



# FACILITATING INVESTMENT IN CLEAN ENERGY ELECTRICITY INFRASTRUCTURE

*Reliable and cost-competitive electricity is a fundamental requirement for poverty reduction, sustainable development, employment, and eventually social and political stability. 600 million people in Africa have no access to modern energy services and to help surmount the large deficits in the supply and transmission of electricity, USAID has created the Africa Infrastructure Program (AIP). Launched in September 2008, this program helps create an enabling environment for commercially viable and environmentally sound electricity projects. AIP provides assistance to projects to overcome barriers that prevent them from reaching financial closure and being built. This is accomplished by providing the services of power sector experts in the various disciplines required to create this favorable environment and structure to make viable projects bankable.*

## THE CHALLENGE

Electricity access in Sub-Saharan Africa is very limited—fewer than one in four people have access to reliable and affordable electricity sources. Investment in new facilities is also inadequate relative to the continent’s size, 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 complex, and host governments often lack essential project structuring and negotiating skills. These factors make it difficult to bring private projects to financial closure in Africa.

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<http://www.usaid.gov> Keyword: AIP*

## AFRICA INFRASTRUCTURE PROGRAM

Potentially viable clean energy projects in Africa encounter financing and enabling environment barriers preventing them from becoming a reality. USAID's Africa Infrastructure Program offers support to African governments to help advance viable projects. The program assists African governments and their project development partners in overcoming barriers and reaching financial closure.

African officials must make decisions on costly and complex projects that have significant long term economic, environmental, and social consequences for their countries. These decisions are often made without the support of skilled, expert advisors who understand how similar projects are successfully structured in the international marketplace. Lack of experience with the terms and social and political ramifications of these complex projects causes decisions to be delayed – and these delays are costly to both governments and developers. Lack of reliable supply of electricity represents a very high cost to governments, producers and consumers and is a significant drag on economic growth in the region.

## THE PROGRAM

AIP recognizes how important properly structured electricity projects are to the development of African economies. In properly structured projects all key risks are addressed and assigned to the parties best capable of assuming them. Taking into account all financial, social, political and clean energy sensitivities of projects increases their long-term viability and provides incentives for both governments and

developers to remain committed to projects throughout their lifespan.

AIP seeks to leverage several billion dollars of investments in new electricity sector projects resulting in multiple gigawatts of additional capacity by scheduled completion in 2014. This leverage is achieved by offering late-stage transactional services to African governments or project developers. AIP is equipped to undertake an honest broker role in an advisory capacity to resolve issues that prevent a project from reaching financial closure.

## THE SERVICES

AIP supports projects that meet specific criteria (see box below). The program seeks to collaborate with African governments, other donors, multilateral development 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.

### CRITERIA FOR AIP PROJECT SELECTION

AIP seeks to support programs with the following characteristics:

- *Identified capacity building requirements that will lead to private sector investment and support clean energy development*
- *Post-feasibility-study stages of the project development cycle*
- *Commercial and financial viability, with a strong private sector component*
- *Ability to achieve financial closure and leverage significant new investments within one to two years*
- *A positive impact on economic growth and increased access to commercial electricity*
- *Ability to facilitate or replicate the development of other similar projects in Africa*
- *Compliance with the environmental standards of USAID and the World Bank*

Typical AIP support may include:

- *Capacity building* in the areas of policy/investment framework, regulatory reform, tariff formulation, sample contract terms, and intermittence/integration analysis.
- *Project support and transaction advisory assistance* in technical, financial, commercial, regulatory, legal, and environmental areas related to project structuring, risk mitigation, financial engineering, contract negotiation support, stakeholder mobilization, and funds mobilization.

Each project is unique, and the AIP support is customized. The AIP team meets with stakeholders to determine where the assistance can best be applied to address critical issues impeding a project's progress toward financial closure.

## CURRENT AIP PROJECTS

Currently, AIP is working in Nigeria, Ghana, Namibia, Mozambique, South Africa, Kenya, Cameroon, Lesotho and Rwanda. A sample of ongoing AIP initiatives is described below.

- **Nigeria:** *Gas-Flaring Reduction and Renewable Energy – Assisting the government and independent power producers in developing for-profit, clean energy interventions that will help to capture currently flared gas and turn it into a usable, clean power source.*
- **Kenya:** *Capacity Building and Transaction Advisory Support in Clean Energy Evacuation – Providing capacity building and assistance to the national transmission company in the development of a backbone transmission line to link a major wind farm and geothermal projects to the users.*
- **Rwanda:** *REFIT Design and Micro-hydro Implementation for the Energy Water and Sanitation Authority– Establishing feed-in tariffs for micro-hydro, solar, geothermal, and other renewable projects, rationalizing the structure on a cost-recovery-plus-return basis, and enhancing independent power producer (IPP) development.*
- **Mozambique:** *Support to Ministry of Energy in Wind Energy – Assisting the Ministry of Energy in the establishment of a clean energy regulatory framework for the development of wind energy, and its application to the first wind project for the country.*
- **South Africa:** *Sector Restructuring and Policy Assistance to the Department of Energy – Assisting with creation of an Independent System and Market Operator and transaction advice to help the Department of Energy to implement policies for promoting IPP entry into the sector.❖*