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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. To help it achieve its goals in electricity, USAID has created the Africa Infrastructure Program (AIP). Launched in September 2008, the three-year program 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 projects in Africa.

THE CHALLENGE

The availability of electricity in Sub-Saharan Africa is very limited—fewer than one in four people has access to reliable and affordable electricity sources. Investment in new facilities is also underfunded relative to 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 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

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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.

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. Funded for the most part under the African Global Competitiveness Initiative, 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 Africa.

THE SERVICES

AIP supports projects provided they meet specific criteria (as outlined in the box at right). 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. Typical AIP support may include:

- *Capacity building assistance* 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

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.

CURRENT AIP PROJECTS

Currently, AIP is working in **Ghana, Nigeria, Mozambique, Namibia,** and **Kenya**. Major AIP initiatives include:

- **Ghana: Tema IPP – Support to GRIDCo**
Transaction advice to the national transmission company in drafting and negotiating power transmission services agreements, grid connection agreements, and substation sharing arrangements
- **Ghana: Technical Assistance to the Ministry of Energy**
Capacity building and advisory services in the context of the fast-growing greenfield development of the oil and gas sector in the wake of recent important oil and gas discoveries offshore Ghana
- **Nigeria: Assistance to Geometric Power**
Providing financial and regulatory experts to an independent power producer to review project

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 the environmental standards of USAID and the World Bank*

financing structure and negotiate shareholders and long-term financing agreements

- **Nigeria: Energy and Climate Change—Gas Flaring Reduction**
Assisting the government and independent power producers in monetization of currently flared associated gas through interventions along the gas-to-power chain, and promoting renewable energy
- **Mozambique: Support to MOE in Wind Energy**
Assisting the Ministry of Energy in the establishment of a regulatory framework for the development of wind energy and assistance in first wind project
- **Namibia: Support to ECB in Wind Energy**
Assisting the Electricity Control Board in the establishment of a regulatory framework for the development of wind energy and assistance in first wind project
- **Kenya: Assistance to KETRACO in Wind Energy**
Capacity building and assistance to the national transmission company in the development of a backbone transmission line to evacuate power to be produced by wind and geothermal projects
- **Botswana: Mmamabula Coal-to-Power**
Providing finance, legal, technical, and environmental experts to help government negotiate contracts and resolve issues associated with the Mmamabula project. ❖