

Rapid reforms needed to end power woes, govt told

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BusinessWeek Reporter

Dar es Salaam. For over a decade all doing business reports about Tanzania have consistently cited inconsistent power supply as a major factor hindering improved business environment and economic growth.

Despite all efforts to resolve the perennial crisis only modest success has been achieved, the business community is not happy with the current supply situation, which is still not very reliable or consistent.

Two years ago, the Confederation of Tanzania Industries (CTI) commissioned a study to examine the challenges faced by the manufacturing sector due to lack of reliable power supply.

BEST-AC financed the study, which, CTI commissioned to the Institute of Management and Entrepreneurship Development (IMED).

Since the study was done and recommendations made to government on how to resolve the crisis, are there any tangible gains? According to CTI chairman, Mr Felix Mosha, there are some modest gains but much more must be done immediately and progressively to resolve the crisis. "There is an improvement of power supply compared to the past. Our hope is that this improvement will be sustained," said the CTI chairman.

The CTI study had noted that problems of intermittent power supply, low voltage, frequent unpredictable rationing and outages specifically hinder the country's manufacturing sector performance leading to high pro-



Confederation of Tanzania Industries chairman Felix Mosha at a past press conference PHOTO|FILE

duction costs.

The power supply stabilised significantly last year after the government injected an extra 422 Megawatts to the national grid.

Energy and minerals minister, Prof Sospeter Muhongo told the National Assembly last July, there

would be no more power rationing, as enough power would be produced. Unfortunately, this has not been the case.

This is despite Tanzania having an installed capacity, that clearly exceeds the peak demand. According to the CTI study the power supply is not consistent due to poor and old infrastructure, loss of electricity and relying heavily on water sources.

To cope with the power problems, the manufacturing firms raise the prices of their products to compensate for part of the losses or accept lower profit margins or use the combination.

A CTI 2011 policy research paper on reliable electricity supply notes that 15 per cent of manufacturing companies are forced to raise prices for the goods they produce in order to cope with erratic power supply.

The study, however, indicates that majority of firms (45 per cent) don't have the capacity to mitigate against the loss due to power supply problems.

Transferring the higher cost of production due to power problems to consumers raises the cost of living and may lead "to commodity substitution and consumption cuts, which in any case, are not good news to manufacturers either," notes CTI policy paper.

Manufacturing sector is connected to other key economic

engines in a way that if it is affected, other sectors shake as well.

The CTI analysis for instance says that if manufacturing underperforms by two per cent, the agricultural sector becomes the next mostly affected sector as in response; it underperforms by 0.7 per cent.

"The reason is that there are linkages both forward and backward between these sectors, and those are obviously affected as the electricity problem strikes manufacturing. Other largely impacted sectors are construction and transport which would under-perform by 0.2 per cent and 0.1 per cent respectively," notes the policy paper.

In addition to these sectors, the report says that the effect of unreliable electricity supply to manufacturers has further repercussions to other areas of the economy including financial intermediaries, trade, real estate, business services and the multi-faceted impact of unreliable electricity supply eventually backfires against the electricity sector itself.

A prominent business man is on the record calling for power generation and distribution to be left to the private sector to resolve the power crisis. This would offload the burden on the Tanzania Electric Supply Company (TANESCO) and the government.

MORE INFO: ELECTRICITY

CTI: Causes of power problems

- (a) Policy hindrances: no provision for TANESCO to ensure, as an obligation, a reliable supply and it hinders the effective participation of private investors.
- (b) Power generation, transmission and distribution problems facing TANESCO unresolved for years
- (c) Slow implementation of Power Sector Reforms
- (d) The monopolistic nature of TANESCO.

Policy Recommendations

- i) TANESCO is advised to invest heavily in improving its institutional capacity to deliver services to its customers satisfactorily.
- ii) It is recommended that the government should speed up implementation of the projects that are underway to quickly redress the problem of unreliable electricity supply.
- iii) In the short-run, it is suggested that the government should facilitate TANESCO in recapitalisation of the new power generation planned for the interim period of 2010-2013.
- iv) Government needs to increase its commitment to speed up implementation of the Electricity Act 2008 in order to encourage private investments in mini power grid operations.
- v) The government could waive taxes on equipment used in the generation, transmission and distribution of electricity in order to reduce the cost of electricity.
- vi) Exploration and utilisation of the other potential sources of electricity existing in Tanzania.
- vii) The energy policy needs to be reviewed to accommodate recent developments and to provide incentives for private participants.
- viii) A total privatisation of the public utility may not be an immediate viable option but it is recommended that TANESCO be divided into two main institutions.

FACTS IN NUMBERS

80pc

Tanzanians NOT connected to national grid

Sh9.5bn

Government tax loss resulting from the intermittent electricity supply estimates per year

1,375.74MW

Installed capacity of power production, peak demand is 820.35 MW.

41 pc

Tanzania's electricity sourced from water, 40 per cent and 19 per cent are from natural gas and oil respectively.



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