERA) under the *Electricity Act 1999*, and on the viability of such tariffs, as cost will be a crucial determining factor in the prospects for increased access to electricity. The ERA's core task is to regularly review tariff levels according to 'sound economic and financial criteria', so as to ensure both cost recovery and increased efficiency. Following global best practice(s), it was assumed that tariffs providing 'correct price signals' would encourage producers to make least-cost investment and operational decisions, and consumers to use only amounts of electricity that are economically justifiable.

However, in practice it was necessary for tariff levels to guarantee private sector operators a profit over their costs, which provides little incentive for increased efficiency or reductions in financial costs. Furthermore, tariffs were expected to raise enough money to cover electricity sector investments, while expanding electricity services to as large a segment of the population as possible whether on social or economic terms (Government of Uganda 1999: 14; ESMAP 1996: 31). However, it may well be the case that tariff increases would lead to a reduction in electricity demand in Uganda (Bosshard 2002: 17). In this view, given levels of

rural poverty, either general income levels must increase (a difficult proposition), or tariff levels must be reduced, or both.

Indeed, IFC claims that the price elasticity of electricity demand in Uganda is low, such that even with tariff increases demand growth projections of 8.3% remain achievable, in contrast with both Tanzanian evidence that higher levels tariff levels served to reduce electricity demand, and Ugandan survey evidence that high electricity prices was the single biggest disincentive for investment (Bosshard 2002: 17; IRN 2001; Parliament of Uganda 2001a: 7-8; IFC 2001: 34-5; World Bank 2000: 45).

One Parliamentary study explicitly states that implementing a market-based tariff regime to ensure financial viability could conflict with the aim of increasing rural coverage (Parliament of Uganda 2001a: 7). The Ugandan government, furthermore, admits in the NSP that these are conflicting objectives for electricity sector reform (Government of Uganda 1999: 7). London Economics also note that market rate tariffs would be unaffordable for consumers at the distribution end of electricity sector reform. Indeed, during a presentation in 1999, the consultants argued that for tariff levels to be financially viable, the costs of rural electrification must be decreased (AFREPEN 2001: ii; London Economics 1999a: 58-9). Contradictory imperatives for market pricing and grid expansion in the context of reduced government subsidisation are therefore central to the political economy of electricity sector reform in Uganda

However, it is also the case that establishing market-level tariffs is extremely difficult (ESMAP 1996: 31-2). The ERA is dependent upon economic data provided by the Bank of Uganda or the Bureau of Statistics, such as inflation and foreign exchange levels, as well as on verified, audited and accounted economic data from the new private companies, and their approved budgets. There is no clear methodology for establishing 'market rates' or for defining 'reasonable' costs. Much of this data is inaccurate, while the companies relied on for information attempt to get the best deal for themselves. The result is complex and expensive negotiations between industry groups, consumers groups, government experts, and a range of consultants.

These negotiations resulted in the June 2001 decision to raise tariffs by a massive 133%, the first tariff hike since 1994. Ministry of Energy sources argued that it was necessary for



electricity sector revenue to be appropriated from consumers via tariff levels at market rate, ensuring cost recovery and commercial viability to both private concessions and the electricity sector as a whole. Subsidies had previously been financed out of VAT revenue, such that the poor subsidised the electricity of the tiny percentage of wealthy Ugandans to the tune of Ushs. 20 billion per annum (Utility Reform Unit 2002: 3; Ministry of Energy 2001; Parliament of Uganda 2001a: 4-8).

However, this tariff hike drew widespread criticism from NGO groups, the media, academia, Parliament, and even President Museveni. Protests were fuelled by the fact that tariff increases were higher for household consumers than for business and industry. NGO critics also argued that given the high levels of inefficiency in the electricity sector, market pricing was essentially an inefficiency levy on consumers. However, despite considerable pressure, ERA refused to lower tariffs, and as they were empowered under the *Electricity Act 1999*, the legal framework created by government, government either did not or could not reverse the ERA's decision. Instead, following a direct intervention by President Museveni, and with the Uganda elections on the horizon, government chose to subsidise certain categories of consumers directly from their central budget, although only a fixed amount was provided in this regard, and this did not cover the full extent of the increase (Parliament of Uganda 2001a: 4).

## **Electricity Sector Reform in Uganda**

Incentives in the electricity sector therefore remain perverse. Political pressure is focused on keeping consumer prices down, but if the distribution company can't charge market rate tariffs, then it must ensure profitability by either decreasing payments to the state-owned transmission agent, or contributing less to repaying government (UEB) debt. However, as the government has a capacity payments arrangement with the generation companies, the transmission agent would still be required to take electricity at market prices, or pay for electricity that has not even been generated as higher prices impact upon levels of consumption. Either way, or through continued direct end-tariff subsidisation, costs accrue to the government's balance books.

Indeed, the Ministry of Finance is effectively paying for the post-reform electricity sector, as the transmission company can only pay a small percentage of its debt. Between July 2002 and 2003 the transmission company paid US\$3 million of US\$17 million in annual debt servicing, the rest being lost revenue for government, and in effect a huge subsidy to the electricity sector. Consequently, although ending government subsidisation of the electricity sector was the fourth key goal for the reform process, the emerging market structure emerge does not guarantee this outcome. Consequently, and at least in part as a result of poorly-conceived private infrastructure projects such as the Bujagali dam, the electricity industry in Uganda was described by a Ministry of Finance source as ‘barely viable’.

Pursuit of a global best practice(s) policy agenda in the electricity sector assumes that introducing privatisation and competition is feasible without consideration of the specific political economic context of the state in question. It also assumes that such measures will increase efficiency and thereby lower prices; clearly, this is unlikely to be the case in Uganda in the short term at least. Consequently, while privatisation may have positive budgetary implications in some regards, especially as UEB generated massive amounts of debt that it did not contribute to repaying, the outcome of the reform process is that government remains the last resort source of funds.

Indeed, in the translation from a global best practice(s) policy agenda to a Uganda-specific reform strategy, private sector participation appears to have been introduced without the context of a competitive market structure. It is unclear whether such an approach can in practice achieve the promised results of the global best practice(s) policy agenda. Finally, the contradictory imperatives of the reform process meant the simultaneous pursuit of market rationality and cheap electricity for increasing number of consumers. This outcome was never going to be a feasible in the short term, and indeed, Uganda’s expensive electricity has become more expensive for consumers, and remains potentially more expensive for government.

In the Uganda case study we can see many of the problems of pursuing a global best practice(s) policy agenda in practice in developing staes. As with many such cases, outcomes are clearly not those envisaged by these best practice(s), which are far removed from the realities of poor developing states. Indeed, these best practice(s) clearly represent an ideal,

derived either from abstract neo-liberal theory, with little practical relevance to the realities of developing states, or from the experiences of OECD states, where institutional frameworks and political and economic contexts are widely different. In either case, global best practice(s) can be seen as an increasingly important but highly problematic framework for the promotion of policy transfer; it remains a matter of debate as to what exactly is 'best' about these policies. Indeed, the Ugandan case study confirms the arguments put forward at the start of this working paper regarding the contingent nature of policy transfer processes and the likelihood of either policy transfer failure or of outcomes widely disparate from those promised in theory and at the early stages of the reform process.

Furthermore, the role of certain actors, particular consultancies, in promoting policy transfer in Uganda is also demonstrated to be problematic, as such actors seem relatively unaccountable and removed from the impact of the policies they help to transfer. Obviously, this is particularly significant when this impact is, or is likely to be, transfer failure. Many agents can be identified as influential in the policy process in Uganda. The problems agents such as the World Bank and national developing agencies face in promoting their preferred development strategies are widely analysed: however, it is both interesting and important to note the use of the global best practice(s) policy agenda as an increasingly important aspect of these efforts. Perhaps less well analysed is the role of consultancies. In the Uganda case, consultancies are often utilised, and financed by loans and grants from development agencies such as the World Bank, or national development Ministries such as the UK's DfID, despite the fact that they appear to have no long-term interests in or responsibilities for the projects at hand.

Following the advice of foreign consultancies to pursue a global best practice(s) reform agenda in Uganda's electricity sector clearly promoted forms of policy transfer, but did not produce reform outcomes that live up to the promises of this reform agenda. The Ugandan government clearly faces continued subsidisation of the private sector and of rural electrification. PPAs may well serve to increase budgetary pressure on government, while raising tariffs looks like a potentially self-defeating strategy. The contradictory imperatives of expanding rural electrification and market pricing at the centre of the political economy of Uganda's electricity sector reform are however not unusual in regard to developing states; this Ugandan case study is intended to be indicative of broader problems for global best practice(s), at least in the electricity sector.

While critiques of the Bujagali dam project are widely available on the net, this paper is able to put these reforms in the context of the broader framework of Uganda's electricity sector reform process, and the problems inherent within this process. This paper therefore provided a practical case study of the policy impact of globalisation upon developing states, and in so doing, demonstrated some limitations to global best practice(s) in driving policy transfer. Whereas global best practice(s) is far from a mechanism that constitutes the totality of the policy impact of globalisation upon developing states, clearly they are an increasingly important contemporary phenomenon both deserving of analytic attention, and as useful object of analysis in revealing aspects of the changing policy environment that such states face under conditions of globalisation.

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