Power Africa
Driving investment

Discussing private investment opportunities for Power Africa (in the usual order): Dr. Mima Nedelcovych, President and CEO of IGD, Andrew Alli of Africa Finance Corporation, Ravi Suri of Standard Chartered Bank.

During the U.S.-Africa Leaders Summit in August 2014, Initiative for Global Development (IGD) hosted a forum with key U.S. and African stakeholders in order to explore ways to boost investment in power generation projects in Africa.

by Thuy Dinh

In cooperation with the U.S. Department of Commerce, IGD convened an invitation-only panel and roundtable discussion for CEOs and senior executives on "Driving Private Investment in Power Africa."

Several U.S. government agencies were represented at this event, including the U.S. Department of Commerce, USAID and the Department of State. Participating IGD member companies included ContourGlobal, Symbion Power, Africa Finance Corporation (AFC), General Electric Company (GE), Standard Chartered Bank, SkyPower and Press Corporation Limited (PCL). According to the panel, Power Purchase Agreements (PPAs) and tariffs are areas that need to reviewed, since current arrangements may deter U.S. investors from exploring opportunities in Africa's power sector.

Approaching PPAs

A PPA is a contract between a party that generates electricity and a party that buys and distributes it. How do you create effective PPAs that protect both parties from miscommunication and legal hassles? Is it better to standardize, or to create versions of documents that allow for local adjustments? The use of standardized documents has a good track record. In Brazil, for example, such agreements have brought reliable power to most of the population. Given that the World Bank has already set out guidelines for standardization, there is reason to believe that this approach can be used successfully in Africa. At the same time, a formula that allows for the integration of local provisions could prove more effective in Africa. Differences among African countries must be acknowledged and locked protocols could, in some cases, compromise the process of power distribution.

Evaluating tariffs

Tariffs are the amount of money paid for energy by a consumer. Cost reflective tariffs for energy use should reflect the cost incurred to provide that electricity, meaning that the price can change depending on a number of factors. For example, cost reflective tariffs can be applied by charging consumers more for electricity use during certain times of the day when overall consumption is higher. Opponents of this tariff model cite the strengths of cost effectiveness vs. cost reflectiveness. The object is to maintain a cost that would not fluctuate. Cost effective tariffs have been very successful in Brazil, even though a third of consumers there receive government subsidies for power.

These "Driving Investment in Power Africa" discussions ignited a lively debate and dialogue on power provision in Africa. It is equally clear that this dialogue will be continuing far beyond the Summit, as more investors begin to recognize the magnitude of opportunities in Africa's power sector. As part of President Obama's Power Africa Initiative, the Department of Commerce is focused on driving investment into power generation projects in Africa by providing technical assistance to African governments through the Office of the General Counsel's Commercial Law Development Program (CLDP). USAID is providing technical advisory services and major financial resources are provided by the Overseas Private Investment Corporation (OPIC) and the Millennium Challenge Corporation (MCC). As a founding partner of Power Africa, IGD is currently working with government and private sector stakeholders to streamline the project development process by developing and publishing a handbook with guidelines on PPAs and related documents.

"The Department of Commerce is focused on driving investment into power generation projects in Africa."

James Musoni, Minister of Infrastructure for Rwanda, Kelly Welsh, General Counsel at the U.S. Department of Commerce, Mima Nedelcovych, President and CEO of IGD, Kerry Adler of SkyPower.

About IGD

The Initiative for Global Development is a non-profit organization that drives poverty reduction by catalyzing business growth and investment in the developing world. IGD brings together an influential network of senior executives from sector-leading companies with the interest and capacity to make strategic investments in high-need, high-potential areas of Africa. For more information about IGD and its work in the African power sector, visit: igdleaders.org/tools-initiatives/electric-power.

__Thuy Dinh__ is the Manager for Communications at IGD, where she develops and executes strategies to increase understanding of the organization's work in power and infrastructure, agriculture, financial services and ICT.