



## The impact of COVID-19 on Uganda's Energy Sector: What can be learnt?

### Overview

The global outbreak of the 2019 Coronavirus Disease (COVID-19) that was declared a pandemic by the World Health Organization (WHO) caused a social crisis. This later turned into an economic crisis as different countries started implementing lockdown measures to curb the spread of the virus. Since then, the outbreak has had an effect on countless lives and a devastating impact on the global economy. In an effort to curb the transmission of the virus, travel restrictions were introduced and non-essential sectors of the country such as schools, places of worship, universities, and industries were closed to avoid congestion. This dampened the rate of economic activities with very few small, medium and large enterprises remaining operational thus negatively impacting on Uganda's energy sector.

This policy brief analyzes the impact the virus has had on Uganda's energy sector, and proposes ways the sector can adapt to any future shocks in the global economy.

### Introduction

Uganda's Energy Sector aims at increasing the stock and quality of strategic infrastructure to accelerate the country's competitiveness through construction of: power generation, oil and gas infrastructure and extension of the electricity grid. To that effect, the sector has been implementing various projects to increase power generation, transmission and distribution. This has seen the installed generation capacity increase to 1,252.4MW with peak demand at 723.76MW by the end of December 2019.

### Key Issues

- Reduced demand for electricity and petroleum products
- Reduced revenue collections
- Increased operational costs
- Unforeseen project delays

In trying to increase access to electricity, the energy sector targeted to add 300,000 new connections annually to the grid through the free connection policy. A total of 90,136 households were connected in the first half of the financial year (FY) 2019/20. Additionally, a total of



1,858.68km of medium and low voltage lines were constructed and added to the grid in the first half of FY 2019/20.

Like other sectors of the economy, the outbreak of the pandemic is expected to negatively affect the energy sector’s ability to meet planned targets and milestones.

**Impact of the COVID-19 outbreak on the Energy Sector**

**1. Slowed project implementation**

The travel ban has slowed the implementation of most projects in the electricity sub-sector, and most contractors are invoking the force majeure clauses in their contracts since they cannot meet their contractual obligations. The lockdown period made it impossible to carry out Factory Acceptance Tests (FATs) on imported key materials such as transformers and conductors that were to be acquired from China, India, and Turkey among others.

During the semi-annual monitoring for FY2019/20, it was clearly evident there was going to be delay in implementation of the rural electrification and transmission projects across the country due to failure to ship the materials from overseas because of pending FATs.

The restricted movement also meant that the project implementation teams could not carry out monitoring and

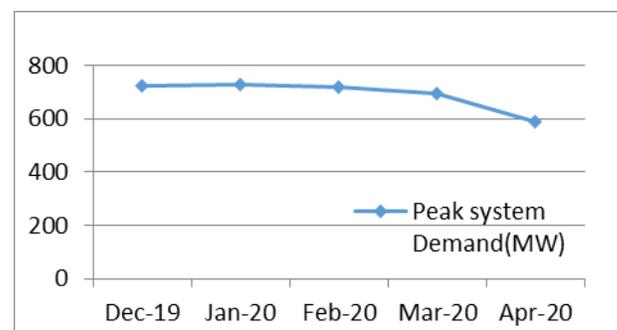
supervision of some work. This may impact on the quality of the final works.

**2. Reduced electricity demand and revenue collection**

There has been a reduction in demand and electricity sales because most businesses were closed and the manufacturing sector cut down on production due to a limited market. Data from the Electricity Regulatory Authority (ERA) shows that the manufacturing sector accounts for 78% of all electricity sales, while the rest is domestic consumption. This fall in demand is putting extra financial pressure on Government to pay deemed electricity for the available generation capacity that is not being utilized (Figure 1).

The reduction in revenue inflows was further aggravated by Government’s directive to halt disconnection of defaulters.

**Figure 1: System<sup>1</sup> Maximum Demand (MW)**



Source: UETCL

<sup>1</sup> System refers to the entire electricity generation, transmission and distribution network.

**3.Reduced rate of new connections**

As a measure to ensure the safety of staff and population, the utility companies suspended the connection of new customers to the national grid. Thus very few new households and other commercial enterprises have been able to connect during the COVID-19 period.

The sector had targeted connection of 300,000 households in FY2019/20 through the implementation of the free connections policy. By the end of the first half of the FY 2019/20, only 30% of the households had been connected. There is a high possibility that the household connection target for the FY 2019/20 might not be met in a country where the rate of electricity access is currently a meagre 23%.

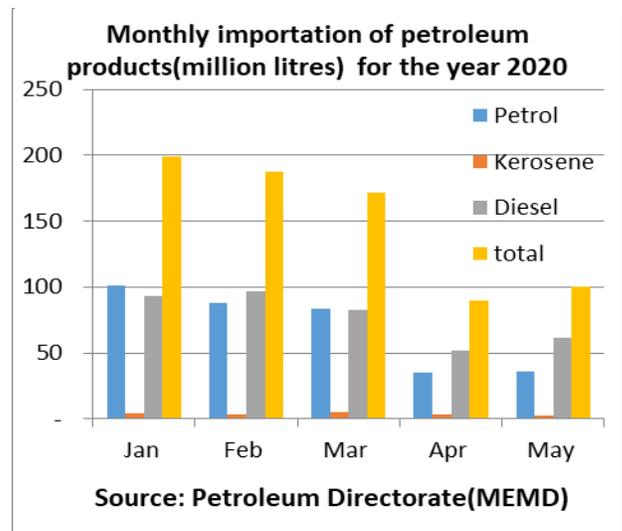
**4.Increased operational costs**

The travel restrictions on most means of transport led to an increase in cost of operation for the energy sector utility service providers. For example, field staff handling connection of new households and rectification of faults on the network have to practice social distancing, yet the practice in the sector is the use of shared transport by the work teams. The new restrictions require companies to use more vehicles, thus increasing their cost of operation.

**5.Reduced demand for petroleum products**

Restriction of inland travel did not spare the petroleum sector. There was a reduction in demand for all petroleum products during the months of lockdown as compared to months prior to lockdown (January, February, and March). The drop in petrol imports was most significant due to the ban on the movement of most private vehicles (Figure 2).

**Figure 2: Monthly importation of petroleum products**



**6. Positive environmental impact**

On a positive note, restriction of inland travel led to significant improvement in the air quality in the urban areas due to reduction in emissions especially since transportation heavily relies on petroleum.



The industrial sector which is also a major contributor of emissions has also seen a downturn due to reduced operating capacity and this has all impacted positively on the air quality.

### **Conclusion**

The outbreak has negatively impacted on project implementation and driven up the operational costs in the sector. The negative impact on electricity demand and consumption of petroleum products cannot be overstated. Therefore, there is need to develop a more resilient self-sustaining energy sector to better absorb and cope with any future economic shocks or outbreaks by enhancing local capacity.

### **Way forward**

1. The country should grow the demand for electricity by domestic customers by reducing the tariff and making it more affordable to get connected to the grid. Industries consume 78% of Uganda's generated electricity therefore any shocks in the industrial sector are bound to spill over to the electricity sector.

2. The Government should boost and expand local manufacturing and assembling of key electrical components such as cables, conductors and transformers and switch gear to reduce supply chain interruptions like those experienced during the COVID-19 pandemic. The efforts to promote Buy Uganda Build Uganda (BUBU) have not been extended to companies that are manufacturing equipment for the sector.

### **References**

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2. Budget Monitoring and Accountability Unit: Semi Annual Monitoring Report FY 2019/20
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*For more information Contact  
Budget Monitoring and Accountability Unit  
(BMAU)  
Ministry of Finance, Planning and Economic  
Development  
P.O Box 8147, Kampala.  
[www.finance.go.ug](http://www.finance.go.ug)*