Energy and infrastructure: The African economic multiplier

By Bhavtik Vallabhjee

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Forward thinking investors and entrepreneurs in the African energy sector will deliver significant downstream benefits for the continent in the coming years.

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While there has been much focus on energy programmes in Africa recently, we need to ensure that the narrative is not around quick, short-term fixes but rather about ensuring that the energy sector is a strategic sector both locally and across the continent.

Consider for a moment that there are 600-million people across Africa who do not have access to electricity. Yet, at the same time, there is an abundance of alternative energy sources including gas, solar, wind, biomass and water. Africa needs to identify a way to harness these resources rapidly and to create an enabling environment for these projects to come online to drive economic activity.

The Covid-19 pandemic and 2020 in general has been a game-changer for governments around the world as tax revenues have come under pressure. foreign direct investment (FDI) has been constrained and the ability to meet the infrastructure investment commitments for transport, electricity, and water projects has been curtailed. However, encouragingly the tone is changing around public private partnerships (PPP) and the role they will play going forward.

The traditional ideological positions are being softened as all parties are recognising the importance of rebuilding economic activity through collaboration. The private sector has the ability to deliver projects efficiently, on-time, and to budget as governments around the world realise that they do not have unlimited finances. The private sector needs to be tapped into in order to deliver projects efficiently.

Going forward, governments should play the role of ‘referee’ in order to create the enabling environment to encourage investment from the private sector. In this regard, they can deliver modern infrastructure for power, water, roads, social infrastructure, and healthcare using PPPs.

It is important to remember that the average infrastructure project in Africa takes about eight years to move from ideation to coming online. This means that you need visionary partners at all levels who are prepared to invest for the long-haul. The independent power producer (IPP) programme in South Africa has been a remarkable success and with more than 120 IPPs either online or coming online shortly, it proves that public and private sector interests can align for economic benefit.

The unique South African challenge

In South Africa, the Eskom challenge and the impact this is having on economic activity is well documented. The challenge the country faces is an ideological one around the role of the state versus the private sector when it comes to the supply, purchase, and distribution of electricity.

Eskom has become a major stumbling block to the country’s economic growth on a number of fronts. On one hand, South Africa needs to continue funding ageing infrastructure at the utility and network level to ensure the lights are kept on, but on the other hand, the country needs to invest in additional supply that will ultimately be cheaper, more technologically advanced and more efficient.

A further interesting dynamic playing out are the environmental issues that are likely to become increasingly more topical around the Eskom energy mix. Financiers are coming under pressure to withdraw funding for coal-fired power projects and deploy their resources toward cleaner energy sources. The World Bank and its affiliates are major funders for infrastructure projects, and they are well aware of the health and environmental risks associated with the Eskom coal-fired power plants. As part of the World Bank lending requirements, Eskom has been expected to invest in technology to reduce the environmental impact on surrounding communities – technology they now only expect to be able to implement in 2030 – and at a huge cost.

Investing in African energy

While questions around governance and legal frameworks do still occasionally enter discussions, Africa as a whole presents a compelling investment case.

On a risk-adjusted return basis, projects on the continent boast better returns than many other jurisdictions. This is highlighted by the quality of the energy projects that are being delivered in places like Mozambique, Ghana, Senegal, Egypt, and Morocco.

Renewable energy infrastructure projects represent low-hanging fruit for finance partners, and as the discussion moves between tackling short-term problems and moving to longer-term investments, higher quality projects will be brought online.

Africa is a continent with an abundance of natural resources to drive energy production. If we can create an enabling environment for innovators and entrepreneurs to enhance our energy supply mix, the economic multiplier effect will be massive and create returns for both the private sector and governments.

Countries that rise to this challenge will reap the benefits for years to come and there is no shortage of access to capital for the right projects.

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