Africa50 picks up the pace

After a slow start, Africa50 is building up a project pipeline with a focus on the power sector. New chief executive Alain Ebobissé is keen to bridge the gap between shareholder governments and the private sector to sign more projects, writes Thalia Griffiths

The Africa50 fund is showing new vitality after getting off to a slow start. New chief executive Alain Ebobissé has built up his team and moved the fund out of the African Development Bank (AfDB) headquarters in an effort to assert its autonomy. The fund aims to line up more projects in the coming weeks and months.

To considerable fanfare, the AfDB established Africa50 in 2012 to catalyse private investment in African infrastructure, with $812m of committed capital from 23 founding shareholder countries plus the AfDB, Banque Centrale des Etats de l'Afrique de l'Ouest, and Bank Al-Maghrib, the Moroccan central bank. Guinea and Democratic Republic of Congo joined at a shareholders' meeting in Accra in September. Uganda and Mauritius are discussing joining. Ebobissé told a forum organised by Invest Africa in London on 19 October that he hoped the number of member countries would get close to 30 in the next six months.

Well known to the industry following a range of posts at the International Finance Corporation (IFC), which he joined in 1998, Ebobissé is also seeking more institutional investors to boost the fund. Its member countries are concentrated in West Africa, but Ebobissé said he was hoping to extend membership to more southern and East African countries. Africa50 can invest in projects in non-member countries provided the returns are higher and member countries do not find themselves subsidising non-members.

"There was an acknowledgment that governments cannot fund the entire infrastructure gap," Ebobissé said. "The private sector has a big role to play, and in Africa we're just not getting enough private investment in infrastructure."

Africa50 was a development finance institution (DFI), "but my job as the CEO is to make sure that in practice we are run almost like a private sector fund which is supported by government shareholders".

A key role for the fund is developing bankable projects, "investing early-stage risk capital and also allocating human resources to build up a pipeline of bankable projects", Ebobissé said. The fund also invests in later-stage projects that are in development but have hit a funding gap. It seeks to mobilise funds held in long-term savings inside and outside Africa. Funds come "certainly from our government shareholders but also from commercial entities potentially. What we'd like to do is to offer some of those commercial entities the protection that Africa50 can bring by being fairly close to our government shareholders and mitigating some of the risk, and channelling some of those funds that are looking for investment institutions and bringing them into Africa." Africa50 was still looking at how to do this: "We'll probably run it through a third-party fund and it'll be separately managed."

Ebobissé joined 12 months ago and found the fund had "almost no staff but a lot of money". His priorities were to build a team, and move the operations out of the AfDB headquarters to a new base in the Moroccan commercial capital's Casablanca Finance City zone, giving it greater autonomy, while also developing a pipeline of projects. He described the process as "like flying a plane while building it at the same time".

According to Africa50's projections, by 2025, $150bn/yr will be required to meet Africa's infrastructure needs, of which 37% will be for power projects, 31% for transport, 14% for water and 18% for telecoms. Africa50 forecasts that $110bn-$120bn will be spent by that time, leaving an investment gap of $30bn-$40bn. This compares to some $75bn-$80bn spent in 2015.

"The power sector on the continent is the most commercial and also the sector that requires proportionately the most investment," Ebobissé said. The fund was interested in generation, transmission and distribution; he did not rule out backing coal projects but said they would not be a focus. For the transport sector, the focus would be on the most commercial projects, such as airports, ports and logistics. Ebobissé is keen to do projects for midstream and downstream gas, much of which is currently exported from Africa to world markets. "We want to make sure we build enough pipelines and processing facilities to bring gas to businesses and populations in Africa."

Private investment

Africa50 is keen to develop transmission projects as public-private partnerships and showcase them in the hope of overcoming resistance to private investment in 'natural monopolies' from some governments. Ebobissé also saw potential for private investment in distribution. But he was realistic about where the fund could be effective, saying Africa50 would not be attempting to tackle the Nigerian power sector's many problems.

Africa50's first investment, for a 24.5% stake in the 100MW Nova Scotia solar scheme in Nigeria, was committed in December 2016 (*AE 338/11*). In May, the fund agreed an investment in Scatec Solar's 400MW Benban project in Egypt.

In September, Africa50 agreed to take 30% in a 120MW heavy fuel oil project in Senegal, alongside a developer that it will help to choose (*AE 355/9*). "The government of Senegal asked Africa50 to join in and work with the local utility to select a strategic partner, meaning a majority shareholder that will do the project. Africa50 will do so in exchange for the right to invest up to 30% in the project. We love this kind of project because these are proprietary deals. In these deals we get in before everybody else and then we help select the sponsor that will come in and work with us."

Africa50 has cultivated a close relationship with government shareholders while also operating commercially, "so if we are close enough to government shareholders, we may be able to unlock some of the issues that affect many infrastructure projects", Ebobissé said. "We are not seeking to control companies in which we are investing. We are minority shareholders, we are about catalysing, we are about enabling things to happen as opposed to running things… we expect the strategic partner to take that role, we will be a good addition to the shareholding to help achieve a common goal."

Africa50 will not offer debt financing. "We see ourselves having complementary roles with other DFIs, primarily the African Development Bank, because the African Development Bank will be the first source of debt financing for Africa50's projects," Ebobissé said

Africa50 could potentially co-invest in infrastructure projects with the IFC. Ebobissé said Africa50 worked closely with the AfDB, with the vice-president of power, energy, climate and green growth, Amadou Hott, referring projects to the fund.

Acwa Power defends pricing as solar 'becomes cheaper than gas'

Some in the renewables industry have criticised Acwa Power for winning bids with low tariffs allegedly backed by subsidised finance, but the Saudi-owned company says it has become a dominant force by overturning outmoded assumptions about the cost of generating baseload power, writes John Hamilton

A new record-breaking low tariff was agreed in September when Dubai Electricity and Water Authority (DEWA) contracted a Saudi/Chinese consortium of Acwa Power and Shanghai Electric to build the fourth phase of the Mohammed Bin Rashid Al-Maktoum Solar Park in Dubai, United Arab Emirates. The project follows Acwa Power's spectacular success in winning major renewables contracts – among other work – in Morocco and other markets across the Middle East and North Africa (Mena). It is also interested in doing more south of the Sahara.

Dewa's concentrated solar power (CSP) contract will not only deliver one of the world's most modern power generation facilities and cement Acwa Power's position as a dominant global force in CSP development – the Dubai project will be the largest CSP plant built on the independent power producer model – Acwa Power chief executive Paddy Padmanathan argues that it has also overturned fundamental economic and commercial assumptions about the cost of generating baseload power from renewable energies compared to fossil fuels.

The Dubai CSP consortium's bid offered a levelised cost of electricity of $0.073/kWh, which is cheaper than the cost of gas-fired power in the emirate. This price should be replicable elsewhere in the Mena region, as well as in other parts of the world with high solar radiation, Padmanathan told a live webcast organised by the Marseilles-based Center for Mediterranean Integration's Mena CSP Knowledge and Innovation Programme. At these rates, "throughout the Mena region CSP can do the same job as combined-cycle gas power, and compete neck and neck. In Dubai it is slightly cheaper," he said. The Dewa project had established a new benchmark for the delivery of "cost-competitive, environmentally least-damaging… reliably dispatchable power" throughout the region.

The solar tower and parabolic trough technology to be installed at the Dubai solar park includes ten to 15 hours of storage.

Padmanathan said he expected CSP to eventually challenge coal on cost, particularly as coal-fired plants will be increasingly required to install expensive emissions scrubbing equipment to meet environmental standards.

Acwa has an established history of challenging the global solar industry by submitting bids with tariffs significantly below those of its competitors. Its successful offers in the face of stiff competition to build the industry-redefining Noor I and II CSP projects in Morocco are a high-profile example. At the time, the low prices offered to the Moroccan Agency for Solar Development (Masen) provoked speculation that the Saudi-owned firm was able to benefit from an artificially low 'Saudi cost of capital', in an industry where the cost of financing for CSP projects comprises by far the largest element of the end tariff. Padmanathan dismissed this as a "myth", saying Acwa Power did not command resources unavailable to other bidders.

Moroccan bidding history

Padmanathan said Acwa Power's tight pricing for Masen, Dewa and other clients showed "what competition does to tariffs". He argued: "Back in 2011, when CSP tariffs were sitting at about $0.30-$0.35/kWh, Morocco launched this tender. We delivered what became famous as the $0.189/kWh tariff for Noor I. At that time, there were two other very credible competing companies who delivered $0.249 and $0.251/kWh. [This was] a shocking tariff difference." He said the entire debt (equivalent to 80% of the project cost) "came from Masen using a funding package from the World Bank. Everybody had access to that same debt. So there could have been equity pricing, but I have already pointed out how insignificant equity pricing is, even if we give the money away cheap or at no cost."

He pointed out that "more interestingly, only one and a half years later [came] another tender in Morocco. Those two same companies were able to come pretty much at the same tariff