The Infrastructure Consortium for Africa
Le Consortium pour les infrastructures en Afrique

POWERING AFRICA'S GROWTH:
Expanding Private Investment in African Power Infrastructure

May 11, 2009
Dakar, Senegal

Outcome Statement

On May 11, 2009 the U.S. Department of the Treasury and the Infrastructure Consortium for Africa (ICA) co-hosted a symposium on mobilizing private investment into Africa's power. The symposium followed up on a first meeting held in Washington in October 2008. Taking place at the margins of the Annual Meetings of the African Development Bank, the event brought together African Ministers, senior private sector representatives, and officials from multilateral and bilateral development institutions to discuss what constraints prevent private investment from filling a greater portion of the power infrastructure gap in Africa. The meeting was co-chaired by Dr. Mandla Gantsho, Vice President for Infrastructure, African Development Bank and U.S. Treasury Acting Assistant Secretary of International Affairs, Andy Baukol. The event was divided in three sessions, all designed to identify and remove barriers to reaching financial close / bankability in projects, or to identify and find ways to solve political and policy constraints in the African power sector.

Key outcomes:

1) **Strengthening African Governments' understanding of public-private partnerships** (PPPs) and their capacity to **negotiate and manage Power Purchase Agreements** (PPAs). ICA agreed to establish a task force to draft a model power-purchase agreement (First results to be delivered until the end of 2009). Participants also agreed to examine scaling up assistance to help African governments establish offices dedicated to handling the procurement, financing and legal aspects of PPAs (capacity building). Advisory services (e.g. in project preparation) to be used at early stages in projects. Participants agreed that large attention shall be given to the financing and provision of transmission lines (access to grid) as part of national Master Plans, which often lies in the public domain; local developers to be included at early stages to add value; key to successful projects and negotiations is the early involvement of all parties (local developers, ministries of energy, finance and justice).

2) **Utilizing emergency financing facilities** established to help address financing shortfalls resulting from the financial crisis. Participants particularly noted the African Development Bank's Emergency Liquidity Facility, the World Bank's Infrastructure Recovery and Assets (INFRA) Platform, and the International Finance Corporation's Infrastructure Crisis Facility.

3) **Broadening of the concept** of the Dakar event onto other sectors (the transport and the water sectors), and **alignment with other existing initiatives.**

1. Presentation and evaluation of upcoming and completed projects in Sessions 1 and 2

The day's first session focused on attracting private investment in the power sector. Three upcoming projects were presented by project developers Joseph Brandt of ContourGlobal (Lake Kivu Gas to Methane, Rwanda), Henk Hutting of LTWF (Lake Turkana Wind Farm, Kenya), and Hela Cheikhrouhou of AfDB (to present Mmamabula Coal IPP, Botswana). Presentations informed the participants about the ongoing progress in the respective projects to move closer to financial closure. Session 2 brought two presentations (Tema Osonor Thermal Power Ghana by Eunice Biritwum and Rabai Diesel Power Kenya by Joel Kiilu / KPLC and Bob Chestnutt / Aldwych International) that explained how power projects were moved from feasibility stage to financial closure. Ensuing discussions dealt with the following themes:

- **Availability of funding for projects:** Project Developers raised concern that funding might dry up in crisis times and that high hurdle of entry for commercial banks and DFIs (e.g. equity ratios and margin levels) will be an obstacle to financial closures. Also, middle-size markets are getting "squeezed", leading to commercial and DFI funding going into developed markets only. DFIs responded by pointing out that the openness to finance private power projects in Africa has not changed and that funding is available; rather it is an increase in funding costs to be borne by borrowers which is unavoidable, while all other factors remain subject to standard risk analysis. In addition, efforts to establish guarantee instruments in collaboration with commercial banks are ongoing. There was agreement about the notion, that it is no lack of funding, but rather a lack of quality in projects. Indicating the need for reforms, it was mentioned that if the enabling environment is right (Tariff regime, quality of offtake), investment and bank capital will come. Exact early stage estimations of project cost (per MW) and the tariff structures in different power sectors were discussed to draw similar conclusions with respect to the long-term attractiveness of projects.

- **Reforms, Purchase Power Agreements and legal documentation:** Participants explained the need to increase coordination among Governments and project players to "standardize" PPAs, and where possible, financing agreements in the power sector. As mentioned in another example of a large power project in Brazil, a standard form financing arrangement led to a significant reduction in legal and project costs while ensuring swift financial close National developers and local public representatives can add value to development and negotiations from a very early stage in projects. DFIs added that next to increased coordination among project partners (both national and international), the number of countries to engage and facilitate IPPS should increase on the African continent. Following the positive examples of Ghana, Kenya and Senegal would also increase the amount in development finance necessary to fill some of the infrastructure financing gap. IFC have a new $100 million InfraVentures Fund which is designed to provide early stage risk capital for the early stages of project development to create commercially viable projects. Investment Climate Facility (ICF) explained how private corporates and DFIs can be supported in speeding up judicial procedures, access to finance and the analysis of the "enabling environment"; further support in addressing skills shortages (e.g. PPAs) in Governments and capacity building is equally available.

- **Quality of projects:** Success factors were 1) a risk-mitigating funding structure 2) strong project sponsors and off-take arrangement 3) well-established power sector and regulators and 4) a coordinated approach by all project partners (Governments, sponsors, and lenders) to find a bankable structure. DEG added the positive example of Olkaria 3 Geothermal plant in Kenya, which started off as cooperation between the Government of Kenya and donors but has now reached full commercial bankability due to transparent reforms, efficient tariffs and reliable offtake – which was also highlighted in Joel Kiilu's (of Kenya Power and Lighting Company) presentation. A long-term Masterplan addressing the vital issues such as energy mix, power pools and regional interconnection (power pools) can make a difference to national power sectors.

2. <u>Panel Discussion on power finance in Africa and the global crisis</u>

In his opening remarks Chair Mandla Gantsho emphasized the importance of developing and maintaining infrastructure to ensure growth in Africa which has – despite the ongoing crisis – only dropped by 2% (from an overall 6%). There is a trend towards DFI club financings of projects which shall be enhanced through deepened collaboration (with reference to e.g. PPAs or joint appraisals), as shown in the recently launched IFI Joint Action Plan (by AfDB, IFC) or the AfDB cooperation platform "African Finance Partners" (AFP). These initiatives shall also approach the market with a view to the fact that 1 USD spent on maintenance in infrastructure saves 4 USD to be spent on rehabilitation. In the following discussion, panelists outlined their views on the current situation:

- **Global Financial Crisis**: There was agreement that it is the dynamics of risk allocation and pricing - and the underlying analysis thereof - which have changed. While commercial banks have retreated, thus giving a larger role to DFIs, it is important to bundle financial institutional efforts for Africa to understand pipeline and the component of risk as well as to undertake joint bankability assessment. Commercial banks stand ready to do so, one solution might be to use covered loans (with multilateral institutions) to increase liquidity for the market. Despite a reduction in growth the number of IPPs on the continent has not decreased. An enhanced role of DFIs is now given in the support of regulatory reform as the enabling environment is vital for the private sector to remain active. Also, equity investors are still present and can expect similar returns as risk has not deteriorated in a dramatic fashion.

3. <u>Summing-up / Next Steps</u>

In the final session, Chair Andy Baukol summarized the findings of the day and defined the next steps and follow-up. Findings included the importance of open transparent bidding as well as legal frameworks and policy enabling private investments in the power sector (e.g. Kenya, Rwanda), the setting of cost recovering tariffs to cover the private sector's investments, the benefits of early advisory services in projects and the need for response and coordination in times of economic crisis. As infrastructure is a key constraint for growth, the obstacles to the entry of the private sector need to be further analyzed and the public sector is to further support the African power sector by implementing reforms while Development Finance Institution (DFIs) stand ready to further provide finance and expertise.

Next steps:

- ICA to organize a Working Group to develop a standardized Power Purchase Agreement (PPA) and, where applicable, financing agreements. Working Group volunteers from private sector (Project developers), commercial bank, DFIs, legal experts and Government representatives to participate shall be identified. Results expected by end 0f 2009.
- ICA to organize with the US Treasury a follow-up meeting to the Dakar Meeting for 2010.
- ICA to expand the concept of the Dakar power meeting to other infrastructure sectors. For 2010 a meeting for the transport sector shall be organized.

Annex

- List of Participants