

Case Study: Umeme Company Limited

Umeme's Story

Umeme Limited was founded in 2005 when the Government of Uganda privatized the country's power sector and awarded the company a 20-year concession to operate, maintain and manage its electricity network. Actis, who had supported the government and the World Bank during the privatization process, was an early investor. At the time of the concession, Umeme was jointly owned by Africa-focused electricity operator Globeleq Limited (56%) and South African public utility Eskom (44%). In 2006, Globeleq (which was then a wholly owned subsidiary of Actis) acquired Eskom's share, increasing Actis' indirect ownership stake to 100%. Actis took over Umeme in 2009.

The power sector in Uganda had suffered from years of neglect. Underinvestment alongside Uganda's tropical climate and



termite had rotted much of the distribution network's 20,000 kilometers of poles, resulting in dilapidated infrastructure that posed a risk to the population. Actis recognized that transforming the network into an asset able to accommodate Uganda's growing need for energy at affordable rates required a total overhaul, and therefore implemented a number of initiatives to drive growth and promote safety. Today Umeme is the largest electricity distribution company in Uganda, and is currently listed on the Uganda Securities Exchange and cross listed on the Nairobi Securities Exchange.

The Role Played by Private Capital

Actis viewed the investment in Umeme as an opportunity to acquire a well-structured platform capable of recycling self-generated cash flows into much needed network refurbishment—and to do so while earning an attractive investment return. Being the sole distributor of electricity in Uganda, Umeme was poised to benefit from revenue growth driven by increased usage amongst its current customer base, as well as via the introduction of new customers as more electricity generation was commissioned in the country. To help the company maximize its growth potential, Actis focused on a number of key issues including network safety and strengthened governance.



Prior to Actis' involvement, safety had not been viewed as a priority by either the company's management or the regulators. Beyond the decaying infrastructure, an additional safety hazard was the lack of understanding amongst local communities—and young children in particular—of the danger involved in trying to steal power or tamper with equipment. The processes for the entire network were overseen centrally by staff members who were not accountable for incidents or empowered to enact changes. While Umeme had an ESG sub-committee, it was largely perceived as irrelevant.

Actis invested in improving, replacing and maintaining Umeme's physical assets; however, the firm also identified operational and behavioral changes that needed to occur within the business and the broader community to ensure high standards of safety. Actis worked with Umeme to develop a network refurbishment plan, which included the installation of over 225,000 poles and the replacement of the majority of the network's existing poles and conductors. Safety metrics began to comprise a significant portion ▶

The Company



Essentials

Company: Umeme

Website: umeme.co.ug

Country: Uganda

Sector: Energy

Business focus: Electricity distribution

Size: US\$345 million in revenue (2015)

GP: Actis, an investor in growth markets across Africa, Asia and Latin America (act.is)

Dates of investment: 2009

Investment: Actis invested US\$34 million and owned 100% of the company until partially exiting its stake in June 2014 via a secondary sale on the Uganda Securities Exchange and the Nairobi Securities Exchange

Impact Highlights

Actis worked with Umeme to develop a network refurbishment plan, which included the installation of over 225,000 poles and the replacement of the majority of the network's dilapidated poles and conductors. In addition to investing in the company's infrastructure, Actis identified operational and behavioral changes that needed to occur within the business and the broader community to ensure high standards of safety.

Umeme's proactive stance against power theft set a new standard for electricity distribution businesses and contractors in the region. As of March 2016, approximately two years had passed without a single network-related "attributable" fatality (i.e., not related to illegal activity). There has also been a 20% decline in public fatalities due to network interference and domestic electrical wirings.

Since Actis' investment, customer connections have more than doubled (from 355,000 in 2009 to 794,000 in 2015). Electricity line losses have been reduced from 35% in 2009 to 19.5% in 2015, while cash collection rates increased to 98% in 2015—up from 80% at the time of Actis' original acquisition.

The Company View

“Our priority at Umeme is to look constantly for ways to improve customer service and safety, while increasing the reach of the energy supply to the people of Uganda. Actis’ involvement has helped to systemize our safety processes and has also significantly improved our management systems, corporate governance and operations, helping us to build a positive trajectory of customer growth and satisfaction.”

Charles Chapman
CEO, Umeme

IMPACT HIGHLIGHTS

	Initial Investment	September 2016
Revenue	UGX463 billion (2010) / ~US\$138 million	UGX1.16 trillion (2015) / ~US\$345 million
# of employees	1,200	1,396
Health and safety policies in place	No	Yes
Environmental management system in place	No	Yes
Investments in local communities	No	Yes

► of staff remuneration, while accountability was decentralized into four regions and 25 districts, with district managers becoming directly responsible to the Board and the newly elevated ESG sub-committee for any incident that occurred. Actis also facilitated improvements in Umeme’s community outreach and communications initiatives, including a safety campaign conducted through print media, radio and television as well as via 8,409 school talks and 7,884 community presentations.

Actis’ focus on elevating ESG standards and improving safety records was critical in securing a US\$25 million debt package through IFC (part of the World Bank Group), which continues to play an important role as a debt and equity holder. Actis moreover utilized a World Bank partial risk guarantee—the first such application for a regulated utility—as well as political risk insurance from the Multilateral Investment Guarantee Agency (MIGA) in order to reduce the financial risks associated with the investment.

In addition, Actis leveraged its network to strengthen Umeme’s management and corporate governance. Actis led the recruitment of a new Managing Director in 2009 as well as a new Chief Financial Officer in 2011, and supported the transition of a new Managing Director hired in 2015 with the former executive joining the Board as a non-executive director. New governance structures were put in place, including a Board of Directors and Board sub-committees in line with international best practices (e.g., Audit, ESG, Customer Service / Loss Reduction, Remuneration, Nominations and Strategy).

Since Actis’ investment, the distribution network has significantly improved. Customer connections have more than doubled (from 355,000 in 2009 to 794,000 in 2015), while EBITDA has grown at a 15% compound annual growth rate between 2012 and 2015 in U.S. dollar terms. Electricity line losses have been reduced from 35% in 2009 to 19.5% in 2015, while cash collection rates increased to 98% in 2015—up from 80% at the time of Actis’ original acquisition.

Beyond the Bottom Line

Actis’ involvement in Umeme has helped improve safety conditions for employees and the public. In addition, Umeme’s proactive stance against power theft set a new standard for electricity distribution businesses and contractors in the region. As of March 2016, approximately two years had passed without a single network-related “attributable” fatality (i.e., not related to illegal activity). There has also been a 20% decline in public fatalities due to network interference and domestic electrical wirings.

In order to continuously monitor Umeme’s ESG initiatives, Actis implemented its Actis Energy Impact Model, which identifies and tracks issues relating to responsible

investment. This includes consideration of governance, employees, infrastructure, financial value, social responsibility, community and the environment. Umeme is in constant consultation with the National Environment Management Authority (NEMA) on environmental matters. Key related initiatives undertaken include: (1) an Environmental Impact Assessment of all significant capital investment projects; (2) proper asset disposal procedures for poles, oil and scrap materials; (3) proactive resolution for dangerous network conditions; (4) prevention of oil spills from contaminating water sources; and, (5) continuous staff training on safe network operations.