
*The Possibility of a Sector Wide
Approach (SWAp) to the Energy
Sector in Uganda*

DRAFT REPORT

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ABBREVIATIONS

BFP	Budget Framework Paper
CSO	Civil Society Organisation
DC	Development Committee
DDP	District Development Plan
DSWG	Donor Sector Working Group
DWD	Directorate for Water Development
ERT	Energy for Rural Transformation
ERA	Electricity Regulatory Authority
ESS	Economic Services Sector
FY	Financial Year
GSWG	Government Sector Working Group
GoU	Government of Uganda
IGG	Inspectorate General of Government
JLOS	Justice, Law and Order Sector
JRM	Joint Review Meeting / Joint Review Mission
IREMP	Indicative Rural Electrification Master Plan
LIREP	Locally Initiated Rural Electrification Project
LGDP	Local Government Development Programme
MAAIF	Ministry of Agriculture, Animal industries and Fisheries
MDGs	Millennium Development Goals
ME	Ministry of Education
MEMD	Ministry of Energy and Mineral Development
MFPED	Ministry of Finance, Planning and Economic Development
MH	Ministry of Health
MTCS	Medium Term Competitiveness Strategy
MTEF	Medium Term Expenditure Framework
MTTI	Ministry of Tourism, Trade and Industry
MW	Megawatts
MWLE	Ministry of Water, Lands and Environment
NEMA	National Environmental Management Authority
NGO	Non-governmental organisation
NURP	Northern Uganda Reconstruction Programme
PAF	Poverty Action Fund
PEAP	Poverty Eradication Action Plan
PER	Public Expenditure Review
PMA	Plan for Modernisation of Agriculture
PREP	Priority Rural Electrification Project
PRSC	Poverty Reduction Support Credit
PSF	Private Sector Foundation
REA	Rural Electrification Agency
REF	Rural Electrification Fund
ROM	Result Oriented Management
SWG	Sector Working Group
UEB	Uganda Electricity Board
UETCL	Uganda Electricity Transmission Company Ltd.
UJAS	Uganda Joint Assistance Strategy
WSDP	Water and Sanitation Development Partners Group
WB	World Bank

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INTRODUCTION

The Donor Working Group for Energy has taken the initiative to assign a study for the purpose of assessing the possibilities - and recommending concrete steps to take - for a Sector Wide Approach (SWAp) to the energy sector in Uganda. The study, financed by the Government of Norway, is primarily intended to inform GoU and development partners in the energy sector of the pros and cons of a SWAp and, if a SWAp is deemed cost efficient, provide concrete recommendations on actions to take in order to embark on a SWAp process. In addition, the study is to inform the process of formulating a WB Joint Country Assistance Strategy for Uganda, currently going on with active participation from AfDB, DFID, Germany, Netherlands, Sweden and Norway. The TOR for the assignment is attached as Annex V.

The study consists of an Executive Summary and three substantive chapters:

- Chapter 1 reviews the public finance governance structure; fiduciary arrangements and accountability mechanisms related to the energy sector and the experiences of existing sector groups. Readers who are familiar with the budget process in Uganda can skip the chapter.
- Chapter 2 reviews the energy sector policy framework, policy priorities, strategies and programs, including ongoing and planned donor interventions in the sector and identifies the institutional and other constraints to formulate coherent priorities for the energy sector overall. Readers who are familiar with the energy sector in Uganda can go directly to sections 2.4, 2.5 and 2.6 Major Voids in Energy Policy and Strategy.
- Chapter 3 provides the recommend SWAp option, including TOR for the Energy Sector Working Group and for the TA-facilitator.

The study was carried out by Truls Holtedahl from Norconsult, Norway, Wolfgang Mostert, independent consultant from Denmark and Yese Mubangizi from Power Networks, Uganda. The mission, which was carried out in Uganda from April 4 to 23 included a debriefing and discussion at the Ministry of Energy and Mineral Development (MEMD), and thereafter with the Donor Working Group, including representatives of the Ministry.

The study relied on and benefited extensively from the support of Geir Y. Hermansen, Secretary/Development Affairs at the Norwegian Embassy in Kampala, and on information from and meetings with an extensive number of organisations and individuals in Kampala. Many government officials, representatives of various development partners, and various other stakeholders took the time to present the respective plans and activities and to explain and discuss. The team was met by all with a very open and supportive attitude, for which the consultants are extremely grateful. Due to the cooperative spirit of all persons met, it is not fair to single out individual persons. The list of persons met is attached as Annex VI.

The study team is responsible for the analyses and conclusions of this report, as well as for any remaining errors contained herein. The opinions expressed are those of the study team alone, and should not be attributed to Norway, the Government of Uganda, or to any of the collaborating authorities or organisations.

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EXECUTIVE SUMMARY

In Uganda, the public budget is financed by soft loans and grants from its development partners to the tune of more than 50 percent overall, and of 90 percent for development (investment) spending. Faced with the challenge of aid fragmentation and non-optimal resource allocation, the Ministry of Finance, Planning and Economic Development (MFPED) in Uganda is putting in place an ambitious framework for public resource allocation, which consists of three main pillars.

- The content and the budget of individual sector programmes (the BFP) must be justified with reference to their contribution towards the achievement of the goals and the strategy outlined in the national development program, the *Poverty Eradication Action Plan (PEAP)*. Sector ministries apply *result oriented management (ROM)*, and *outcome oriented budgeting (OOB)* in the programming of their activities.
- *SWAPs*, sector-wide approaches to development planning are used to assist MFPED in developing the PEAPs and the BFPs. To promote coordination of efforts by institutions referring to different ministries, institutions with complementary activities are grouped together in the same sector, irrespective of which ministry they belong to. Cross-ministerial coordination is promoted further by the implementation of cross-cutting strategies such as the Programme for Modernization of Agriculture (PMA) and the Medium Term Competitiveness Strategy (MTCS).
- MFPED imposes *hard budget constraints* on each sector for the sum of donor finance and “own national budget funds” in the sector budget. In principle, an increase in donor finance to a sector leads to a decrease in the allocation of “own national funds”. A US\$200 million per year limit on public loans for investments, further reinforces the limit.

In the budget for “Budget Framework Paper” (BFP) 2005/06-2008/09 (energy and mining sub-sectors), prepared by Ministry of Energy and Mineral Development (MEMD), donor contributions represent 95% of the budget in 2004/05 dropping to 16% in 2007/08; the average is 58%. These figures illustrate the scale of the coordination challenge in the energy sector and, hence, the importance of adapting MEMD’s planning and implementation procedures to the planning framework developed by MFPED. However, the right organisational approach for MEMD’s involvement in PEAP/BFP preparation has not been found:

According to PEAP, “the rationale for grouping institutions together within sectors resides in the need for certain institutions to co-ordinate their activities to achieve common outcomes over time”. Because energy is an essential productive input in “all” sectors, the “energy sub-sector” can be aligned with just about any sub-sector in a “joint sector” for reasons of interdependence. In PEAP II energy was dealt with as a *cross cutting issue*. For PEAP III, MFPED initially included energy in the *Environment and Natural Resources Sector*. After protests from MEMD, MFPED imposed the *Economic Services Sector, ESS*, solution, where MEMD’s institutions are lumped with institutions mainly referring to the Ministry of Tourism, Trade and Industry (MTTI). The grouped ESS-institutions are all in the business of “*productivity enhancement*” – providing essential inputs to other sectors. Yet, due to modest complementarities, the two ministries performed their PEAP/BFP-work in total isolation from each other without exploring whether there were areas where cross-fertilization is potentially possible.

Within MEMD, the individual departments of the ministry prepare each their input to the PEAP/BFP, after which the Sector Planning Unit collates these into MEMD’s draft document. It is discussed at an internal workshop – possible leading to some adjustments – after which the draft is presented to donors at a joint MTTI/MEMD seminar before being passed on to MFPED. In the process MEMD makes hardly any use of broad-based working groups that comprise representatives from other entities in the sub-sector, such as the state-owned power companies, REA and ERA.

The absence of an interactive cross-institutional approach during the process of MEMD’s PEAP/MEMD preparation yields a sub-optimal outcome with regard to (i) the strategic quality of the written documents,

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(ii) coordination with other institutions during the implementation of programs, and (iii) coordination of donor efforts.

The criticism of MFPED relates not to what's in MEMD's documents - what's written in them makes sense - but to what's not included: a clear demonstration of the energy sector's role in poverty alleviation and its contribution to economic development; how MEMD adjusts its policies and efforts to the national development objectives and coordinates its activities with other agents. The 2002 Energy Policy Paper is too inward-looking in its focus which results in important policy voids: analysis and information on absolutely essential issues such as the overall Government strategy to sector finance, subsidy policies, financial instruments, and approaches to rural electrification are missing.

The most important example of insufficient coordination during implementation is that the development of new financial instruments for rural electrification is not part of a coordinated cross-ministerial (MEMD, MTTI, MFPED) program for improving financial intermediation and the development of a capital market. Internally in the energy sub-sector, ERA complains that it does not understand what principles REA uses when fixing subsidies; while the national transmission company submitted a cross-border project to donors, which in the East-African Economic Community grid-planning context was categorized as secondary.

Donors managed to identify niches for their assistance that reflect comparative advantage in TA. There is, therefore, little overlapping of efforts and problems of contradicting strategies and implementation approaches. The creation of the REF is leading to some evolution of basket funding. Yet, examples of insufficient coordination in project activities can be found.

There are, therefore, strong reasons for believing that the adoption of a SWAp to energy planning can further improve the performance of MEMD. The first recommendation for the implementation structure is to accept "energy" as sector. The *intra-sectoral optimisation challenges* for energy policy and for investment priorities in commercial power, rural electrification and the likely development and exploitation of hydropower resources are so large that a "sector focus" is justified. The second is to align the work within the energy sector more closely with the national macro-and microeconomic objectives by defining the "business" of the "energy sector" as "*productivity enhancement*" (providing reliable and least cost energy supply; promoting rational use of energy; strengthening the capital market and entrepreneurship) "*welfare enhancement/ basic needs satisfaction*" (promotion of modern fuels and power to households and social-educational-health institutions, improved stove programs) and "*generation of foreign exchange and of tax revenues*" (cost-effective substitution of energy imports; expansion of energy exports by development of hydropower and potential exploitation of hydrocarbon resources) and to build the organisation of SWAp work around these three areas. The third is to strengthen the cross-sectoral links (*forward linkages*¹ and *backward linkages*²) between MEMD's activities and complementary activities from institutions in other "sectors" by adopting a participatory and inclusive approach in which public and private stakeholders participate directly in the planning process.

The recommended organisation structure can be summarised as follows:

- The Energy Sector Working Group, ESWG, would be headed by the Permanent Secretary (PS) for energy. MEMD members comprise the (Deputy) Commissioners heading the four line Departments, the Under Secretary and the Head of the Planning and Policy Department. The other members would be the Chairman/CEO of ERA, the Director of REA, higher-ranking representatives from MFPED, MTTI and MDLD (the latter speaking on behalf of the line ministries participating actively in the promotion of productive uses for power in rural areas), a representative from the Chamber of Industry and Commerce and representatives from donors.
- The work for providing inputs to ESWG decision taking would be performed by three Sub-Groups:

¹ Impacts which the energy sector has on other sectors of the economy and synergies with activities in these sectors.

² Inputs from other sectors which the energy sector depends on if it is to perform its supply tasks efficiently.

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“Productivity Enhancement”, “Welfare Enhancement”, “Foreign Exchange and Tax Revenue”.

- MEMD’s Policy and Planning Department would be Secretariat for ESWG, with the Head of the Department participating in all meetings and taking the official meeting notes.
- During the initial two to three years, a SWAp Facilitator would be contracted to assist the EWSG-Secretariat in organising the work and developing the work routines.
- The Donor Energy Group, including representatives from donors providing financial or TA to the energy sector, and from relevant NGOs, would continue.
- The monitoring and evaluation system would be designed to interact smoothly with the National Integrated Monitoring and Evaluation Strategy (NIMES), which is under development.

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1 MODALITY FOR PRIORITY SETTING AT NATIONAL LEVEL

1.1 Instruments and Policies to Optimize Use of Donor Aid

1.1.1 SWAPs in a Nation-wide Approach to Budget Optimization

A SWAp, a sector-wide approach to development planning, is an instrument to address the problem of aid fragmentation and non-optimal resource allocation in countries where external development partners finance a large share of the public budget.³ In Uganda, the public budget is financed by soft loans and grants from its development partners to the tune of more than 50 percent overall, and of 90 percent for development (investment) spending.⁴

A SWAp, as such, is an intermediate aid modality between the “*stand-alone project*”⁵ and “*general budget support*”⁶. The distinguishing characteristic of a SWAp is first of all the *process* for its preparation: the development of an integrated and cross-ministerial sector program by the government with active participation of key stakeholders, including donors. Next, it is the *outcome*: that all aid to a sector is given as a part of a coherent sector programme; that this programme has clear reference to national goal achievement and that donors coordinate their provision of aid to the programme using harmonized procedures for technical assistance and implementation⁷ and common modalities for reporting, monitoring and evaluation of sector performance. The *form* in which aid is given by individual donors – individual project aid, basket or pooled funding, or earmarked sector budget aid – is a lesser issue. Typically, a SWAp integrates all these types of aid, as donors have different ambitions and requirements (see also Box 1, below).

In Uganda, the *Ministry of Finance, Planning and Economic Development (MFPED)* is putting in place a very ambitious framework within which SWAPs are more than a tool for improving the performance of individual, single sectors. They are used across the board to assist MFPED in developing the national development program in consultation with its development partners: the *Poverty Eradication Action Plan (PEAP)*. The objective of the new planning and budgeting system is to optimise simultaneously both the *intra-sectoral allocation and use of funds* and the *inter-sectoral allocation of funds*, and in addition to improve *efficiency* in all areas of public expenditure, so that better value for money, in terms of the quality and quantity of services is provided.

MFPED’s optimization approach integrates (i) *result oriented management (ROM)*, (ii) *outcome oriented budgeting (OOB)*, (iii) the imposition of *hard budget constraints* for the sum-total of donor finance and “own national budget funds” for each sector and (iv) promotion of cross-ministerial SWAPs by grouping inter-related agencies from different ministries in a single *sector* and by implementing cross-cutting strategies such as the Programme for Modernization of Agriculture (PMA) and the Medium Term Competitiveness Strategy (MTCS).

³ Annex I “Swap-General Introduction” gives a detailed introduction to the concept, providing general information on the pros and cons of the approach. CIDA in “Planning and Implementation of SWAPs: An Overview” uses the following definition: “The sector wide approach defines a method of working between Government and donors.... The defining characteristics are that all significant funding for the sector supports a single policy and expenditure program, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds.”

⁴ Total project aid and budget support in 2003 totalled US\$786 m of which the WB contributed US\$298 m.

⁵ Stand-alone project: “A donor-funded activity outside of the government’s sector reform program. Donor funds are fed into project accounts accessed by an intermediary agency, which is accountable to the donor”.

⁶ Budget support: “Donors provide budgetary support to the government not linked to a specific sector program. In return, donors engage in policy dialogue with the government on the total budget and its allocation between sectors.”

⁷ In harmonization partners agree easier on issues such as disbursements, reporting, audits, technical assistance than on contracts/arrangements, indicators, sanctions, procurement, salaries/topping up, training, communications.

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ROM is practiced at two levels, at program preparation and during implementation:

- (i) The *PEAP*, prepared every three to four years, by identifying the national development priorities and development concepts, provides the strategic orientation for sector action to eradicate poverty in the country.⁸ Inputs to the PEAP are prepared on a sector basis using a SWAp to identify activities, programmes and relative funding priorities. The sector papers must demonstrate how the overarching development goals of the Government are supported by the proposed activities in the sector.
- (ii) A comprehensive *national monitoring and evaluation system* provides feed-back on the effectiveness of chosen approaches and the impact of the sector's performance on poverty reduction.⁹

The implementation of activities under the PEAP is governed by a three-year rolling budgetary allocation mechanism, the *Medium Term Expenditure Framework (MTEF)* approved by the Cabinet and adopted by Parliament. It consists of the *National Budget Framework Paper (NBFP)* prepared by MFPED and of the more detailed individual *sector BFPs* prepared by the sectors and for the sub-sector of energy by MEMD. The BFPs translate the sector priorities identified in the PEAP into programmes and activities with resource requirements and funding for the upcoming financial year (fixed budget) and the following two financial years (budget projections). Applying a common *OOB-methodology* developed by MFEDP the activities in the BFPs are justified with reference to achievement of PEAP and Millennium goals. The links between inputs, outputs and outcomes are shown in the form of matrixes. The latest BFP covers the financial years 2005/06-2007/08.

A new instrument to ensure that donor assistance is defined by genuine national priorities, rather than by donor preferences is the imposition of *hard budget constraints* on the sectoral BFPs covering the sum-total of donor funds¹⁰ and "own national budget funds". Any increase in donor funding to a sector leads to a corresponding decrease in the assignment of "own budget funds".¹¹ Since a sector in this set-up has no financial interest in accepting a donor project – it will not lead to an increase in funding - decisions on accepting a project proposed by a donor, ought, in principle, be based on the qualitative value of offered assistance. For donors, the hard budget constraint blurs the practical distinction between general budget support and earmarked budget aid/project support as it reinforces the "fungibility" of sector/project aid.

In the PEAP and the MTEF/BTF, expenditures are supposed to be prioritised according to the returns of activities; i.e. expenditures with the highest return are accorded the highest priority. The returns may be expressed in terms of income or in terms of dimensions of quality of life. As a criterion for receiving increased resources or mitigating resource cuts, individual ministries and agencies are required to demonstrate how their activities enhance the implementation of the Government's Budget Strategy. The Strategy commencing in FY 2005/06 is to increase household incomes; tackle unemployment; and maintain macro-economic stability.

Reinforcing the hard budget constraint, MFPED has for the public sector as a whole imposed a cap on external borrowing by the public sector of US\$ 200 mill per annum. Within this cap, the present priority of MFPED is to fulfil the loan requirements for investments in the energy sector before approval is given to loans for other sectors.

With the intention to promote a more effective coordination of efforts by institutions referring to different ministries, MFPED tries to keep the *number of sectors*, which prepare SWAp-programs for the PEAP and

⁸ PEAP I was prepared in 1997. PEAP II in 2000. PEAP III in 2004.

⁹ Status and further development of a national monitoring and evaluation system is further elaborated in chapter 1.2.5.

¹⁰ Projects undertaken by NGOs / CSOs, parastatals; and local government funded by donors directly (outside the state budget), fall outside this framework.

¹¹ To ensure registration of donor funded activities in the public budget, donor financed programmes and projects must use a Bank of Uganda account.

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BPF-budgets, to a minimum. Institutions with complementary activities are grouped together in the same sector, irrespective of which ministry they belong to.

Line ministries in productive sectors such as agriculture and energy must also adjust to another reform process - the policy of the Government, wherever possible to change the role and functions of public institutions from *service provision* to *service facilitation*.

The reform programme imposed by MFPED is hugely ambitious. Its success depends on a major change in mentality in line ministries and their agencies and on the ability to reduce the distorting impact of *corruption*: the optimisation process is undermined whenever priorities and actions during implementation are decided by personal gains instead of by their impact on the realization of the PEAP.

Box 1: Donor Implementing Modalities

The sector wide approach is in practice a hybrid of funding forms and defines a method of working between the Government and donors. Irrespective of how the money is disbursed and accounted for, the defining characteristics are that all significant funding for the sector supports a single policy and expenditure program, under Government leadership, adopting common approaches across the sector, progressing towards relying on Government procedures to disburse and account for all funds, and assessing progress through regular joint reviews.

As the definition suggests, SWAps are a method of working or a way of 'doing business' rather than a blueprint for development. They also represent a conceptual shift from donor-led to developing country-led development. In practical terms, SWAps can be thought of as one type of aid modality, with many variations, which can be situated on a continuum of approaches to development assistance - from traditional stand alone projects to budgetary support (see table below).

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Stand Alone Projects	Sector Reform Program			Budget Support
	Project Type Aid	Earmarked Funds	Sector Budget Support (Pooled/ Basket Funds)	
Donor-funded activities are outside of the Government's sector reform program. Donor funds are fed into project accounts accessed only by an intermediary agency which is accountable to the donor.	Donor-funded activities support the Government's sector policy framework but are managed as projects (e.g. relying on donor management systems, reporting, contracting etc.)	Donor funding supports the Government's sector policy framework. Financing is through dedicated accounts with conditionalities or performance agreements linked to their release.	Donors provide sector budget support pooled with other donors. Some pre-conditions may apply to the release of donor funds. Increased reliance on common procedures, e.g. appraisal, reporting, monitoring and evaluation, and joint review processes.	Donors provide budget support to the Government not linked to a specific sector program. Normally in return, donors engage in policy dialogue with the Government on the total budget, not just for a specific sector.

Source: Planning and Implementation of SWAs: An Overview. Issues Paper. CIDA, 2000

As one moves across the table, from left to right, there is a gradual but significant shift from donor-led and controlled processes to approaches which are led by developing countries, based on domestically developed policies and rooted in national systems and procedures.

Choices made by donors as to which approach they will rely on will depend on an assessment of the development country's policies, programming frameworks, budgetary processes, financial management and planning capacity and a number of other factors, including the quality of partnership arrangements. For example, where developing country policies are sound, linked clearly to a medium-term expenditure framework and Government capacities in planning and management (especially financial) are strong, support by donors is more likely to be based on pooling of funds and harmonized procedures.

Donor involvement in SWAs at this end of the spectrum focuses more on policy issues and ongoing dialogue with the Government, including active engagement in sector planning and review meetings. Non-sectoral budget support, which is increasingly being embraced by agencies such as DFID and the World Bank, is almost a 'post-SWAp' phenomenon which reflects a belief in the need to think beyond individual sectors and to support the Government's efforts to address development concerns on a more comprehensive, multi-sectoral basis. This perspective is consistent with recent thinking on poverty reduction.

In Uganda, support to the energy sector is expressed in different forms and already to a large extent presents the features of a sector wide approach as far as financing modalities are concerned. There are, however, also examples of stand-alone projects, in the form of funding of projects outside the Government budget, implemented by NGOs. Towards the other end of the other spectrum of the table above, there is the case of the large intervention by the World Bank in the form of Energy for Rural Transformation, which supports several sectors, including energy, around a common theme, rural development and poverty eradication.

In between these, there are the cases of project support to specific sub-sector institutions based on the needs of the subsector and the comparative advantage of the donor in a specialised field. Examples of this are the assistance by Iceland to chart the geothermal potential in the western part of the country, and the planned capacity building support by Norway to the Petroleum Exploration subsector. Pooling of funds to a specific investment program is applied in the case of the Power III and IV projects funded by the World Bank, Nordic Development Fund and bilateral donors (comment: this is, however, not basket funding – donors have picked individual investment components in the program and provided project support for these; also no joint reporting).

It is likely and probably also desirable that this variation in funding modalities will exist even after a sector wide approach has formally been adopted and applied in the energy sector (comment: basket funding to Power III and IV would clearly have been desirable). The different forms reflect the need for a pragmatic approach to the issue of providing support, based on the needs and characteristics of the subsectors, Government preferences, and the relative strengths and preferences of the donors.

Even where there is scope for significant savings in aid management costs through common appraisal, reporting, monitoring, and use of pooled funding, the Government may prefer to continue to rely on a mix of sector support and project finance. Circumstances differ, and the benefits and costs of one form of support versus the other need to be assessed rather than assumed.

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1.1.2 Formalised Partnership Principles

The partnership principles presented in the PEAP are based on a document issued in 2003 by the Ministry of Finance, Planning and Economic Development (MFPED), titled “Partnership Principles between the Government of Uganda and its Development Partners”. The principles have been agreed to by donors. They strike a balance between the wish of the Government for having full flexibility in determining expenditure priorities and the wish of donors to be able to demonstrate to their public that donated funds are used productively.

The Government's ranking of donor support modalities, in descending order of preference, is as follows:

1. General budget support
2. Budget support earmarked to the Poverty Action Fund (PAF)
3. Sector budget support
4. Project aid

Over the last four years, donor aid to central Government has been split on average equally between *budget support* and *project aid*. In the course of the LTEF, the Government envisages the share of budget support rising to more than 60% of total aid to central government.

Donors have a right to contribute to the debate about the Government's spending priorities. But this right should be exercised through participation in the many fora that take place during the budget process, not by trying to use their own aid as a lever to channel expenditures towards sectors which they favour. At the overall level of establishing inter-sectoral priorities in the budget, the relevant forum is the *Public Expenditure Review*. At the individual sector level, the forum is the *Sector Working Group (SWG)*, composed of all relevant Government stakeholders and all donor partners, which identify, cost and rank sector spending priorities.

Since donors are wary about how budget cuts, implemented during the annual budget processes, affect interventions and sector, which they regard as high priority, the *Poverty Action Fund (PAF)* has been set-up within the consolidated budget. The PAF consists of a subset of the GOU budget which is considered to contribute directly to poverty reduction notably primary education, primary health care, water and sanitation, agriculture and rural roads. It is protected against budget cuts. The PAF share of the budget rose from 17% in 1997/98, when it was first established, to 38% in 2004/05 BFP (thereafter this share is projected/planned to be stable in the MTEF).

Development partners are asked to work in fewer sectors, focus their expertise in sectors where they have a comparative advantage and, as far as possible, provide *three year rolling projections* of all budget and project support. The latter requirement is difficult for donors to fulfil as most tend to have multi-annual planning cycles for their development aid, meaning that they can only give a firm budget allocation for Uganda for the remaining years of an ongoing budget cycle. This is one of the reasons why budget projections for donors in the BFPs show declining donor funding over the three-year period.¹²

Sector budget support is acceptable to the Government if SWAs and sector development plans are in place in the sector being supported; and the support is mutually agreed upon by the line ministry, MFPED and the donor through the annual consultative budget process. Sector budget support is to be provided straight into the Consolidated Fund, thereby simplifying budget execution, accounting and reporting procedures.

¹² The other reason, apparent in the latest BFP, is the Government's desire to reduce dependence on foreign funding entailing debt service obligations in the future.

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Projects will have a continued role in (i) transferring skills and building capacity, (ii) in financing major infrastructural investments, (iii) in community based initiatives, and (iv) for humanitarian assistance.¹³ Project support will also be required to enable Civil Society and Private Sector to play their role in the implementation of the PEAP.

1.2 Institutional Structure for Approving and Monitoring Aid Projects

1.2.1 Approval System

There are three main actors in the process of initiating and approving of new projects:

- The *Sector Working Groups* (SWG) identify the need for a project, assess the relevance of the project with regard to PEAP policy objectives, develop and approve the project proposal; submit a written application to MFPED and present the project to the Development Committee. Some SWGs are required to channel their project proposals through the Plan for Modernisation of Agriculture (PMA) Secretariat to scrutinize the proposals and assess their alignment to the PMA Principles. Proposals that do not necessarily address PMA Principles but are key to the mandate of the concerned SWG may in reality hit a dead end at this stage.
- The *Development Committee* (DC), which meets once per month, reviews the project proposals to ensure that they comply with PEAP policy objectives and macroeconomic policy; advises the SWG of changes to be made before approval; approve the project; forwards approved external projects to Aid Liaison Department. To be included in the budget for a financial year, a new donor project must be submitted to the Development Committee before December 31 in the previous year.
- The *Budget Directorate* (donor funded projects identifies the funding for the project and processes the funding request with relevant players i.e. donors, Cabinet and Parliament.

1.2.2 Sector Working Groups (SWGs) Established by Government

Sector Working Groups are set up by MFPED as the institutional forum for preparing and implementing sector-wide approaches (SWAp), including the preparation of BFPs.

As in all countries in the world, turf battles between ministries and agencies are an issue. The SWG provides a neutral forum for representatives from different ministries to iron out differences and to work towards efficient exploitation of synergies and complementarities so that programs and activities of individual institutions are defined within a SWAp. It also improves priority setting within a single ministry context since it allows representatives from a ministry and its associated authorities and agencies to express views within a formalized forum for collaboration.

MFPED has set up 14 *functional sector working groups*: Agriculture; Water and Sanitation; Roads, Works, Communication, Housing; Health; Education; Social Development; Public Service, Pay & Pension Reform; Security; Economic Services, Local Government; Accountability; Public Administration; Justice, Law and Order; Environment and Natural Resources. Energy is part of the so called Economic Services Sector (ESS), which also comprises Minerals and Petroleum, Tourism, Trade and Industry and the agencies that develop Micro Finance, Marketing and Agro Processing interventions under the Programme for Modernization of Agriculture (PMA).

In addition, there are 2 *advisory working groups*: Macroeconomic Framework and Poverty Eradication. They do not produce BFPs, but guide the functional groups on crosscutting issues to

¹³ The DAC General Budget Support evaluation acknowledged that providing aid only through budget support is not the best approach: capacity building and major infrastructure projects may best be handled through project modalities.

address, review papers prepared by the functional groups and appraise the extent to which their advice has been addressed.

The SWGs comprise representation for all stakeholders, including Civil Society, Donor and NGOs and Government.

Although the SWGs have been formally set up by MFPED, the way they work and interact with donors in practice varies tremendously – also in their core business of preparing the sector input to the budget process. Very few Sector Working Groups continue to operate beyond the scope of producing the sector Budget Framework Paper. Yet, the intention of MFPED is that they monitor and evaluate performance and ensure that projects and programmes submitted to the Development Committee are consistent with sector plans.

1.2.3 Donor Working Groups (DWGs)

The move towards SWApS led donors to set up donor sector working groups (DWGs). Of these two kinds can be identified: those who play a *formal, active role in sectors applying a SWAp*, (an example is the Water and Sanitation Development Partners (WSDP) Group) and those who are *informal and used to form a mutual understanding of issues in sectors, where a formal SWAp is not being applied* (like the Energy Donor Working Group). Both types of DWG provide a forum for discussion, sharing of experiences and information, enhancement of harmonized provision of technical and investment assistance and coherence in donor funded activities; all with the aim of promoting a rational allocation of donor resources to the sector.

Formal DWGs are open to development partners supporting the sector and will, in addition, normally include some NGOs and other Civil Society stakeholders. Representatives from Government institutions are not included in the group, as the donor-government interface is through the official Sector Working Group, established by MFPED. The formal DWG is established to enable the Development Partners to provide joint responses to (i) issues in the sector, and (ii) communications with the sector ministries; although minority views can be upheld. It provides a forum for co-ordination of inputs from the development partners into the work done by the corresponding SWG in its elaboration of the sector contribution to the PEAP and to the BFP. The formal DWG participates effectively in the joint missions in the sector by co-ordinating inputs into the agenda, the organisation of missions and the monitoring of follow up activities.

Informal DWGs are also open to all development partners supporting the sector and invited NGOs and Civil Society stakeholders. In addition, since they lack an official Sector Working Group as counterpart, they include representatives from key government institutions and agencies. The informal *Energy Donor Working Group* is an initiative coordinated by the Norwegian Embassy on behalf of donors. It was set up in 2004 and is open to the following:

- *Government institutions:* MEMD, MFPED, MTTI, MWLE, REA and UETCL.
- *Development partners:* All donors active in the sector, currently Austria, Denmark, EU, France, Germany/GTZ, Iceland, Japan, NDF, Netherlands, Norway Sweden, USAID, WB, UNDP, UNIDO, AdB
- *Stakeholders:* Private Sector Foundation (PSF), Integrated Rural Development Initiative (IRDI), Uganda Renewable Energy Association (UREA).

The group has held meetings in May, August and October 2004 and in January 2005.

1.2.4 Uganda Joint Assistance Strategy (UJAS)

The Uganda Joint Assistance Strategy (UJAS) presents a harmonised programme of donor support for the implementation of PEAP 2005/06-2008/09. It has been prepared collaboratively

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by a group of like-minded development partners comprising: the World Bank Group (WBG), the African Development Bank (AFDB), the United Kingdom's Department for International Development (DFID), Germany (GTZ), the Netherlands, Norway, and Sweden.

Its design has focused on jointly identifying how UJAS partners can best support the achievement of the government's PEAP outcome targets, drawing on each partner's comparative advantage in the areas of expertise (both in terms of sectors and instruments) and forms of assistance. Criteria include historical presence, history of past effectiveness, instrument choice, risk aversion, and knowledge and expertise. The Government stated its preference for donor presence in different sectors. The World Bank and DFID intend to use the UJAS as their *core strategy document and business plan* over the 2005-2008 period. Other UJAS partners have endorsed it as an *overarching framework for their support* to Uganda, and will draw on it as their own strategies are renewed.

Close harmonisation between UJAS partners is promoted by the so-called "*silent partnerships*", the development of arrangements in which one partner represents the other in sector dialogue. The Netherlands is represented by DFID in HIV/AIDS, and DFID by the Netherlands in education, procurement and justice, law and order. DFID will support the WB in public sector reform, and the WB will support DFID in decentralisation.

1.2.5 M&E for Result-Oriented Management: NIMES

Considerable country-led efforts have been invested in developing monitoring and evaluation (M&E) systems and practices in Uganda, including the development of a strong statistical base. The MFPED has produced biennial Poverty Status Reports and Poverty Reduction Strategy Progress Reports to track progress with PEAP implementation since 1999. A Poverty Monitoring and Evaluation Strategy was developed for PEAP II.

The Government has initiated the development of a National Integrated Monitoring and Evaluation Strategy (NIMES) with a secretariat in the Office of the Prime Minister. This is a framework within which the users and producers of information will be brought together to ensure the right data is collected and fed into policy making.

NIMES has four strategic objectives:

- To assist key stakeholders to define their information needs
- To help to coordinate information system to ensure that information that the key stakeholders need can be provided
- To make sure that adequate information is available in timely manner to inform national policy framework such as PEAP.
- To build the M&E capacity in Uganda.

The main output of NIMES will be the "National Policy and Program Performance Status Report", produced every six months, and incorporating the information that will be channelled into NIMES. In addition to the flow of statistical information, various reports already produced on a routine basis will feed into NIMES. These include: (i) the Poverty Status Report, which is produced every two years by the MFPED, and the PEAP progress report, produced every other year in between; (ii) Sectoral Joint Review Reports every six months (iii) Participatory Poverty Assessment Reports; (iv) Statistical Survey Reports by UBOS; (v) Budget Framework Papers, annual; (vi) Background to the Budget document by MFPED, annual.

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1.3 Experience with the Energy Programming in the New Set-up

1.3.1 Organisation of MEMD's Work Related to PEAP III and BFP 2005/06-07/08

According to PEAP, “the rationale for grouping institutions together within sectors resides in the need for certain institutions to co-ordinate their activities to achieve common outcomes over time”. Since energy links and intersect with many sub-sectors, it can fit into several sector-arrangements:

- In PEAP II energy was dealt with as a *cross cutting issue*. This approach focuses on energy as an input to other activities.
- For the preparation of PEAP III, MFPED initially proposed to include energy in the *Environment and Natural Resources Sector*. This approach can be justified with reference to the high percentage of biomass in primary energy consumption, the large hydropower potential in the country and the sustainable environment objectives of the energy sector.
- Due to protests from MEMD, MFPED switched to the *Economic Services Sector* solution. This approach emphasises the importance of energy supply as enabler for economic activities and for productivity enhancements.

The lumping together of energy with tourism, trade and industry and some PMA-activities in a single “Economic Services Sector” was and is considered controversial by MEMD, which had fought hard to get energy recognized as a sector of its own. There is some logic to the ESS idea as all involved institutions are in the business of “*productivity enhancement*” – providing essential inputs to other sectors. Yet, “energy” is also in the business of “*welfare enhancement*” through rural electrification and improved stove programs. Energy is also a productive sector in its own right by producing “*export products*” through the large scale development of hydropower and the potential exploitation of hydrocarbon resources. The potential for exports of power and of hydrocarbons, incidentally, was not even mentioned in MTTI’s section on trade in the joint PEAP-contribution. In terms of mutual inter-linkages, power supply is indispensable for the economic health of industry, tourism and trade. The energy sector, on the other hand, due to the high capital intensity of energy investments, can realize important cost reductions if MTTI succeeds in building an efficient supplier and services sector is built in the country. Yet, overall the potential synergies and optimisation possibilities of working together on a cross-sectoral basis for the PEAP/BFP are insufficient to motivate a joint elaboration of PEAP-inputs and draft BFPs.

The two ministries, therefore, did not prepare the “Economic Services Sector” documents for PEAP III and BFP 2005/06-2007/08 in a joint effort; each prepared a separate “own-sector” contribution in isolation from the other. The two PEAP-drafts were merged into the “Economic Services Sector PEAP Revision Paper; Mainstreaming Economic Services into the PEAP”. Each headline (chapter and sub-chapters) in the report, has one section for the MTTI-sub-sector and one for the MEMD-sub-sector.

MEMD organised the preparation of its PEAP and BFP contributions as follows:

- The *Sector Planning Unit/Policy Analysis Unit*, which has the final synthesising/integration responsibility, asked each of the three departments to come up with its contributions and budget requirements.
- The three departments prepared their papers in isolation from each other. Outside institutions under the ministry, such as ERA, REA and UETCL, were not actively involved in the process, only consulted.
- The Planning Unit collected the inputs and produced the draft PEAP contribution / draft BFP and circulated these for comments
- The drafts were discussed at meetings in MEMD and then finalised.

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- The result was presented to donors at a budget workshop in January 2005, where also MTTI presented its draft-BFP.

The departmentalised approach did not result in a document with a clear focus on energy's role in poverty alleviation and economic development; and on how MEMD adjusted its policies and efforts to align these to the overriding development objectives.¹⁴ These issues were presented in an ad-hoc manner. The absence of in-depth presentation and analysis of key issues can be illustrated by the following quote: "In terms of policy, the main issues to consider that are important for poverty eradication are: how to improve the effectiveness of energy sector management; how to attract more capital in order to increase access to energy; how to make subsidies and other government policies work for poverty reduction; how to make energy services affordable." As an introduction, this is excellent; yet, it is all that is written about these issues! A better document with a clear focus on energy's role in poverty alleviation and economic development could have been compiled if the MEMD organised appropriate workshops with key stakeholders on the subject matter.

In the ESS-PEAP, MEMD argued for a sector of its own in the following way: "Given the significant contribution Energy and the Mineral Sub sector are making to poverty eradication and the potential they can make to poverty reduction, it is strongly recommended that we should have an Energy and Mineral sub sector in order to enable them to effectively play an important role in National Development."¹⁵ This is all. MEMD does not explain why establishing an energy sector would help its efficiency and effectiveness in fulfilling its mandates under the PEAP-objectives, or how it would organize the sector work to improve its cross-sector linkages. This lack of explanation may originate from the fact that the previous BFP and Policy Statement 2004/05 had articulated such issues to no apparent breakthrough. Even then, a detailed explanation on how a separate sector for Energy would help in fulfilling its mandate under the PEAP objectives in a more efficient and effective manner would have been essential.

Once all sector working groups have submitted their papers for the PEAP/BFP to the MFPED, the MFPED starts its own optimization process, as the total requests for funding resulting from the proposed priorities and activities are larger than the disposable budget. MFPED can during this final process do some backwards cross-checking with the sectors, yet, the sector working groups feel that the final optimization process, as seen from their side is a "black hole".¹⁶ This scenario typically exemplifies the fact that the absence of a SWAp accentuates communication problems.

1.3.2 Energy in the PEAP 2004/05-2007/08

PEAP III finalized in 2004 resulted in the following core priorities for action:

- Restoring security, dealing with the consequences of conflict and improving regional equity;
- Restoring sustainable growth in the incomes of the poor;
- Human development;
- Using public resources transparently and efficiently to eradicate poverty.

The Government's strategy for fighting poverty is expressed in the PEAP through so-called 'pillars', of which there are five:

1. Economic management;

¹⁴ The weak promotional quality is illustrated by the following opaque sentence: "The overriding role of the Energy and Minerals sub-Sector is to establish, promote the development, strategically manage and safeguard the rational and sustainable exploitation and utilization of Energy and Mineral resources for social and economic development."

¹⁵ Presumably "sub sector" is a typing error in the document. What must be meant is "sector".

¹⁶ To quote an observer: "In actual fact the difference between *policies* and *politics* is lost in the last stages of the budget-making process."

2. Production, competitiveness and incomes;
3. Security, conflict-resolution and disaster-management;
4. Good governance; and
5. Human development.

Energy is under pillar 2 part of the *Economic Services Sector (ESS)*; but energy activities support also Pillars 1, 4 and 5. “Within the economic services sector, Government is aiming at providing better infrastructure for industrial parks and strengthening business development services more generally. Rural financial services are also to be strengthened under the Microfinance Outreach Plan. Key priorities for increased support in this pillar during this PEAP period are therefore: business development services, rural financial services, rural electrification, as guided by the sectoral strategy.”(quote from PEAP).

The potentially very important hydrocarbon exploration activities are not mentioned in PEAP III. The draft outcome indicators and priority actions most relevant for the energy sector in the “Results and Monitoring Matrix” and the “Policy Matrix” of PEAP III Strategic Objectives are shown in the matrix below.

Results & Monitoring Matrix PEAP Strategic Objectives	Outcome Indicator	Base and Target Year Values
2.5 Strengthened infrastructure in support of increased production of goods and services	% of rural households accessing electricity	3% in 02/03; 10% by 11/12
2.3 Increased and sustainable forestry production consistent with increased forest cover	Average distance to firewood source	0.73 km in 00/01; < 0.5 km by 09/10
The Policy Matrix PEAP Strategic Objectives	Challenges	Priority Actions
As above.	<i>Supportive Infrastructure Power:</i> Strengthening power infrastructure in support of production of goods and services in all areas.	<ul style="list-style-type: none"> • Urban power system made more efficient and financially sustainable through: (i) operationalisation of concession agreement for private sector management of UEDCL; (ii) Finding new investor for the Bujagali Falls project; (iii) Expansion of energy audits in pursuit of demand-side savings; (iv) rationalization of tariff system by Energy Regulatory Commission; and (v) GOU paying off power bill arrears and paying power bills on time. • Rural electrification expanded through public sector grid extension, independent power producers, and promotion of solar energy and other renewable energy sources, with 10 percent coverage achieved by 2012 compared with 3 percent coverage in 02/03. • Rural Electrification Fund operationalised for providing subsidies to private suppliers of power.

MEMD felt that the heterogeneous, not-interlinked composition of the Economic Services Sector led MFPED to undertake the prioritization approach in an “atomized” manner. Instead of looking at energy as a coherent whole and optimize within that framework, MFPED looked at the different sub-sectors in each ministry on an individual basis.

MFPED, on the other hand, criticised MEMD for not having succeeded in making a good case.

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1.3.3 Experience with MEMD's BFPs

Since energy is not among the protected (PAF) sectors, the budget allocation to MEMD in the Medium Term Expenditure Framework (MTEF) is vulnerable to budget cuts, when the overall budget situation forces the government to cut back on the budget of individual ministries. In FY 2004/05, the MEMD was subjected to cuts in the area of 40-50 percent compared to FY 2003/04.

The Budget Framework Paper (BFP) 2005/06-2008/09, prepared by MEMD, presents the Medium Term Expenditure Framework (MTEF) for the Ministry of Energy and Mineral Development component of the ESS-SWG. The budget process is guided by two documents issued by MFPED, the "Budget Call Circular" and "The SWG-Terms of Reference and Guidelines: Preparation and Presentation of the Sector Budget Framework Papers". They dictate the application of a ROM approach under which departmental outputs are set relating to the policy objectives and strategic plans with quantified performance indicators and targets. The MEMD's BFP focuses on the energy sector's contribution to the national economy, PEAP, and the Plan for Modernisation of Agriculture (PMA).

The BFP 2005/06-2008/09 prepared by MEMD is an admirable document, which received well-deserved praise when the draft was presented and discussed with development partners for the first time at a Sector Working Group (SWG) budget retreat in Jinja on 20 – 21 January 2005. "Annex II: BFP-Tables relating MEMD Objective and Activities" shows the OOB-approach applied through four matrixes copied from the BFP:

- A.2.1 relates the "Energy Sub-Sector policy objectives to the PEAP pillars,
- A.2.1 to the Millennium Development Goals";
- A.2.3 shows "the linkages between institutional objectives and sub-sector goals" and
- A.2.4 "the performance targets for MEMD over the Medium Term".

The budget estimate of BFP 2005/06-2008/09 for FY 2004/05 is 70.7 bill UGS (approx 41mill USD at the current rate) with for the first time including donor contributions. The latter represent 95% of the budget in 2004/05 dropping to 16% in 2007/08 with a 2004/08 average of 58%, see Table 1.

Table 1: MTEF 2005/06-2007/08 for MEMD (UGS bn)

Projection	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
Wage	1.45	1.45	1.75	1.75
Non-wage	1.12	1.50	3.35	3.42
Domestic development	1.14	24.27	38.10	54.51
Donors	67.01	64.98	41.66	10.99
Total	70.72	92.20	84.86	70.67

FY 2004/05: approved budget. FY 2005/06 etc.: budget projections

Since the general structure of budget is based on cost-items, not output, the head of the MEMD's planning unit refers to it as *output-oriented budgeting* but not *output-based budgeting*. No activities are listed with their budgets. Thus, it is not clear which activities will suffer when a cut-back is implemented. When a cut comes, it is shared on a pro-rata basis across the programmes in the ministry. In each program, there are some budget items that are protected – like payment for utilities.

The resource envelope for MEMD, shown in Table 1, integrates donor aid into the MTEF; which is new – MEMD has no statistics over donor aid given to energy during the previous three years. Donor support is projected to fall dramatically over the period in question. In practice, the decline in estimated donor inflows reflects the inability of donors to make commitments/projections for a three year period when they are in the middle of an ongoing

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planning period of their own, plus the Government's desire to reduce foreign loans that entail future debt service requirements. It is, therefore, not clear what the likely level of future donor support to MEMD will amount to.¹⁷

¹⁷ A similar pattern of falling donor support is reflected in the overall MTEF for the country.

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1.4 Experience with SWAPs in Uganda

Several sectors have implemented the SWAP approach. Of these, the SWAPs implemented by the Justice, Law and Order Sector (JLOS), Education Sector, Health Sector and Financial Services are considered success stories; while the Environment and Natural Resources Sector seems to show good initial promises. The Water Sector SWAP seems to be neither a success nor a failure; whereas the Agricultural Sector SWAP so far has shown weak results.

The conditions under which successes were booked, are quite different:¹⁸ The Health Sector is administratively under one ministry, and has traditionally been thinking sectoral; JLOS brought together a large number of dispersed institutions, which were traditionally operating independently.

The Health Sector Midterm Review noted the following major achievements: Increased funding to the sector; redistribution of health budget with more resources flowing to Primary Health Care and an increasing proportion of the health budget flowing to districts; improvements in sector outputs; improved capacity at all levels; improved collaboration with Private not for Profit Partners; improved participation of Health Development Partners as well functioning management structures, active participation in reviewing and budgeting, and simplified reporting and evaluation procedures of donors improved mutual trust and reduced transaction costs.

The Justice, Law and Order Sector (JLOS) booked some impressive results. The sector presents a unified budget with a holistic situation analysis, performance review and prioritised expenditure for the three-year cycle. The semi-annual review allows the sector to assess progress in a singular manner, allowing for dialogue about interrelationships and benefits of cooperation. JLOS records positive change in five major areas: Measurable successes in implementation of reform; rationalization of inputs; government ownership; simplified partnerships as the Government-donor partnership is simplified by a single reporting mechanism, a lead donor, one evaluation methodology and one financial audit; attitudinal change.

Concerning the key success factors for the health and JLOS SWAPs the “road map study” identified the following:

- A broad recognition at some stage that ‘there is a serious problem of under performance, which can only be solved by analysing and tackling issues holistically.’ The necessity for a holistic approach comes from the realization of strong inter-dependency between the components: One component cannot move unless the other is helped to move first.
- A resolve by top leaders, at an almost distinct point in time, to go for a radical change instead of incremental improvements, and lead and support the sector in the transformation process both in their own institutions and in the donor community.
- An understanding and supportive donor community, that is prepared to take some risks and make some good investments in the process.
- Some early successes in measurable improvements in service delivery, coordination, simplified reporting and auditing, and increased funding helps to bring the pessimists and skepticists on board.

Experience from the Financial Sector indicates that a common funding modality (project, sector aid, budget aid) is not essential. Donors work towards common principles and common criteria for funding and in good cooperation with industry without formalized basket funding. There are a few big programs that are communicating well. The subsidies in the sector are well-targeted.

¹⁸ The observations concerning health and JLOS are summarized from Reint J. Bakema, Mwalimu Musheshe: “SWAPPING the Environment and Natural Resources Sector. A Road Map”. 2003

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All sector plans claimed to be developed through a 'participatory' or 'consultative' process. National, regional and district workshops were the most commonly used tools for consultation. International technical assistance has also played a role in the development of most of the plans.

Two challenges for an energy sector SWAp in Uganda that need to be taken into account are: (i) SWAp proves to be a time-consuming process, of which the benefits are not always clear from the onset, and definitely not always guaranteed. (ii) In the short run, standards of service delivery may actually drop when responsibility for projects is taken over by local Government. There is a need to build Government capacity for service delivery, and to be modest in the expected gains of SWAp in the first few years.

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2 MODALITY FOR PRIORITY SETTING BY MEMD

2.1 Energy Sector Governance

2.1.1 Organisation of MEMD

The mandate of MEMD is “to promote and ensure the rational and sustainable utilisation and development and the effective management and safeguard of energy and mineral resources for social and economic development and welfare”. MEMD is composed of : a Directorate of Energy and Mineral Development with four technical departments - *Energy Resources Department (ERD)*, *Petroleum Supplies Department (PSD)* (created by the Petroleum Supply Act, 2003), *Petroleum Exploration & Production Department (PEPD)*, *Geological Survey and Mines Department –* ; and of the support services - *Finance and Administration Department*, *Sector Planning / Policy Analysis Unit and Resource Centre*. MEMD has a staff of 222. The departments are subdivided into divisions.

The functions of ERD, PEPD, Finance and Administration Department and the Sector Planning / Policy Analysis Unit, which are the units of relevance to the present study, are briefly outlined below.

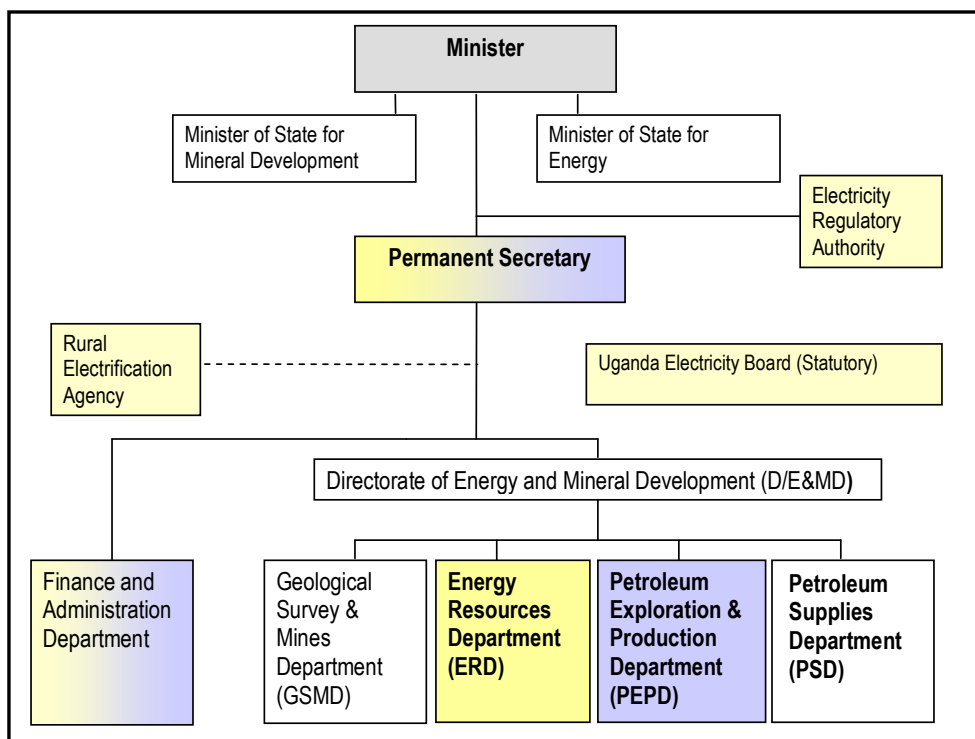


Figure 1: Organigramme for MEMD

ERD is headed by a Commissioner and consists of 3 divisions namely Energy Efficiency, New & Renewable Sources of Energy and Electric Power each of which is headed by an Assistant Commissioner. The ERD’s mandate is (i) to ensure sufficient, reliable and low cost electricity supply in the country; (ii) to ensure efficient utilization of energy in all sectors of the economy; (iii) to ensure efficient and reliable

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supply and usage of petroleum as an energy resource; (iv) to explore and develop new and renewable sources of energy for usage in all sectors of the economy.

The department has 40 staff, with 13 in the Commissioner's office, 8 in Energy Efficiency, 9 in the New & Renewable Sources of Energy, and 5 in the Electric Power division. The department has attracted professional staff. However, it is becoming increasingly difficult to retain those who are already in the department because of better opportunities offered by the private sector.

PEPD's mandate is to promote and monitor oil exploration. The expected departmental outputs include:

- Initiate oil exploration and development policies
- Undertake field surveys and use the acquired data to promote the country's petroleum potential.
- Monitor the work undertaken by the licensed oil companies
- Build nation capacity in petroleum exploration and development.

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The Department is headed by the commissioner and it consists of two divisions namely; the Geology division which is responsible for mapping, cartography, petroleum engineering and laboratories; and the Geophysics division which is responsible for gravity and magnetics, seismics and surveying. Each of these divisions is headed by an Assistant Commissioner. PEPD has an approved staff position of 61. The majority of the senior professionals in the department have an academic background in geology or geophysics. Some professional staff also come from the engineering and natural science background. Since inception, the department has found it essential to carry out massive training in order to orient staff to petroleum exploration related subjects. This is a highly specialized training, which can only be done, overseas. There is also need to carry out phased training in line with evolution of petroleum exploration programme. Previously, the focus was on oil exploration. With the development of the sector, there is now greater need for skills required during the development phase including drilling and acquisition of more sophisticated laboratory techniques.

The human resource recruited locally lack knowledge in petroleum and exploration production. This has necessitated fairly in-depth internal induction courses for the newly recruited staff in order to provide them with the required knowledge to tackle their tasks. There are no specialised institutions in Uganda for such training. The Government undertakes training abroad for both formal and industrial training at a very high cost.

The *Finance and Administration Department's* functions are to implement Financial Regulations and Accounting instructions, as given by the Ministry of Finance Planning and Economic Development (MFPED); to maintain good, efficient and effective financial management system; to control expenditure of the Ministry; to follow up day-to-day administrative matters; to answer audit queries raised by the auditor General, Public Accounts Committee and Inspector General of Government; and to manage the provision of offices, equipment, transport, stationery and security. The department is headed by an Under Secretary, and is composed of three sections namely: Administration headed by Principal Assistant Secretary, Personnel headed by Principal Personnel Officer, and Accounts headed by a Senior Accountant. The department has 70 approved posts and it is charged with the responsibility of providing support services to the Ministry and for promotion, and regulation of the sector.

The *Sector Planning / Policy Analysis Unit (SPU)* offers support services to the Ministry in planning and policy matters. The Unit is headed by Principal Economist (Planning) and has five technical staff and three support staff. The head of the SPU has requested the Ministry to upgrade the Unit as an urgent priority given the Unit's role in the following key result areas:

- Consolidation and production of the sector Budget Framework Papers (BFPs)
- Coordination and consolidation of the Ministry's Output-Based Budget Estimates
- Preparation of the Ministry's Background to the Budget Chapter
- Consolidation and production of the Ministerial Policy Statement (MPS)
- Updating profiles for all Government projects / programs in the Public Investment Plan (PIP) under the Ministry

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- Monitoring and evaluation of all Government projects / programs under the Ministry
- Coordination of the Ministry's part in implementation of H.E. the President's 2001 Election Manifesto
- Consolidation and regular update of the Poverty Eradication Action Plan (PEAP).

Major problems encountered while working under the above-given structure are: non-provision for policy analysis function; inadequate provision for sector planning function; and inappropriate hierarchical placement of the functions of policy analysis and sector planning.

2.1.2 Manpower Development

Performance reviews of staff are done in a sequenced manner – in dialogue between employee and head. Each department has a training item in its budget. The Planning Unit in consultation with the Department Directors has prepared a Training Policy and Plan, finalized in April 2005. The plan defines training needs in relation to the goals of each department. But, normally, the training plan receives from the state budget only 10% of the planned money, which why funding is ad hoc, and critically reliant on donor-funded projects and programs. Whereas all technical departments have donor supported projects, the Support Department has no kind of donor support projects.

NORAD fielded in the spring of 2005 a consultant team to evaluate and appraise the convenience of NORAD financed capacity building project. The final report, divided into the three sections: "The Energy Sector and MEMD", "The Upstream Petroleum Sub-Sector" and "The Electricity Sub-Sector" will contain a capacity assessment of MEMD and associated institutions.

2.1.3 Agencies and Authorities under the Ministry

The Electricity Act 1999 established the Electricity Regulatory Authority (ERA), and its members were appointed in June 2000. They are responsible for setting up an effective secretariat manned by competent professionals to regulate the industry independently of the Ministry. The Electricity Act 1999 provides ERA with clear statutory authority. Its budget is separate from that of MEMD.

For rural electrification, the new framework is composed of the Rural Electrification Agency (RE Agency), the Rural Electrification Board (RE Board), and the Rural Electrification Master Plan (RE Master Plan). In accordance with the Act, the moneys of the fund shall consist of:

- Appropriations by the Parliament;
- Any surplus made from the operations of the ERA;
- A 5% levy on bulk purchases of electricity; and
- Donations, grants, and loans acceptable to MEMD and MFPED.

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2.1.4 State owned Energy Companies

The Electricity Act of 1999 set the legal basis for the industry's restructuring. In 2001, the Government functionally unbundled UEB into separate generation, transmission and distribution companies. The assets, liabilities and operations of UEB were transferred to the:

- Uganda Electricity Transmission Company (UETCL), which has a key role, (i) as owner, investor and operator of transmission power lines (66 kV lines and above) in the country; (ii) as single buyer for grid connected generation, which is sold on to the distributors; and (iii) as power expansion planner.
- Uganda Electricity Distribution Company (UEDCL), which is owner of the interconnected distribution assets owned by the state, and monitors the concession (asset maintenance) of Umeme. UEDC still operates three small concessions and maintains the rural electrification schemes funded by SIDA and implemented by MEMD. UEDCL has a staff of 9 professionals, and 5 support staff.
- Uganda Electricity Generation Company (UEGCL), which has a staff of 11 of which three are engaged on the dam construction of Kiira. When the construction is complete in July 2005, UEGCL's

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staff will be 8, of which 5 are professional. The main task of UEGCL is to monitor the maintenance of state-owned generation assets that have been leased to Eskom, as well as the construction of Kakiira. But the business plan of UEGCL, which still needs to be approved by the Board and afterwards by MEMD, proposes to rehabilitate small hydropower plants and to construct new small hydropower plants. Funding would come from the financial surplus UEGCL makes on interest rate income for the lease fees it receives before they are passed on to the state budget.¹⁹

The Government opted for long-term concessions for the generation and distribution businesses and decided that, in the interim, responsibility for transmission would remain with UETCL, which would operate as an independent and profit making business unit.

2.1.5 Private Power and Oil Companies

Generation and distribution are in the hands of the private sector on 20 year concessions, with cost-of-service regulation. The costs are based on written-down asset value incremented by additional investment.

The distribution concession was transferred to Umeme in March 2005. The new company, Umeme, is 56% owned by Globaleq, an emerging markets power company and subsidiary of CDC, and 44% by Eskom.

Eskom Uganda (a subsidiary of Eskom Enterprises, the holding company for Eskom's non-South African business interests) won the electricity generation concession in late 2002. Under the 20-year concession, Eskom is responsible for all the power generated at the two dams in Jinja. The company has a staff of 90 of which 12 are engineers, of whom 7-8 are still in training.

The AGRECO company in 2005 won the tender to install, operate and sell energy from a new 50 MW diesel power plant, urgently needed to meet peak power demand. MFPED has to authorize the removal of taxes on fuel and pay the capacity payment.

The Madhvani Group is involved in the Kakira sugar and bagasse cogen scheme.

The Norwegian company SN Power was given a license to construct four small hydropower dams in Western Uganda. The company will spend between US\$50-60 million to produce about 30 MW. Construction is expected to start on at least two sites by the end of 2005, and power generation to begin in 2007.

MEMD has been quite successful in its policy for the liberalization of the downstream petroleum sector; which started in 1994. There are more than 20 licensed oil-marketing companies in Uganda.

2.2 Definition and Implementation of Energy Policy

2.2.1 Key Policy Issues and Energy Programs

Fuelwood constitutes the largest source of energy for the majority of Uganda's population, accounting for about 93 percent of the country's primary energy consumption. Most of it is for household use, where fuelwood and charcoal are the almost exclusive cooking fuels. Policy interventions in woodfuels are justified with reference to environmental reasons – potential risks of deforestation on the supply side and health effects from in-door pollution caused by using woodfuels in inefficient appliances. The supply issue is addressed by the forestry service under the Ministry of Water, Lands and Environment (MWLE), the demand side issue by improved stove programmes carried out by MEMD. Yet overall, the household woodfuel sector is an energy-economic activity that can thrive without Government intervention: barriers

¹⁹ Eskom pays every month; UGCL pays June and December.

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to entry are low, in particular in the countryside, where woodfuel consumption is almost totally non-commercial, being taken care of by self-collection. Government interventions in the fuelwood sector have, for this reasons, limited macro-economic impact.

The commercial fuel (power and petroleum products) share of primary – and final – energy supply is only a small fraction of that of fuelwood (7 percent), yet has huge macro-economic implications, which is why Government policy – with regard to pricing, sector finance and sector regulation – has crucial economic importance:

- Less than 6 % of the total population and 3% of the rural population have access to electricity; Uganda is the least electrified country of East Africa. The continued lack of widely available and reliable electricity services weakens the country's economic growth, international competitiveness and investment climate. Energy is consistently among the top five constraints in surveys about enabling environment for private investment.
- In 1999 the subsidies in the power sector equalled 6% of GDP and 23% of the public sector deficit; whereas the budget for MEMD amounts to only 2.4% of 2005-07 MTEF expenditure.
- In 2004, the import bill for hydrocarbons amounted to more than 10% of total imports and to more than a quarter of total export earnings, while taxes on petroleum products provided 23% of Government revenue. Yet, oil consumption per capita of 19 kilos is one of the lowest in Africa.

Uganda is, however, rich in energy resources. The country has abundant hydropower resources, which can be developed cost-competitively for national and regional power generation; the use of waste-biomass for energy production, including power generation, can be increased; and there is a high probability that commercially exploitable hydrocarbon resources will be found. These investments are very capital intensive and require, in view of the weak national investor base, the participation of foreign private investors.

2.2.2 Energy Plans

With some degree of simplification and exaggeration one can claim that energy policy in Uganda prior to 1999 was equal to electrification policy, whose implementation was driven by the state owned monopoly enterprise UEB. Since then MEMD has expanded the scope of energy policy to cover demand side initiatives in addition to supply side policies and activities in the traditional fuel as well as in the modern fuel sector.²⁰ The power sector has been privatised and liberalized. The regulatory framework for the downstream petroleum sector (liberalized in 1994) was refined further with the adoption of a modern petroleum supply law in 2003.²¹ In the upstream petroleum sector the Government managed to implement a modern concession policy, which succeeded in attracting private investors to the exploration of hydrocarbons. Along the way, MEMD became increasingly sophisticated in developing and implementing public-private-partnership (PPP) concepts for carrying out energy policies. Donors have actively assisted MEMD in all these areas; and both development parties have reasons for justified pride about the considerable achievements. Due to the initial status of the reform process, however, there are still important policy voids to cover, see section 2.5. Donors as well as MFPED complain that MEMD presents requests for project finance ad-hoc, with no clear indication of how priorities are arrived at – although the Energy Policy 2002 document referred to in Annex II lists the 1-10 year priorities with budget estimates.²²

The impressive scope of MEMD's work is illustrated by the following list of key energy policy documents: Power Sector Reform Strategic Plan (1999), Rural Electrification Strategy and Plan 2001 – 2010 (from 2001), Biomass Energy Strategy and Plan 2002 – 2010 (from 2001), Energy Efficiency

²⁰ Some observers complain, however, that this broad emphasis has not yet sunk into the mindset of MFPED, which continues to equate energy with electricity.

²¹ Up to 1994, there were only 4 players in the industry, and the Government had shares in some of them. MEMD fixed the prices of petroleum products and allocated foreign exchange to oil imports. Since then, smaller players were encouraged to come into the sector. In 2000 Shell had a 43% market share, in 2004 only 27%.

²² MFPED contrasts this with the situation in the road sector, where the ten-year development plan serves it well.

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Strategy and Plan (2002 – 2010), Energy Policy (2002). These plans did not suffer the fate of “for-the-shelf-documents”; their recommendations on the institutional and regulatory side have been implemented. The Energy Policy document represents a valiant effort; yet it is short on quantitative data, has little analysis on the macro-economic and development importance of energy²³, has some idiosyncracies²⁴, no analysis of policy trade-offs/policy alternatives and no identification of what the real most important priorities are for the Government in the energy sector.

In the medium term (2005/06 – 2007/08), the main policy priorities stated in the BFP input are to:

- Put in place policies and laws, which will enable private investment and capital inflow into the energy and mineral sectors
- Increase electricity generation and rural electrification
- Stabilise the prices of petroleum products and achieve security of supply
- Conduct petroleum exploration and development in order to achieve local production.

2.2.3 Privatisation and Liberalisation

The privatisation and liberalization of the power sector represents a major shift in Uganda’s energy policy. But, the implementation of this paradigm shift has proven to be problematic, calling for compromises that partly go against the original hopes of genuine private sector led development.

The Government already in 1994 began discussions with private sector about a potential IPP for the 250 MW Bujagali hydropower project. The lack of credit-worthiness of UEB to pay for a PPA undermined progress in the discussions. Later, AES Nile Power Ltd, the potential builder of Bujagali, argued that a management contract would by itself be insufficient to remedy UEB’s deep-seated problems and that privatisation was essential. An Implementation Agreement and Power Purchasing Agreement for the Bujagali Falls site were initialled in December 1998 by the GoU, the UEB and AES Nile Power Ltd, and in December 2001 the World Bank Group agreed to support the Bujagali Hydropower Project. AES Nile Power received final approval to begin construction of the US\$580 million project and to sell electricity to UETCL under a 30-year PPA. The construction of the dam was scheduled for completion in 2005. AES, however, pulled out of the project in August 2003; forcing the Government to look for emergency capacity in the short term to reduce an ever increasing power demand-supply gap²⁵, and to engage more directly in the financing of the dam to reduce risks for investors and secure financial closure.

The current plan is for a 200 MW dam (due to the hydrological risk) to be completed in 2010 with the last unit to be commissioned by 2009. The construction of the 200 MW Karuma power station (also on the Nile) would commence after Bujagali is completed.

For short term capacity, the decision was taken to procure 50 MW of IPP thermal peaking generation for installation in 2005 under a one-year PPA; four international firms pre-qualified in October 2004; the selection was finalised in March/April 2005, with construction expected to begin in mid 2005.

The negotiations for Bujagali and the transition problems of sector restructuring and privatisation had blocked for new, and smaller biomass-fueled capacity additions to be built. First UEB withheld its approval of a longer-term PPA with the Kijagali bagasse power plant project – in expectation of an imminent power and energy surplus once Bujagali came into operation – then, given the delays in the transfer of assets and operations to Umeme, UEDCL was unwilling to sign an agreement for power connection so contracting had to be mediated through UETCL.

²³ The exception is in woodfuels, where the document states: “It saves foreign exchange, employs 20,000 people and generates US\$ 36 billion (US\$ 20m) per year in rural incomes”.

²⁴ The plan states that “the energy sector in Uganda comprises the following sub-sectors: Power; Petroleum; New and Renewable Sources of Energy; and Atomic Energy”! The overall stated objective for the energy sector – “to meet the energy needs of the Ugandan population for social and economic development in an environmentally sustainable manner” – is a bit wishy-washy.

²⁵ Power demand in year 2004/05 is 330 MW, supply only 220 MW, demand increases 6-8% per year.

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The cost to the Ugandan economy of the delays in the Bujagali project are substantial.²⁶ Partly, the experience was an issue of bad luck: the timing was unfortunate (“Enron-effect”) and AES’s financial problems came unexpected. But partly the proceedings also show a lack of planning capacity at MEMD. Looking with the benefit of hindsight, one can conclude that the risk analysis of the project and of the pros and cons of intermediate alternatives had been too weak. The World Bank failed to provide a holistic view, focusing too long narrowly on Bujagali, and MEMD did not put its foot down against foot dragging by UEB/UEDCL/UETCL in the Kijagali case.

2.3 Collaboration with Development Partners

2.3.1 Overview of Collaboration Projects

The distribution of donor assistance to the energy sector has not been driven by an overall strategy on the part of MEMD or the donor community. Yet, one can note from Table 2, which provides a quick survey of donor assistance, that donors have managed to find a sensible distribution of labour between them.

Overall, the niches identified by donors reflect their comparative advantage in TA and finance. Iceland, known for its know-how in geothermal energy, provides a financially small, but qualitatively valuable TA in geothermal exploration, data collection and interpretation. The World Bank demonstrates its financial muscle, providing the bulk of investment finance; but has also used its comparative advantage in advising on macro-economic adjustment and restructuring by providing TA for key strategy studies in power sector reform, including new institutions for rural electrification. Norway, known for its skills in getting maximum national benefits out of its hydrocarbon resources and its innovative power sector reform (being the chief designer of the Nordic power pool, second to none in terms of market and regulatory efficiency), has provided valuable TA to MEMD in hydrocarbon concession policies, the 1999 electricity law, and to ERA in regulation. GTZ, which has worldwide experience in promoting holistic approaches to energy planning and rational use of energy, has focused on that area in MEMD. SIDA and Japan have financed power transmission investments.

In the 2005/08 BFP, the principal donor projects based in MEMD include the Energy for Rural Transformation (ERT) project (Ush 28 billion in 2005/06 and 2006/07 combined), the Rural Electrification project (Ush14 billion in 2005/06 and 2006/07 combined) and the Sustainable Management of Mineral Resources (SMMR) project (approximately Ush 54 billion from 2005/06 to 2007/08).

2.3.2 Identification of Collaboration Projects

MEMD has no formal structure for aid coordination. Aid identification is not undertaken as part of the general resource allocation process in the Ministry. When donors discuss aid projects with MEMD, the Permanent Secretary is always involved and directly contacted by visiting donor missions. But otherwise, collaboration projects are identified ad-hoc with donor missions discussing options directly with department directors or the heads of REA, ERA, etc. The Planning Unit, in principle, is responsible for donor coordination within MEMD, but in practice donors take contact directly with the Department Directors. The Unit just receives copy of the project report afterwards.

²⁶ The major costs come from unserved energy. In addition, whereas the average cost of grid electricity was 6.7 US cents per KWh in 2004/05 (~equal to Bujagali) electricity from the back-up generators cost on average 24 US cents per KWh.

Table 2: Energy Sector Donor-Activity Matrix

DONORS	ACTIVITY				
	Electricity Generation, Transmission, Distribution,	Rural Electrification/ Rural Energy	New & Renewable Energy	Petroleum Exploration	Energy Conservation, incl. Biomass
WB/GEF	Power III and IV, Bujagali, Sector Restruct. & Privatisation, Capacity Building	Rural Energy (ERT), Mini hydro	Geothermal Energy Development, Cogeneration, PV-systems	Regulatory & Monitoring Framework for Downstream Petroleum Sector	Biomass Power Plants
AfDB	Urban Power Rehabilitation		Alternative Energy Resource Assessment & Utilisation, Capacity Building		
NDF	Power IV, SCADA				
UNDP			Photo-voltaics		Fuel Efficient Stoves
UNIDO					Uganda Cleaner Production Centre (Demand Mgt.)
EU		Rural Electrification (possibly from 2006))			
Germany	Energy Policy		New & Renewables, Capacity Building, Geothermal Development		Energy Conservation
Iceland			Geothermal Energy Development		
Sweden	Power III, Transmission Lines, Grid Extension	Capacity Building (REA)	Small Hydropower Site Evaluation, Capacity Building		
Netherlands			New & Renewables, Capacity Building		Energy Conservation
Norway	Power III and IV, Rural Transmission Lines, SCADA, Capacity Building, Capacity Building ERA			Hydrocarbon concession policies	
China			Biogas		
USAID					Fuel Efficient Stoves, Biogas Technologies
Austria			Solar Energy (Water Pumping and Health Centres		

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2.3.3 Energy Donor Working Group

As mentioned in section 1.2.3, there is an informal Energy Donor Working Group for energy, created by donor initiative as a forum for mutual exchange of information in 2004. Its membership is composed of representatives from donors that are active in energy, NGOs, other stakeholders, and – in the absence of a formal Sector Working Group – of representatives from various government institutions.

2.3.4 Evaluation of Effectiveness of Present Framework for Collaboration

Despite the absence of a holistic framework for donor-MEMD collaboration – which results from a SWAp approach – the development projects as such, which have been implemented since 1999 make good sense. Moreover, as seen from the above survey table, there is quite a good balance in terms of the mix of assistance, which is being offered.

Yet, there is scope for improvement as indicated in the quick discussion below, which looks at the collaboration record from the three angles of alignment²⁷, coordination²⁸ and harmonisation²⁹.

In terms of *alignment*, the record is mixed. The under-developed – but improving - planning capacity of MEMD is one causal factor for insufficient alignment. In the absence of a strong PEAP-oriented planning regime in MEMD it is difficult for donors to state with certainty that their activities represent highest priorities of the Government. REA was created, pushed by donors as a means to improve the transparency of resource allocation in rural electrification (reducing the risk of an overly politicised process). But it poses a problem for Government policy on reducing the “large number of commissions and agencies, the use of revenues raised by the agencies, and the remuneration paid in them” (PEAP). JICA, in principle, will not finance rural electrification where the private sector is involved. This has complicated discussion with MEMD and REA on providing funding to rural electrification. The problem posed by JICA’s attitude is not insurmountable; in part it is caused by poor communication, a fact which reinforces the case for the SWAp.

Despite the good overall balance in donor assistance, good “niche coverage”, and strong cooperation spirit as illustrated by the creation of the Energy Donor Working Group, donor *coordination* can be improved. Examples of insufficient coordination can be found:

- Within the World Bank itself, the Kijagali project (supported by the ERT-team) seems to have received little active support vis-à-vis UEB/UETC by the World Bank’s Bujagali team.
- SIDA, encouraged by the World Bank, began in 2002 to look at the possibilities to give TA to REA during the first years of its operation – that in itself is very positive - but it was not until April 2005 that a contracted consultant team started its TA-work; in the meantime REA was handicapped.
- The World Bank’s/MEMD/MFPED’s ERT-project financed a consultant to look at ways to set up guarantee instruments to attract co-financing of rural electrification projects by local banks. The consultant, who prepared an excellent proposal for a Credit Support Facility did not meet with staff from the donor-supported *Financial System Development Programme* and his report was in April 2005 unknown to the Programme Director of the Programme.
- A mission, financed by the World Bank’s ERT-team project, to review REA in October 2004 recommended to REA/World Bank to field a short-term consultant to assist REA in defining priorities for project identification and principles for subsidy policy, although (a) an ongoing SIDA-financed consultant team for about a year had been working on the Indicative Rural Electrification Plan (having project prioritization as a key activity), and (b) the other referred-to SIDA-financed

²⁷ Definition of *alignment*: the extent to which donor policies and programs are in line with the Government’s policies and priorities (program effectiveness).

²⁸ Definition of *coordination*: the extent to which donors plan activities take into account each other’s operations and plans to avoid duplication and overlap, and ensure that resources are allocated to what is jointly considered to be the most important activities (effectiveness and efficiency).

²⁹ Definition of *harmonisation*: the degree to which donor practices when implementing activities use the same instruments and follow the same routines and procedures (efficiency of implementation).

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consultant team started its TA to REA on, inter alia, subsidy policy in April 2005. What added value the consultant – due to arrive in May 2005 on a three weeks mission – can contribute is uncertain.

Due to the individualized identification and implementation of donor assistance projects, the *harmonisation* of implementing and reporting procedures – with the exception of emerging multi-donor assistance to REA – is basically absent.

2.4 Sector Finance

Sector finance refers, above all, to the funding of investments in the power sector, which account for the lion share of national energy investments, at least until the day that large-scale hydrocarbon deposits are found. The investments are funded by a combination of funds from the Government's consolidated budget, donor grants and soft loans, national commercial bank loans, foreign commercial loans, and private equity, mainly of foreign origin.

The Energy Policy 2002 document estimated that 68% of the required financial resources for the energy sector would come from direct private investment, while 32% would have to be obtained from the public sector, either through Government resources or from development partners.

Table 3: Sector Investments 2000-2010

REQUIRED SECTOR INVESTMENTS (2000 – 2012)			
TOTAL INVESTMENT FUNDS IN THE SHORT TO MEDIUM TERM:	US\$	1,844,900,000	
PRIVATE SECTOR INVESTMENT	: US\$	1,259,000,000 (68 %)	
PUBLIC SECTOR INVESTMENT	: US\$	585,900,000 (32 %)	
TOTAL FUNDS ALREADY COMMITTED	: US\$	532,600,000	
PRIVATE SECTOR CONTRIBUTION	: US\$	363,000,000 (68 %)	
PUBLIC SECTOR CONTRIBUTION	: US\$	169,600,000 (32 %)	
TOTAL FUNDS REQUIRED	: US\$	1,312,300,000	
PRIVATE SECTOR REQUIREMENT	: US\$	896,000,000 (68 %)	
PUBLIC SECTOR REQUIREMENT	: US\$	416,300,000 (32 %)	

Source: Energy Policy 2002

The Government has been quite experimental in its approaches to finance investments in the energy sector. One reason for the Government's willingness to innovate is the low national savings rate, which is one of the lowest in the world: domestic savings in percent of GDP were 6.6% in 2002/03.³⁰ The share of public revenue in GDP is relatively low: 12.1% in 2002/03. The public sector deficit rose from 6% in 1997/98 to over 12% in 2001/02, appreciating the exchange rate and increasing the cost of private sector borrowing, which peaked at 34% in 2001!

The Government, therefore, is determined to replace public funding by private funding wherever possible and has been successful in stimulating private investment. As a percentage of GDP, private investment rose from 9.1% in 1990/91 to 15.6% of GDP in 2002/03.

In the power sector, however, the expectations concerning the interest of the private sector to finance power sector investments remain partly unfulfilled. Due to regulatory and planning failures, private power projects in several countries turned into commercial failures. The interest of foreign power companies to invest in power projects in the developing world has declined, while risk premiums have gone up, cancelling out the price reducing impacts of superior investment and operational efficiencies of private power companies.

The Government, as well as co-financing donors such as the World Bank, therefore, was forced to rethink the packaging of project finance in the power sector. The original intention was that private investors

³⁰ Source: PEAP III, table 3.1

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assisted by IFC, with commercial bank loans and MIGA guarantees, would project-finance investments in IPP-projects and in the interconnected distribution system. The Government would use grants and soft loans from development banks and donors to finance transmission projects by the state owned UETCL³¹. In addition, the Government would provide subsidies to rural electrification, with the balance of funding coming from private equity investors and commercial banks.

The low willingness of private foreign investors to risk equity and balance-sheet finance for investments in “commercial electrification”, combined with the slow response of private entrepreneurs to engage in “rural electrification” and of commercial banks to provide rest-finance for rural electrification forced the Government to engage more actively in the financing of all these projects than originally foreseen. Hence the idea of splitting the finance for Bujagali into a generation part (financed by private owner-investor with potential co-equity by Government) and a transmission line component, which is constructed by the generator but financed by the Government with donor/development bank loans.³² The assets in the interconnected distribution system taken over by of Umeme rest with UEDCL.; Umeme’s investment commitment comprises a minimum of US\$65m In the network within five years, plus US\$40 million to connect 60,000 customers.

MFPED has imposed an *annual loan limit of US\$200 million per year* on the public sector. Within this limit, MFPED prioritizes the needs of the energy sector. MFPED has, furthermore, in the National BFP for FY 2005/06 – 2007/08 proposed setting up an *Energy Equity Fund* to accumulate funds for the state’s envisaged co-funding of investments in Bujagali. The total targeted size of the fund is unknown, and it remains unclear how the fund is to be financed (probably through external borrowing in the absence of national capital options; the issue of an Energy Bond and involvement of the National Pension Fund have been considered and rejected earlier). It remains unclear how Government equity will be translated into electricity prices.

The difficulties in securing co-funding participation by commercial banks in rural electrification led to the concept of developing a *Credit Support Facility*, which is now in the process of being set up to provide long term debt (15 years) to energy infrastructure investments. It will be organised as a lean structure company with a Board and a Trust with the legal mandate to secure lending from commercial banks. A trust account will be provided for the individual project with funds accruing interest to back the lending from the first tier bank. After 7 years with accrued interest the funds in the trust account will be sufficient to match the serviced debt from the first tier bank. The Credit Support Facility provides a “put option” where the first tier bank after 7 years can decide to continue with the loan, or transfer it to the Facility.

The description above shows the required high level of financial and deal-making sophistication, the fluid nature of the PPPs and the need for harmonization, coordination and alignment between a large number of donors. This reinforces the case for a SWAp.

2.5 Major Voids in Energy Policy and Strategy

Due to the scale and the capital intensity of the investments, the power sub-sector and, potentially, the hydrocarbon sub-sector have major implications for the national savings rate, the development of the

³¹ The five-year investment programme by UETCL comprises US\$100-150 million. Grid reinforcement of the 260 km Northern Line build in the 1970s (replacement by steel towers) requires an investment of US\$23 million, to be financed by World Bank. Off-take is only 6 MW, but one third of the national population lives in the area. SIDA has agreed to finance US\$20-21 million to the Western 130 kV line of 220 km. A NORAD funded study investigated the 220 kV-line from Kampala to Masaka, possibly with implementation to be funded by AfDB.

³² Borrowing is from IDA or EIB, the Bujagali generator is paid after construction. GoU is exploring different funding possibilities with respect to the Bujagali and Karuma dams. One option is for GoU to develop one of the sites with debt financing and private sector management. Another is to leverage investment from the private sector, by providing a share of the equity. How this will be financed, the total amount necessary, how the equity stake on completion of the dam will be valued and translated into reduced electricity tariffs- are all important unanswered questions.

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incipient national capital market and for the generation of foreign exchange. This calls for the application of a holistic approach, which take into account the complex interaction of complementary factors. In the absence of a SWAp to policy planning, which would have promoted the required cross-cutting point of view, the Energy Policy Document for Uganda from 2002 is, however, silent on the issues listed below.

2.5.1 Strategy for Maximising Foreign Exchange Earnings from Energy

Due to cost-competitive hydropower sites, Uganda has a comparative advantage in the production of electricity compared to Kenya, Rwanda and possibly also Tanzania. Uganda develops its hydropower generation capacity in a step-wise manner, putting new plants on stream when new capacity is needed in order to cover the growing national demand for peak capacity. The use of hydropower to satisfy the growing domestic demand for capacity results in a surplus of energy generating capability for two reasons:

- One reason is the lumpiness of new generation investments – the new plants add 200-250 MW at a time, whereas demand grows at 20-30 MW per year. During the early years of operation, this results in both surplus capacity and surplus energy.
- The other reason is the daily (and annual) load factor (average MW/MW peak). Hydropower in Uganda is run-of- river with limited, 4-5 hours, storage capacity. Because of limited storage capacity it is inevitable that Uganda has surplus energy during off-peak periods in normal rainfall years, which can be exported.

So far, capacity expansion planning is done with reference to national capacity needs; the possibility of exports tends to be included as a “there are some possibilities for exports”- type of exercise. Unless the daily load curves change substantially over the next years, the surplus energy, which can be exported during off-peak period is bound to increase. Apart from the need for exploiting the possibilities to change the peak through demand management policies, it is imperative that Uganda develops a coherent strategy for the development of its power generating potential, which includes supply contracts with neighbouring countries as part of the deal with the project developer.³³ The least-cost analysis of options for capacity additions would be undertaken within a framework that combines the satisfaction of domestic demand with negotiated export deals and associated investments in regional transmission grids. This serves the dual purpose of “minimizing the domestic cost of supply per kWh” (which helps achieving the national objective of productivity enhancement) and of “maximizing the foreign exchange earnings from the power sector”.

Oil and gas is another area of potential foreign exchange savings or earnings. Foreign oil companies have started to take up the five hydrocarbon concessions that are being offered. This makes it reasonable to expect that commercially viable oil and gas deposits are found within a few years; always with the risk that no commercially viable deposits will be found. The exploitation of oil fields that may be discovered does not require a major planning effort by the Government, the exploitation of gas resources that may be discovered is totally dependent on it. MEMD is therefore, discussing with its Norwegian development partner to start the training of staff in the analysis of gas demand and infrastructure issues. This activity, seen from a national development point of view is a top priority for MEMD and for MFPED.

2.5.2 Strategy for Maximising National Capital Accumulation and Public Revenues

Because Uganda has one of the lowest national saving rates in the world, finding ways to increase the national savings rate is essential for the long-term growth of the economy. One way to raise the national savings rate is to raise the *level of public savings* by increasing the national taxation rate (public revenue as a percentage of GDP) or by reducing public expenditures. Another option is to *increase the private savings* rate by enabling private national finance to access profitable capital-intensive investment projects.

³³ If Uganda postpones its negotiations with neighbouring countries for the sale of surplus power until it has signed a take-or-pay deal with a foreign investor for the construction of a new hydropower plant, it will be in a weaker negotiating position than if export contracts are concluded up-front as part of a total project deal.

Due to their high *capital intensiveness*, *investments in hydropower* are, in principle, an important source for *national capital accumulation*: they provide a relatively safe and profitable investment opportunity for private national capital and can, potentially, be an important source of public revenue.

The “*pull effect*” of offering national savings a safe and profitable investment option raises the national savings rate because it increases the risk-adjusted return on savings compared to the alternative of increased consumer spending. Providing private national capital with a “safe” long-term investment opportunity, can, furthermore, lead to *national savings being placed in national investment projects rather than in foreign bank accounts*, a factor, which also raises the rate of domestic capital accumulation.

Hydropower projects in Uganda are sound investment objects, otherwise they would not be able to attract private foreign investors. But the high capital requirements (equity +debt) for hydropower investments and the weak national capital market prevent domestic investors from investing in this business area. Unless Uganda develops a policy, an associated strategy, and instruments for facilitating the market entry of domestic bond and equity investors, hydropower investments will be financed by private foreign equity and debt capital (including loans from development banks). During operation the majority of the capital surplus from hydropower generation projects will be transferred abroad. The national economy benefits from the supply of power; while national capital accumulation is limited to public revenue raised by the company tax on the hydropower company and by water concession fees.

Under the traditional state-led approach to power sector investments in Uganda, UEB invested in hydropower, making use of low-interest loans from development banks to finance the investments. That approach fell in discredit for two reasons. The first was a chronic problem of inefficiency and corruption in UEB. The second was the argument promoted world-wide by the World Bank that letting infrastructure investments be financed by private capital allows the state to increase its funding to other high-value sectors such as education and health.

The quality of the second argument as a contribution to development economics is dubious if one looks at the consequences for national capital accumulation and the foreign exchange situation in cases where foreign rather than national capital finance the investments:

- The cost of capital of private finance is higher than the cost of loans from development banks. It is unlikely that the higher investment and operating efficiency of the private foreign investor compared to the national power company can off-set totally the higher cost of private capital. The amortization outflow during operation will, therefore, be higher. Overall this results in a net outflow of foreign exchange.
- Using soft loans to finance improved public services (education and health) instead of revenue generating investments (power tariffs to service debt) is likely to reduce national capital accumulation compared with the alternative. In theory, the redirection could improve the productivity of the national economy so much that higher activity and wealth is created, which leads to increased tax revenues.³⁴ The latter enable the Government to repay the loan. In practice one may fear that the access to foreign loans for basic Government spending enable Governments to postpone urgent reforms to raise more public revenue. If that happens, the virtuous development circle implied by the argument breaks down: over time, there is no net transfer of funds to the education and health sectors.

To conclude: if national private capital replaces public funding of power sector investment, the national investment and saving rates will increase; if instead, foreign investors crowd out national investors, the net development impact of private investment in power generation is doubtful.³⁵

³⁴ There is no doubt that improved health and education raises the growth prospects of an economy. This, however, is an argument for raising the national taxation rate to provide the means for financing increased public investment in high value generating activities.

³⁵ Foreign investment in hydropower, unlike foreign investment in labour intensive production activities outsourced by a firm from a “developed country”, does not *expand the national production frontier* – the investment would take place in any case - and very little know-how is transferred as a result of foreign participation in investment and in management. For development impact the issue is not to attract any foreign investment but to attract quality foreign investment.

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It is highly recommend to MFPED and MEMD to *prepare an in-depth strategic study of how project finance for larger projects can be put together in a way that allows national private capital to co-finance investments in new generation capacity*. If hydropower investments are totally foreign equity- and debt-financed, a window of opportunity for developing domestic long-term finance is closed.

Yet, even if investment in new hydropower capacity were to be fully foreign financed, the national savings rate can still be lifted via the *generation of revenue for the state budget from taxes and royalties*. The size of the revenue being raised for the state depends on the perceived country risk (by investors) and on the intelligence of taxation and water royalty policy. The higher the perceived country/project risk, the higher is the risk premium demanded by investors and the lower is the taxation rate that can be imposed. As a means to reduce risk for investors, it is normal for high-risk countries/projects to shorten the pay-back period for investors by offering IPPs tax holidays and other benefits during the first 7-10 years. The IPPs³⁶, furthermore, ask the off-taker of power, in Uganda the single buyer UETCL, to take over the full market risk: they ask for a 15-30 years “take-or-pay” PPA for the output from the plant.

A sound public revenue maximisation requires the Government and the IPP to sign off on a deal package, where risk reducing “higher than normal cash-flows” during early years are off-set by “lower than normal benefits” after the initial 10-15 years. Private investors in infrastructure projects look for higher project rates of return than public investors. A *private investor’s project discount rate equals his cost of capital*³⁷ for financing the project. The cost of capital for a power project in a developing country is higher than for a project in the foreign investor’s home country because both the debt finance and the equity finance include a risk premium. Project developers seek to obtain a 20%-25% after tax rate of return on invested equity, which drives up the private project rate of return beyond the discount rate used by public planners in project appraisals. Due to the higher private than public discount rates, a private investor values later payments less than public investors. An optimal risk-reduction policy exploits the difference between the discount rates of private and public investors by offering the private investor a higher cash flow initially in exchange for a lower cash-flow in later years. Since the power generator after the expiration of the tax holiday³⁸ pays no more than the general company tax rate on his profits, a way has to be found to eliminate his “surplus profits”.

The Government has three options for this:

- The PPA can have a phased two-step tariff: a high inflation-adjusted tariff during the initial ten years and a lower inflation-adjusted tariff during the remaining years of the PPA period.
- The concession document can have a low or zero water concession fee during the initial ten years, after which a water royalty kicks in which generates revenue for the state on top of the revenue from the company tax.
- The IPP can have a fixed PPA-tariff and a zero or low water royalty throughout the period in return for giving the state as owner of the project site and the water resources a share of the company’s equity capital. The share, given free of charge, would be in the form of subordinated equity, meaning that it will not receive dividends during the initial years.

It is strongly recommended that MFPED and MEMD analyze the risk-sharing issue and come up with a modality-package that maximizes Uganda’s national benefits, while still attracting foreign private investors to Uganda. The way the package is constructed affects also the internal, national distribution of benefits. The *stepwise tariff* (minimizing the NPV of the average tariff) eliminates excess profit taking by reducing the power tariffs charged to power consumers in later years; the *water royalty* (maximizing the NPV of water royalties and company tax revenue) increases the state revenue, and thus, the national savings rate.

³⁶ See AES in the Bujagali hydropower project

³⁷ The *cost of capital* in project finance is the weighted average of the price of project debt (= loans) and of equity. If project finance is composed 70% of a loan at 13% rate of interest and 30% of equity with a 20% after-tax-rate-of-return on equity expectation, the investor’s cost of capital is 15.1% (a slight simplification).

³⁸ By then he will have recuperated most or all of his investment.

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2.5.3 Tariff Policy for Urban and Rural Electrification

The PEAP states: “The viability of a private-sector led strategy will depend on the charging of commercially viable tariffs. Given the existing pattern of electricity use in Uganda, providing a subsidy to domestic consumers is unjustifiably inequitable.”

The correctness of the PEAP statement is illustrated in the table below, which shows the situation in 1999, before ERA started to implement a series of tariff adjustments. The basic equity issue in the power sector in Uganda is not how to distribute income between consumers connected to the grid through the structure of the electricity tariff, but to design a tariff structure, which increase access to electricity in the country. In 1999, less than 6% of households in Uganda had access to UEB-provided electricity; these households were more or less identical to the 6% richest households in the country.³⁹ Yet, due to declining electricity tariffs in real terms from 1993 to 2001, these consumers in 1999 received a subsidy equivalent to 6% of GDP and to 23% of the state budget.⁴⁰ UEB was unable to generate an adequate cash flow with the retails tariffs during that period; as a result, service quality declined and UEB was unable to push rural electrification.

Table 4: Power Tariffs and Subsidies, 1999

Subsidy Type	Subsidy in % of GDP	Subsidy in % of National Budget Deficit
Connection Subsidy	0.3%	1.2%
Lifeline Tariff	0.9%	3.3%
Average Tariff below LRMC	4.9%	18.2%
Total Subsidy	6.0%	22.7%

The upward adjustment of the power tariff in real prices shown in Figure 2 represents the greatest poverty-reduction measure provided by the energy sector during the last decade. In 2000, ERA authorized a 70% increase in the average level of tariffs, effective June 2001, from about 5.6 US¢/kWh to 9.5 US¢/kWh. The average tariff for domestic customers was increased by 90% while the lifeline tariffs tripled from just over 1 US¢/kWh to slightly over 3 US¢/kWh.⁴¹

³⁹ Poor households comprised only 19% of all households that received electricity from UEB in 1999 and accounted for less than 10% of the electricity consumption. Source: Kessidis & Newberry: “Uganda ESI Restructuring”, pages 48-52

⁴⁰ Figure 2 and the quoted figures on tariffs are from Kessidis & Newberry: “Uganda ESI Restructuring”, pages 48-52

⁴¹ The latest tariff increases, April 2005, brings the domestic tariff to the equivalent of 12 US¢/kWh, which is the highest among the different consumer categories and about three times the average price paid by large industry.

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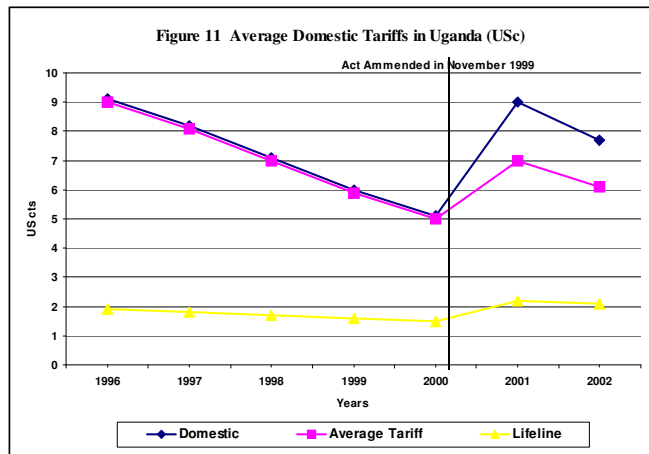


Figure 2 Domestic Tariffs

Despite the valuable adjustments in the tariffs charged to consumers in Umeme’s concession for the interconnected distribution grid, it is for policy making reasons still justified to make an in-depths analysis of its tariff policy in the power sector, looking at the implications of Umeme’s tariff policies for rural electrification. Distribution concessions outside the existing distribution concession of Umeme – charge cost-based tariffs to their consumers. Investment subsidies from REA reduce the cost-based tariffs in rural concessions. But the after-subsidy cost of supply in rural grid extension projects will still be three times as high as the average tariff in Umeme’s concession. This political problem is accentuated by the application of the lifeline policy in Umeme’s concession area, which further deepens the difference in tariffs paid by rural and comparable urban households. Households in rural areas generally have an income of less than US\$2 per person per day; of these, the majority has less than US\$1 per person per day. For reasons of affordability, only a minority of relatively rich rural households will be connected to the grid in rural electrification concession areas.⁴² Even for these households the typical monthly consumption of a rural household in new concessions will be less than 20 kWh per month. Whereas the consumption of such consumers in Umeme’s concession amounts to a modest percentage of total kWh-consumption (making a lifeline policy affordable for non-lifeline consumers), the consumption of these household consumers makes up the bulk of total consumption in rural concessions. It is, therefore, impossible to apply a lifeline policy in rural concessions outside Umeme’s concession area. The lifeline tariff may be a simple and effective income redistributing instrument in countries where most or all households have access to electricity. In countries with low electrification rates, the lifeline tariff is a misplaced policy instrument. In order to reduce the political problems arising from “high” rural power tariffs, the Government/ERA ought to abolish the lifeline rates.⁴³

The Government/ERA, furthermore, need to define a tariff policy for Umeme in case the company submits an application for extending its distribution grid into a rural area. In new rural areas, Umeme will face an average cost of supply which is higher than the average cost of supply in its existing distribution

⁴² Uganda’s electricity distribution policy has required households to pay for the cost of connection to the nearest service point. However, throughout the 1990’s UEB provided a close to 80% subsidy on the connection fees of all households, which was maintained by UEDCL. The connection subsidy did not cover the cost of internal house wiring. In 1999, the average upfront cost of a new electricity connection was just over USh 389,000 (US\$260), the cost of connection to domestic customers was USh 80,000. The cost of wiring a two-roomed dwelling was estimated to be approximately USh 140,000 with conventional wiring and USh 85,000 with single-wire earth return (SWER). Thus, even after the substantial connection subsidy provided by UEB, households seeking access to the electricity grid were facing up-front costs in the range of USh 165,000 to 225,000 (US\$110-150) — a substantial amount when compared to the typical monthly income of very poor households of USh 100,000 (\$2/day). Source: Kessidis & Newberry: “Uganda ESI Restructuring”, pages 48-52

⁴³ Since it is often claimed that consumers cannot afford to pay more, the Government should take a look at the experience in Burkina Faso, a comparably poor country. Urban households pay a tariff of about 100 FCFA/kWh (US\$0.17), households in rural electricity cooperatives 250 FCFA/kWh (US\$0.41)

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concession even if Umeme has access to REA subsidies. In order to make rural electrification commercially viable for Umeme, ERA either: (i) has to authorize an increase in the average tariff for Umeme's single concession – meaning that the average consumer within Umeme's concession cross-subsidizes the losses on Umeme's rural electrification projects; or (ii) gives Umeme a separate rural electrification concession for each rural electrification project, and approves a cost-based project specific tariff for each concession; or (iii) asks Umeme to set up a rural electrification subsidiary and gives a single concession covering any rural area to it. If the first option is chosen, rural communities will have a strong economic interest in being serviced by Umeme rather than by other service providers. Such a policy would, however, stifle the development of a bottom-up based development of rural electrification.

It seems that the Government of Uganda intends to assist the financing of the Bujagali power project by taking soft loans from development banks and on-lending them to the project and by setting up the Energy Equity Fund. If the Government charges the project the subsidized rates it pays for its soft loans, rather than a commercial (but still competitive) rate, the Government will once more be subsidizing the average kWh-tariff paid by the minority of the population that has access to electricity. This is not compatible with the principles of the PEAP.

Presently the Government/ERA in its tariff approval policy allows the power companies a rate of return of 6% for transmission, 12% on generation and UMEME 20% on its capital investments. To some extent the differences in the rates of return can be justified by the difference in risk. Yet, a 6% rate of return on transmission does not provide UETC with much new capital to invest in expanding the transmission grid.

2.5.4 Subsidies to Rural Electrification

REA has not yet defined a subsidy policy for rural electrification. Decisions by REA on subsidies to rural electrification projects have so far been taken ad hoc without reference to well-defined principles. This has resulted in very high subsidy rates: an example is the award of a US\$3.3m grant out of a cost of US\$4.3 m for the bagasse-power plant at the Kagira sugar mill. The problem with these rates is that the projects which have been supported so far, are among the "best" type of projects that are likely to be encountered in rural electrification. The highly subsidised rates, therefore, have given wrong signals to potential investors as to the level of subsidies and tariffs they realistically can expect. If REA continues to provide such highly subsidised rates, the volume of annual rural electrification will be far below targets and politically acceptable electrification rates.

Another area, where adjustment is needed is the subsidy policy for solar home systems (SHSs). Following recommendations by the World Bank/GEF, the Government pays SHS-dealers a GEF-funded *per Wp subsidy*. There are no examples anywhere in the world that this approach has generated results, whereas the *per system subsidy* practiced in Sri Lanka and in Nepal – and given to 20 Wp, 35Wp and 50 Wp systems - has succeeded in creating a mass market for SHSs.⁴⁴ The recommendation by the World Bank has no rational analytical foundation. The *per Wp subsidy* gives the highest subsidies both absolutely and as a percent of the cost of investment to the 50 Wp system (purchased by the richest households who want to make sure they can use it for lighting and for a small colour TV), although the elasticity of demand for the smaller systems (the 20 Wp can only be used for lighting and powering a transistor radio) is much higher. The *per Wp subsidy* therefore, has a high "free rider effect" (giving subsidies to households who would have purchased it in any case) and a negative rural income redistribution (poverty alleviation) effect.

2.5.5 In Search of a Paradigm for Rural Electrification

The Ugandan approach to rural electrification (RE) since 1999 has introduced some promising concepts:

- One is the ERT-approach to increase productive uses of electricity in rural areas, where MEMD provides technical assistance to efforts by line ministries and rural agencies in pushing high-value productive uses.

⁴⁴ In conjunction with a system of 2-4 year bank-loans for purchases of SHS.

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- The other is REA's combined approach of top-down planned "priority rural electrification projects" (PREPs) and bottom-up "locally initiated rural electrification projects" (LIREPs).

Yet, MEMD/REA need to clarify what roles potential actors can play in rural electrification. It has become clear from the early experience that it will take time to get enough private sector based rural electrification projects off the ground. There is a scarcity of local entrepreneurs, and banks are not yet willing to go wholeheartedly into rural electrification finance. It is obvious that a multifaceted approach has to be applied, where UEDCL and UETCL, private entrepreneurs, district authorities, cooperatives and electricity consumer associations all have a role to play.

If REA prepares a PREP for bidding and no private entrepreneur submits a bid, REA must have a fall-back option. One possibility is to ask UEDCL to implement the project. MEMD has already over the last three years undertaken some RE projects through UEDCL. The idea is that UEDCL will not operate these schemes, but that they are packaged for bidding and offered to private managers. Another option is to let local communities establish consumer associations that purchase power en bloc from UETCL at the point of the transformer and undertake the individual metering and billing activities in the low voltage-grid themselves. This would require introducing an additional layer of local extension agents into the service supply chain; for example, training local technicians who are closer to the market.

UETCL sees, so far, no role for it in rural electrification. The 1999 Electricity Act defines transmission as power lines with 66 kV and higher voltages, whereas rural transport lines would be 22-33 kV lines. Using UETCL to push "rural transmission lines" of lower than 66 kV into rural areas may have merits. Partly because it enables donors to grant-finance rural transmission projects, partly because UETCL can cover the repayments on loans and on rural O&M via its national postage stamp transmission tariff. This is a simple and politically acceptable way to get urban consumers "unknowingly" to cross-subsidise rural electrification.

The role of district authorities in the identification and implementation of rural electrification projects, also needs to be defined. District Development Plans do not yet include energy as a component. Part of the problem is that MEMD, unlike the health, water and education ministries, does not have local representatives on the ground in the regions. Solutions to the absence of district staff trained in energy matters have to be found. The implications of planned fiscal decentralisation for local co-financing of rural electrification projects also need to be analysed.

Finally, there is a need for a downward revision of the goal of reaching 10% rural electrification rate by 2012. Firstly, because the lack of power capacity in the national system prevents new rural electrification areas from being served – they would be subject to load shedding most of the nights until Bujagali comes in stream. Secondly, the funds for the required investment in excess of US\$500 million do not seem to be available: as total tax revenues in 2003-04 were \$840 million, the required annual funding would amount to around 8% of tax revenues.

2.5.6 Incipient Stage of East-African Integration

Kenya, Tanzania, and Uganda in 2000 signed a treaty establishing the East African Community (EAC); in 2004 the three East African Presidents agreed to create a federation in 2010. EAC initiated the East African Power Master Plan (EAPMP) Study in 2001. The EAPMP will provide the basis of joint generation and interconnection projects among the three partner states, which should benefit from economies of scale.

The integration in practice of relevant EAPMP-plans and of Ugandan transmission power plans has caused some coordination problems. A cross-border transmission project declared as of secondary importance in the former was proposed to the EDG as priority by UETCL.

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3 STEPS TOWARDS USE OF SWAP

3.1 Applicability of Energy Sector SWAp

3.1.1 Should "Energy" be a "Sector"

The ESS concept for integrating MEMD's work in the PEAP/BFP framework did not result in synergies with activities performed by institutions under MTTI. The two ministries performed "business as usual" without attempting to identify integration benefits. The reasons for believing that MEMD may perform better under an "energy sector" framework are:

- (i) The *intra-sectoral optimisation challenges* for energy policy and for investment priorities in commercial power, rural electrification and the likely development and exploitation of hydropower resources are so large that a "sector focus" is justified.⁴⁵
- (ii) The ESS set-up is too narrow for realizing the objective of *optimising inter-sectoral linkages* between MEMD activities and relevant activities performed by other ministries. The "sector" concept practised by MFPED foresees that institutions, which are mutually inter-dependent, are grouped together. But because energy has cross-sectoral linkages with institutions from a broad range of ministries⁴⁶, and not just with MTTI-related institutions, the real challenge is to optimise MEMD's cross-cutting collaboration over the whole spectrum. This can be done by adopting an energy SWAp-approach in which outside public and private stakeholders participate directly in the energy planning process together with the public sector institutions.

3.1.2 Need for Applying a SWAp in the Energy Sector?

The review of MEMD's PEAP/BFP related work in section 1.3 and of its policy work in section 2.4 and 2.5 revealed that MEMD's inward-looking, "self-centered" approach yields sub-optimal results. Effective integration of donor and national financial contributions and efficient exploitation of cross-sectoral synergies and complementarities, requires the adoption by MEMD of the "outward-reaching" planning and policy approach of a SWAp.⁴⁷ The SWAp approach will improve the intra-sectoral and inter-sectoral allocation of funds because optimising with reference to PEAP goal achievement is an integrated part of the planning process and not an add-on, as under the present departmental approach.

The implementation of the SWAp also improves the communication of results to MFPED. Due to the introduction of hard budget constraints, an increase in the allocation of resources to one sector leads to a decrease in the resources provided to another sector. A sector asking for more resources, therefore, must convince MFPED that, at the margin, it can provide more value for public money than other sectors: the development impact of an incremental increase in resources to this sector is larger than the development loss from decreasing resources to another sector. Seen through the lenses of MFPED, MEMD did not in its inputs to PEAP/BFP make its case for the energy sector's importance for attaining national PEAP-objectives convincingly enough to justify its resource and budget requests. Whether MFPED's perception is objective or not – MEMD cannot understand how MFPED could fail to see the importance of the energy sector – is not irrelevant; yet, in free competition, having a good product is not enough; one must also know how to market it. Under the PEAP/BFP framework, *optimisation not only must be done, but also*

⁴⁵ Turning "energy" into a sector includes "mining" as an add-on. Mining is a business activity of its own with no specific linkages to other sectors.

⁴⁶ Comment: Perhaps it would be useful already here to list that multitude of other ministries plus make reference to the holistic approach to energy in Figure 3 below)

⁴⁷ The identification of policy and implementation deficiencies is not sufficient to reject a practised approach: all ministries in all countries of the world have grey areas which consultants can identify and point their fingers at.

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be seen to be done by MFPED if one is to compete successfully against other sectors for funding.⁴⁸

Chapter 2 on the strengths and weaknesses in *MEMD energy policy and implementation* pointed out that MEMD performs well in *areas of MEMD "core expertise"*: technical power planning, energy savings, concession policies for hydrocarbons. Although MEMD demonstrates through its cross-ministerial ERT-approach that it is capable of applying a SWAp in practice, the Ministry does overall less well in *areas where performance depends on effective and efficient interaction with institutions outside MEMD*. Examples are MEMD's interactions with MFPED in project finance and subsidy policies for rural electrification, in water royalties for large scale hydropower projects and in hydrocarbon taxation policies; with MTTI in productivity enhancement; and with regional organisations and neighbouring countries in cross-border transmission projects. The application of a SWAp can improve MEMD's cross-sectoral relations.

The SWAp can further improve MEMD's *use and coordination of donor funded assistance*. There are examples of insufficient coordination (geothermal) and of insufficient alignment (rural electrification).

3.1.3 What to do?

In order to implement a SWAp effectively, MEMD has two major restructuring tasks to do:

- The first is to align MEMD's values and way of looking at the energy sector with the values expressed by the PEAP.
- The other is to *align its planning structure with these values*. If the planning process is undertaken horizontally along PEAP-related issues, instead of vertically along departmental lines, MEMD will improve its output in substance (the relevance and efficiency of MEMD-led activities for PEAP/BFP) and in appearance (PEAP-look of programmes and activities).

3.2 Implementation of a SWAp in Energy

3.2.1 Energy in PEAP/BFP Context

Figure 3 shows the most important functions and services, which the energy sector provides to the national economy, and the most important linkages of energy with other sectors, seen from a PEAP perspective.

⁴⁸ The transport sector, for example, has managed to work out a 10-year plan for roads construction and maintenance, which facilitated decision making by the Ministry of Finance. The energy sector formulated its requests on an ad-hoc basis.

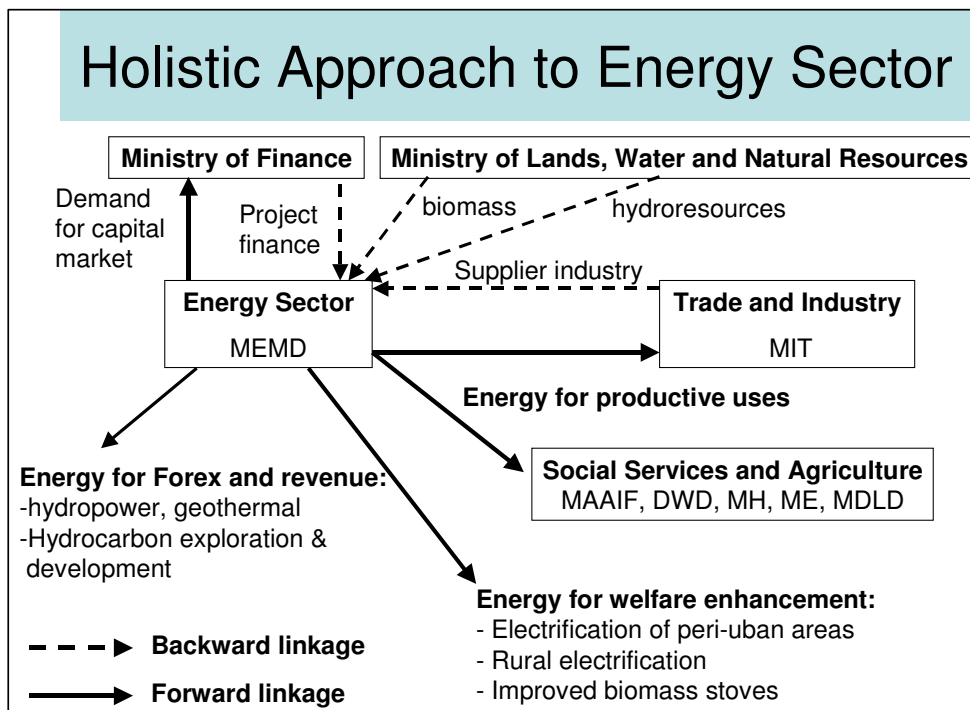


Figure 3: Energy in a PEAP/BFP Perspective

Outputs from the energy sector serve the achievement of the national objectives defined in the PEAP by (i) assisting in improving the *productivity* of entities in other sectors, (ii) enhancing the *social welfare* of the population (energy as a basic need) and (iii) providing *foreign exchange and tax revenues* to the national economy.

“*Forward linkages*” refer to impacts which the energy sector has on other sectors of the economy and synergies with the sectors; “*backward linkages*” refer to inputs from other sectors which the energy sector depends on if it is to perform its supply tasks efficiently.⁴⁹

MEMD and MFPED engage in a strong mutual symbiosis in their efforts to develop a national *capital market*, meaning the provision through financial intermediaries of long-term equity and debt finance to investors:

- MEMD’s strategy of attracting private investments to the power sector – including in rural electrification - depends on MFPED’s ability to get new financial instruments introduced on the market that enable the development of a domestic capital market.
- MFPED, on the other hand, can only get a capital market established if there is a significant and sustained demand for long-term capital.

Previously, the development of a capital market was blocked by a catch 22 situation. There is no capital market in Uganda, because there was previously no demand for it: industry was and is small, and investments in infrastructure were financed by the state with the help of grants and concessional loans provided by donors and development banks. There was no demand for a capital market because the absence of adequate finance blocked the development of a strong

⁴⁹ Linkages can be expanded further. For example, the construction of rural roads and other infrastructure, which expands the income of the rural population in an electrified area, expands its ability to pay for electricity. Yet, one has to make a cut-off, concentrating on more direct linkages.

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private sector. MEMD through its power sector privatisation now provides a strong impetus for a local capital market, and it is up to MFPED to deliver the supply side.

Institutions under MTTI can play a crucial role in developing an effective supply side for rural electrification and for power generation. Since the power sector is very capital intensive, the cost of production per kWh delivered to a consumer is strongly influenced by the cost of investment (and the cost of capital), which can be reduced by effective competition in consulting services, O&M and construction. So far, MEMD has been linked to these activities mainly through the involvement of the Private Sector Foundation in its ERT-programme. The PSF participates in the ERT under a direct contract with MFPED, but its activity, in principle, falls within MTTI's area of responsibility.

The Ministry of Water, Lands and Environment (MWLE) interfaces with MEMD in *biomass energy* through its involvement on the supply side in fuelwood and charcoal, while MEMD works on the demand side through its improved fuelwood and charcoal stove programmes. In *hydropower*, MLWNR is involved through its approval of water rights and uses.

3.2.2 Alignment of MEMD Values with PEAP

The first step in the implementation of a SWAp is that MEMD "redefines which business it is in". Presently, MEMD sees its business as energy supply with some assistance to consumers in using energy more efficiently; see the stated policy objective of the Energy Policy from 2002. A vision in line with the broader PEAP objectives is to express the business of the energy sector as:

- **Productivity enhancement** (providing reliable and least cost energy supply; promoting rational use of energy; strengthening the capital market and entrepreneurship);
- **Welfare enhancement/basic needs satisfaction** (promotion of modern fuels and power to households and for social purposes);
- **Foreign exchange generation** (cost-effective substitution of energy imports and expansion of energy exports: power and hydrocarbons).

This vision focuses attention on the "critical success factors" in the energy sector - what MEMD has to do well if the energy sector is to maximize its contribution to the national economy:

- *In productivity enhancement (economic service function)*: provide a national energy supply of high quality at least possible cost to the national economy; effectively interact with other sector agencies and ministries in promoting productive and efficient uses of energy; contribute to enhancing the efficiency of the financial sector by providing a large scale and diversified demand for project finance;
- *In welfare enhancement*: establish a prioritisation of rural electrification projects that directs investments to the areas providing the highest socio-economic returns; implement subsidy policies that provide maximum poverty reduction and alleviation per invested amount of subsidy; enable a cost-effective mass-dissemination of biomass stoves;
- *In foreign exchange and revenue tax generation*: secure efficient and timely expansion of generation and of regional grid connections and power agreements; provide for hydrocarbon exploration and development concessions that attract a maximum of foreign investment, yet secure to the state of Uganda the largest possible share of generated net revenue; contribute to keeping down the price of imported oil products through monitoring of the price of oil imports and benchmarking them against internationally quoted prices.

The vision is in harmony with three key "buzzwords" in MFPED's reform drive:

- **Result Oriented Management (ROM)**: making the sector contribute effectively to the PEAP-development objectives;

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- *Outcome Oriented Budgeting (OOB)*: relating individual budget items clearly to outcomes and goals;
- Changing the role and functions of the public sector from *service provision* to *service facilitation*.

3.2.3 Alignment of MEMD Processes and Structures with PEAP Values

The next step in aligning MEMD's in-house values with the economic development values of MFPED is to change the way MEMD staff behaves at work and thinks about work. Expressing a new vision is not enough: reporting structures, management and operational processes, and monitoring procedures must be consistent with the behavior staff are asked to embrace. Figure 4 shows how the implementation of the SWAP can be organised.

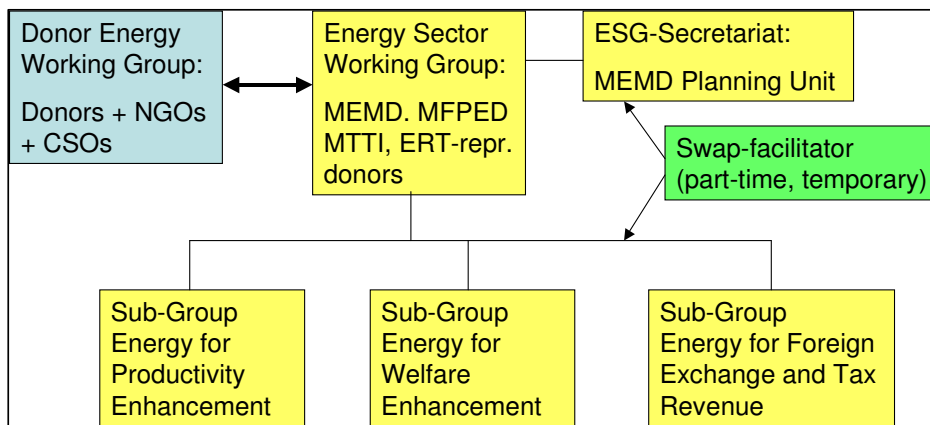


Figure 4: Proposed Planning Structure for an Energy SWAP

This structure would:

- by aligning the organisation of work around the central PEAP-related themes (cross-cutting objectives), provoke staff to formulate new questions during the planning process and through this identify new approaches;
- by providing a broader vision for the energy sector than previously and by including external stakeholders in the Energy Sector Working Group (ESWG) and its three sub-working groups improve cross-sector cooperation and joint problem solving.

The following sections describe the composition and role of the various entities involved in a SWAP process.

3.2.4 Composition and Role of Energy Sector Working Group (ESWG)⁵⁰

The proposed ESWG, to be established by order of MFPED, will be headed by the PS for energy. MEMD members comprise the Deputy Commissioners heading the four line Departments and the Head of the Planning and Policy Department (which performs the secretariat function for ESWG). The other members would be the Chairman/CEO - of ERA, the Director of REA, higher-ranking representatives from MFPED, MTTI and MDLD (the latter speaking on behalf of the line ministries participating actively in the promotion of productive uses for power in rural

⁵⁰ The present section and the following ones, on the Secretariat for ESWG and the sub-working groups, are implicit TORs for the entities involved.

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areas), a representative from the Chamber of Industry and Commerce and representatives from donors.

The task of the ESWG is to assist the Government in:

- Designing and implementing a strategy for the energy sector, which maximises the economic development contribution of energy;
- making effective use of support from cooperation partners by aligning donor funding fully with Government policies and agreed priorities;
- promoting efficiency by reducing the number of donor-specific procedures and rules for reporting, contracting and implementing activities.

With reference to the above objectives, the ESWG is to:

- serve as a platform for discussion and consensus building between the various stakeholders about the general direction and performance of the sector;
- initiate the development of guiding partnership principles and sector MoUs between stakeholders;
- initiate and guide the development and updating of Sector Plans and implementation strategies, within the overall objectives of the PEAP;
- review the BFPs prepared by Planning and Policy Department to make sure that they reflect the sector priorities and strategies within the MTEF ceiling for the sector;
- review new sector and sub-sector projects for inclusion in the overall Sector Plan, and submit and defend endorsed projects in the Development Committee of the MFPED for consideration;
- monitor sectoral inputs, outputs and performance;
- initiate and organize Joint Review Missions (JRM), and facilitate the implementation of JRM recommendations.

3.2.5 Sector Planning/Policy Analysis Unit as Secretariat for ESWG

MEMD's Sector Planning /Policy Analysis Unit would function as Secretariat for ESWG, with the Head of the Unit participating in all meetings and taking the official meeting notes. The tasks of the Secretariat are to:

- Prepare ESWG-meetings (including of sub-groups), mailing out invitations, forwarding relevant documents including Executive Summary of the substance in forwarded papers and of decisions to be taken;
- Take notes during meetings and forward summary note of discussions to participants after meeting;
- Coordinate the work of the sub-sector working groups and of MEMD departments on MEMD's contributions to new versions of the PEAP and the annual BFPs, and perform the final editing and drafting of MEMD's contributions to MFPED;
- Prepare MEMD's Annual Report with a specific chapter reporting on SWAp progress;
- Be responsible for establishing the system for monitoring & evaluation of SWAp-activities;
- Perform the financial reporting;
- Identify needs for alignment and harmonization of donor procedures and propose solutions;
- Prepare TOR for consultancies or studies.

Several of the listed tasks are part of the Unit's present work. Yet, the secretariat function and the more ambitious scale of SWAp-planning will impose additional strain on the already heavy workload of the unit. The Head of the Unit has in an internal memo argued for an expansion of the unit by at least one professional energy policy planner and for an upgrading of the status of the Unit into a Department. A strengthening of energy policy expertise is definitely needed for the SWAp.

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The consultants for the present study are not sufficiently familiar with the civil service structure in Uganda to provide a qualified opinion on the request for department status. However, the arguments put forward sound logical – particularly considering the entity's future level of responsibility under the SWAp.

3.2.6 SWAp Facilitator

During the upstart phase of the SWAp process, new procedures and routines will have to be conceived, agreed to and put into place; moreover, discussions will take place and much explanation and convincing have to be done to get the SWAp-system in place. This heavy work load calls for the provision of temporary technical advice to assist the Unit/Department in becoming an efficient SWAp support organisation, and the sub-groups in becoming effective vehicles for broad-based, cross-sectoral approaches to energy policy formulation and implementation.

For the task of acting as a driving force behind the process, a SWAp facilitator should be appointed. This has been considered a necessary function in other sectors when initiating a SWAp process. The facilitator would spend his/her time equally between working with the Unit/Department directly and with the sub-working groups. A TOR for the facilitator is provided in Annex IV.

3.2.7 Sub-working Group: Energy for Productivity Enhancement

The sub-sector group will be composed of staff from the four MEMD-Departments, of staff from MFPED, from MTTI, of one to two representatives from the ministries and agencies involved in promoting productive uses of electricity in rural areas, and of representatives from the private sector, including the financial sector. The composition of the sub-sector working group would change according to the theme that is treated, whereas some institutions are core members, others depends on the thematic working group which is created.

The task of the sub-sector group “Energy for Productivity Enhancement” is to develop holistic approaches for maximising the energy sector’s contribution to the enhancement of the productivity of entities in the economy. This is a continuous exercise, as circumstances change over time.

The *energy sector’s core activity* is to provide end-consumers with access to reliable and “cheap” modern energy services⁵¹. This is, and will continue to be, the fundamental productivity enhancing function of the energy sector and the promotion of efficiency in energy supply is part of the TOR for all three sub-sector working groups. The specific aspects, which this group will look into, are (non-exhaustive list):

- Tariff policies, in particular peak-pricing;
- Monitoring and evaluation of the experiences of the ERT-approach (whereby promotion work for productive uses is done by the line ministries with TA from MEMD) and recommending adaptations if need be;
- Development of new concepts and approaches to project finance: what is to be done on the supply side and on the demand side, in order to develop efficient national supply of finance for power generation and rural electrification projects;
- Introduction of new financial instruments for promoting energy efficiency in industry and tourism;
- Development of commercially based advisory services for energy efficiency;

⁵¹ In the sense of efficient least-cost of production, not that subsidies are provided.

- Activities to expand the scope and improve the quality of the supplier industry in rural electrification (RE-project developers, constructors, O&M, consultants, PV-dealers), as well as to promote competition
- Promotion of energy savings in agro-industries and cottage industries making use of biomass.

3.2.8 Sub-working Group: Generation of Foreign Exchange and Revenue

The sub-group will be composed of (i) MEMD-staff from the Hydrocarbon Exploration Department, the Downstream Petroleum Department, the Power Sector Department, the ESWG-Secretariat, (ii) staff from MFPED, (iii) staff from UETCL and (iv) staff from ERA.

This sub-group will have the task to develop policies and strategies in the following areas (non-exhaustive list):

- Development of a least-cost investment plan for national power generating capacity, which satisfies domestic demand within the larger framework of negotiated export deals and associated investments in regional transmission grids. The group will analyse (i) the incidence and scope of energy surpluses in hydropower over the medium and long term; (ii) the likely features of the export market in terms of volume, prices, risks and required marketing strategies; and (iii) identify priority investments in regional transmission connections;
- Definition of a coherent taxation and water royalty policy for hydropower plants, which, on the one hand, satisfies the risk considerations of the private sector, yet, on the other hand, maximises revenues for the state budget;
- Development of a coherent policy for the state's co-financing (as a risk reduction instrument and a means to reducing the cost of capital) of investments in power generation, including clear criteria for fixing the interest rates which the state charges for on-lending low-interest rate loans from international development banks to projects implemented by private investors;
- Development of policies that maximise the national benefits from the exploitation of national oil and gas resources: optimal concession and taxation policies, and promotion of cost-effective domestic uses of natural gas and of gas exports;
- Controlling the *downstream performance of oil companies*, by reviewing reports on the development in prices charged by petroleum companies for imported petroleum products (productivity enhancement plus foreign exchange impact), on the quality of marketed products, the efficiency of competition, and the level of company taxes being raised from the sector.

Taxation of oil products is not part of the TOR for this sub-group. Taxation of oil products has a beneficial impact on energy savings (of interest to the sub-group on productivity enhancement), But, overall, it belongs to the realm of fiscal rather than energy policy. Only MFPED has the know-how to decide which type of taxation has the least distorting impact on the national economy. Staff from MEMD can assist MFPED in evaluating the energy saving and equity impacts of duties and taxes on oil products.

3.2.9 Sub-working Group: Welfare Enhancement and Satisfaction of Basic Needs

The sub-group will be composed of staff from the ESWG-Secretariat, REA, MFPED, ERA, MDLP and representatives from relevant NGOs; representatives from Ministries of Health and Education may be invited to some sessions, depending on the topic.

The sub-group would have the task of developing a poverty oriented approach to rural energy supply, covering electricity as well as biomass needs. The following are issues for which the sub-group would develop policies and strategies (non-exhaustive):

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- Tariff and subsidy policies for RE, including PV-systems and the national equity implications of lifeline tariffs;
- Criteria for the identification of priority RE-projects;
- Development of paradigm for RE (role of private sector, foreign investors, UETCL, UEGCL, UEDCL, district authorities, user associations);
- Cost-effective promotion of improved stoves;
- Promotion of multi-purpose power platforms for small communities.

3.2.10 Role and Composition of the Energy Donor Group

The donor energy group, as discussed in Chapter 1, would be open to representatives from donors involved directly or indirectly in energy as well as to representatives from NGOs.

It would be a forum for the informal exchange of ideas and information, which can be used to formulate constructive proposals to the Government within the ESWG.

3.3 Budget Finance/Basket Finance and Project Finance

Although the new approach may lead to an increase in the share of donor money that is given as sector budget support, some donors will continue to give their assistance as project-finance, inter alia, because they have a very small budget for development assistance.

The major form of “basket funding” will take place:

- through contributions to the REF, where donors have the choice of funding the overall budget of the REF without earmarking their contribution, or providing support to specific budget lines in the REF, for example for rural transmission projects;
- through a separate “transmission system programme” directly vested in UETCL with two basic components: (i) a basket fund for enabling investments in more and larger projects and (ii) a planning component for increasing in-house planning capacity, harmonising regional, national, rural and generation planning and giving the priorities for utilisation of the basket fund.

3.4 Monitoring and Evaluation

A SWAP-approach focuses on the achievement of PEAP targets, measuring the sector success in terms of the results achieved in this context. In addition, success will be measured in terms of the efficiency through which donor assistance is provided with a strong focus on the importance of greater harmonization and alignment with government systems.

The approach to monitoring and evaluation can be summarised as follows:

- Support for the establishment of a strong national monitoring, evaluation and reporting framework for the PEAP;
- Minimisation and harmonisation of monitoring and evaluation and reporting requirements for the energy partners;
- Reliance on the national monitoring and evaluation and reporting framework for performance assessment and policy dialogue between the government and its energy partners.

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MEMD at present prepares a set of indicators that are part of the reporting and planning process under the sector BFP. For energy these cover electricity, energy conservation, petroleum exploration and petroleum supply. The existing set is a good starting point for further elaboration and for focusing on key performance indicators that contribute to the overall goals of the PEAP (see table below, slightly supplemented by the consultants writing this report).

Experience has shown that joint review meeting function best when a limited number of pertinent performance indicators are agreed for the sector as a whole and are closely monitored. The task of refining the present set of indicators should be assigned to the three sub-groups to be established under the ESWG, with assistance from the Ministry's Planning Unit and the SWAp facilitator.

In the interim/absence of agreed performance indicators the SWAp set-up will facilitate joint reviews and monitoring activities on project or sub sector level.

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Table 5: Energy Sector Performance Indicators/Targets for the Medium and Long Term

	Performance Targets/Indicators	Baseline Values	MTEF			10 Year Target
			2005/06	2006/07	2007/08	
1	Energy Sub-sector					
1.1	Rural electrification					
1.1.1	Number of connections made during the FY ('000)		40	50	60	
1.1.2	Share of households with electricity in rural areas (%)					
1.2	Increased electricity generation capacity					
1.2.1	Total installed generation capacity (MW)		355	375	440	
1.3	Improved electricity transmission system					
1.3.1	Additional transmission coverage (km)		120	150	170	
1.4	Improved electricity distribution system					
1.4.1	Number of connections made ('000)		25	30	35	
1.4.2	Technical and Non-technical Distribution losses (%)		23	20	16	
1.4.3	Revenue collected as % of energy billed (%)		90	93	95	
1.5	Electricity pricing and subsidies					
1.5.1	Average tariff as a % of LRMC					
1.5.2	Total subsidy to consumers as a % of GDP					
1.6	Adaptation of efficient biomass stoves and other renewable energy technologies					
1.6.1	Total annual per capita fuel wood consumed (TOE)		0.284	0.292	0.300	
1.6.2	Total annual per capita fuel wood consumption if efficient biomass technologies are adopted (TOE).		0.170	0.175	0.180	
1.6.3	Total installed electricity from renewable sources (MW).		0.72	0.86	1.04	
2	Upstream petroleum (exploration & production)					
2.1	No. of line kilometres of seismic data acquired (line km)		200	300	300	
2.2	No. of oil wells drilled.		2	3	3	
2.3	New number of exploration areas licensed.		2	2	2	
2.4	No. of staff trained in petroleum exploration and management		15	20	20	
2.5	Total risk capital investment into the sector (million US\$)					
3	Downstream Petroleum (Supplies and marketing)					
3.1	Total oil products consumed during the FY ('000 TOE)		494	519	546	
3.2	Number of standards set/adopted		6	10	15	
3.3	Competition enhanced (total oil companies licensed)		28	30	35	
3.4	Number of samples analysed during the FY		400	800	1200	
3.5	Non-tax revenue generated during the FY (billion Ush)		5.33	5.67	6.06	

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3.5 Is SWAp Feasible in Energy and Will Results Be Achieved?

MEMD has under the ESS-set up operated under a de facto “energy sector” regime without the use of a SWAp in its PEAP and BFP preparations. Yet, MEMD has implemented important power sector reforms under this modality and initiated innovative cross-sectoral collaboration with MTTI in energy efficiency and with a number of line ministries in promoting productive uses of electricity. One could claim that it is the large amount of work – and the importance of it – in implementing power sector restructuring and in negotiating the Bujagali deal, which has prevented MEMD from developing a coherent response to the PEAP concept. One cannot expect MEMD to have a sense of under-performance since all the right observations are included in its contribution to the ESS-PEAP and because an in-depth restructuring of the power sector has been implemented. Although the application of the SWAp will result in a more intelligent use of funds, there is no certainty that it will also lead to an increase in the allocation of funds to the sector. Capital intensive projects like Bujagali will have to be implemented in any case.

Therefore, unless the MEMD-PS accepts the points that have been made in this report about the policy voids and the potential of the SWAp approach in eliminating them, the SWAp has a limited future.

Trying to implement a SWAp in the absence of a felt commitment on the part of the PS would result in a classical case of “cognitive dissonance”: that inner beliefs are inconsistent with outward actions. The SWAp would be implemented as a formality, not as an instrument to achieve results.

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ANNEXES

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Annex I: SWAP: Pros and Cons and Factors for Successful Implementation

1.1 Disadvantages and Advantages of applying a Sector-wide-Approach

It is useful to try to summarise the main advantages and disadvantages of a SWAp as commonly perceived. This is done in Table 1. The table draws on information from various countries and sectors and basically refers to SWAp at a mature stage.

Table 1 Advantages and Disadvantages of a Sector-wide Approach

ADVANTAGES	DISADVANTAGES
<i>FROM A GOVERNMENT PERSPECTIVE</i>	
<ul style="list-style-type: none"> – Support to a sector within a coherent overall budget – Program ownership by Government – Longer commitments and higher funding predictability – Focus on the broader issues – Common annual review arrangements – Access to an international pool of experts 	<ul style="list-style-type: none"> – Real programme ownership takes time – Policy and programme match achieved only gradually – Loss of donor involvement in project implementation – Government reluctance to pay for TA and training
<i>FROM A DEVELOPMENT PARTNER PERSPECTIVE</i>	
<ul style="list-style-type: none"> – Higher quality policy and programme input – More powerful partnerships – Monitoring and evaluation reported by results – Lower transaction costs 	<ul style="list-style-type: none"> – Macro-economic instability – Reduced accountability and weak financial management – Limited scope for supporting national interests – Risk of excluding smaller organisations

Source: Study team

In the following, advantages and disadvantages are elaborated.

Advantages from the Government Perspective

Support to an overall sector programme within a coherent budget: This is probably the strongest potential benefit of the sector approach. Focus is on the sector as a whole, regardless of who provides the services (Government, private, sector, NGOs, communities). Properly devised, the budget should ensure that recurrent cost implications of investments are fully planned for, and that the balance between new investment and recurrent budget to operate it is appropriate.

Programme ownership by host Government: Sustainability, the ultimate goal of development assistance, can only be reached if there is ownership by the Government. This means that funds should be spent on priorities set by the country, not the external agencies, but dialogue with the latter is essential. The Government is in the leadership role, orchestrating all the players and participating fully in the development of the programme.

Longer commitments and higher degree of funding predictability: Having agreed upon policy and programme with development partners, a larger degree of certainty with respect to foreign funding is likely. Less uncertain aid inflows will improve the quality of planning and allow programmes and projects to be implemented until sustainability is achieved, avoiding stop-go financing.

Focus on the broader issues: Main donor involvement is on policy matters, through support to policy analysis and dialogue, and influence through the experience of joint working, not on conditionalities and details of implementation.

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Common annual review arrangements: The sector programme would be reviewed annually, say, in two phases: (i) review of the previous year's performance on policy, operational and financial issues; (ii) review of the budgets and plans for the following year. In addition to better quality policy and programme dialogue with donors as a group, there are efficiency gains as less time is spent on one to one meetings between Government and donors and fewer bilateral missions are taking up government officials' time. A typical example of the review cycle is shown in Diagram 2.

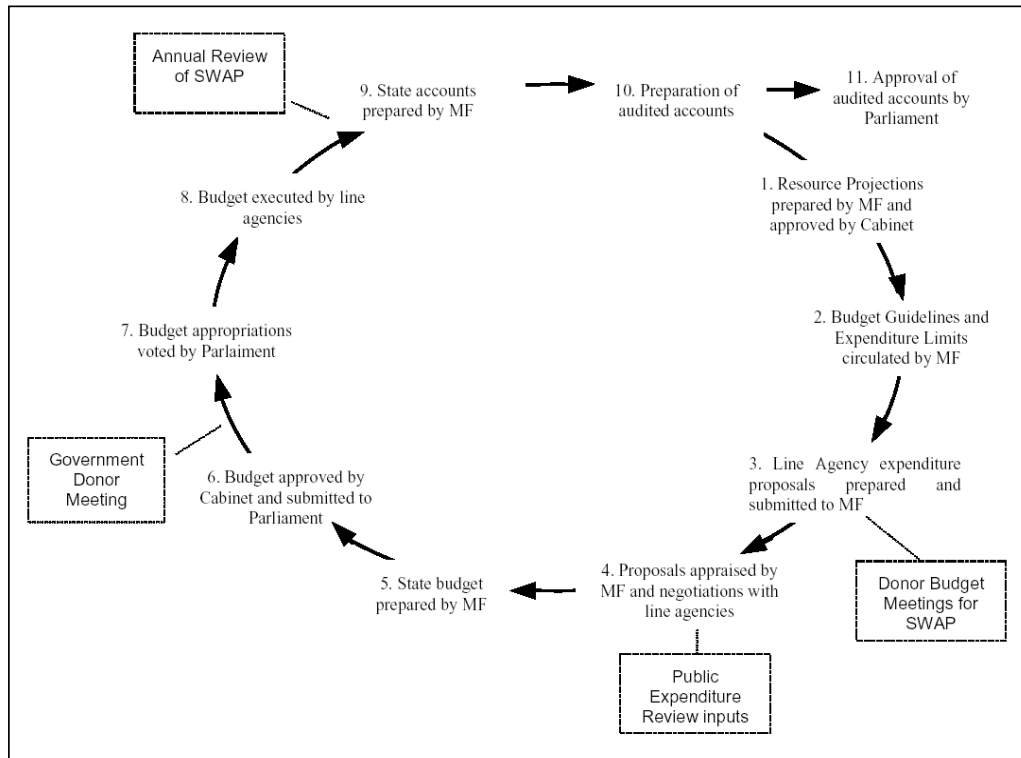


Figure 1: SWAp and the Review Cycle

Source: The Status of Sector Wide Approaches. Adrienne Brown & al., Centre for Aid and Public Expenditure, ODI, 2001

Access to an international pool of experts: Under the project approach development partners tend to want to bring their national consultants for project missions. Under SWAp, the Government will be free to hire consultants appearing to be best suited for a task to be undertaken according to programme requirements, or for the annual programme review. This may improve quality, reduce costs and avoid duplication of efforts.

Advantages from a Development Partner Perspective

Higher quality policy and programme input: The more donors, the more important it is for them to coordinate their views. Apart from the efficiency aspect, presenting a coherent and consistent view on policy and programme should result in improved quality of input to the dialogue with the Government, based on analysis and debate in a wider forum.

More powerful partnerships: Individual donor agencies, joining a common programme with key partners in the country concerned, although losing a certain level of direct control over activities they support, gain access to forms of partnership which are potentially more powerful for pursuing overall objectives and

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strategies. However, this should not be achieved at the expense of weakened host Government leadership and program ownership.

Monitoring and evaluation reported by results: Moving towards common procedures for financial accountability and impact assessments should include a set of results and performance indicators serving as a basis for the regular monitoring and evaluation. The outcome should be better quality reporting as common procedures should allow for a concentration on a set of (fewer) key indicators.

Lower transaction costs: As donors move away from the project approach, and the structures and procedures associated with SWAp are established, there should be efficiency gains reflecting those of the Government mentioned above under common annual review arrangements, plus the avoidance for the donors of having to be involved in the design and follow-up of individual projects. However, experience shows that time and other cost gains are slow to materialise and will come only as a result of system improvements made over time.

Disadvantages from a Government Perspective

Real programme ownership by the Government takes time: Government ownership is the essence of the SWAp. Experience has shown that this will take time. Sectoral and procedural reforms that are likely to be associated with (required by) the SWAp may face considerable resistance. There are vested interests in maintaining the status quo and, thus, opposition to changes in the bureaucratic system (new job descriptions, new authorities, etc.) and the way in which the sector programme is implemented.

Policy and programme match achieved only gradually: One cannot blend a large number of projects and activities, of highly varying nature and partly donor driven, into one program and expect them to reflect the agreed policy overnight. Only after an extended period of time, during which those projects and activities that no longer have priority have been phased out, will policy and programme begin to match. Again, vested interests may work against changes.

Loss of donor involvement in project implementation. A SWAp will rely on the host Government for planning, appraisal and implementation of programme components to a much greater extent than under the project approach. However, this capacity will often not be available domestically to the extent needed for efficient execution of projects and activities in the sector, as opposed to the use of donor appraisal and management skills for undertaking complex investments when projects are funded and largely managed by the respective donors. Thus, there is loss of value added in the form of technical and institutional support when donors withdraw from direct project involvement.

Government reluctance to pay for technical assistance and training: Grant funding tends to be seen as "donor money" over which it has less control. Loan funding, on the other hand is seen as "government money" which is closely scrutinised. Governments tend to treat pooled funds as the latter, regardless of their grant or loan origin. Problems arise because TA is not always welcomed and it is accepted only if it is paid as part of a grant. But international expertise is not a luxury and experts are required. Governments have to come to grips with the fact that pooled funding is the only source of funding under a (complete) SWAp and that they must release some of it not only for TA but also for "soft" activities such as training and capacity building.

Disadvantages from a Development Partner Perspective

Macro-economic instability: Difficult environments for aid can be ascribed to a range of problems, including macro-economic instability and weak institutions. This can cause budget releases to be unpredictable and lower than budgeted. Donors face difficult dilemmas in how to react, depending on whether the changes are temporary or more permanent, and whether they are caused by external factors or poor management.

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Reduced accountability and weak financial management: Irregularities and delays in government procurement processes, lack of transparency in selection process and the awarding of contracts, and weak monitoring and reporting will give rise to concern on the part of the donors of the safety of pooled funds. In addition, some donors have problems of principle which do not allow them to support common procedures and pooled funds.

Limited scope for supporting national interests: The sector programme is to be managed as a whole. This leaves limited scope for donors to support projects of national interest and precludes them from following previous practice of limited, national bidding for contracts to donor-supported projects. The donor country's visibility is reduced.

Risk of excluding smaller organisations: The risk of being left out applies to organisations that cannot provide the substantial financial and personnel commitment as the larger (foreign) development partners. Thus, SWAp's operating modalities can severely curtail and reduce opportunities for knowledgeable, high quality, yet financially smaller organisations to contribute to policy and programme design.

1.2 Factors for Successful Implementation of a SWAp

Sector programmes are likely to be successful under the following circumstances:

- strong and visionary leadership at the sector ministry level;
- commitment to the process elsewhere in Government, particularly in the Ministry of Finance (integration of the process into the budgetary cycle, assurance that plans will be funded) and at a senior political level;
- a clear definition of the subsectors to be included in the SWAp;
- where public expenditure is a major feature of the sector, hence the dominance of health, education and roads;
- where the donor contribution is large enough for co-ordination to be a problem, hence the dominance of Africa where aid frequently accounts for 10% or more of GDP, higher than all other regions;
- where there is a basic agreement on policy and strategy between Government and donors. Attempts to introduce a sector programme where a policy consensus is lacking have generally resulted in failure;
- where there is supportive macro budget environment, to permit sector authorities to plan with reasonable confidence that agreed budget resources will be available;
- where institutional relationships are manageable. Sector programmes have worked most effectively where they are defined in terms of the area of budget responsibility of a single sector ministry. Thus, programmes in education and health have proved more manageable than sector programs for cross-cutting themes such as environment. Sector programmes also appear to be easier to manage where there is a relatively small group of significant donors to the sector, willing to delegate some responsibility to each other; where donors are numerous and each demands a strong voice in policy dialogue, the process becomes difficult to manage;
- where incentives are compatible with SWAp objectives. Problems are likely to occur if the sector strategy involves cutting the budget, staffing or responsibilities of the ministry which is expected to take the lead in implementing it, as has often been the case with agricultural sector programmes. At lower levels, the Government needs to put in place incentives and performance management systems to attract staff to be posted where they are needed, and to ensure that they perform in line with the objectives of the programme.

These success factors explain why sector programmes have been especially common in the social sectors in aid dependent countries, and largely absent from countries where aid plays a smaller role, and from sectors where public expenditure plays a smaller or more contested role. Agriculture in Africa is the major exception, but it is widely acknowledged that attempts to introduce SWAps in agriculture have been much less successful precisely because these criteria have not been met. Ministries of Agriculture

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have often resisted pressures to redefine their role, and cut budgets and staffing, while many other stakeholders inside and outside Government have a more important voice and impact on agricultural development than the activities of the agriculture ministry and donors to it.

Not all government activities will fit neatly into 'sectors' and sectors may be institutionally complex, with more than one Government ministry involved, plus local Government, and private sector and NGO participation. In practice, for reasons of manageability, sector programmes have often defined themselves around the area of responsibility of a lead ministry, and have not been comprehensive in meeting sector needs. It has therefore sometimes proved difficult to use the SWAp to fund activities by NGOs or private actors, or activities requiring inputs from other government departments.

Another way to illustrate the circumstances under which to consider programmatic aid forms such as SWAps is shown in Table 2. Sector and country characteristics are used to classify a country situation according to four circumstances: the quality of macro-economic and budget management, degree of aid dependence, quality of sector level policies, and quality of sector level management. These are brought together in a matrix which is shown and commented upon in Table 2.

Table 2: Assessing the Policy Environment and Management Capacity

		Good Sector Policies linked to Resources		Weak Sector Policies not linked to Resources	
		High Sector Management Capacity	Low Sector Management Capacity	High sector Management Capacity	Low Sector Management Capacity
Good Overall Macro-economic and budget management	High Aid Dependence	Sector programme, using government procedures.	Sector programme, gradual transition to use of government procedures.	Targeted support for sectoral policy development, initiate preparation of sector programme.	Low level, targeted support for sectoral policy and capacity development.
	Low Aid Dependence	Broad programme support in crisis situations. Targeted aid to support innovation.	Targeted support for capacity development.	Targeted support for consultation and policy development.	Low level, targeted support for sectoral policy and capacity development.
Weak Overall Macro-economic and budget management	High Aid Dependence	Sector programme and support to central management functions.	Targeted support to development of central management functions.	Targeted support to development of central management functions and sector policy.	Low level, targeted support for policy analysis.
	Low Aid Dependence	Targeted support to development of central management functions.	Targeted support to development of central management functions.	Low level, targeted support for policy development.	No case for aid, instead policy dialogue and analysis.

Source: Experience with Implementing Sector Wide Approaches. Mick Foster, Centre for Aid and Public Expenditure, ODI, June 2000

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Four considerations are particularly important when programmatic aid forms such as SWAPs are considered, as indicated in the matrix and commented upon below:

Appropriate sector policies based on realistic estimates of resource availability: Where the policies of the donor agency and recipient Government diverge, or policies are based on unrealistic assumptions of resource availability, donor agencies will prefer to target assistance through standalone projects rather than broad programme support. Project interventions will need to be based on a view of what will be affordable and sustainable in the long term.

Macro-economic and financial management capacity: If the Government's track record in terms of macro-economic and financial management is sound, and there are adequate safeguards to ensure transparency and accountability in the use of funds, there are strong grounds for the provision of programme rather than project aid. On the other hand, if macro-economic and budgetary management is weak, this will erode capacity and constrain the implementation of sound policy at sector level. The most useful donor intervention may well be to support the overall macro-economic reform and improvement in budget systems, before developing sector programmes.

Sector management capacity: If sector management is strong but policy weak, focus on policy dialogue, project interventions pending success in influencing policy. Where policy is strong but sector management is weak, a sector approach with strong emphasis on capacity building is feasible. If macro management is weak, sector management is likely to worsen, may need attention to overall staff incentives and budget management before SWAP can succeed.

Level of aid dependence: If development assistance represents a significant proportion of sector or overall budget resources, sector programme can be mutually beneficial in improving policy coherence and reducing inefficiencies of donor driven projects. Where aid dependence is low, there is little to be gained from the introduction of a programme approach at sector level, since the volume of assistance will be limited and can usually be managed effectively through stand-alone projects.

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Annex II: BFP-Tables relating MEMD Objectives and Activities

A.2.1 Relating Energy Sub-Sector Policy Objectives to PEAP Pillars

PEAP		Sub-Sector Policy	
Ref	Pillar	Ref	Objective
1.	Economic Management.	1.1	To establish the availability, potential and demand of the various energy resources in the country.
		1.2	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
		1.3	To stimulate economic development.
		1.4	To facilitate the acquisition of geological and geophysical data for accessing the petroleum potential of the country.
		1.5	To contribute and ensure that mineral wealth supports national economic and social development.
		1.6	To add value to mineral ores and increase mineral trade.
		1.7	To monitor and regulate the work of oil companies undertaking petroleum exploration and development.
		1.8	To build and maintain an efficient national institution for petroleum exploration and development.
		1.9	To promote investment in petroleum exploration and production.
2.	Enhancing Production, Competitiveness and Incomes.	2.1	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
		2.2	To promote investment in petroleum exploration and production by packaging and disseminating preliminary exploration data.
		2.3	To stimulate investment in the mineral <i>sub</i> -sector by promoting private participation.
		2.4	To regularise and improve artisanal and small scale mining.
		2.5	To remove restrictive practices on women participation in the mineral <i>sub</i> -sector and protect children against mining hazards.
		2.6	To develop and strengthen local capacity for mineral development.
3.	Security, Conflict – resolution and Disaster Management.	3.1	To increase access to modern affordable and reliable energy services particularly to areas prone to conflict.
4.	Governance	4.1	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
5.	Human Development	5.1	To improve energy governance and administration.
		5.2	To increase access to modern affordable and reliable energy services particularly to health centres as a contribution to poverty eradication.
		5.3	To manage energy-related environmental impacts.
		5.4	To build and maintain an efficient national institution responsible for petroleum exploration and development.
		5.5	To minimise and mitigate the adverse social and environmental impacts of mineral exploitation.
		5.6	To monitor and regulate the work of oil companies undertaking petroleum exploration and development
		5.7	To promote investment in petroleum exploration and investment.

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A.2.2 Relating Energy Sub-Sector Policy Objectives to Millennium Development Goals

MDGs		Sub-Sector Policy	
Ref	Goal	Ref	Objective
1	Eradicate extreme poverty and hunger	1.1	To stimulate economic growth
		1.2	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
		1.3	To promote investment in petroleum exploration and production by packaging and disseminating preliminary exploration data.
		1.4	To stimulate investment in the mineral <i>sub</i> -sector by promoting private participation.
		1.5	To add value to mineral ores and increase mineral trade
		1.6	To regularise and improve artisanal and small scale mining.
		1.7	To develop and strengthen local capacity for energy and mineral development.
		1.8	To monitor and regulate the work of oil companies.
2	Achieve Universal Primary Education	2.1	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
3	Promote Gender Equality and Empower Women	3.1	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
		3.2	To remove restrictive practices on women participation in the mineral <i>sub</i> -sector and protect children against mining hazards.
4	Reduce Child Mortality	4.1	To introduce cleaner fuels (unleaded and low sulphur)
		4.2	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
5	Improve Maternal Health	5.1	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
6	Combat HIV/AIDS, Malaria and other diseases	6.1	To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
7	Ensure Environmental Sustainability	7.1	To manage energy-related environmental impacts.
		7.2	To build and maintain an efficient national institution for petroleum exploration and development.
		7.3	To minimise and mitigate the adverse social and environmental impacts of mineral exploitation and geotechnical hazards.
		7.4	To monitor and regulate the work of oil companies involved in petroleum exploration and development.
8	Develop a Global Partnership for Development	8.1	To stimulate economic development.
		8.2	To improve energy governance and administration.
		8.3	To manage energy-related environmental impacts.

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A.2.3 Linkages between Institutional Objectives and Sub-Sector Goals

Sub-Sector (Policy)	Policy Goal		Prioritised Policy Objectives	Responsible Institutions
1. Energy (<i>The Energy Policy for Uganda, 2002</i>)	To meet the energy needs of the Ugandan population for social and economic development in an environmentally sustainable manner	1.1 1.2 1.3 1.4 1.5	To establish the availability, potential and demand of the various energy resources in the country. To stimulate economic development. To improve energy governance and administration. To increase access to modern affordable and reliable energy services as a contribution to poverty eradication. To manage energy-related environmental impacts.	MEMD, REB, REA, ERA, UEGCL, UETCL, UEDCL, UREA, PSF, MFPED, NEMA, UNBS, MoH.
2. Upstream Petroleum (<i>The Energy Policy for Uganda, 2002</i>)	To establish the petroleum potential of the country and to promote its exploitation.	2.1 2.2 2.3 2.4	To facilitate the acquisition of geological and geophysical data for assessing the petroleum potential of the country. To promote investment in petroleum exploration and production by packaging and disseminating preliminary exploration data. To build and maintain an efficient national institution responsible for petroleum exploration and development. To monitor and regulate the work of oil companies licensed to undertake petroleum exploration and development.	MEMD, UIA Oil Companies, MPS, NEMA MFPED, UCM
3. Downstream Petroleum (<i>The Energy Policy for Uganda, 2002</i>)	To ensure an adequate, reliable and affordable supply of quality petroleum products for all sectors of the economy at internationally competitive and fair prices within appropriate health, safety and environmental standards.	3.1 3.2 3.3 3.4	To adopt and implement the new Petroleum Legal Framework (Petroleum Act, regulations and anti-trust laws). To ensure security of supply of imported petroleum products. To improve transportation and storage of products. To implement quality-monitoring systems including equipped mobile inspection teams.	MEMD, Oil Companies, UNBS, NEMA, MoH, MPS, MoFPED, MoJ&CA, CAA
4. Mineral (<i>The Mineral Policy of Uganda, 2001</i>)	To develop the mineral <i>sub</i> -sector for it to contribute significantly to sustainable national economic and social growth by creating gainful employment and providing alternative source of income particularly for the rural population in Uganda	4.1 4.2 4.3 4.4 4.5 4.6 4.7	To stimulate investment in the mineral <i>sub</i> -sector by promoting private participation. To ensure that mineral wealth supports national economic and social development. To regularise and improve artisanal and small scale mining. To minimise and mitigate the adverse social and environmental impacts of mineral exploitation. To remove restrictive practices on women participation in the mineral <i>sub</i> -sector and protect children against mining hazards. To develop and strengthen local capacity for mineral development. To add value to mineral ores and increase mineral trade.	MEMD, Mining Companies, MPS, MFPED, UIA, NEMA

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A.2.4 Performance Targets for MEMD over the Medium Term

	Performance Targets/Indicators	2005/06	2006/07	2007/08
1	Energy Sub-sector			
1.1	Increased rural electrification			
1.1.1	Number of connections made during the FY ('000)	40	50	60
1.2	Increased electricity generation capacity			
1.2.1	Total installed generation capacity (MW)	355	375	440
1.3	Improved electricity transmission system			
1.3.1	Additional transmission coverage (km)	120	150	170
1.4	Improved electricity distribution system			
1.4.1	Number of connections made ('000)	25	30	35
1.4.2	Technical and Non-technical Distribution losses (%)	23	20	16
1.4.3	Revenue collected as % of energy billed (%)	90	93	95
1.5	Adaptation of efficient biomass stoves and other Renewable Energy Technologies (RETs)			
1.5.1	Total Annual Per Capita fuel wood consumed (TOE)	0.284	0.292	0.300
1.5.2	Total Annual Per Capita fuel wood consumption if efficient biomass technologies are adopted (TOE).	0.170	0.175	0.180
1.5.3	Total installed electricity from Renewable Sources (MW).	0.72	0.86	1.04
2	Upstream Petroleum (Exploration & Production)			
2.1	No. of line kilometres of seismic data acquired (line km)	200	300	300
2.2	No. of oil wells drilled.	2	3	3
2.3	New number of Exploration Areas licensed.	2	2	2
2.4	No. of staff trained in Petroleum Exploration and Management	15	20	20
3	Downstream Petroleum (Supplies and marketing)			
3.1	Total oil products consumed during the FY ('000 TOE)	494	519	546
3.2	Number of Standards set/adopted	6	10	15
3.3	Competition enhanced (total oil companies licensed)	28	30	35
3.4	Number of Samples Analysed during the FY	400	800	1200
3.5	Non-Tax Revenue generated during the FY (billion Ush)	5.33	5.67	6.06
4	Minerals Sub-Sector			
4.1	Non-Tax Revenue generated during FY (Billion Ush)	2.5	2.8	3.0
4.2	Value of mineral exports during the FY (Billion Ush)	142.0	149.1	156.5
4.3	Number of Licenses issued during the FY	60	65	70
4.4	Total Risk Capital Investment into the sector (Million US\$)	1.5	2.0	2.5

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Annex III: MEMD Budget 2005/06 - BFP**A.3.1 Wages**

Programme	Number	ANNUAL SALARY FOR		
	Approved	FY 2005/06	FY 2006/07	FY 2007/08
Headquarters	67	492,030,000	492,030,000	492,030,000
Sector Planning	10	52,521,960	130,700,280	130,700,280
Energy Resources Department	35	179,398,000	179,398,000	179,398,000
Petroleum Exploration and Production Department	61	231,580,000	231,580,000	231,580,000
Geological Survey and Mines Department	110	489,569,000	489,569,000	489,569,000
Directorate of Energy and Mineral Development	4	20,628,000	20,628,000	20,628,000
Petroleum Supply Department		214,045,980	214,045,980	214,045,980
Grand Total	291+	1,679,772,940	1,757,951,260	1,757,951,260
Indicative MTEF Wage Ceiling		1,240,000,000	1,240,000,000	1,240,000,000
Shortfall = Implications of the Wage Reform		439,772,940	517,951,260	517,951,260

A.3.2 Non-Wage allocations for FY 2005/06 within the given indicative ceiling

Programme	Recurrent	*Development	Donor	Total
	(Shs' 000)	(Shs' 000)	(Shs' 000)	(Shs' 000)
01: Headquarters	527,551	-	-	527,551
02: Sector Planning	150,649	-	-	150,649
03: Energy Resources Department	128,491	381,400	39,543,300	40,053,191
04: Petroleum Exploration and Production Department	269,463	837,940	1,157,400	2,264,803
05: Geological Survey and Mines Department	284,453	937,460	17,332,300	18,554,213
06: Directorate of Energy and Mineral Development	71,051	-	-	71,051
07: Petroleum Supply Department	185,000	-	-	185,000
Total	1,616,661	2,156,800	58,349,700	62,123,161

*Excludes VAT

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A.3.3 Donor funding - MEMD

Project/Programme Code and Name	Funding (US\$ Million)		
	FY 2005/06	FY 2006/07	FY 2007/08
0324: EAP, Energy Advisory Project.	1.12	1.12	1.12
0325: ERT, Energy for Rural Transformation - MEMD	13.4343	1.4955	-
0328: SMMRP, Sustainable Mgt of Mineral Resources	9.4300	9.4134	9.3333
0329: PEP, Support to Petroleum Exploration	0.8020	0.6000	0.6000
0330: P-IV, Power IV	1.0000	0.5000	-
0331: RE, Rural Electrification	5.9600	1.7000	0.3000
Exchange Rate given (Ushs against US\$ 1.00)	1,838	1,929	2,024
	Funding (Ushs Billion)		
0324: EAP, Energy Advisory Project.	2.0586	2.1605	2.2669
0325: ERT, Energy for Rural Transformation - MEMD	24.6922	2.8848	-
0328: SMMRP, Sustainable Mgt of Mineral Resources	17.3323	18.1584	18.8906
0329: PEP, Support to Petroleum Exploration	1.4741	1.1574	1.2144
0330: P-IV, Power IV	1.8380	0.9645	-
0331: RE, Rural Electrification	10.9545	3.2793	0.6072
Total	58.3497	28.6049	22.9791
Given Indicative MTEF Ceiling	66.3200	42.9300	11.4900
Implied Over-budget / Shortfall	7.9703	14.3251	(11.4891)

A.3.4 Un-funded areas

Un-funded Area (Million UGX)	2005/06	2006/07	2007/08
Funding for Diesel power generators and hydropower stations (M US\$).	280.00	321.00	280.50
Rural Electrification Schemes	20,000	20,000	NIL
Counterpart for Rural Electrification including Way leaves	4,027	NIL	NIL
Counterpart funding for Energy for Rural Transformation.	396	NIL	NIL
Insurance cover for National Strategic Fuel Reserves.	119	119	119
Equity Share in the Kenya – Uganda Oil Pipeline (M US\$).	3.000	3.000	0.7375
Office Accommodation/Rent (Including Arrears)	550	550	550

A3.5 Medium-term Cost Estimate for Development of Power Projects

Power Projects	Investment Cost Estimate (US\$ Million)		
	2005/06	2006/07	2007/08
Bujagali	95.00	108.00	63.00
Karuma	63.00	75.00	75.00
Small Renewable	18.00	23.00	40.00
Thermal Generation	10.00	10.00	15.00
Transmission and Distribution.	94.00	105.00	87.50
Totals	280.00	321.00	280.50

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Annex IV: TOR for a SWAp Facilitator

1. Background

The Donor Working Group for energy has taken the initiative to assign a study for the purpose of assessing the possibilities - and recommending concrete steps to take - for a Sector Wide Approach (SWAp) to the energy sector in Uganda. The study is primarily intended to inform GoU and development partners in the energy sector of the pros and cons of a SWAp and, if a SWAp is deemed cost efficient, concrete recommendations on actions to take in order to embark on a SWAp process.

An Energy Sector Working Group (ESWG) will be established as part of the introduction of a sector wide approach in energy. The ESWG will be a forum for strategic decision-making within the energy sector and the decision-making body on sector wide approach-related issues. It will be set up under the chairmanship of the Permanent Secretary of the Ministry of Energy and Minerals Development (MEMD).

To enhance the capacity in managing the transformation towards a SWAp, a part-time consultant will be hired to work in close consultation with the MEMD, the ESWG - once established - and the Donor Working Group for energy. A sector coordinator in MEMD will be appointed for the SWAp process.

These Terms of Reference outline the objectives and scope of the SWAp TA, and the working arrangement under which the task will be carried out.

2. Objectives of the Recruitment

The main objective of the recruitment is to assist in the process of initiating and implementing the energy SWAp, under an agreed timeframe for the involvement of the consultant. The TA should be seen as a person to help the sector carry out their duties, to involve it in the process, and to gain ownership by stakeholders.

Specific objectives will include:

- (i) Helping the sector move toward its SWAp goals, in line with the principles and policies reflected in the PEAP and best practice, by assisting in coordinating stakeholder efforts through MEMD and the Donor Working Group, and subsequently through the ESWG when established;
- (ii) Support the coordinator in streamlining and operationalising the policy formulation, planning and coordination of activities in the energy sector, through established processes such as Budget Framework Papers (BFP) and the Medium Term Expenditure Framework (MTEF);
- (iii) Support the strengthening of inter-governmental and development partnerships, collaboration, and the building of confidence among the energy sector stakeholders;
- (iv) Facilitate the development of institutional mechanisms and fostering organizational change for the preparation and implementation of the energy Sector Investment Plan.

3. Specific Tasks and Outputs

The outcome of this consultancy will be a more coordinated, better functioning and collaborative sector that is focused on the specific objectives that the energy sector is expected to fulfil. This in turn should help to raise the sector's profile, bring more funds on-budget, and exploit synergies and linkages with other sectors.

The deliverables expected of the TA, and those expected of the sector - with the TA's facilitation - include, but are not limited to:

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Scope of work/duties of the facilitator:

- (i) Support the coordinator in organizing and facilitating relevant meetings and workshops to engage the sector in moving the SWAp process forward;
- (ii) Assist the coordinator in liaising with all stakeholders in sensitizing, influencing and gaining widespread consensus with the overall aims of the SWAp;
- (iii) Assist the energy sub-sectors to network, identify common priorities and to synchronize activities;
- (iv) Assist in building relationships with key development partners and central government ministries;
- (v) Act as secretary in key committees as required;
- (vi) Assist the coordinator in preparing strategy working papers regarding the SWAp process and content alongside quarterly progress reports;
- (vii) Develop terms of reference for consultancies or studies as required by the sector.

The TA will build on existing resource inputs available in MEMD and elsewhere, such as the Energy Policy, sub-sector plans, MFPED guidelines, etc.

All work is to be framed in the context of the PEAP.

4. Qualifications

The SWAp facilitator should have an advanced degree in areas such as Public Administration or Public Policy and Management, Energy Sector Management or Organisational Development with professional experience in development planning, institutional/management and change processes. Working knowledge of the Public Sector and the SWAp process is essential. A good understanding or qualifications in energy sector management is highly desirable.

The preferred candidate should be a good net-worker and able to work with a diverse group of individuals from different administrative set-ups. Experience with donor funded work and public sector reform in emerging economies is an added advantage.

5. Reporting

The SWAp facilitator will work side by side with the SWAp coordinator as counterparts and will report directly to, and work closely with the Permanent Secretary of MEMD. The facilitator will be a key member of the ESWG and in particular perform the role of Secretary.

6. Terms and Conditions of Service

The SWAp facilitator will be employed on a contractual basis for a period of one year, which is renewable depending on circumstances and progress. Whether the assignment will be full-time or part-time is to be decided. Office accommodation, facilities and transport will be provided by MEMD.

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Annex V: TOR for the Assignment*16. February 2005*

**TERMS OF REFERENCE
for
A FACT FINDING MISSION
to assess
THE POSSIBILITY OF A SECTOR WIDE APPROACH (SWAp)
to
THE ENERGY SECTOR IN UGANDA**

Sector Wide Approaches (SWAp) are more of a process than a clearly defined aid instrument. SWAp can be financed in a variety of different ways including project, pooled (basket) and budgetary financing. A core precondition for a SWAp is an able and active sector ministry who is willing to take the lead.

Other important elements in a sector approach are:

- Widely accepted sector policies consistent with the national PRSP (PEAP)
- A medium term expenditure framework
- A sector performance monitoring system
- Mechanisms for co-ordination, harmonisation and streamlining
- Sector funding and programming mechanisms
- Inclusive consultation mechanisms

1. Background

The Energy Policy for Uganda was formulated in 2002 as the strategic framework for sustaining economic growth and ensuring widespread access to affordable modern energy services. The policy focuses on energy supply under which power, petroleum and new and renewable energy sources are the most important sub-sectors, as well as on energy conservation with particular focus on industry, transport and agriculture being the most important sectors of energy consumption.

Since adoption of the Electricity Act in 1999, significant progress has been made to reform the institutional framework for the electricity sector, to restructure and divest the vertically integrated parastatal utility Uganda Electricity Board, and to make electricity tariffs more cost reflective. Attracting sufficient private investments in infrastructure to match growing demand, improving quality of electricity supply and curbing technical and non-technical losses still constitute important challenges for the sub-sector.

Although some progress has been made to increase access to electricity, Uganda's electrification rate is still very low, with grid access for 8% of households countrywide and 3% of households in rural areas. Recognising the need and importance of accelerating access to rural areas, a new Rural Electrification Strategy and Plan was adopted by Cabinet in February 2001 with the aim to increase grid access for rural households to 10% by 2011/12.

Currently, Uganda imports all its petroleum products to the tune of about USD 160 mill per annum. Exploration activities in the western Rift Valley (the Albertine Graben) indicate that Uganda has substantive petroleum resources that may be economically viable to develop. There is a need to develop the institutional and legislative framework for upstream petroleum activities, in order for Uganda to be able to manage development and production activities.

In the revised Poverty Eradication Action Plan (PEAP III) (recently adopted by Cabinet, but still to be formally launched) energy is considered an economic service in the new Pillar 2. Compared to PEAP II,

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where energy was dealt with more as a cross cutting issue, it is expected that PEAP III will facilitate efforts and co-ordination by providing a clear line responsibility.

The draft indicators and priority actions most relevant for the energy sector in the PEAP III Results Monitoring and Policy Matrixes are:

Results and Monitoring Matrix PEAP Strategic Objectives	Outcome Indicator	Base and Target Year Values
2.5 Strengthened infrastructure in support of increased production of goods and services	% of rural households accessing electricity	3% in 02/03; 10% by 11/12
2.3 Increased and sustainable forestry production consistent with increased forest cover	Average distance to firewood source	0.73 km in 00/01; < 0.5 km by 09/10
The Policy Matrix PEAP Strategic Objectives	Challenges	Priority Actions
As above.	<i>Supportive Infrastructure Power:</i> Strengthening power infrastructure in support of production of goods and services in all areas.	<ul style="list-style-type: none"> Urban power system made more efficient and financially sustainable through: (i) operationalisation of concession agreement for private sector management of UEDL; (ii) Finding new investor for Bujagali Falls project; (iii) Expansion of energy audits in pursuit of demand-side savings; (iv) rationalization of tariff system by Energy Regulatory Commission; and (v) GOU paying off power bill arrears and paying power bills on time. Rural electrification expanded through public sector grid extension, independent power producers, and promotion of solar energy and other renewable energy sources, with 10 percent coverage achieved by 2012 compared with 3 percent coverage in 02/03. Rural Electrification Fund operationalised for providing subsidies to private suppliers of power.

It remains, however, a challenge to translate the strengthened focus on energy in the revised PEAP into adequate priority in the budget. With the introduction of hard budget ceilings in FY 2004/05 and plans to introduce a cap on external borrowing (USD 200 mill per annum), budget priorities have become more critical than before. Energy is not among the protected (PAF) sectors, and the Medium Term Expenditure Framework (MTEF) has subjected it to cuts in the area of 40-50 percent compared to FY 2003/04. The budget estimate for FY 2004/05 is 70.7 bill UGX (approx 41.4 mill USD at the current rate) including donor contributions, representing 77% of requirements presented in the Ministry of Energy and Minerals Development (MEMD) Budget Framework Paper and with no significant change over the next two years in the MTEF.

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Background Reference Documents

1. The Revised PEAP (version 22 August 2004 adopted by Cabinet)
2. The Energy Policy for Uganda (2002) with Indicators
3. The Strategic Plan for Power Sector Restructuring and Privatization (1999)
4. The Rural Electrification Strategy and Plan (2001)
5. The National Biomass Energy Demand Strategy 2001-10 (Draft June 2000)
6. MEMD Annual Report (2003)
7. The Petroleum Supply Act (2002)

Currently, 12 donors are involved in the Ugandan energy sector, their areas of activity indicated in the table below.

Donor	Areas of activity	Amount/year
WB	<ol style="list-style-type: none"> 1. Power system investments – generation, transmission and distribution (Power III and IV, Bujagali) 2. Rural Energy (ERT) 3. Electricity sector restructuring + privatisation 4. Regulatory and monitoring framework for the downstream petroleum sector (Power IV) 5. Geothermal energy development (together with Iceida). 6. Capacity building (integrated in above projects and to ERA together with Norway) 	
AfDB	<ol style="list-style-type: none"> 1. Urban Power Rehabilitation 2. Alternative Energy Resource Assessment and Utilization Study 3. Capacity building (integrated in the above) 	
NDF	Power systems investments (Power IV) and optimisation (SCADA) (co-financing with WB/IDA and Norway)	
UNDP	Rural energy/new renewables – PV (UPPPRE)	
UNIDO	Demand side management (Uganda Cleaner Production Centre)	
Germany	<ol style="list-style-type: none"> 1. Energy conservation 2. New renewables 3. Capacity Building (integrated in the above + Energy Advisory Project) 	
Iceaid	<ol style="list-style-type: none"> 1. New renewables (geothermal exploration - pre-feasibility studies) 2. Capacity building (integrated in the above - Geological Survey and Mines Department) 	
Sweden	<ol style="list-style-type: none"> 1. Power system investments (Power III + transmission lines) 2. New renewables (small hydropower site evaluation) 3. Capacity building (integrated in the above + REA) 	

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Netherlands	Energy conservation	
Norway	1. Power system investments (Power III and IV + rural transmission lines) and optimisation (SCADA) 2. Capacity building (integrated in the above + ERA (ongoing) + UETCL (planned) + MEMD (planned))	USD 8 mill.
China	Rural/alternative energy (biogas)	
USAID	Energy conservation activities in the East and mostly in the SW via energy saving stove and biogas technologies.	
Austria		

Overall, support to the Ugandan energy sector stands out as fragmented in a large number of (isolated) projects (even within the same investment programme as illustrated by Power III and IV). A holistic programme for donor interventions, which would follow up the intentions in the 2002 Energy Policy, is still to be established. Common modalities for monitoring and reviews of sector performance have not been agreed upon. Support to the sector is therefore hampered by unclear investment priorities and high transactions costs both for GoU and its development partners.

On this background an informal Energy Donor Working Group with participation from GoU and the private sector was established in 2004 with the aim to explore synergies in donor support to the energy sector, reduce transaction costs for both GoU and development partners and to contribute to adequate focus/priority being put on energy issues in Ugandan policies and budgets.

2. The purpose of the study

The purpose of the study is to assess the possibilities and recommend concrete steps to take for a Sector Wide Approach (SWAp) to the energy sector in Uganda. The study is primarily intended to inform GoU and Development Partners in the energy sector of the pros and cons of a SWAp and, if a SWAp is deemed cost efficient, concrete recommendations on actions to take in order to embark on a SWAp process. The study is also intended to inform the process of formulating a WB Joint Country Assistance Strategy for Uganda, currently going on with active participation from AfDB, DFID, Germany, Netherlands, Sweden and Norway.

3. Scope

The study shall focus on the hydrocarbon and electricity subsectors, including upstream hydrocarbon activities, the national power system, rural energy, new renewables, biomass and energy conservation issues.

The study shall analyse and take into regard:

- What kind of meaningful activities the program could undertake in the commercial (upstream hydrocarbons, urban power distribution, transmission, fuelwood, grid-connected renewable energy), quasi-commercial (rural electrification projects that based on normal REA subsidy rates

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are commercially viable and renewable energy for isolated grid systems, PV-systems) and non-commercial/social energy projects (energy and electricity supply to the most disadvantaged regions) respectively.

- What kind of energy activities are most meaningfully performed within the energy program and the Ministry of Energy and Minerals Development, and which are better performed through other line ministries

The study shall cover the following areas:

- In the context of the revised PEAP and the MTEF, review the energy sector policy framework describing the current sectoral setting, constraints, policy priorities, strategies and programs. In particular, the definition of the energy sector and the Energy Policy for Uganda (2002), the Rural Electrification Strategy and Plan (2001) and the National Biomass Energy Demand Strategy 2001-10 (Draft June 2000) shall be assessed. Important cross sectoral links and ways of working with these should be identified and assessed.
- Identify institutional and other constraints to formulate coherent priorities for the energy sector overall. Review the public finance governance structure, fiduciary arrangements and accountability mechanisms related to the energy sector. In particular, the institutional capacity and the staffing needs of the Ministry of Energy and Minerals Development and the Ministry of Finance, Planning and Economic Development to facilitate a SWAp for the energy sector shall be assessed.
- Review Uganda's financing and subsidy policies and suggest measures to improve these. Within this broader context tariff policies and other means to mobilise the private sector should be discussed.
- Review Uganda's policy and practice regarding the role of private sector and the public sector respectively in public/private partnership with regard to investments in energy infrastructure.
- Review ongoing and planned donor interventions in the sector, assess to what extent there is thematic overlap, and propose (practical) options for improved co-ordination and harmonisation of the support.
- Assess and recommend options for harmonised modalities for support in terms of basket funding and joint reviews and monitoring of support to the energy sector. To ensure that a SWAp would contribute to development effectiveness, a set of monitorable sector performance indicators should be suggested.
- Based on an assessment of the comparative advantages of different donors, propose a rational division of responsibilities in the energy sector.
- Combine a) to g) above to assess the feasibility of a SWAp and recommend concrete steps to take to move towards a strategic framework that can guide the overall development efforts in the energy sector:
 - Both the possibility of a SWAp approach to the whole energy sector and a "segmented" (pragmatic) approach to sub-sectors or topics particularly ripe for improved harmonisation and co-ordination shall be considered.
 - The need to improve the following and other elements considered of importance for a SWAp shall be assessed, and explicit recommendations on how this may be done shall be made:
 - Sector policies
 - Performance monitoring
 - Mechanisms for co-ordination, harmonisation and streamlining
 - Sector funding and programming mechanisms

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- Inclusive consultation mechanisms

- Draft ToRs for the following functions shall be provided:
 - Energy Sector Working Group
 - SWAp facilitator (TA to MEMD)

4. Implementation

Relevant background material like government plans and policies and briefs on ongoing and planned projects will be made available to the team in the preparation phase of the study. The team will meet with representatives of the GoU, the private sector, representatives of Sector Working Groups with developed Sector Approches (Agriculture, Water, JLOS, Education and/or Health) and donors in the Ugandan Energy Sector.

The study will take place in April/May 2005, and be of 4-5 weeks duration, including 2-3 weeks stay in Uganda.

The team will consist of:

- Truls Holtedahl, Norconsult (team leader)
- Wolfgang Mostert, Management Consultant/Energy and Environment Specialist
- *Local Consultant*

5. Reporting

A debriefing of the main observations and recommendations of the team shall be made to the Royal Norwegian Embassy, the Ministry of Energy and Minerals Development and the Energy Donor Working Group before departing from Uganda.

The team shall forward a Draft Report electronically for comment to Norad and Embassy within 14 May 2005, and be prepared to present the Draft Report to Norad.

Norad, GoU, energy donors and the Embassy shall provide its comments to the Draft Report within 21 days.

A Final Report shall be completed no later than 14 days after comments have been received. The final report shall contain maximum 50 pages including the executive summary of the major findings and recommendations plus annexes. The Final Report shall be forwarded electronically and in 10 hardcopies to Norad.

The report shall be in written in the English language.

Kampala, 16.02.05

Tore Gjøs
Ambassador
Royal Norwegian Embassy

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Annex VI: List of Persons Met

Person	Affiliation
Tore Gjøes	Ambassador, Norwegian Embassy, Kampala
Geir Y. Hermansen	Secretary, Development Affairs, Norwegian Embassy
Fred Kabagambe-Kalisa	Permanent Secretary, MEMD
Philippe Simonis	Energy Advisor, GTZ/MEMD
Justaf Frank Tukwasibwe	Principal Economist, SPU/MEMD
Albert Rugomayo	Coordination Manager, ERT/MEMD
Henry Bidasala-Igaga	Principal Energy Officer, ERD/MEMD
Alex Jagenu	Principal Personnel Officer, FAD/MEMD
Christer Hermansson	Counsellor, Head Rural Development Section, EU
Peter E. Njuguna	Country Operations Officer, AfDB
Dorothee Hutter	Country Director, Head, GTZ Uganda
Reuben J. Kashambuzi	Commissioner, PEDP/MEMD
Ernest N.T. Rubondo	Assistant Commissioner, PEDP/MEMD
Robert Kasande	Principal Geologist, PEDP/MEMD
Godfrey Turyahikayo	Executive Director, REA
Frank B. Sebbowa	Chief Executive Officer, ERA
Ben Dramadri	Chairman, ERA Board
Benon M. Mutambi	Manager Economic Regulations, ERA
Charles Baker	Economist, ERA
Auke Lootsma	Deputy Resident Representative, UNDP Uganda
Jane Nimpamya	Programme Officer, UNDP Uganda
Adrian Stone	Enterprise Development Adviser, DFID/Chair PSD DWG
Maria Selin	First Secretary, Embassy of Sweden/Co-chair PSD DWG
Keith Muhakanizi	Deputy Permanent Secretary/Secretary to the Treasury, MFPED
Lawrence Kizza	Director Economic Affairs; MFPED
Paul J. Maré	General Manager, UMEME
Kyiamba Eriasi	Managing Director, UETCL
Alex Muhweezi	Resident Representative, IUCN Uganda
Alan Tollervey	Rural Livelihood Adviser, DFID/Chair PMA DWG
Gregory Woodsworth	Energy & Environment Policy Advisor, UNDP Kenya
Laurent Coche	Regional Coordinator, UNDP Senegal
Agusta Gisladdottir	Counsellor, Chargé d'Affaires a.i., Embassy of Iceland
Irene Muloni	Managing Director, UEDCL
Annette Windmeisser	Head of Development Cooperation, German Embassy/Chair Water DWG
Katsuki Morihara	Second Secretary, Embassy of Japan
Charles-Martin Jjuuko	Programme Officer, Embassy of Japan
Ruth T. Lwetabe	Senior Investment Executive, Uganda Investment Authority
Sheila K. Mugenzi	Investment Executive, Uganda Investment Authority
Emmanuel Buringuriza	Director, Business Uganda Development Scheme, ERT/PSF
Gabriel Hatega	Managing Director, Private Sector Foundation
Jens-Peter Kamanga Dyrbak	Senior Decentralisation Advisor, DANIDA
C. Joseph Kitamirike	Commissioner for Industry, MTTI
Peter Rode	Programme Director, Financial System Development Programme, Sida/GTZ
Harriet Nannyony	Senior Operations Officer, WB
Benjamin N. Kamugasha	Chairman, Tax Appeals Tribunal/SWAp facilitator ENR Sector
Emmanuel Lubandi	Manager Finance & Administration, UEGCL
John Berry	Chief Executive Officer, Eskom Uganda Ltd.
Mokwanda Mngeni	Financial Director, Eskom Uganda Ltd.
Karen Rasmussen	Senior Energy Advisor Africa Region, WB Washington (phone conference)

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