Borrowing to cover utility debt a slippery slope: World Bank report

It is always better for power utilities to be self-sufficient and not depend on government subsidies to avoid becoming trapped in a vicious spiral when debt gets out of control.

Power utilities increasing their borrowings to cover costs may put these institutions on “a very dangerous slippery slope”, said Chris Trimble, senior energy specialist at the World Bank. He was presenting findings of a report on ways to make power utilities more financially viable.

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Eskom's debt stands at R317bn

Trimble’s warning follows media reports on Eskom’s interim results published in November last year which showed increased costs and declining profits. This was followed by a credit downgrading by ratings agency Standard & Poor’s with significant implications for Eskom’s borrowing ability. The *Mail & Guardian* last year reported Eskom’s debt obligations then already stood at R317bn.

Trimble’s statements also followed an undertaking by Eskom chair Dr Ben Ngubane that Brian Molefe, after his reinstatement, will make electricity more affordable.

Ngubane made it clear it is all systems go for Eskom after the board's latest decision.

"Our objective is to lower the cost of electricity in the country by paying back the government guarantees, generating enough revenue, creating savings through efficiencies like the design to cost programme," he said.

Many African countries unable to cover expenditure

In an earlier statement and interview on the report, the World Bank singled South Africa out as the most developed in terms of its electricity sector in sub-Saharan Africa and Eskom as one of the best performing utilities in the region.

The World Bank report used data from power utilities in 39 African countries. It showed many of these African countries are unable to cover their operating expenditure leading to deficits.

These findings highlight a significant revenue gap in most African countries with only two exceptions – Uganda and the Seychelles, which recover all their costs. "It's quite a bleak picture," Trimble admitted.

With many countries not recovering operating costs sufficiently, it may hamper maintenance of infrastructure which can ultimately also affect the reliability of power provision, Trimble warned.

Recovering costs

Trimble shared pointers with delegates on how power utilities can recover costs for electricity supply and make it affordable. These include steps as starting with eradicating operational inefficiencies and gradually increasing tariffs in small amounts.

The report shows very few utilities are financially viable with only 19 to half of the countries surveyed able to recover operating costs.

He also pointed out that operating costs in some countries like Liberia is still "unbelievably high". The cost drivers for this, include the source of energy that is critical and geography that is important as landlocked countries' costs are usually higher.

Trimble also singled out under-pricing as among the dominant factors in power utilities' financial viability.