

Regional Energy Interventions in Africa – identifying potential entry points under Sweden’s next Strategy for sub-Saharan Africa

- Summary made by Sida

Most countries in sub-Saharan Africa are characterised by low levels of electricity access and an installed generation capacity almost fully utilised - while unexploited resources for new power generation are still huge. Current investment levels amount to about twenty percent of the estimated needs of USD 45 billion/year. Regional level planning and investments provide opportunities for increased cost efficiency as well as pooling of risks and funds. The regional level provides greater economies of scale, and potentials for increased transparency and stability which can incentivize a more active participation from private and public investors. With its long presence in the energy sector in Africa, and world leading competence in renewable energy and energy efficiency, Sweden can provide added value to the effort of unlocking the potentially enormous benefits of linking energy systems and pooling investments and operations across African regions. Continued engagement in regional power pools; support to regional centres for renewable energy and energy efficiency; and provision of investment preparation support for transformative projects, are areas where Sweden has a comparative advantage and where a regional approach can generate peer pressure. Such an engagement is also well in line with the Swedish commitment to Power Africa.

These are the main conclusions from a recent report commissioned by Sida with the aim to identify possible entry points for Sweden’s new Regional Results Strategy in Africa.

The report¹ provides a review of regional energy markets and opportunities in Africa. This will serve as a background paper for Sweden’s new strategy for regional development cooperation with sub-Saharan Africa beyond 2015, as well as provide the basis for engagements with other development partners and investors. The report illustrates the large number of – often overlapping - regional actors, partnerships, and investment initiatives in the energy sector in Africa. Based on an analysis of Sweden’s comparative advantages the report presents potential Swedish partnerships with regional actors; financial institutions; and investments banks. One example that is highlighted is the Programme for Infrastructure Development in Africa (PIDA). The Africa Electrification Initiative (AEI) under leadership of the World Bank is also mentioned along with the growing potential for Swedish partnerships with Power Africa.

Regional Approach for Peer Pressure and Benefits of Scale

The report identifies common challenges across African regions, and points to the benefit of scale if the programmes are rolled out on a regional rather than country basis. Thereby, the report goes beyond the traditional view that regional energy projects are limited to “cross-border-projects”. It identifies the potential for regional approaches to sector financial performance, corporate governance, grid code regulations, and subsidy reforms are seen as essential. The regional approach gives the benefit of a forum for sharing of information and best practices; it builds capacity and creates peer pressure and benchmarking towards developing sound policy, regulation and legal frameworks.

¹ *Regional Energy Cooperation in Africa and Possible Entry Points for the new Regional Results Strategy, Ralph Kårhammar, Nov 2014.*

The Nordic experiences from regional power planning and trade is recognised as a foundation for continued support to the Southern African Power Pool (SAPP), under the Southern African Development Community (SADC), as well as to the East African Power Pool (EAPP) under the Common Market for Eastern and Southern Africa (COMESA). A continuation of existing support towards regional power trade, implemented for more than ten years together with Norway, is seen as potential while new inroads to investment support are identified.

Furthermore, the study highlights the increasing global interest in renewable energy and the Swedish comparative advantage in low carbon energy systems and energy efficiency. Support to existing and planned Regional Centres for Renewable Energy and Energy Efficiency, and/or increased cooperation with the International Renewable Energy Agency (IRENA) is therefore recommended, as it provides a forum for sharing best practices, and builds capacity towards the long-term development of the energy sector. In addition, addressing a shared regional agenda in the water-energy nexus is emphasised.

A main reason for the power crisis in Africa is the poor performance and inefficiency of different national utilities. The Swedish bilateral support to building institutional capacity within utilities in Mozambique, Tanzania, and Zambia is considered important in achieving regional cooperation and interconnectivity, and an increased focus on synergies between regional and national approaches is envisaged. However, there are many donor and financial institutions wanting to support the regional institutions in trade and capacity building, and coordination around a combined funding approach is essential.

Innovative Approaches to Leverage Private and Public Investments in Energy

Addressing sub-Saharan Africa's power problem and implementing regional trade will require major spending in power infrastructure. The need of investments surpasses the financial resources of the development partners and must be supplemented with investments from the private sector, which calls for increased attention to how to get the investment incentives right. The report concludes that increased efforts to use alternative financing models to encourage greater involvement from the private sector is critical and that interventions on regional levels holds many advantages. The initiatives proposed range from; catalysing efforts through policy advisory facilities such as the Public-Private Infrastructure Advisory Facility (PPIAF); support to small and medium clean energy and energy efficiency projects; to pure private equity funds. Regional approaches through challenge funds such as the Africa Enterprise Challenge Fund (AECF), and support to the Green Africa Power (a PIDG initiative) is recommended. Existing partnerships with e.g. the European Investment Bank (EIB), African Development Bank and USAID under Power Africa are conducive to leverage private financing at a regional level.

Given its limited development funds, Sweden must be highly strategic in developing its role to contribute to the expansion of the energy sector in Africa. Targeted facilitation of initial project development is seen as a critical means to help African partners expand their generation capacity and access. The report concludes that the leverage effect of Swedish development funds in these types of activities can be considerable, and is of particular importance along the Regional Interconnectors and mega/transformational projects, where inadequate project preparation funding is assessed as a key constraint. The proposed approach is also in line with the Swedish commitment to Power Africa – with its specific aim to unblock stalled processes for power generation in the energy sector and to leverage private and institutional capital for power sector investments.