



USAID
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FACILITATING INVESTMENT IN ELECTRICITY INFRASTRUCTURE

Electricity is central to sustainable development and poverty reduction, and affects all aspects of development – social, economic, and environmental. Recognizing this relationship, the United States committed \$200 million through the African Global Competitiveness Initiative (AGCI) to support the development of new African electricity sources, expanded access to finance, small-to-medium enterprises, and regional trade. Through its support of electricity infrastructure, AGCI seeks to leverage new investments of more than \$1 billion into the sub-Saharan Africa electricity sector by 2011.

To help it achieve its goals in electricity, USAID has created the Africa Infrastructure Program (AIP). AIP seeks to help commercially viable and environmentally sound electricity projects overcome barriers preventing their reaching financial closure and getting constructed. It accomplishes this by funding and providing experts in non-recourse project finance to help advance SSA projects

THE CHALLENGE

The availability of electricity in sub-Saharan Africa is very limited—fewer than one in four people have access to reliable, commercially priced electricity sources. Investment in new facilities is also underfunded relative to sub-Saharan Africa's size, and consequently shortages are commonplace. Privately supported electricity projects can help alleviate these shortages, but the number of successful private projects remains small. Why? The commercial, political, legal, and regulatory risks in many countries are great; commercial and financial structuring of privately sponsored electricity projects is very complex; and host governments often lack essential project structuring and negotiating skills. These

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AFRICA INFRASTRUCTURE PROGRAM

Many energy and power projects in sub-Saharan Africa encounter barriers that prevent them from achieving financial closure, and thereby becoming successes. USAID's Africa Infrastructure Program offers late-stage project support to help African host country governments and project developer partners overcome these barriers and reach financial and project closure.

factors make it difficult to bring private projects to financial closure in Africa.

In this environment, African officials must also make decisions on costly and technically complex projects with potentially significant economic and social impacts on their country. Often, these decisions must be made without the support of skilled, expert advisors who are knowledgeable in how similar international projects have been structured elsewhere. Understandably, this may delay their making decisions as they work to fully understand the terms and implications of the projects. Costs associated with project delays can be significant both to governments and to developers.

THE PROGRAM

AIP recognizes the importance of structuring electricity projects in a manner that is fair and equitable to all participating parties, where all key project risks are addressed and assigned to parties best capable of assuming them, and concerns of project financiers are fully addressed. Negotiating transactions in that way increases the project's long-term viability and provides incentives for both

governments and developers to be committed to supporting the project throughout its lifespan. Often this includes the need to structure deals as public-private partnerships to attract public support and facilitate donor and commercial financing.

Doing this, AIP seeks to leverage more than \$1 billion in new electricity sector investments through 2011 by offering late-stage transactional services to African governments or project developers currently engaged in project negotiations. AIP is willing to undertake almost any role in a transaction that will help a project resolve outstanding issues preventing the project from coming to financial closure.

By successfully accelerating the closure of pending projects, AIP anticipates that other sub-Saharan African governments, project developers, bankers, and investors will be encouraged to seek to replicate these successful projects, further leveraging additional private investment elsewhere in the SSA .

THE SERVICES

AIP supports projects provided they meet specific criteria (see box at right). Typical AIP support may include:

- Technical, financial, market, and legal advisory support in reviewing projects, negotiating project agreements, analyzing costs and tariffs, and reviewing investor returns
- Technical advice on environmental compliance and social protocols and impacts
- Advice on associated complementary new regulations and legislation
- Technical support in resolving engineering, procurement, and construction issues
- Increasing capacity building and improving local stakeholder communications

Because each project is unique, the types of AIP support will vary from project to project. Once a project is identified, AIP team members will meet with major project stakeholders to determine where its assistance can best be used to address critical issues impeding a project's progress toward financial closure.

Currently, AIP is providing finance, legal, technical, and environmental experts to help one southern

CRITERIA FOR AFRICA INFRASTRUCTURE PROGRAM PROJECT SELECTION

AIP will support both electricity generation and transmission transactions in the advanced stages of development. The most important condition of AIP assistance is that it must facilitate financial closure and leverage significant new investments within one to two years. Ideally, projects should:

- *Be in the later or post-feasibility-study stages of the project development cycle*
- *Be commercially and financially viable, with a strong private sector component*
- *Have a positive impact on economic growth and increase access to commercial electricity*
- *Be replicable or able to facilitate the development of other similar projects in sub-Saharan Africa*
- *Comply with USAID's and the World Bank's environmental standards*

African government negotiate contracts and resolve engineering, procurement, and construction issues associated with a proposed project that will be selling electricity to two African countries. This project expects to achieve financial closure in late 2009.

For another project, USAID took steps to provide environmental experts to address local stakeholder group concerns that the project would adversely impact the local environment. USAID also provided regulatory experts to help draft critical changes to a national electricity law to address concerns raised by international lenders prior to financial close.

Once AIP achieves its leveraging goals, it may also support targeted initiatives to strengthen policy, legal, regulatory, and institutional frameworks for improving access to finance and increase foreign investment to sub-Saharan Africa.

COOPERATION

AIP seeks to collaborate with African governments, other donors, international finance institutions, commercial banks, financial advisors, and project developers in the support of specific projects. Its intention is to complement existing efforts, not to replace them. ❖