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USAID's Africa Infrastructure Program (AIP)

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October 13, 2008

The Africa Electricity Sector Today

- SSA Electrification Rate about 24% and Per Capita Consumption at 124 kWh/ year
 - Means more than 520 million people must do without electricity
- Africa is Experiencing Shortages of Dependable Electricity
 - Insufficient new generation is getting financed and constructed
 - Countries are increasingly resorting to use of costly “emergency” diesel generation
 - Many electric projects proposed, but few financed or constructed
- Most African Governments Lack Sufficient Funds to Meet Future Electricity Investment Needs.
 - Africa’s electricity financing requirements are close to \$28 billion per year; donors fund approximately 40% of that amount
 - Insufficient public funding is available to build new plants
 - Africa must look to private sector investment to fill funding gaps

The Africa Electricity Sector Today

- Without Funding, Few Private Sector Electricity Projects Have Been Structured and Closed in the SSA
 - Limited new generating capacity is coming on-line to support growth
 - And, limited capacity exists within African governments and financial institutions in the structuring and negotiating of these deals
- USAID's Experience Shows that a Stable and Reliable Supply of Electricity is Necessary to Provide a Foundation for Sustainable SME Growth, Regional Trade, and Employment.
 - Undependable and costly electricity significantly constrains the ability of SMEs and companies to earn a profit and compete in domestic and international markets.
 - Thus, short-term African growth continues to be constrained until African countries succeed in successfully attracting private investment.

A Barrier to Attracting Private Investment

- To Attract Private Sector Investment, Electricity Projects are Typically Structured as **Non-recourse Project Financings**
 - In project finance, banks are secured by cash flow and project assets, backed by a "Security Package" of complex project agreements defining allocation of project risks
- Project Finance Deals are Very Complex and Driven by Lenders
- While Private Developers Can Retain Expensive Legal, and Financial Advisors, SSA Cannot and Have Limited Experience
 - They are asked to make decisions on costly and Complex projects,
 - Proposed projects have major budgetary and political impact on their country
- Officials Often Delay Making Decisions until They Understand the Terms of Deals and Projects Don't Close or get Constructed

Africa Infrastructure Program (AIP) Background

- To Address this Problem, USAID established the AIP
 - AIP seeks to facilitate increase SSA government's understand of deals being presented to them, the closure of advanced stage electricity projects, thereby providing foundation for ST SSA trade and SME growth
- AIP is Funded by a U.S. Presidential Initiative, called the African Global Competitiveness Initiative (AGCI)
 - AGCI is a \$200 million U.S. commitment to support finance, SMEs, regional trade, and African infrastructure through 2010
 - AIP addresses infrastructure and focuses on electricity
 - AGCI's infrastructure mandate requires that its funds leverage several billion dollars of new, ST investments in the SSA

AIP African Electricity Sector Objectives

- Achieve AGCI's Objective of Leveraging Well Over \$1 Billion in New ST Investments within 1-2 years
- Support SSA Governments and SMEs in Closing Private Sector PPP Projects and Supporting the Regional Power Pools
- Ensure ST Electricity Sector Project Success Stories which:
 - Attract other developers and investors trying to replicate project successes
 - Encourage other countries to enact similar regulations/ policies allowing them to close similar projects in their country
- Support ST SSA Regional Economic Growth and Development

AIP – What Does It Actually Do?

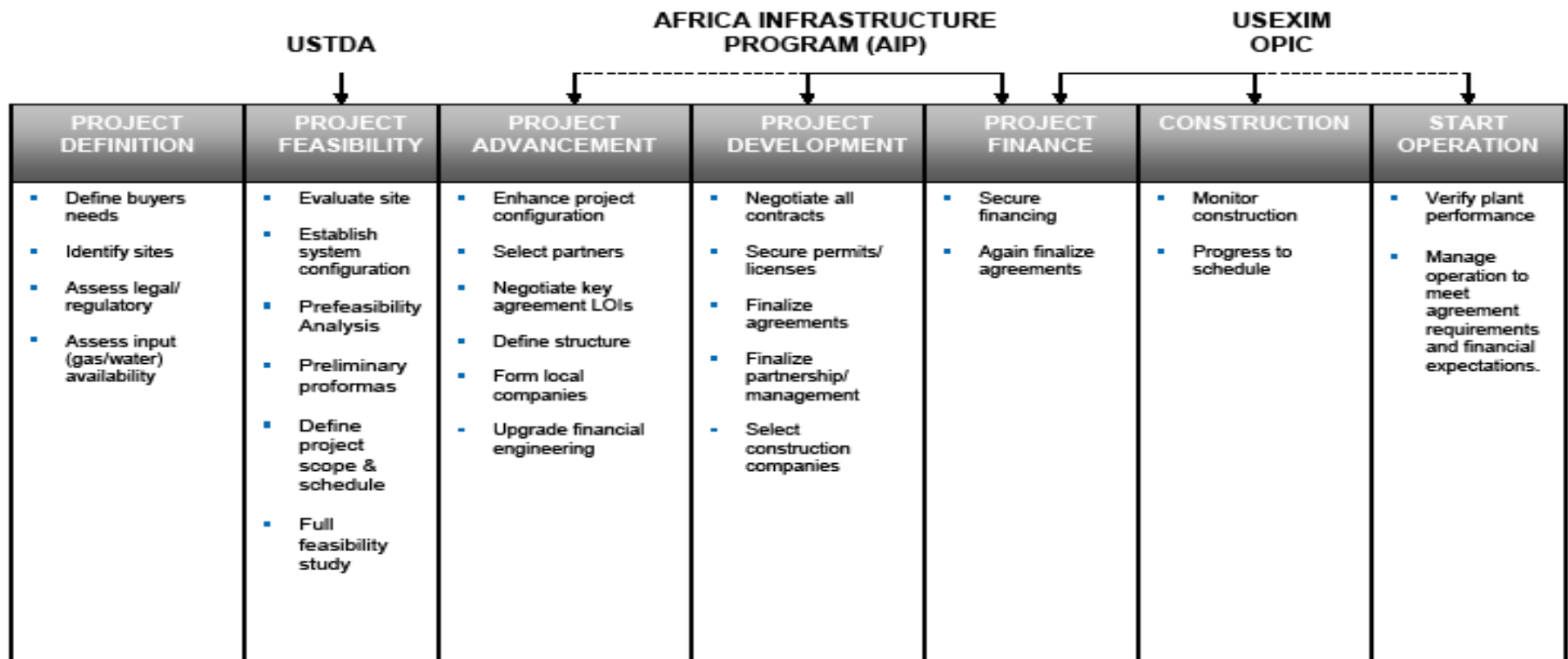
- **AIP Funds the Hiring of Expert Electricity Advisors With Experience in International Project Finance**
 - Advisors are knowledgeable of international standards (legal, policy, regulatory, financial, technical, environmental, stakeholder) necessary to close PPP generation and transmission projects
 - Advisors help government negotiators understand and feel comfortable with the terms of the deals being presented to them
 - Decisions are made, agreements are reached, projects come to financial closure, Plants get constructed, and electricity is made available to support SME growth and regional trade
- **AIP May Support as Many as 4-8 Projects/ Year, Ranging from \$250K -1 million per Project**
 - Whenever possible, AIP support will be matched by host country co-funding

Types of Late-stage AIP Assistance

- Support the Contract Negotiation Process (e.g. Mmamabula)
 - Address host country's lack of familiarity with the deal terms,
- Address Concerns/Issues Raised by Equity or Debt Holders
- Address Environmental Issues and conformance with international standards
- Revise National Electricity Laws and Policies to address concerns of lenders/ equity holders
- Address/ Incorporate Concerns of Key Stakeholder Groups
- In short, **Address ANY Issue Preventing an Otherwise Bankable Project From Going to Financial Closure and construction**

What is an AIP Late-stage Transaction?

PROJECT DEVELOPMENT CYCLE



AIP -- Project Selection Criteria

Primary Project Selection Criteria:

- AIP facilitates achieving financial closure/ leveraging investment within 1-2 years
- Supported by host country and participants
- Commercially and financially viable project
- Private sector participation (PPP) or facilitates PS investment
- Project has a regional impact
- **Project is in post-feasibility study stage** of development
- **Lessons learned** from project are replicable and facilitate development of other similar projects
- Project **meets USAID and WB environmental criteria**



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Thank You!

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- The following Slides are extra

AIP – Project Selection Criteria (2)

Secondary Criteria:

- Supports US companies and trade to the region
- Significant efforts made to encourage stakeholder involvement
- Promotes local capacity building and in-country skills able to be used in similar future projects in country
- Without USAID assistance, project may not go forward
- Removes trade and investment barriers, encourages PPPs
- Partnership with/ use of local SME and business capabilities

USAID/AIP Intends to be Flexible and Will Judge Candidate Projects on a Case-By-Case Basis

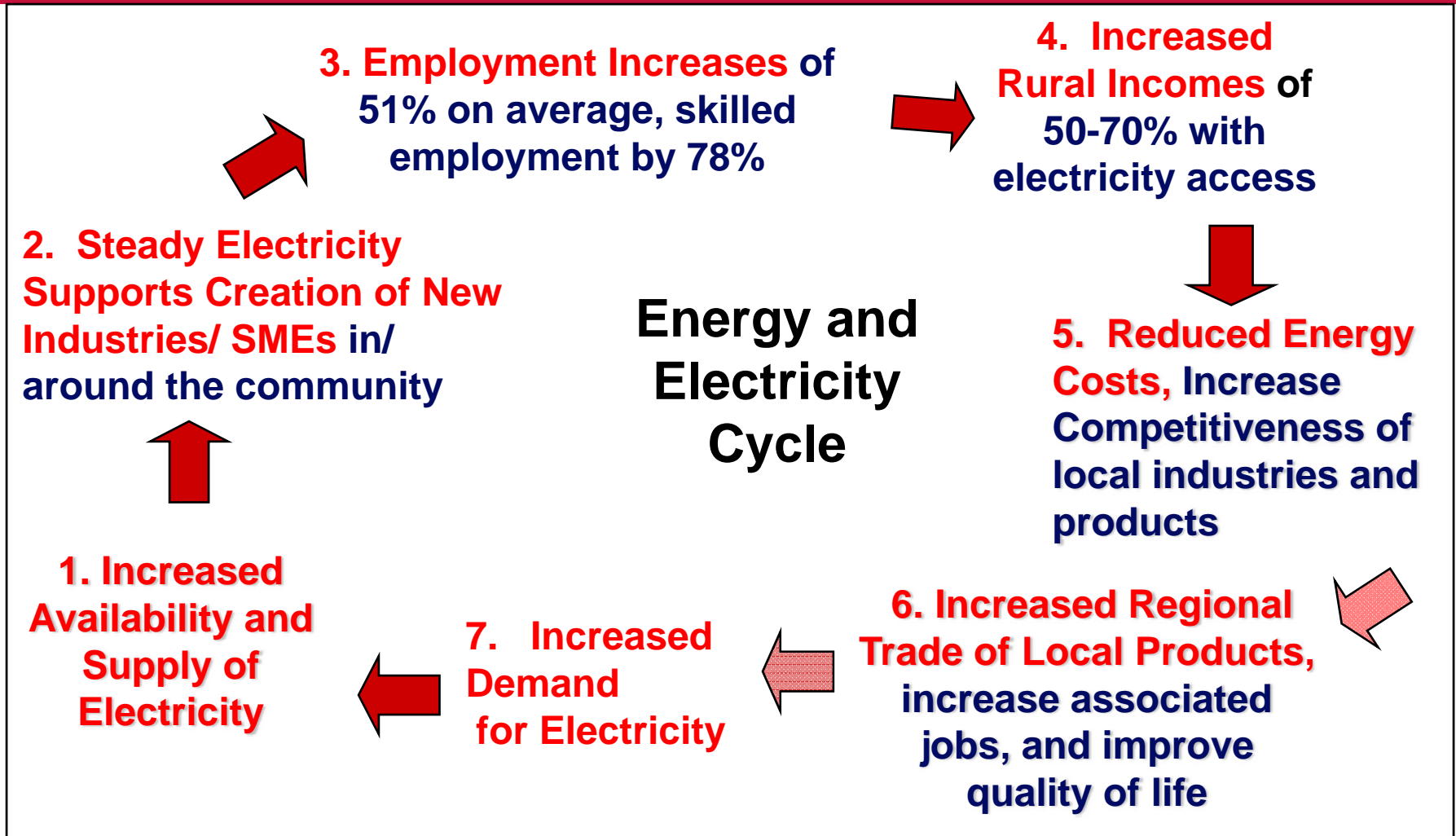
AIP -- Types of Program Support

- **Support of Late-stage Transactions (years 1-2):**
 - **What is Late-Stage Transaction?** Generally in the advanced stages of development, post-feasibility study, major agreements drafted and/or under discussion, estimated financial closure date of 1-2 years from the start of assistance
 - Medium-sized projects, in range of \$50-\$500 million, or less?
 - Electricity generation and transmission projects
 - Clean energy, renewable, gas, coal projects

- **Enabling Environment Activities (years (2+):**
 - Support of 4 regional Africa power pools
 - Synchronization of policy, legal, regulatory, and investment frameworks
 - Capacity building in project finance and increasing access to finance

USAID's AFR/SD Africa Energy Plan

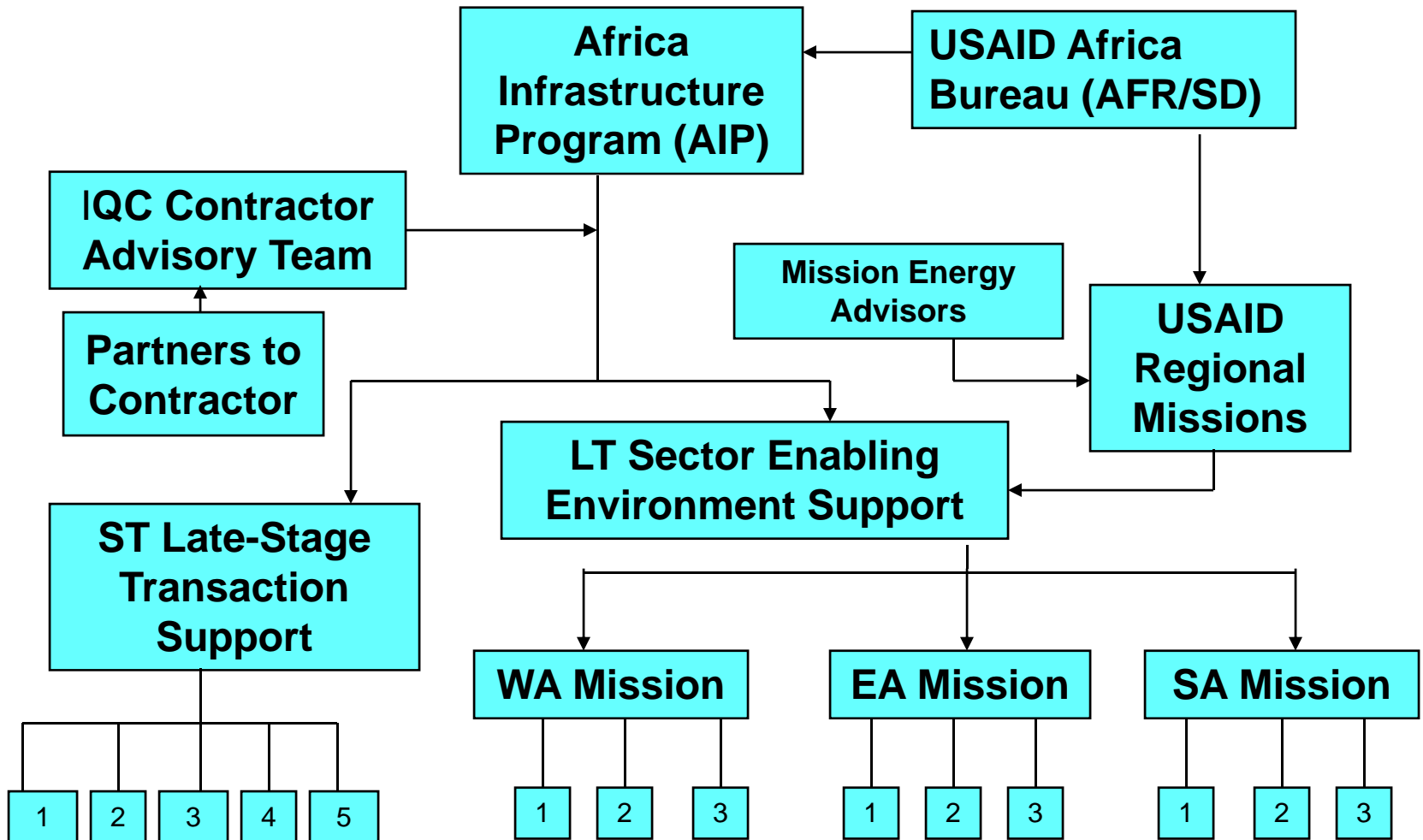
- **AIP is one part of AFR/SD's energy sector assistance to SSA countries**
 - Its African Electricity sector assistance is implemented both through AIP and USAID's regional missions (Pretoria, Nairobi, Accra, and Kinshasa*)
 - AFR/SD funded regional energy advisors to support this effort
- **AFR/SD's energy strategy focuses on supporting:**
 - Africa's regional power pools (AIP, regional missions)
 - Late-stage electricity sector transactions (AIP)
- The structure for implementing this assistance is illustrated as follows:



Donor Coordination

- AIP plans to work closely (as appropriate) with other US agencies, G8 donors, IFIs, Regional Missions, and governments coordinating its activities with their SSA programs.
 - *U.S. Government:* USTDA, USEXIM, OPIC, MCC
 - *International:* AfDB, WB, EIB, ICA, DBSA, NEPAD, Comesa, regional economic communities
- This coordination may also help identify strong candidate AIP projects
- AIP may also work with USAID's DCA to offer project transaction support that includes expert TA and DCA partial risk guarantees

AIP and AFR/SD Energy Sector Assistance



Late-stage/ Enabling Environment Electricity Sector Assistance

USAID'S ENERGY / ELECTRICITY SECTOR ASSISTANCE

