

# Closing Africa's energy gaps

By  Danette Breitenbach

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While access to affordable, reliable and sustainable energy for all will usher in economic growth and job creation on the continent, energy projects in Africa lack sufficient access to financing sources.



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“Infrastructure development is pertinent to the development agenda of African countries. Apart from providing critical social and welfare services, infrastructure is an important enabler of economic growth by creating a supportive platform for the growth of business, facilitating job creation, enhancing trade opportunities, attracting investment and ultimately reducing poverty. Energy is an enabler for all this,” says David Mahlobo, minister of energy, in a speech read out on his behalf at the Africa Energy Indaba 2018 at Sandton Convention Centre.

But for this to happen, the energy sector in Africa needs to improve its investment climate to provide certainty to investors to ensure that the perceived risks can be minimised. “African governments are typically not in a position to advance resources or borrow money for project preparation and private sponsors are unwilling to take the significant risks involved in sinking large sums of money up front,” he adds.

## High perceived risk

Besides the traditional barriers to financing, the power sector in Africa is particularly prone to high perceived risk and high transaction costs that may arise from a range of issues, he continues.

“Energy projects face comparatively tougher upfront funding gaps than do many other infrastructure projects because of investors lack of confidence in long-term expectations on secure revenue streams. High investment risk may also result in undervalued assets, leaving reduced financial incentives for the investor.”

Some of these perceived risks include non-performance of contractual obligations, regulatory risk, capital-intensive technology choices and procurement problems.

The minister emphasises the important role of political leaders and institutions in establishing appropriate enabling environments to facilitate private sector investment.

“The lack of policy harmonisation within Africa and regionally is critical to attract investment in the energy sector.”

The region needs to fund feasibility studies and ensure that they have clean energy bankable projects, he adds. “This should be done through the regional power pools and be driven by individual countries in the case of projects that are manageable. Given the funding gaps, it is also important for international communities and organisations to develop new instruments that can enhance investment in the energy sector in Africa.”

He also touched on the role development partners can play to improve the investment climate by expanding their traditional concessional financing function to include risk mitigation, capacity building and selective finance.

## Private public partnerships

In the major challenge of securing the funding for the identified projects, Africa needs genuine development partners from international organisations including financial institutions, non-governmental organisations, other governments and private business. “Without the private public partnerships, it is not possible for our utilities and governments to fund the energy infrastructure requirements,” he says.

For example, he says, by enabling project developers to meet industry and international standards in project preparation, establishing benchmarks for policy formation, and facilitating open cross-party engagement, international institutions can help increase the probability of positive returns and thereby increase investment attractiveness.

On the continent large investments are anticipated in the energy sector now and in the future. “The African continents population will have grown by 800 million by 2040. The middle class is forecasted to increase, and this will trigger economic growth, urbanisation, industrialisation and modernisation. This phenomenon can be realised if we have adequate energy to fuel the African economies,” he says.

## ABOUT DANETTE BREITENBACH

Danette Breitenbach is a marketing & media editor at Bizcommunity.com. Previously she freelanced in the marketing and media sector, including for Bizcommunity. She was editor and publisher of AdVantage, the publication that served the marketing, media and advertising industry in southern Africa. She has worked extensively in print media, mainly B2B. She has a Masters in Financial Journalism from Wits.

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