Initial impacts of Power Africa

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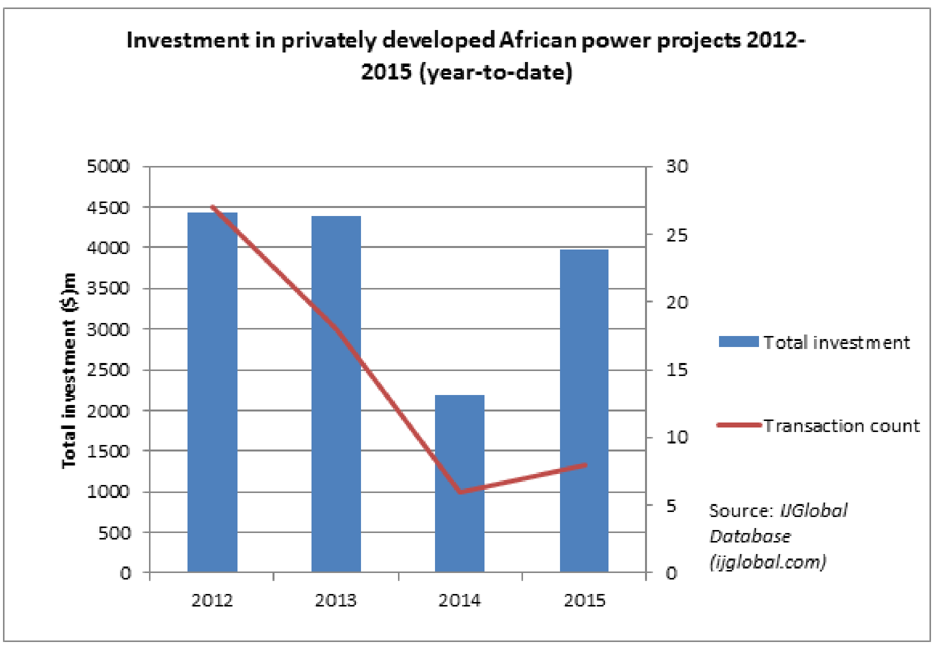
Launched in 2013, the US government-led ‘Power Africa’ initiative was established to increase access to electricity across the continent. To date it has only helped a handful of African power deals reach financial close, but has grander long-term plans.

The mission of Power Africa is to double access to electricity in sub-Saharan Africa. Its method is to work with private investors to help them create bankable power projects. It has a target of creating 30,000MW of new generating capacity across the region, and claims to have played a role in the financing of 4,100MW of new power plants since launch.

IJGlobal data shows a decline in the number of privately developed power projects reaching financial close during the last two years, and overall investment has not risen since 2012. Data for the region is heavily skewed by the South African renewables programme, which produced a majority of the projects represented in the data and was most productive in 2012 and 2013.



Power Africa’s impact is gradually being felt. Large financings move slowly in sub-Saharan Africa and usually take many years to complete. Much of the work the US Agency for International Development (USAID) and US development finance institution Overseas Private Investment Corporation (Opic) have been conducting has been on early stage development. These pillars of the Power Africa initiative have not just been helping source financing for projects but also funding feasibility studies and advising governments on procurement and power strategies.

One developer that has benefitted from this work is Genesis Electricity. The company is pursuing renewable power projects, particularly mini-hydro plants, in the region. Genesis CEO Akinwole Omoboriowo II told *IJGlobal*: “Power Africa is starting to work for us at Genesis, I hope for others too. They have very standardised KPIs, and if you meet them, you get the funding."

Success to date

One of the most significant deals Power Africa has worked on to date is the 300MW Lake Turkana wind farm in Kenya. The huge wind farm is being developed in a remote area of the east African country. Opic provided funds and advice to the Kenyan government for its grid management support programme to ensure the national grid was ready to assume the significant surge in power the plant would create. The US Treasury Department also underwrote the partial risk guarantee provided to the project by the African Development Bank, a crucial component in making the deal bankable.

Power Africa coordinator Andrew Herscowitz is keen to emphasise that participation of US companies is not a necessity for the initiative to support a project. Lake Turkana can be seen as an example of this. When the deal reached financial close last year, no US content was involved in the project, although Google has subsequently revealed that it will acquire equity once the plant becomes operational.

Herscowitz says that Power Africa's priority is to support African power developers, not US companies, and that its goal is to make sure "deals are done in a way that they are transparent, fair and sustainable". He concedes that progress will be slow, but that in five years you will see a noticeable upward trajectory of development, particular in solar projects.

The reliability and credit worthiness of state offtakers is often stated as the biggest obstacle to power development in Africa, but Herscowitz argues that "the biggest risk is people. You can make any deal happen if you have the right people there, making the right decisions, who are working hard and are willing to keep an open mind."

He identifies Karen Breytenbach and her team at the IPP office in South Africa as an example of how to get it right. With a strong champion promoting and fighting for the country's renewables programme, an impressive number of projects have been procured in just a few years.

At what cost?

Along with human resource, Omoboriowo of Genesis identifies tariff prices as a significant challenge to the development of power development in Africa. "One of the greatest challenges is correct pricing", he said. "You need cost-reflective tariffs under power purchase agreements which do not leave the margin too thin for investors."

The success of the South African renewables programme, which has seen tariff prices fall in each round of procurement, may have turned some governments' heads. But Herscowitz argues that prioritising low tariffs is the wrong approach, and that instead governments should be looking to remove subsidies to ensure projects are viable.

He commented: "We have already seen a lot of countries over the last few years take bold moves raising tariffs, and the countries have not imploded. What people want is power, and people are willing to pay more money for dependable power."

Herscowitz sees growing interest in African power projects and does not think depressed oil prices will hold back governments from procuring deals. Given the speed of development however, it will be a number of years until the success of Power Africa is revealed.

** Andrew Herscowitz and Akinwole Omoboriowo II will both be speaking at The Global African Investment Summit to be held at Central Hall Westminster, London on 1-2 December 2015.*