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Promise Tracker

New special report. The ***Promise Tracker*** is *Daily Monitor's* weekly special feature that will track the promises made by leaders of all categories as well as public agencies to the people. The aim is to cause accountability, show status and analyse whether it was a realistic, unrealistic or empty promise.

Ugandans wait on Cabinet to deliver reduced power tariffs

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Project. Bujagali Energy engineers at one of the sub-stations at Bujagali Hydro Power Station in Jinja last year. The President called for negotiations with the project so that power tarrifs are reduced. PHOTO BY JOSEPH KIGGUNDU

THE PROMISE:

One June 23, 2016, while speaking at State House Entebbe where he opened the inaugural meeting of the Cabinet following the 2016 General Election, President Museveni directed officials in the Ministry of Finance and Economic Planning to negotiate a reduction in the cost of power from Bujagali Hydro Power Station.

"Work with the proprietors of Bujagali to lower the costs of electricity produced by that station. It may involve tax exemption and whatever other measures that are needed that must bring down the cost of that electricity to may be around six American cents per unit from the present 11 American cents per unit," he directed.

"Then a subsidy must be put in place to reduce the cost of electricity to the manufacturer to five American cents.

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Cost. This the current cost per unit in American cents of electricity from Bujagali. The President last year tasked the Finance ministry to negotiate a reduction in cost to at least six American cents per unit.

These measures must be concluded in the next six months, that is, by February 2017," he added.

The generation tariff for power at Bujagali is $13 cents (Shs462) per unit.

The background

During the same meeting Mr Museveni boasted that the country had successfully dealt with an energy deficit that nearly crippled the economy in the period between 1996 and 2006, when power generation from Nalubaale (Owen Falls) and Kiira Dams in Jinja, plummeted from 330 megawatts to about 120 megawatts, yet demand within the region stood at 360 megawatts.

So acute was the problem that power distribution firm, Umeme, was forced to introduce 12 to 24 hour load shedding schedules.

The cost of production went up in all the industries as most of them were compelled to find and install alternative sources of energy like generators, which were costly to run.

Some were forced to adopt austerity measures including laying off of workers in order to mitigate the costs incurred because of the power outages.

Government was forced to allow the opening of several thermal power plants such as the 50-megawatt plant, which was opened up in Lugogo by Aggreko International and other 50-megawatt plants in Mutundwe, Namanve and Jinja.

The plants made the cost of generation shoot through the roof. Ugandans had to bear with impromptu hikes in domestic tariffs, the worst being the 37 per cent increment, which was announced in June 2006.

Government was forced to subsidise the cost of power. The totals of what it forked out were not readily available, but in the Financial Year 2006/2007 alone, it paid out Shs229 billion in power subsidies.

The story, however, changed dramatically following the commissioning in October 2012, of the Bujagali power plant, which is jointly owned by Bujagali Energy Ltd (BEL) and Bujagali Holdings, affiliates of both the Aga Khan Fund for Economic Development-owned Industrial Promotion Services (IPS), and Sithe Global PLC.

Since the opening of Bujagali, the number of power plants increased to 13, the majority being mini-hydro stations producing less than 15 megawatts. Some of these include Mubuku one, Bugoye Hydropower Project in Kasese, Kabalega Hydroelectric Power Station in Hoima, Kanungu Power Station in Kanungu, Mpanga Power Station in Kamwenge and Adekokwok Hydroelectric Power Station in Lira.

"With infrastructure, the issue of the deficit of electricity has been addressed. We now have a surplus of 100 megawatts even at the peak hours of electricity use, that is between 6pm and 10pm," Mr Museveni boasted.

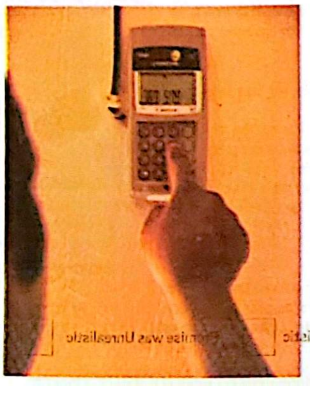
The chest thumping was justified in light of the achievements that have over the years been realised in the energy sector.

The challenge has, however, been that existing tariffs are stifling growth of the manufacturing sector and that they are turning away investment as would-be investors opt for destinations like Kenya and Ethiopia, which have lower power tariffs than Uganda.

It was against this background that Mr Museveni issued the directive during his first meeting with the cabinet.

"We have the possibility to lower the costs of doing business in the economy, especially if the Ministry of Finance resolves the issue of high electricity costs for the Bujagali powerstation that was badly negotiated. With low costs of doing business in the economy, Uganda can now take off as a middle income country. Uganda now has the base from which to take off. Previously, we did not have that base," he said.

However, 15 months after Mr Museveni issued the order for negotiations to take place and seven months after the six-months' period he set as the time wit



Power. A domestic user loads electricity units using the prepayment system. PHOTO BY ALEX ESAGALA

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which negotiations should have been concluded, no progress has been made in that direction.

IMPACT

The high cost of power has always been a challenge to the economy. The loudest noise has always come from the industrial sector. Those involved in manufacturing have been threatening to either close shop and relocate, scale down production or lay off workers, which would exacerbate the unemployment problem.

The manufacturing sector has not been growing. Initiatives like "Buy Uganda Build Uganda" (BUBU), and "Proudly Ugandan" which came before it, have so far failed to register meaningful impact in as far as encouraging Ugandans to consume locally made products on account of cost.

A high cost of power means that the cost of production is much higher. Manufacturers are compelled to pass on the cost to the consumers. This makes Ugandan made goods less competitive than some of the imported stuff. Little wonder then, that supermarket stalls are swamped with mostly South African, Kenyan and European made products.

Other sectors like tourism, which according to the ruling NRM's 2010 - 2015 manifesto was the fastest growing sector with an annual growth rate of 21 per cent and contributing at least 24 per cent of the country's foreign exchange earnings, has also suffered under the weight of the high power tariffs.

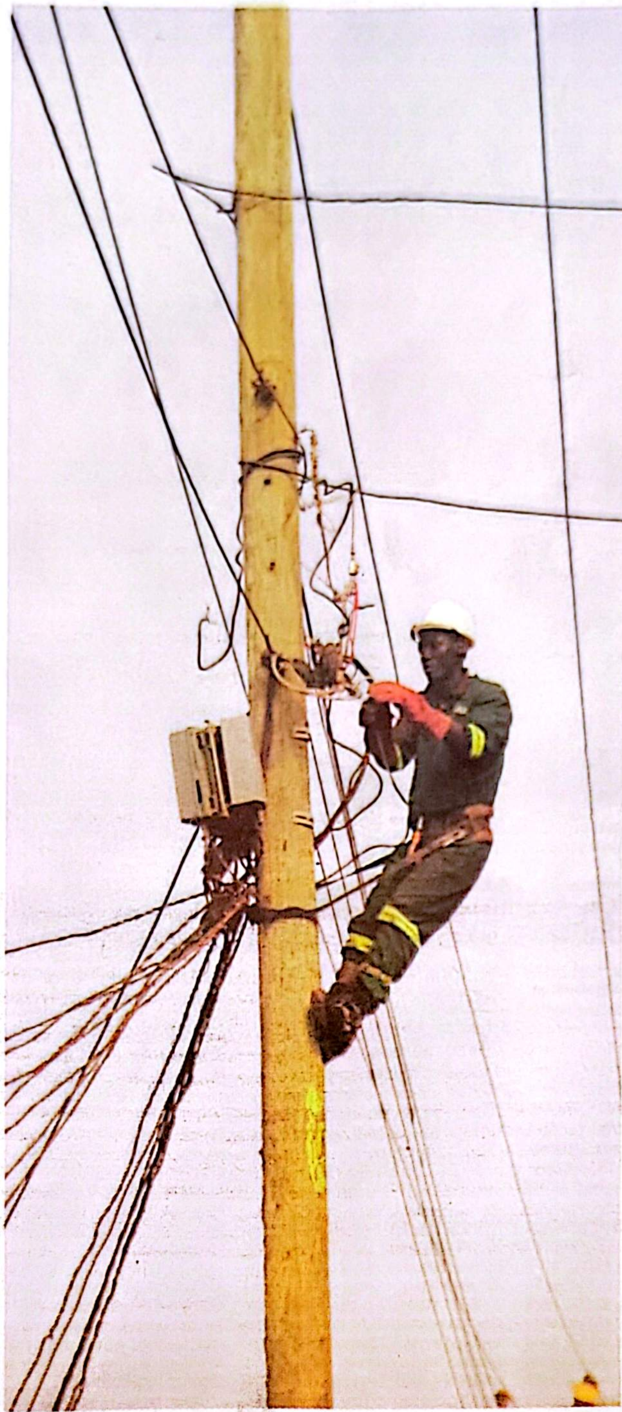
Tourist numbers shot up by 600,000 in a six-year period rising from 200,000 people in 2002 to slightly more than 800,000 people in 2008, with 140,000 of the tourists visiting wildlife protected areas where they, among other things, tracked gorillas, watched birds and engaged in various activities like sport fishing, kayaking, mountaineering, white water rafting and nature walking.

The highest number of foreign tourists had been registered in 2007 when slightly more than 640,000 peoplefrom Europe, Asia and the Americas visited.

The National Development Plan 2010/11 - 2014/15, had earlier revealed that expenditure by tourists had been on the increase, rising to $509million in 2008 up from $231million in 2004, but the high tariffs threaten to wipe out those gains as they force an increment in operational costs for those operating facilities in the tourism sector.

"It is a very good thing for power to be stable and available, but it is not yet affordable and yet the population does not have the much needed purchasing power," Mr Amos Wekesa, the Chief Executive Officer of Great Lakes Safaris, a tour operation agency, told *Daily Monitor* in a recent interview.

"There is very little demand for the product (tourism) yet the cost of doing business (providing services in the hotel and tourism industry) is high. The population must first be empowered to purchase whatever the economy has to offer," he added.



Maintenance. Umeme engineers carry routine electricity power servicing. FILE PHOTO

MONITOR'S POSITION

Bringing down the tariffs is a great idea and Mr Museveni definitely deserves a pat on the back for championing this move. It will spur economic growth, which seems to have stagnated over the last few years.

The move is, however, not the only thing that needs to be done in order to stimulate the economy and create employment.

Government needs to come up with a serious economic stimulus package if the country is to achieve the middle income status that the leadership has been mentioning over the last several years. We need serious investments in agriculture, which is the mainstay of the bulk of Uganda's population. Focus has until now been on mostly the big holder farmers.

We need a shift in policy to provide for increased facilitation of the small holder farmers. Provision of free seeds and animal stocks alone, as has been going on under Operation Wealth Creation (OWC) and under the National Agricultural Advisory Services (Naads) Programme before it, is not enough.

As a country we need to consider mass provision of agricultural extension services, putting in place a subsidy regime that ensures that farmers are paid well for their produce even when prices fall, and establishing huge grain storage farmers across the country to ensure that farmer's grain is purchased and stored during times of plenty.

OFFICIAL POSITION

According to sources in the Ministry of Finance, government has over the last several months been engaging the African Development Bank (AfDB) to refinance the loan with which the plant was constructed.

This was reaffirmed by Finance Minister, Mr Matia Kasaija, during the presentation of the budget for the financial year 2017/2018.

"Madam Speaker, as part of the efforts to reduce cost of electricity, Government is engaging the financiers of the Bujagali Hydropower Project to refinance its debt. The latest information from the African Development Bank is that the refinancing arrangements should be completed by October 2017," he said.

Government has in the same breath granted Bujagali Energy Limited (BEL) five-year corporate income tax breaks, a move which will see government lose at least Shs80billion that it has annually been collecting from BEL, but will in the process reduce the generation tariff by $0.87 cents.

During this year's Independence Day Celebrations in Bushenyi, President Yoweri Museveni once again addressed himself on the matter.

However, the announcement that Minister Kasaija promised to make at some point this month is yet to come and the tariffs are yet to come down.

VOICES

"We would be very happy to see a reduction in the tariffs. We hope that reduction will have a positive impact on the economy of Jinja. The town is very well planned and has an abundant labour force. We think that we shall with the reduction in tariffs be able to onceagain attract investors to set up industries in Jinja and its environs, which would help in addressing the unemployment problem,"

MAJID BATAMBUZE, JINJA TOWN MAYOR

"The losses that we used to suffer, especially on the production lines have become a thing of the past. The problem though is that the cost of power in Uganda, compared to countries like Ethiopia and Kenya, remains a challenge. We are currently paying 10 to 11 cents per kilowatt hour, but we are optimistic that government will manage to renegotiate it so it goes down to between 5 and 6 cents,"

JIM MWINE KABEHO, MEMBER OF THE BOARD OF DIRECTORS OF UGANDA MANUFACTURERS' ASSOCIATION (UMA)

"There is bound to be a direct benefit for the tourism and hospitality industry. It is most likely to spur growth in the sector. Hotels ordinarily consume a lot of power and the cost is usually passed on to the consumers. If the tariff is high, the hotel charges are also high. If the tariff is low the charges will also be low. So if they are reduced the charges are bound to go down, which will mean that more andmore people will use the services,"

DAUDI MIGEREKO, CHAIRMAN UGANDA TOURISM BOARD (UTB)

VERDICT

Promise was Realistic ☐ Promise was Unrealistic ☐ Promise was Empty ☐ Promise is Overdue ☑

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