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Infrastructure and Energy Development and Financing in Africa: Current & Future Trends

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Salutations….

Your Excellencies, ladies and gentlemen,

Inadequate infrastructure in Africa continues to be a stumbling block to the continent's economic and structural transformation. Arguably, it is the single most important impediment to industrial development. There are more people without electricity access this year than they were in year 2000, despite increased installed capacity. This simply means that added power infrastructure has not kept up with population growth.

Your Excellencies, my intervention will focus mainly on energy infrastructure, as this is an area of most importance mainly for four reasons. The **first** is, as I have hinted, close to 700 million people on the continent do not have access to modern energy, many are in rural areas. This indeed negatively affect their livelihoods, economic activities, education, health and so forth.

Secondly, energy is an enabler of major industrial processes. Without adequate energy African countries cannot reach their developmental targets, and could remain in perpetual state of underdevelopment. Unemployment could rise even further as a result, thus creating a bedrock for social unrest in many countries.

Thirdly, energy is important in enabling other infrastructure assets, such as transport, water and ICT. As agriculture is the mainstay of Africa's industrialisation, we need electricity to power utility-scale irrigation schemes. We need fuel in all transport subsectors, as well to power ICT technologies.

Lastly, energy is an industry in itself. We talk about the electricity supply industry, solar industry, oil and gas industry, and so forth. Developing this industry, using the abundant renewable and non-renewable resources we have on the continent, could build a competitive and world-class energy industry.

Your Excellences, Ladies and Gentlemen, as energy, particularly electricity is critical in powering all economic sectors in Africa, it is important that we get policies, actions and measures right first time. Therefore, I will now, as have been requested, provide current trends and future outlook of this important infrastructure, by citing a few issues that would need serious consideration in order to transform the sector. My intervention covers broadly the African experience, with some emphasis on the East Africa's regional dynamics.

Chairperson, increasing **electricity generation**, and transmission remain big priorities up to year 2040. Although there has been new power added to the grid in the last 10 years, the continent is till generating far below than in its needs. The current installed generation capacity for the whole continent stands at 125,000 MW as per 2016. Out of this around 44,175 MW is by Eskom, the South African state-owned utility, and around 30,000 MW is generated in North Africa.

Here in East Africa, Ethiopia has about 6,000 MW of installed generation capacity that serves a population of over 95 million people. Only 8% of the country's rural landscape has access to electricity, and 43% for the whole country. The country is planning to increase generation capacity to over 17,000 MW by 2020, and increase 35,000 MW by 2037.

Uganda had in 2016, 850 MW of installed capacity and available power of approximately 710 MW. The overall access to electricity for the country stood at 15%, and only 7% of the rural households had access to power in the same period.

Kenya's success story in electrification demonstrates the possibilities for African power sector to improve its generation and distribution performance. Kenya has in recent years aggressively pursued connections, having nearly doubled electricity access from 25% to 46% of households in 4 years. According to the recent IEA report (2017), Kenya's access to electricity stands out in the East Africa at 65%, with urban population access rate at nearly 80%.

However, increasing access in Africa and in East Africa in particular relies in power pooling and trading, as well as increasing transmission capability. The East African Power Pool recently adopted, in 2014, a revised Master Plan which will lead to the implementation of power interconnection lines, planned to be commissioned by year 2020. This is significant in the sense that it will lower countries' electricity generation costs, while optimising and rationalising current installed capacity. However, this requires heighten political will and long-term planning.

Your Excellencies, Ladies and Gentlemen, generally, the power sector in Africa is struggling to attract large scale **private sector investments**. The reasons for this low turnout are far ranging and country specific, and may not be over generalised. Be as it may it appears that there is a significant growth of independent power producers, particularly in the renewable energy field across Africa.

One of the reasons for the success story of Kenya in increasing its installed capacity and distribution is the government's role in developing a market-based economy, where the government is a regulator and not a participant in key economic sectors that include energy. This is done through the Public Private Partnerships (PPPs) Act of 2013 which looks at the private sector to build the required generation capacity under PPP arrangements. By 2016, IPPs contributed about 28% to that country's installed capacity. This is the future outlook of electricity supply industry which is based on meaningful partnership between government and private sector, as well as effective and enabling regulatory framework than ensures fairness for both consumers and producers of electricity.

In overall, **Chairperson**, East Africa, as a region, presents very good opportunities for private sector participation in power infrastructure, as it is the fastest growing region in Africa (of more than 6% GDP growth in 2016), and a region with the greatest electricity needs, as well as the diversified energy sources, although hydropower still makes up more that 50% of the region’s energy mix. The fact that the region’s focus is on clean and renewable energy sources makes it an attractive region for North-South cooperation and new investments in clean energy.

However, more enabling reforms in the power supply industry needs to be undertaken, especially addressing the vertical integration nature of most African power utilities, as well as addressing issues of economic inefficiencies both in operations (generation, transmission and distribution) and governance of the sector.

One must be careful not to prescribe the manner or form of such reforms. They should be specific to countries, according to the national/regional priorities and regulatory environment that exists. While the modus operandi would be different from country-to-country, it must be flexible enough to create space for private sector, particularly the local private sector through transparent market rules, enabling regulations and harmonisation across the region. The work of the African Union in harmonization the electricity sector, of which ECA participates, should be encouraged and taken note of.

Chairperson, Excellencies, ladies and gentlemen, linked to the point above is the critical issue of **empowering local private companies** to participate in the infrastructure value chain. Government have a role to play in enhancing the capacity of local project developers, particularly in project development and packaging for small to medium size enterprises.

Excellencies, massive infrastructure investments, particularly energy infrastructure, which take a lion share of infrastructure investments, occur in the context of serious resource constraints. Despite the increase of private sector participation in energy infrastructure, unlike in ICT, the public sector is financing most of investments, as energy access is still viewed as a "public good".

There are many challenges facing investments in Africa, but the two challenges that have emerged from experts and potential investors are: 1) plethora of policies and laws and regulations which inhibit private sector investment and curb its enthusiasm. 2) specific risks associated with investment in Infrastructure in Africa. For the first challenge, ECA has developed a continent wide model law to enhance investment in transboundary infrastructure. This model law aims at:

- Facilitating private sector investment and financing in infrastructure projects
- Ensure transparency, efficiency, accountability and sustainability of infrastructure projects
- Harmonise cross border laws and regulations
- Promote intra-African trade and open markets to international trade.

Excellencies, Ladies and gentlemen,

Africa can fund its infrastructure priorities with domestic resources. Here are some few domestic resource related statistics:

- $600 bn collected annually from domestic taxes
- $10 bn remittances annually and steadily increasing
- Banking reserves are estimated at about $65 bn
- International reserves over $ 400 bn
- $60 bn lost annually through illicit financial flows
- Stock market capitalisation estimated at $ 4 trillion
- Africa's Equity Markets is fast growing, with Kenya's valued at $ 20.6 bn

The 5% Pension Funds campaign by NEPAD and ECA has to be supported and taken up by member States pension funds for rapid delivery of infrastructure assets of regional nature.

Excellencies, Ladies and Gentlemen,

In conclusion, The long term vision for infrastructure development can only be realised if governments:

- Streamline and accelerate infrastructure project pipeline readiness and attractiveness thereby enhancing bankability of infrastructure projects.
- Address key gap that currently prevent institutional investors from engaging more fully in infrastructure
- Provide a multistakeholder platform for parties involved in infrastructure investment to help capture the full transformational potential of megaprojects
- Provide a platform for blended finance institutions to mobilize investments
- Facilitates the development and acceleration of the emerging capital markets
- Builds public-private partnerships on the national level

I thank you for your kind attention.