Africa's Energy Hope

TURING TO THE PRIVATE SECTOR

BY JEANNOT BOUSSOUGOUTH


Jeannot Boussougouth
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DEVELOPING THE CONTINENT'S ENERGY infrastructure is widely seen as one of the key growth strategies for Africa. The continent's electricity supply industry is expected to require a total investment of $563 billion over the next 20 years to meet the growing demand.

Because of the currently limited energy infrastructure in many countries, the private sector is tipped to be the main driver of this growth. Investments in the power generation sub-sector are expected to represent about $163 billion of total investment.

There are several reasons for the magnitude of the investment required.

The current energy crisis in Africa is characterized by limited access to electricity. Only 23 percent of the continent's population had access to electricity in 2006. Last year, sub-Saharan Africa's total electricity generation represented 1.8 percent of the world's total, despite the continent being home to about 14 per cent of the world's population.

There has been a continued reduction in energy infrastructure investments over the past decade because many utilities in Africa had sufficient generation capabilities. For instance, South Africa's public utility, Eskom, had such an excess of electricity capacity in the 1990s that it mothballed some of its surplus power stations. Because of sustained economic growth, the country now faces shortages of electricity that are expected to continue until at least 2014.

Continuous demand for electricity is also expected to contribute to the development of much-needed energy infrastructure projects. The annual growth rate in demand is expected to be 4.4 per cent for the next 25 years, and this would require capacity expansions of about 270 gigawatts by 2030. The robustness of the continent's economies will be the main driver behind this surge.

Finally, the strategic choice of integrating the continent's electricity sector through power pools is expected to increase the number of cross-border projects in Africa. Because this significantly reduces completion and operational risks, private companies should welcome the development.

WHAT ROLE FOR THE PRIVATE SECTOR?

The potential for sub-Saharan Africa as a highly attractive business place for private energy companies is certain because of:

- ***Customers' willingness to pay market prices for electricity, provided it is reliable.***
- ***The phased introduction of independent power producers in many countries, which is gradually diluting the dominance of the remaining monopolistic public utilities.***
- ***An improved investment climate in many countries, which should increase investor confidence in the rule of law.***
- ***The higher returns on investment for power projects in Africa compared to other regions. ROI is 25 percent in Africa versus 15 percent in Latin America, for instance.***

However, various challenges must be overcome for these investments to be realized. Power purchasing agreements represent a particular challenge because their status has not yet been clarified in a number of countries. The model currently applied involves private companies selling electricity to a principal that in many instances is the public utility. The issue here lies with reaching a mutually beneficial agreement on power purchasing between the seller and the buyer.

Power reforms have also not been fully completed in many countries. This is mainly due to political and social pressures. Ensuring that issues such as the cost-reflectivity of electricity tariffs are addressed should send positive signals to potential investors.

Raising capital on local and international markets is a further challenge for investments in power infrastructure on the continent. Because of low or nonexistent sovereign credit ratings, it is difficult for many sub-Saharan African countries to raise significant capital on international financial markets.

Sub-Saharan Africa is on the verge of massive positive change and the energy sector is expected to contribute significantly to shaping the economic development of the region. Private companies will, however, need to be part of this as the first providers of much-needed capital.

Jeannot Boussougouth is a Frost & Sullivan energy analyst.

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