

Building Africa – The Power of Private Investment

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I recently read a story in a local Tanzanian paper on how little progress there has been in African governance over the last decade, as cited in the 2016 Ibrahim Index of African Governance (IIAG). There was progress, the article said, just not very much of it.

As someone responsible for executing African Infrastructure Investment Managers' (AIIM) investment strategy, what piqued my interest from the IIAG was the fact that 40% of Africans are living with deteriorating electricity infrastructure, which impacts over half the continent's economy. 600 million people in sub-Saharan Africa still lack access to modern energy and that is nearly three decades after African countries started implementing power sector reforms in an effort to resolve the acute power shortages following years of under-investment in their state-owned utilities. Lack of power continues to hold back GDP growth more than any other infrastructure sector.

West African governments so far appear to be ahead of the pack in recognising this and are working hard to bridge the gap. Nearly two-thirds of 15 major African economies now have public-private partnership (PPP) specific legal frameworks in place. This year, I have certainly felt a growing sense of urgency to intensify efforts to power the continent.

The advent of renewable energy could unlock new opportunities for "green growth" in Africa, and provide an opportunity to leap-frog to more efficient power infrastructure and technologies. South Africa is leading the charge on clean energy development, with Morocco and Uganda in close pursuit.

Countries such as Côte d'Ivoire, Nigeria and Senegal have preferred to promote private sector participation in the power sector to address the deficit. Others – Ethiopia and Tanzania for example – prefer to develop their own resources, while South Africa and Kenya have chosen a hybrid route, with the sector still dominated by state-owned entities alongside a growing number of independent power producers.

Private investment in infrastructure is a successfully tried and tested formula. While some African countries may be able to meet their power needs without the expertise and capital introduced by the private sector, many simply cannot. Cameroon, Guinea and Nigeria stand out for me as the three countries offering the most exciting opportunities in the power sector.

The confidence that private sector players have in African infrastructure is growing; however, patience and long-term planning are essential. A healthy dose of realism is required when considering the implementation of energy investments. These are complex (often pathfinder) projects that take time and require the cooperation of multiple counter-parties in both the public and private sector. Patience and persistence are needed in equal measure!

Notwithstanding slowing economies in Nigeria and South Africa, my view is that there is still ample scope and appetite for PPPs in Africa, and so long as investments are made responsibly and with long-term sustainability in mind, private capital still has a crucial role in powering Africa. But this will require improvement in the quality and effectiveness of governance and institutions, and greater access to technical and financial resources. So yes, there is progress, we just need to see more of it.

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