Industrial Alignment and Energization: How commercial partnerships deliver energy, create jobs, build capacity, and spur industrial growth

Alain Ebobisse, CEO Africa50, keynote at Powering Africa Summit,
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Good morning ladies and gentlemen. I want to thank my friends at Energy Net for giving me the opportunity to address you today on our common goal of expanding the power sector in Africa. It's been our top priority at Africa50 since I joined last August, and I look forward to exchanging ideas with all of you in the room and other project developers, financiers, and partners during the Summit.

Falling growth and investment rates

You may remember the famous cover of The Economist magazine of December 2011 called "Africa Rising." Well at that point it was; after decades of false starts Africa finally seemed to be fulfilling its potential. However, only five years later The New York Times had a different headline: "Africa Rising? Africa Reeling Would be More Fitting Now".

Indeed, while growth in Africa roared along at about 5.4% a year from 2000 to 2010, for the next five years it slowed to about 3.3%. Some of this can be explained by external shocks, such as the 2008 financial crisis and the fall in commodity prices, but much of it is due to internal factors.

While overall, progress has been noticeable, more can be done to get to a higher level. So what can be done to stimulate growth in Africa, including the kind of industrial growth that helped pull other regions out of poverty? It is certain that Africa cannot base its development primarily on commodity exports and donor funding. We must learn to compete on a global scale, matching our great natural resources with talented human resources, and instituting the types of reforms that will make Africa a favored investment destination.

The opportunity of manufacturing

One key sector, manufacturing, is a major untapped opportunity and almost a prerequisite for sustainable growth in Africa. McKinsey estimates that the continent could double its manufacturing output in ten years, boosting GDP, improving the balance of payments, and creating from 6 to14 million jobs.

Doubling the industrial GDP of Africa is also the goal of the African Development Bank, the main sponsor and anchor investor of Africa50. The AfDB wants (and I quote) "to give the private sector the means to effectively drive the industrialization process on the continent".

Its strategy focuses primarily on industrial policy and technical advice, promoting industrial clusters, forming strategic partnerships, and, of course, attracting funding. For funding the AfDB will increase finance to SMEs, so important in Africa, and for Public Private Partnerships, especially in those sectors such as infrastructure that can catalyze economic growth and job creation.

Much of this growth would occur in countries with an existing manufacturing base but, given the right policies, there is no reason others can't follow suit.

Overall, between 2000 and 2015, Africa's manufacturing value added grew 2.5% a year, which is on a par with the world average. However, it is starting from a very low base and is still far behind the growth rates of Asia, where manufacturing value added grew 7.4% a year in the same period.

Doubling manufacturing output will be challenging. It requires better market access, integration into global supply chains, and increased competitiveness through improved labor productivity.

Unfortunately, the groundwork in many countries is very limited; from business-friendly economic policies to consistent, fair, and transparent governance. And--bringing us to today's theme--Africa's infrastructure is still insufficient and unreliable in most countries, making profiting fully from industrialization and globalization a distant goal.

The infrastructure funding gap

I hardly need to mention to this expert audience that infrastructure is essential for development, and that it must keep pace with rapid population growth and urbanization.

Although Africa's spending on infrastructure doubled from an average of $36 billion a year from 2001 to 2006 to $80 billion in 2015, as a share of GDP it has remained at around 3.5%, which is not enough. By most estimates the annual infrastructure funding gap is at least $50 billion.

Moreover, spending levels are uneven. North and Southern Africa spend more than 5% of GDP each year, but the rest of Africa averages only 1.3%, the lowest worldwide. And close to half of this financing still comes from development partners. The share of private financing is under 4% of the total, which is significantly lower than elsewhere. *(source: MGI)*

The reason for this limited private sector investment is familiar: a poor enabling environment. Too many countries still lack business friendly economic policies, strong institutions, effective regulations, and transparent governance.

Only nine African countries (including North African) finished in the top 100 of the World Bank's Doing Business report for 2016, while over half of the lowest 40 were African. Private sector investors have choices and will pursue opportunities offered in more welcoming countries.

Why electrification lags

It is electrification that lags the most among African infrastructure sub-sectors, which is why we are here today. The share of sub-Saharan African households with access to electricity increased only marginally from 26% in 2000 to 32% in 2015, and only seven countries—Cameroon, Côte d'Ivoire, Gabon, Ghana, Namibia, Senegal, and South Africa—had electricity-access rates exceeding 50%. And even then, electricity can be unreliable and difficult to access. (*source: MGI*)

The Doing Business report ranks sub-Saharan Africa worst in power outages, with 700 hours a year, almost an entire month. And in 2016, no African country streamlined the procedures for getting electricity. Therefore, 45% of potential investors cite the lack of reliable power as a major obstacle. So yes, speeding up industrialization will require that we do much better on the provision of reliable power.

But, in spite of the great needs and the resulting opportunities, investment in the sector is still too low for a number of reasons, including macro and sectoral reasons, as well as investors' perception (right or wrong) that returns are not commensurate with the risks.

Finally, electricity provision and distribution has remained predominantly under public ownership and management. As of 2014, almost half of sub-Saharan countries still had state-owned and vertically integrated utilities with no private sector participation. (*source: World Bank*).

Building up the pipeline of bankable projects
So what can be done to increase investment in power in Africa?

Despite the fiscal constraints in many countries, access to finance is not the major obstacle. Donors, IFIs and developers are standing by with adequate funds. And institutional investors and banks are sitting on trillions of dollars in capital, some of which could be used for reliable, long-term investments in infrastructure in Africa.

However, the vast majority of these funds are invested in advanced economies, and their managers need to be convinced that investing in Africa is worthwhile.

The main obstacles to tapping such financing are the inadequate enabling environment that I mentioned earlier, coupled with the limited number of bankable projects.

The "to do" list for building up the pipeline of bankable projects is well known. It includes, among other things, having governments improve the investment climate and create sufficiently robust sectors to attract investments. This requires them to develop credible sector policies and to apply them consistently over time.

Governments would also benefit from building public-sector capacity and skills, and seeking input from experienced advisors to facilitate negotiations of PPP agreements, which are generally very complex.

And DFIs could be even more proactive in deploying risk mitigation instruments to backstop government commitments when governments do not provide sufficient comfort to investors.

This is totally doable, as has been proven in many emerging markets, including in a number of African countries. What we need now is to ensure that it is done on a large enough scale to match the magnitude of the needs. Investors deserve to have the assurance that they can recover their costs and earn a return consistent with the risks that they are taking, otherwise they will look elsewhere.

We are confident that there are many developers and sponsors out there—I imagine a lot of them in this room– that are willing to continue roll up their sleeves and jump in to develop good bankable projects.

Let me assure you that Africa50 is ready to work with you to achieve these goals.

Africa50 was created by the African Development Bank, with the support of African states, to help bridge the infrastructure gap in Africa. Our Project Development arm's mandate is to increase the pipeline of viable projects by working with governments and partners to speed up project development. With a shareholder base that includes 23 African countries, the AfDB and two central banks, we can create a bridge between the public and private sectors to facilitate private investment in infrastructure, with a strong focus on power. Our other arm, Project Finance, seeks to support projects which are a bit more advanced in their life cycle--near financial close, under construction or already operational. We will typically support projects or platforms as a strategic minority partner with equity or quasi-equity alongside strong partners.

In the power sector, we have a strong appetite for investing in Independent Power Producers (IPPs), but we are also ready to invest in other forms of Public Private Partnerships (PPP) across the power sector value chain, such as distribution and transmission concessions.

Our view is that PPPs have a number of advantages, even though sometimes countries are reluctant to implement them. Indeed, in a PPP the private sector makes most of the project capital investment, saving precious government budget resources. Payments for the use of the infrastructure can also be spread out over the duration of the project. Moreover, the quality of infrastructure services can be enhanced through PPPs, since the private sector can provide experience and skills which are not always available in the public sector.

We note with satisfaction that IPPs are increasingly well-accepted in Africa. Their contractual arrangements are understood by both developers and financiers. Governments have also become more familiar with this type of PPP.

Frankly, if countries build the enabling environment for IPPs, the investors will come, and we would substantially increase the number of projects in Africa. However, investors must understand that they have to provide value for money, while countries must be able to assure them that they will be paid.

Ultimately no matter which model is used, to attract private sector investments in the power sector, governments would do well to provide clear, consistent, and transparent regulations, and prove that they have the capacity and track record to implement them. Power projects are by their nature for the long term and uncertainty heightens risk perception.

The key to successful commercial partnerships is: 1) the allocation of risks to the party best able to handle them, and 2) an appropriate compensation for these risks. Typically, the private sector is best placed to manage the technical, financial, and operational risks, while governments are best placed to handle macro-economic risks (e.g. foreign exchange), political risks and force majeure.

When governments have the credibility that they can manage risks well or, even better, when they have a demonstrated track-record to do so, they can obtain projects that require lower returns from investors. The REFIT program in South Africa is a vivid example. On the other hand, when the private sector is expected to cover most risks, it will price this into contracts, resulting in projects that are more expensive.

In closing, we have a wonderful opportunity if private investors act responsibly and governments show commitment to the private sector. Our common goal is to execute sustainable transactions and form win-win partnerships for all stakeholders, and establishing an attractive framework for private investment in the power sector.

We are confident that investors are ready to come and help fill Africa’s energy deficit. Africans want electricity for economic growth and opportunity. Africa50 wants to be a part of the solution, and together, we can make it happen.