Uganda's power sector requires careful handling

Please refer to the recent fray in the Uganda Electricity Distribution Company (UEDCL) that has led to a clash between the Prime Minister and Minister of Energy on the issue of private-sector participation.

Management of utilities is a sensitive affair since they are normally monopolies due to practical reasons of economies of scale and externalities, given their very high capital costs. This ideally qualifies them to be State-owned enterprises with evidence of their privatisation around the world yielding mixed results. It is arguable that neoliberal policies that advocate free markets, little-to-no government involvement, liberalisation, deregulation and privatisation have been responsible for the stagnation and anaemic economic growth of Europe.

Lack of government involvement in the allocation of resources to productive use tends to lead to a shift from a real economy where tangible goods and services are produced to a financial economy where financial institutions such as banks, special purpose vehicles and private equity employ rent-seeking practices that mostly serve to magnify their returns at the expense of service delivery. In the United Kingdom for example, the privatisation of Thames Water has left it in poor shape with reduced service levels and enormous debt.

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Given the obvious current underperformance of UEDCL ever since it took over electricity distribution from Umeme, the power sector can do better with some private-sector participation.

At the same time, while Umeme's performance was remarkable, the 20 percent return on investment it was contractually guaranteed was not only ridiculously unacceptable but could only be achieved through suboptimal investment and/or inflating bills. Power being an input in almost all economic activities, its lower cost could significantly reduce the cost of doing business which would in turn attract investment, reduce unemployment, improve earnings, boost economic growth and competitiveness, and by extension, tax revenue.

In a way therefore, the government was being ripped off by Umeme but it appears that its abrupt contract termination and subsequent renationalisation of electricity distribution was poorly planned. This is an unfortunate and pervasive feature of government inefficiency therefore it is necessary to get back to the drawing board.

Energy is lucrative business which can attract private financing and expertise relatively easily but government has a central role to play. Its intervention is required not only because power is a national security issue but also in order to reduce the cost of doing business by minimising privatisation of rents whose growth unnecessarily raises the cost of living.

A much-needed mix of public and private engagement becomes inevitable but can present a multi-objective optimisation problem whose intelligent resolution can mean the difference between success and failure.

There is need to consolidate knowledge and skills in order to build competence in government and UEDCL to identify and address these very complex considerations that underlie sound procurement and contract management.

In the absence of awareness and thorough understanding, information asymmetry can make the private sector exploit the government in much the same way as happened with Umeme.

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Stephen Nyende-Byakika is a professor of civil engineering and infrastructure development practitioner.
snyende-byakika@outlook.com