65% RATIO

of Kenya Power revenues that come from industrial customers

Why is UK turning off taps in a pandemic?

COVID-19

TANVI BHATKAL & LYLA MEHTA
IPS

The UK's decision to reduce its Official Development Assistance (ODA) budget from 0.7 percent of gross national income (GNI) to 0.5 percent – a cut of around £4 billion this year – was confirmed last week. The cuts that came into effect from April have been especially devastating for Water, Sanitation and Hygiene (WASH), a sector the UK has been prominent globally. Between 2015 and 2020, the UK helped 62.5 million people to access safe water and sanitation between 2015 and 2020.

A leaked memo of the Foreign, Commonwealth and Development Office (FCDO) highlighted that cuts this year alone to bilateral aid for WASH could be as high as 80 percent - from £150 million in 2019 to £30 million in 2021. This sudden reduction will both undermine past progress, plunge millions into water insecurity and lead to unnecessary death, especially of children.

Providing clean drinking water is considered one of the most cost-effective ways of improving health and productivity across the global South. Inadequate access to WASH is responsible for 10 percent of the global disease burden, contributing to 1.6 million preventable deaths annually.

Having piped water frees up time for households, increasing opportunities for income generation, education, childcare and building social capital - especially for girls and women.

According to WaterAid, achieving universal basic water services would free up 77 million working days for women annually. Safe sanitation could prevent six billion cases of diarrhoea and 12 billion cases of helminths between 2021-2040, improving child health and nutrition.

Despite this, two billion people globally lack access to safe water, and 3.6 billion lack access to safe sanitation. In fact, the WHO and Unicef's Joint Monitoring Programme recently announced that achieving the Sustainable Development Goal of universal coverage by 2030 will require quadrupling current rates of progress. It is never a good time to renege on global commitments and cut support for water and sanitation.

@ Letters

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Focus on electricity demand, not purchase pacts

The electricity sub-sector under the Ministry of Energy is structured in such a way that each of the players has a clear role.

Generators, transmission system operators, distribution system operators, rural electrification outfit, energy and petroleum regulator, and the ministry each has a role. Without overlaps, it is a world-class outfit unmatched by other regional and even developed country energy sub-sectors, some vertically integrated.

They should operate like one organisation with separate departments but with one mission. They should operate like a family with a lot of consultations.

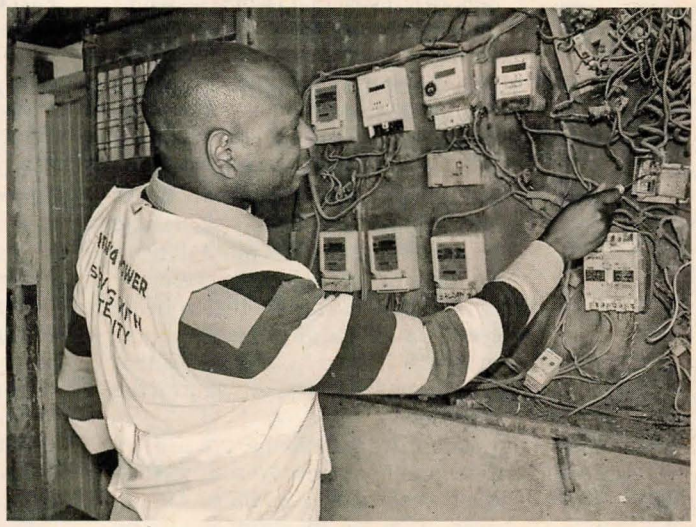
If Kenya Power, the distributor, died today – God forbid – the immediate bereaved family will be generators of power because Kenya Power is the distribution system that delivers electricity to customers who pay generators.

All power generators in the country have power purchase agreements with Kenya Power. If Kenya Power does not buy power, they will be out of business.

There comes a time when a country needs power at any cost, because the next thing would be darkness. We were there in the years 1998-2000.

Those years formed the basis of subsequent energy sector reforms.

As the noise went near wild about power purchase agreements (PPAs) and their confidentiality clauses, the public was made to believe that when MPs would set eyes on the PPAs they would spill the secrets between Kenya Power and the generators.



A Kenya Power official studies a meter box. -FILE

Far from it. Some, if not a majority of the independent power producers (IPPs), were procured through a public process supported by development partners such as the World Bank.

If Kenyans have forgotten the 1998-2000, power rationing that lasted up to 12 hours on some days and wiped out a lot of livelihoods, they will be forgiven, because it is 21 years ago.

However, a majority of Kenyans can remember the 5,000 megawatts power generation drive led by the current administration from the year 2013, which was meant to make Kenya an attractive investment destination and to provide power to planned industrial parks as well as the special economic zones.

It is during this time to date that most of the generation projects, including the 310MW wind power, were connected to the grid. The 5,000MW drive had a schedule of customers to consume additional generation, including the standard gauge railway (SGR) that shifted from electric to diesel.

The overarching strategy was to make Kenya energy-secure given the jagged history it has had of leaning on rain-fed, hydro generation and years of underinvestment in power generation.

What has not been mentioned in the PPAs debate is that Kenya Power is in the business of selling power. Close to 65 percent its revenue come from industrial customers.

If industrial customers do not expand and create demand for electricity, generators become idle because there is no one to consume the newly installed capacity. Kenya Power ends up meeting the cost of actual energy purchased and not sold because of lack of demand as well as the capacity charge as provided for in the PPAs.

Given that for every shilling collected by Kenya Power from customers about 70 cents go to power generators, when demand does not grow to support revenue growth, the power distributor will face cash flow challenges.

GROWING ECONOMY

The current power generation was spearheaded by government by providing, among other guarantees, letters of support to investors in the hope demand could grow from general growth of the economy.

The current situation is a result of two government initiatives: one that was successful and led to more power generation and another one of growing the economy that did not succeed. The answer on the way forward for the sub-sector does not lie on the signed PPAs, it is in expected demand to match additional generation.

The government should create an enabling environment, incentivise industrialists with pro-investor tax regimes, among others to invest and ramp up demand for electricity.

Going back to PPAs will discourage future power generation investors the country needs given that we have below 3,500MW installed generation capacity.

Ben Chumo, Chair, EagleHR consultants

LEADERSHIP

Tie State agencies to governance that delivers growth

ECONOMY

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Many governments hold ownership stakes in companies operating in a range of business and commercial sectors, such as agriculture, hospitality, manufacturing, and transport to mention a few. State-owned corporations (SOCs), as they are often referred to, can either involve 100 percent control by the government over a company's governance and operations or a part thereof can be in the hands of private-sector investors.

There are several legitimate reasons for SOCs. Some operations are crucial for national security, such as the manufacture of defence equipment and maintaining key infrastructure.

SOCs, however, became the subject of many reforms across the world towards the end of the 20th century. A wave of neo-liberal ideas and free-market capitalist policies called for their mass privatisation, purportedly to improve quality, efficiency, and financial performance.

The privatisation process was also viewed as an opportunity to unbridle the control of poorly managed SOCs from the grasp of corrupt bureaucrats.

In Kenya, the World Bank and IMF encouraged the government to divest several SOCs resulting in more than 100 privatisation transactions. It was argued that the SOCs had turned into a money pit that drained public resources due to inefficiencies, poor budgetary habits and downright embezzlement.

These problems were associated with weak corporate governance practices, including crony-based appointments of top management, corruption, lack of effective monitoring and outright impunity.

At the point of publishing this article, the Inspectorate of State Corporations website, which was last updated in 2018 indicates that there are 220 SOCs operating in Kenya. Yet reliable sources estimate that this number could be as high as 300.

Kenya, however, is not unique in this regard. In many parts of the world, weak corporate governance practices have been long attributed to the challenges faced by SOCs. Often, their top leadership, including board of directors, is appointed based on crony relations as opposed to meritocracy.

Many of the appointed individuals also lack appropriate management skills, while others disregard corporate governance regulations with impunity.

SOCs became the subject of many reforms across the world towards the end of the 20th century

While privatisation can help to overcome such challenges, it takes away the privileges associated with SOCs.

More research is needed to understand whether there are some better performing SOCs that we could learn from, before considering privatisation as a last resort.

If these and other failings in the corporate governance framework for Kenyan SOCs can be addressed effectively, these entities can play a major role as drivers of economic growth.

For instance, SOCs can serve as job creators and catalysts of development in marginalised regions, which might be less attractive to private firms. The government can also use them to demonstrate how the rest of the corporate sector can contribute to climate change mitigation and other sustainability efforts.