CHAPTER FIVE. CONCLUSION AND IMPLICATIONS

5.1. Conclusions
After the range of theories and case study reviews, it is clear that there is direct link between privatisation and global phenomena, mainly neo-liberal globalisation. From the findings on the case of Rwanda and ELECTROGAZ, it has become obvious that by relying on international financial institutions (IFIs) the country has been driven to adopting privatisation as one of its main economic policies. It has been shown how from time to time the UNDP/World Bank experts have criticised policies related to ELECTROGAZ and have been recommending reforms including the privatisation of the company. This highlights quite clearly the notion that privatization is part of an ideology in which people are coerced into accepting a particular set of policy strategies (Collyer 2003).

The case of ELECTROGAZ represents an example of hegemonic discourse. International Financial Institutions (IFIs) have such power over borrowing countries that the latter are coerced into following what is said by them. As argued by Peet (2003) and Ruckert (2005), not only does the financial power buy influence on borrowing countries but also financial institutions have the power to promote certain ideologies, mainly neo-liberalism. In fact, it may be confirmed that privatisation has been ‘forced’ onto the government and people of Rwanda, and this was sold to the residents as a solution to the bad performance of ELECTROGAZ. Residents believed in government assurances that this was the only option, and initially welcomed privatisation.

However, as the focus of the study is not about how Rwanda came to privatise ELECTROGAZ but about whether privatisation of services works or not, different landmarks have helped in reaching the goals. The study has taken the quality of services and the prices as the main landmarks to assess how privatisation of services offered by ELECTROGAZ impacts on Kigali residents. A range of issues enter in the assessment of the quality of services. Since the company’s management was privately operated, people recognize that to some extent, the company’s administration has improved regarding staff-consumer relations. Commercial (customer) services have improved, given that data processing and service handling have speeded up more than ever before while the number of ELECTROGAZ offices increased and service hours extended. Nevertheless, even if
people believe there have been some improvements in the administrative procedures, they consider that changes in ELECTROGAZ have not removed bribery and fraudulent practices in service provision. To some extent, people think bribery and fraud have even increased, as seemingly the management team shows insufficient power to deal seriously with corrupt workers.

Apart from bribery and fraud, the most crucial problem found is the severity of water shortages which the company has been unable to stop or mitigate. Every respondent recognizes that ELECTROGAZ has weakened since privatisation. Electricity and water cut-offs, which used to be the exception, have become the rule for Kigali residents. Currently, all neighbourhoods are supposed to get water and electricity following a load-shedding program issued by ELECTROGAZ as the latter is able to supply for the whole city with only intermittent connections.

In addition to intermittence in connections a lot of abnormalities have been reported when talking of quality of services. Kigali residents complain about unfair distribution of water and electricity given that some areas stay disconnected longer than others. Besides this, findings show that the load-shedding program made public by ELECTROGAZ is far from being respected by the company. Actually, what is made public most times appear totally different from what is happening on the ground, and this has necessarily devastating results on households’ electrical appliances and electricity use. There is no evidence about whether the private operator increased Kigali residents’ access to clean water and electricity as no figures were available for a possible comparison of pre- and post-privatisation situations.

Apart from the quality of services, another landmark to assess the impact of the privatisation of ELECTROGAZ on the residents of Kigali is the prices that people have to pay for services. As findings make it clear, since the management contract came into effect electricity rates rose from RwF 42/Kwh to RwF 81.26/Kwh (nearly the double) in around one year of operation. The main justification was the introduction of the highly costing Diesel Generating option that was introduced to complement hydroelectric stations. Consequently, even the rate of RwF 81.26/Kwh which effected since January 2005 could not last for a year as it rose up to RwF 112/Kwh by December 1st, 2005. It is then obvious that, in around two years since the management contract came into effect,
electricity rates have almost tripled. It should be highlighted that this hike of electricity rates coincided with the introduction and enforcement of prepaid metering.

On another hand, previous water rates were maintained until the proposed tariffs structure will be adopted by the government. The proposed tariffs structure gives rates rising up to more than the double of the current ones. As a RURA official says: ‘with this proposed tariffs structure most low consumption residents are likely to fall in the category of 5-20 m³ which will be paying around RwF490/ m³ VAT included while they used to pay RwF200/ m³’. Even if the utility regulation agency, RURA, has no way to prevent hikes it recognises rates are unaffordable given the average income of Kigali residents and the weakening of purchasing power of RwF.

It has been noticed that hikes result from different elements. Actually, with the process of privatisation Rwanda was advised to abandon its policy of subsidizing ELECTROGAZ operations to allow the practice of cost recovery. This means that the entire cost of services has now to be put at the consumer charges. Besides the rapid decline of electricity generation and drinking water production, the new operator chose to switch on Diesel Generating Units to complement hydropower stations. This option, short-term solution as it is said, is very expensive given that the price of the engines is very high yet the most expensive is the cost of operation. In fact, the monthly diesel consumption of these units amounts RwF 560 million (one million US dollar). Hence, as all the costs are to be put at the consumer charges, it is obvious hikes had to happen to allow the private operator to get his money back as soon as possible.

It also has been noticed that the costs of connections either for electricity or for water are very high, and to some extent unaffordable, given the average income of Kigali residents. The fact that all equipment has to be obtained only from ELECTROGAZ warehouse gives a monopolistic way of handling the operations. Given that the company has got the monopoly to supply equipment, it is believed that it sets prices the way it wants and even if the regulatory agency exists nothing shows it has intervened in keeping prices affordable to consumers. Besides that, seemingly, connections charges are not discussed with the regulatory agency.
Regarding services offered by ELECTROGAZ, something else has to be highlighted about Public-Private Partnership in the management contract between Rwanda and Lahmeyer International. It has been found that polemics exist between the government and the private operator on the poor performance of the company. While the government states that the operator is not performing towards meeting targets set when the contract was signed the latter rejects responsibilities and says problems in distribution result from failures in infrastructure investments. As the government is still responsible for production of drinking water and electricity, the operator argues that the government does not produce enough electricity and water to meet the existing demand. However, for the government the issue is about how the operator distributes what is produced and deals with some other operational responsibilities.

This situation suggests that the government, which is supposed to guarantee the production of utilities (electricity and drinking water), does not have enough money to meet the current demand. In my view it appears complicated to build a partnership between a weak welfare guarantor (that is the government) and the private operator whose main focus is the financial returns from operations. It is obvious that a government cannot guarantee social welfare to citizens if it has insufficient resources\(^{37}\). Actually, even if the government has the responsibility of producing drinking water and electricity, it still relies on external sources to invest in infrastructure. This may give more power to the private operator to promote his interests as the bargaining power of the government falls down by failing to produce enough electricity and water to meet the demand.

Moreover, deficiencies in services provision go far from the single element of insufficient water and electricity. For example, cases of bribery and fraud in services do not depend on whether power or water generation is perfect but on the company’s management itself. In addition, the unfairness and imbalances in electricity and water distribution between areas is in no way linked to the generation side but to the way the operator is managing the company.

In summary, the case of the management contract of ELECTROGAZ gives a situation where the mixture of privatisation of utility management with some institutional issues has

\(^{37}\) The 2005 budget illustrates how Rwanda depends on external funding. Actually, on RwF 105,820,541,869 total budget, RwF 88,087,627,000 had to come from external sources (grants: RwF 52,140,125,000 and loan: RwF 25,947,502,000) (MINECOFIN 2005)
resulted in worsening quality of services and rising rates of water and electricity. This worsening situation obscures whatever improvements that the private operator might have brought in. Seemingly the billing side has strengthened as the management has dealt with outstanding debts by introducing a prepaid metering and harsh measures against failure to pay for water and electricity.

Thus, even if no reliable data is provided, commercial losses must have decreased\(^\text{38}\), hence the operator ensured good returns\(^\text{39}\). However, this coincides with the worsening supply and rising rates. It is then debatable as to whether service delivery problems are the fault of the privatised distributor alone, or of the government as the producer. Nevertheless, the fact that tariffs have increased lends support to the view that the first priority of privatised entities is profit, and not the welfare of citizens.

5.2. Study implications

Given the above findings, it is obvious that privatisation in itself does not lead to improved services. Actually, even if services were bad before, the private operator did not improve the situation considerably and in some areas the quality worsened. It would then be unwise for whoever to assume that adopting privatisation as the major policy will improve the company’s efficiency. This comes then to questioning the reason why private operators would be involved in providing public necessities.

Considering the case of ELECTROGAZ, it has to be noted that private involvement in water and electricity provision runs the risk of a clash between private capital’s interest and public welfare. Water and electricity are not business subjects like others; they are about life necessities. Even if the State still has the ownership of the company and can terminate the contract with the current operator in case it assumes things are going the wrong way, external pressure from donors makes the government go the way of full privatisation of the company. With regard to the current situation in Rwanda, it would be a mistake to go further steps to full privatisation of ELECTROGAZ given that the state is the only one responsible of guaranteeing social welfare to citizens. Moreover, it seems that

\(^{38}\) Even if no single figure were provided to prove that commercial losses have decreased, at least the prepaid metering is one of ways the company ensures the whole billed amount is collected.

\(^{39}\) Updates from a local newspaper (The New Times) highlight that ELECTROGAZ has accumulated arrears amounting over RwF 60 million at the Rwanda Utility Regulatory Agency (RURA) in form of regulatory and universal access fee from 2003 (the time it was put under the management contract.)
when a private operator distribute what is produced by the state the former may reject responsibility on whichever failures that occur in day-to-day operations.

Besides this, the case of ELECTROGAZ stands for an example of where the process of privatisation coincides with removing state subsidies (cost recovery practices) that has contributed to increasing utility rates. This is the fact that privatisation is more than the mere sale of public assets or the contracting-out of services as it also involves public sector and welfare cuts, trends towards intensive market commoditization, a new emphasis on self-provisioning, and the increased domestic burden being placed on families according to Collyer (2003). In fact, it is understandable that a country like Rwanda has limited financial means to subsidize some key sectors, but instead of speeding privatisation and removal of subsidies, some other options not considered should have been considered in order to make rates affordable to everybody and to strengthen the sector.

The option of using Diesel Generating units suggests a case where the private operator abandons or ignores all local possibilities in investments (e.g. upgrading hydroelectric stations, the use of methane gas, solar energy) and chooses prioritising an option, which makes the country more dependent on external sources of energy. In fact, since Rwanda does not produce petrol, the use of the machines requires the country imports more and more diesel. This may make electricity and water rates vary depending on petrol international prices changes and the high cost of petrol transportation to Rwanda. Actually, petrol imports depend on road transportation that involves crossing Kenya, Tanzania and Uganda, with all arrangements this requires.

Another concern may be about partnerships between a non-solvent state and private operator. Given that in partnership the state holds the responsibility of production while it depends on external funds, the risk is that the partnership may be distorted if the state fails to meet needed production. Actually, this may impact on the distribution and alter or mislead whatever assessment one should do on the distribution side.

5.3. Further research orientations
This study has focused on the impact of the privatisation of ELECTROGAZ on the residents of Kigali. In fact, the study takes into consideration only one type of residents
that of households. It does not consider how the privatisation of ELECTROGAZ has affected big consumers nor does it take into consideration how the management contract has affected the financial side of the company. It would be interesting to do a study on what the outcome of the privatisation of ELECTROGAZ with regards to big (commercial) consumers is.

As this study does not focus on the link between ELECTROGAZ restructuring and labour issues, further research should consider assessing how labour is affected by the contract management. Furthermore, a quantitative data analysis to assess the management contract of ELECTROGAZ would be worthy of conducting, considering that this study is merely qualitative.

This case study is about the partial privatisation of a utility – in other words one where the management contract is such that the state still has the ownership of the utility. However, since Rwanda engaged in the privatisation process, several companies have been fully sold. Hence, it is obvious that there is a need for further studies to assess what privatisation has achieved in general, and studies on particular cases of companies that have been fully privatised.