

Call-down Contract

Terms of Reference

Political Economy Analysis of the Power Sectors in Eastern Africa and the Prospects for Closer Regional Integration

Background

It is widely acknowledged by technical experts that countries in eastern Africa could meet their growing needs for on-grid electricity (henceforth “power”) more cost-effectively by planning new generation capacity regionally, integrating their national grids and then – to reap the benefits - by trading power. By the end of this decade it is feasible that, as generation plants are commissioned and regional interconnectors are built, a number of countries in eastern Africa will have both surplus on-grid power and the means to export it.

Although all countries in eastern Africa are committed to a degree of power integration, as evidenced by the construction of regional interconnectors, it is not clear just how committed governments are in practice to closer integration and, critically, the extent of trading. Experience from other regions (such as Europe) is that closer integration and the systems and institutions needed to support this, is a long-term process. Experience also suggests that the existence of regional interconnectors, while necessary for trading, is not sufficient. It is not just a technical issue.

Electricity is a hugely political issue in Africa. There are many dimensions to this, ranging from the degree of state ownership and control over the industry and the nature and pace of any reforms to this, to who is affected by load shedding or gains as new supply becomes available. The prospect of regional trade brings an international political dimension with its own concerns, for example, over national energy security or the extent governments are willing to cede sovereignty over regulation of the sector to a regional body.

Although the politics of these issues play out differently in countries across the region there are some common trends. Some trade is currently happening and more bilateral Power Purchase Agreements (PPAs) are under negotiation. All countries now allow Independent Power Producers (IPPs), though in many cases the buyer remains a vertically integrated state owned enterprise. Nonetheless, IPPs are bringing in new players to the sectors and with interests which potentially challenge the status quo.

The pace of reform and commitment to regional integration in power differs across eastern Africa. There would not appear to be single dominant country or

organisation in the eastern African region which is leading the drive for integration and giving political drive to the development of the systems and institutions necessary to achieve it (akin to the role played by the European Commission in Europe or Eskom in the SAPP).

Given the scale of investment needed over the next decade to make regional power trading a reality it is therefore important that development partners' support for integration and so trading is politically-informed.

Few if any of these issues are unique to eastern Africa. The political realism of what may work in eastern Africa should be informed by how similar issues have played out in other regions and the extent to which circumstances are similar. It will be important to learn from this historical perspective what factors or issues helped assisted or impeded closer regional power integration and trading.

Purpose

Development partners need to ensure their support for the integration of countries' power systems in eastern Africa is informed by independent and credible analysis of the political interests for and against closer regional integration and of these interests' dynamics. This analysis should offer development partners guidance on the strategies and approaches that may be most effective in supporting some degree of power sector integration. Clearly this particular study will necessarily be a snapshot in time, given the changes underway in the power sector in individual countries as well as regionally.

Task

This is a focused study, centred on 4 main questions of operational relevance:

1. What degree of integration and what form of power trading is it technically realistic to expect by 2025 in eastern Africa?
2. What degree of high level political support is there for closer regional power integration and, critically, power trading?
3. What is the range of objections to greater regional power integration and trading and how are these likely to play out?
4. What are the implications of this analysis for how best development partners could support greater regional power integration and so trading?

The study will take place in two stages:

- i. desk-based scoping, which will include a review of relevant literature from eastern Africa and the experiences of other regions, supported by telephone interviews, cumulating in the Inception report;
- ii. detailed in-country work, where the countries will need to be agreed with DFID but are expected to be Ethiopia, Kenya, Rwanda, Tanzania and Uganda.

In the first stage the 'region' will comprise the countries who are members of the Eastern Africa Power Pool¹ before focussing-in on a sub-set in the second stage. The questions for the second stage should, if necessary, be refined in the first stage in conjunction with DFID.

It is envisaged that much of question 1 will be answered during the first stage, in which literature relevant to the other questions will also be reviewed and synthesised to provide a basis for the in-country work in the second stage.

Although the analysis of questions 2 and 3 will largely focus on the subset of EAPP member countries during the second stage, insights from the literature into other major EAPP member countries' positions should be synthesised in the stage one Inception report.

The four main questions and sub-questions are:

1. What degree of integration and what form of power trading is it technically realistic to expect by 2025 in eastern Africa?
 - a. What is the state of each EAPP member's power sector and its organisational form (whether their utility is still vertically integrated or extent unbundled, the commercial viability of their power utility/ies and the extent to which their generation firm(s) are open to competition)? What are the relationships – both formal and informal – between key players in each country?
 - b. What is the existing and planned organisational structure at a regional level to support integration and power trading, both formally and informally? What role have the main regional institutions – including EAC, EAPP, NELSAP and COMESA – played in increasing political support for regional power integration and trade?
 - c. What is the expected state of eastern African countries' power integration and so readiness for some degree of trading by 2018 and 2025? Linked to this:
 - d. What is the nature of the existing bilateral Power Purchase Agreements (PPAs) and the likely shape of those under negotiation? How do these play into the momentum, or lack of it, for regional power trading and the form this will take?
 - e. What does the experience of other regions in Africa and elsewhere suggest are realistic expectations for the speed and extent with which trading will start to take place given the readiness of EAPP members?
 - f. How realistic are the publicly announced plans for integration and trading (such as in the revised EAPP Master Plan dated Dec 2014)? What, if any, regional institutions are necessary for the type of trading likely to take place out to 2025?

This analysis of the likely trajectory of power trading in eastern Africa (around the speed with which trading takes off, the value of power traded and the

¹ Burundi, Democratic Republic of Congo (DRC), Egypt, Ethiopia, Kenya, Libya, Rwanda, Sudan, Tanzania and Uganda.

range of countries involved) needs to be informed by evidence from other locations on what realistic prospects for power integration are over the coming decade. Other parts of Africa, Asia, Central America, Europe and the US all offer lessons. It will be important to learn from this historical perspective what factors or issues helped make the case for, or acted against, closer grid integration.

2. What degree of high level political support is there for closer regional power integration and, critically, power trading in each stage 2 focus country?
 - a. Who are the main sources of support in each country for regional power integration including trading, and what are their motivations?
 - b. To what extent are supporters of power trade rooted in technical assessments?
 - c. How well understood is the potential for power trading among political and business elites and how important do they regard the issue (for example, in which countries could a more reliable and/or cheaper power supply affect political power bases – e.g. by being a vote winner - or material to private investment decisions)? Linked to this:
 - d. What is the balance of private interests for and against greater regional integration on power in each country? How active are business associations or major private companies in lobbying politicians and officials in each country on power sector issues and what is the nature and objective(s) of this lobbying?
 - e. To what degree do politicians understand how power trading will actually work and what is needed at the national level to enable cross border trade to occur? As part of this:
 - i. Have funds been allocated to the utilities and transmission system operators to comply with regional standards?
 - ii. Are politicians and DFIs closely tracking the progress of the transmission lines under development and construction?

3. What is the range of objections to greater regional power integration and trading in each stage 2 focus country and how are these likely to play out?
 - a. What are the main objections to integration and power trading in each country and who is articulating them?
 - b. To what extent are objections grounded in credible technical assessments (of, for example, the potential risks from regional power integration), including the extent to which governments want to be dependent on imported power?
 - c. To what extent are the objections grounded in more narrow self-interest (possible objections by parastatals to competition in power generation or from firms supplying standby generators etc.)?
 - d. To what extent are objections rooted in higher level politics, including but not restricted to on the degree to which some countries actually

want closer regional integration and/or to be dependent on power supplies from particular countries?

- e. Who benefits most from the status quo (even if, on paper, it is a highly sub-optimal status quo)? Who might win and/or lose from greater regional interdependence?
- f. How influential are these objections or vested interests against closer power integration and trading? To what extent are they slowing a move towards (a country's) trading or deterring necessary investment by the public or private sectors?

Drawing on the analysis and evidence in answering questions 1, 2 and 3

- g. What is the current balance of supporters and opponents and how is this likely to change by 2025?
 - h. To what extent is there currently consensus on the value of power trading among the political and business elites in individual countries and why?²
 - i. How realistic is it that this consensus could change (either in favour of or against greater regional integration) and what factors might bring about this change (given, for example, the election cycle in each country)? Set out 2 or more scenarios for how the consensus may change out to 2025 in each of the countries prioritised in stage 2 of this study;
 - j. How politically feasible does the technically realistic degree of regional integration and form of power trading set out in question 1 appear to be under these scenarios?
4. What are the implications of this analysis for how best development partners could support greater regional power integration and so trading? What strategies and approaches could development partners adopt that might make them more effective in helping bring about the changes necessary for closer regional integration of power systems, in terms of:
- a. Who (be they individuals, organisations or other entry points) are the likely 'champions' of integration we should seek to work with directly and which relationships should we try to broker through others in individual countries? Linked to this:
 - b. What mechanisms should we be seeking to use to help facilitate the necessary convening and brokering of different interests? To what extent are the formal and informal channels and mechanisms in place to overcome collective action challenges and to have the right conversations with the right players? What institutions/channels may be needed to broker differences, convene the right players, build trust and insulate reform processes from becoming politically captured?

² This is not to say than any actor will necessarily give unqualified support for power trading. For example a certain actor (e.g. a Ministry of Energy or a private firm) might support some aspects of regional power reform, but not others. The reality of this support is therefore likely to be complex and messy.

- c. What evidence, arguments or incentives may influence agnostics and so help broaden the support base?

Methodology

The consultants should set out in their bids what methodology they propose to use to answer the questions set out above.

The questions require that this entail a comparative analysis, looking at the historical experience of other regions, the identification of key stakeholders and mapping the institutions/organisations, and setting out dynamic processes around regional power sector reform in eastern Africa generally and in focus countries in particular.

Outputs

1. Inception report of no more than 25 pages to be submitted at the end of stage 1 (with detail in annexes, as necessary) to include:
 - a. the literature review largely addressing question 1 and synthesising what the literature has to say on questions 2 and 3 for EAPP member countries;
 - b. any proposed refinement of the questions for stage 2 for discussion with DFID.
2. Final report, containing:
 - a. an executive summary of no more than 5 pages;
 - b. a summary report of no more than 50 pages, with recommended development partner actions;
 - c. individual country reports with the scenarios, stakeholder and institutional mappings and stakeholders' profiling.
3. The consultants will make a presentation to DFID (if necessary using video conferencing).

Timing

There will be a kick-off meeting with DFID no later than 2 weeks after the contract has been signed. If necessary, this can take place through video conferencing.

The Inception report on stage 1 will be submitted no later than 4 weeks after the kick-off meeting at DFID.

It is envisaged that a number of the in-country studies will take place concurrently, allowing the draft Final report to be submitted within 2 months of DFID agreeing the Inception report. DFID will aim to provide comments on the draft Final report in 2 weeks and expect it to be finalised within a further 2 weeks.

Skills & Expertise Required

The study team will ideally comprise a range of expertise but have as a minimum political scientists and a power sector engineer, all familiar with eastern Africa.

The team will need to demonstrate an ability to draw operational conclusions to inform development partners' approaches.

Team members will need to have a well-documented record of relevant political economy analyses including a profound knowledge of the political economy of relevant governments or organisations in eastern Africa.

Consortium bids are welcome that draw on local experts in the countries likely to be studied in depth in stage 2. However, the team must have a clear leadership structure, quality assurance system and single point of communication.

The team must be independent from governments, regional organisations, power sector utilities, IPPs operating in the region or other bodies with an interest in power trading in eastern Africa.

It is expected that the full study will take about 60 person days to finalise, with about 15 person days being used for stage 1.

Duty of Care

The Supplier is responsible for the safety and well-being of their Personnel (as defined in Section 2 of the Contract) and Third Parties affected by their activities under this contract with whom the Supplier has a formal agreement including appropriate security arrangements. They will also be responsible for the provision of suitable security arrangements for their domestic and business property.

DFID will share available information with the Supplier on security status and developments in-country where appropriate. DFID will provide the following:

1. All Supplier Personnel will be offered a security briefing by the British Embassy/DFID on arrival. All such Personnel must register with their respective Embassies to ensure that they are included in emergency procedures.
2. A copy of the DFID visitor notes (and a further copy each time these are updated), which the Supplier may use to brief their Personnel on arrival.

The Supplier is responsible for ensuring appropriate safety and security briefings for all of their Personnel working under this contract and ensuring that their Personnel register and receive briefing as outlined above. Travel advice is also available on the FCO website and the Supplier must ensure they (and their Personnel) are up to date with the latest position.

The Supplier is responsible for ensuring that appropriate arrangements, processes and procedures are in place for their Personnel, taking into account the environment they will be working in and the level of risk involved in delivery of the Contract (such as working in dangerous, fragile and hostile environments etc.). The Supplier must ensure their Personnel receive the required level of training and complete a UK

government approved hostile environment training course (SAFE) or safety in the field training prior to deployment.

Tenderers must develop their Tender on the basis of being fully responsible for Duty of Care in line with the details provided above and the initial risk assessment matrix developed by DFID (see Annex 1 of this ToR). They must confirm in their Tender that:

1. They fully accept responsibility for Security and Duty of Care.
2. They understand the potential risks and have the knowledge and experience to develop an effective risk plan.
3. They have the capability to manage their Duty of Care responsibilities throughout the life of the contract.
4. If you are unwilling or unable to accept responsibility for Security and Duty of Care as detailed above, your Tender will be viewed as non-compliant and excluded from further evaluation.
5. Acceptance of responsibility must be supported with evidence of capability and DFID reserves the right to clarify any aspect of this evidence. In providing evidence Tenderers should consider the following questions:
 - a. Have you completed an initial assessment of potential risks that demonstrates your knowledge and understanding, and are you satisfied that you understand the risk management implications (not solely relying on information provided by DFID)?
 - b. Have you prepared an outline plan that you consider appropriate to manage these risks at this stage (or will you do so if you are awarded the contract) and are you confident/comfortable that you can implement this effectively?
 - c. Have you ensured or will you ensure that your staff are appropriately trained (including specialist training where required) before they are deployed and will you ensure that on-going training is provided where necessary?
 - d. Have you an appropriate mechanism in place to monitor risk on a live / on-going basis (or will you put one in place if you are awarded the contract)?
 - e. Have you ensured or will you ensure that your staff are provided with and have access to suitable equipment and will you ensure that this is reviewed and provided on an on-going basis?
 - f. Have you appropriate systems in place to manage an emergency / incident if one arises?

CB129 (February 2007)