

A view of Nkusi hydropower plant across River Nkusi at the border between Hoima and Kibaale districts

POOR FINANCING OPTIONS LOCKING UGANDANS OUT OF ENERGY SECTOR

Five failed attempts to develop the Nkusi hydropower plant, developers citing accessibility and difficult conditions, a German developer partnered with a Ugandan firm to pull off a 9.6MW dam, writes
in Ojiambo

It took five attempts before the 9.6MW Nkusi hydropower plant got a developer. The developers who tried to build the project site and abandoned it cited issues such as lack of access and difficult conditions.

Julius Wandera, the communications manager at the Electricity Regulatory Authority (ERA), says an Australian firm named the power station as one of the most difficult and unviable electricity generations sites in Uganda. Wandera says the firm, in the report about the site, equated developing the site as an aspiration of working for a medal of developing the most unviable and difficult project in the country.

However, a determined developer has finally brought online the small hydroproject located in the escarpments that border Lake Albert in Kyangwali sub-county in Hoima district at \$18.5m

(about sh67b).

Developed by PA Technical Services Limited in partnership with a Norwegian firm, the Nkusi project was commissioned on Thursday last week. ERA chief executive officer, Eng. Ziria Tibalwa Waako said 13% of the shares in the project are Ugandan owned. She said this is one of the few small hydro plants in the country with Ugandan shareholding.

NKUSI AS AN EXAMPLE

Asa Katama, the chief executive officer of PA Technical services LTD, said he sought partnership with people who have expertise and finances to accomplish the project.

"You cannot pull off such a project in a place like this, unless you have people with adequate resources and expertise," he said.

"You need to have the finances, both technical

and commercial skills as well as partners that can support you in the different phases of the project," he added.

"It helps a lot when you get owners of a project with resources because you will be able to kick-start a lot of the work," he further stated.

Ivan Kisenbo, a principal projects engineer at ERA, said most of the Ugandans in the sector have been only involved in the initial stages of the projects without advancing to completion.

"Without downplaying their contribution, the majority of Ugandans have stopped at project identification and some technical aspects such as undertaking feasibility and geological studies," Kisenbo said.

He said one of them is Cletus Serwanga, the managing director of CaCI Consulting Ltd, who

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Lack of capital slows down Uganda's energy sector

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was involved in site identification and feasibility studies of Lubilia project in Kasese and Siti 1 and Siti 2 projects in Bukwo districts.

He also mentioned Daudi Migerko, who identified the site and undertook feasibility studies of the Kyambura small hydro project that is currently under construction in Rubirizi district.

WHY THE TREND

Kisembo attributed this to lack of adequate patient capital in the country to finance such projects.

"The fact is that these projects are by no means cheap. They are expensive to undertake. A megawatt costs between \$2m (about sh7.8b) and \$2.5m (about sh9.5b)," he said.

He explained that undertaking a 10MW project would require one to have about sh78b, a sum he says is high and could be afforded through debt financing.

"Even if one did not have the sh78b to undertake a 10MW venture, they would look for debt financing from a financial institution," he said.

However, during debt financing, he explained that a prospective developer is most likely to run to a foreign bank that is likely to require them (developer) to raise at least 30% of the financing.

He further explains that it is also probable that the prospective local firm is expected to have a long track record to attract financing from a foreign development bank, something he says Ugandan firms are yet to achieve.

LOCAL FINANCING

He added that locally, there are

commercial banks that are likely to come to one's rescue by providing the financing, but with high lending rates.

"If you apply commercial bank rates to such a project, it will either be unviable or require the regulator to raise the tariff to make it viable for the developer," Kisembo said.

With such conditions at play, Kisembo explains, it leaves firms with no option, but to seek financing from foreign development banks.

"These projects have been largely financed by development banks that offer more patient loans, payable over longer periods with lower interest rates. Because of this, you will have a project priced at a relatively lower tariff," Kisembo said.

HOW TO ADDRESS IT

To address the challenge, Kisembo called for the recapitalisation of the Ugandan Development Bank (UDB) that can offer patient financing to such projects.

He added that following its recapitalisation, UDB provided funding of \$8m (about sh302b) towards the development of 6.6MW Nyagak hydropower project in Zombo district.

The project is being developed by the Uganda Electricity Generation Company Limited (UEGCL) in partnership with

Financing

Some projects are very expensive that one may not afford them without having to borrow, yet local commercial banks usually never lend such large sums of money

There is need to recapitalise Uganda Development bank from which entities can get patient financing loans at low interest, in order to venture into expensive government projects

Hydromax Ltd and Dott Services.

Kisembo says this is the first time a project is financed by a Ugandan development bank, something he says is a step in the right direction for the sector.

This to Kisembo also means that the end-user tariff could be lower since it shall be denominated in the Uganda

shilling

"The biggest loss we suffer when the projects are continuously funded by foreign banks is that the tariff is set in dollars and this leaves the shilling at risk of the dollar strength. When the dollar strengthens, we are likely to pay more in end-user tariffs," Kisembo said.



Asa Katama (right) interacts with his Norwegian partner and board chairperson of PA Technical Services Rune Freyer (left) during the commissioning of Nkusi hydroproject in Hoima district last week