Amidst Africa's energy crisis, optimism abounds with public-private partnerships

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Addis Ababa, 04 July 2011 (ECA) - Experts meeting in Addis Ababa to address Public-Private Partnerships for Africa's struggling energy sector have underscored that no other infrastructure sector inhibits GDP growth across the African continent more than power.

Organized by the Economic Commission for Africa (ECA) and the Korean Economics Institute, the 30 June – 1 July meeting brought together key actors from the private sector, government ministries, regional power pools and international organizations. One key objective was to present key lessons for a workable PPP implementation guide/framework, which is consistent with good governance principles. ECA hopes that it will encourage greater private sector participation in the energy sector.

According to Mr. Abdalla Hamdok, Director of the Governance and Public Administration Division at the ECA, on average, only 12% of households have access to electricity. "Promoting investment in this sector cannot be overemphasized for "without investment in this sector, we will not be able to achieve sustainable growth and development in the Continent, he said.

The link between power and growth has been studied extensively and experts attending the meeting concurred with the African Infrastructure Country Diagnostic, which estimates that in the area of infrastructure, the overall annual funding gap is US$35 billion, of which 80% relates to power.

Countries such as Korea have invested heavily in infrastructure development and Kim, Jin-Woo, President of the Korea Energy Economics Institute (KEEI) present at the meeting noted that though Africa is rich in resources, the gap between energy supply and demand has been increasing.

"To eradicate energy scarcity, the investments in energy infrastructure should be greatly increased so that the resources endowed in the continent can be transformed for sustainable socio-economic development," he said.

Hamdok pointed out that the gap is huge and is also linked to a slow energy capacity that has grown at only 3% annually in Sub-Saharan Africa over the last three decades and is not meeting growing energy demands.

But unlike the telecoms sector which has seen an outpouring of investors, attracting investment in the energy sector requires economics of scale and experts worry that the energy sector plays a different game.

Callixte Kambanda, an infrastructure specialist with the Infrastructure Consortium for Africa of the African Development Bank said that "53 sub-Saharan African states have populations fewer than 20 million and economies small than $10 billion."

In addition, PPP arrangments are complex - more so when involving more than 1 country. The financial modelling, sovereign guarantees and risk allocation requirements are major impediments to progress and most governments do not have neither the capacity nor the money to prepare extensively for PPPs.

Participants underscored that empowering regional bodies, such as Power Pools is a feasible option, but they need clear mandates from sovereign governments to negotiate PPPs on their behalf.

But as ECA Consultant, James Leigland sees it, "There is reason for optimism." Political will has increased and the work being done by partners such as the African Union on the Programme for Infrastructure Development in Africa (PIDA) and the Institutional Architecture for Infrastructure Development (IAIDA) is an indication of the seriousness with which this issue is being considered.

Leigland adds that Nigeria's 'big-bang" approach to energy sector reform is setting the pace for the rest of Africa; and Ethiopia is leading the way in tapping into the potential for hydropower.

A working group was formed for continuity of the discussions and to find ways to profile the sector at the international arena. The working group will tap into each other's expertise to advance investment in this sector.

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