



USAID
FROM THE AMERICAN PEOPLE

USAID/ EGAT Infrastructure Workshop

USAID's Africa Infrastructure Program (AIP)

December 17, 2008

Jeffrey Humber

AIP Director

USAID Africa Bureau (AFR/SD/EGEA)

Washington, DC

The Africa Electricity Sector Today

- SSA Electrification Rate about 24% and Per Capita Consumption at 124 kWh/ year
 - Means more than 520 million Africans must do without electricity
- Africa is Experiencing Shortages of Dependable Electricity
 - Significant demand & insufficient supply of reliable generating capacity
 - Countries are trying to finance public projects and 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

Barriers to Attracting Private Investment

- To Attract Private Sector Investment, Electricity Projects Typically Are Structured as **Non-recourse Project Financings**
 - In project finance, loans are secured by project's cash flow and 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 Retain Expensive Legal, and Financial Advisors, SSA Governments Often Are Unable to Do So
 - Officials asked to make decisions on costly and complex projects
 - They must make decisions on proposed projects that have major budgetary and political impact on their country
- Because of not Understanding the Complexity and Terms of Deals Being Proposed, Governments May Delay Making Key Decisions, and Projects Don't Close or get Constructed

Barriers to Attracting Private Investment

- When Decisions Aren't Made, Projects Are Delayed, and Sponsors Can Incur Substantial Additional Development Costs
 - Delays are the Project Developer's worst nightmare – very time-consuming and costly
 - Delays discourage other investors and developers from investing in the region
- On the Other Hand, USAID's Experience Shows that a Stable and Reliable Supply of Electricity is Critical to Sustainable SME Growth, Regional Trade, and Employment.
 - Dependable and affordable electricity significantly enhances the ability of SMEs and companies to operate profitably in domestic and international markets.
 - Thus, short-term African growth will be constrained until African countries succeed in successfully attracting private investment.

Africa Infrastructure Program (AIP) Background

- To Address this Problem, USAID established the AIP
 - AIP seeks to remove barriers preventing SSA projects from achieving financial closure
 - AIP seeks to increase SSA government's understanding of deals being presented to them, ensure that fair deals are negotiated, and bring electricity projects to closure
- 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 Program Objectives

- Leverage Well Over \$1 Billion in New ST Electricity Sector Investments Within 1-2 years
- Support SSA Governments and SMEs in Closing PPP Projects and Supporting the Regional Power Pools
- Ensure Fair and Equitable Deals are Negotiated
- 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

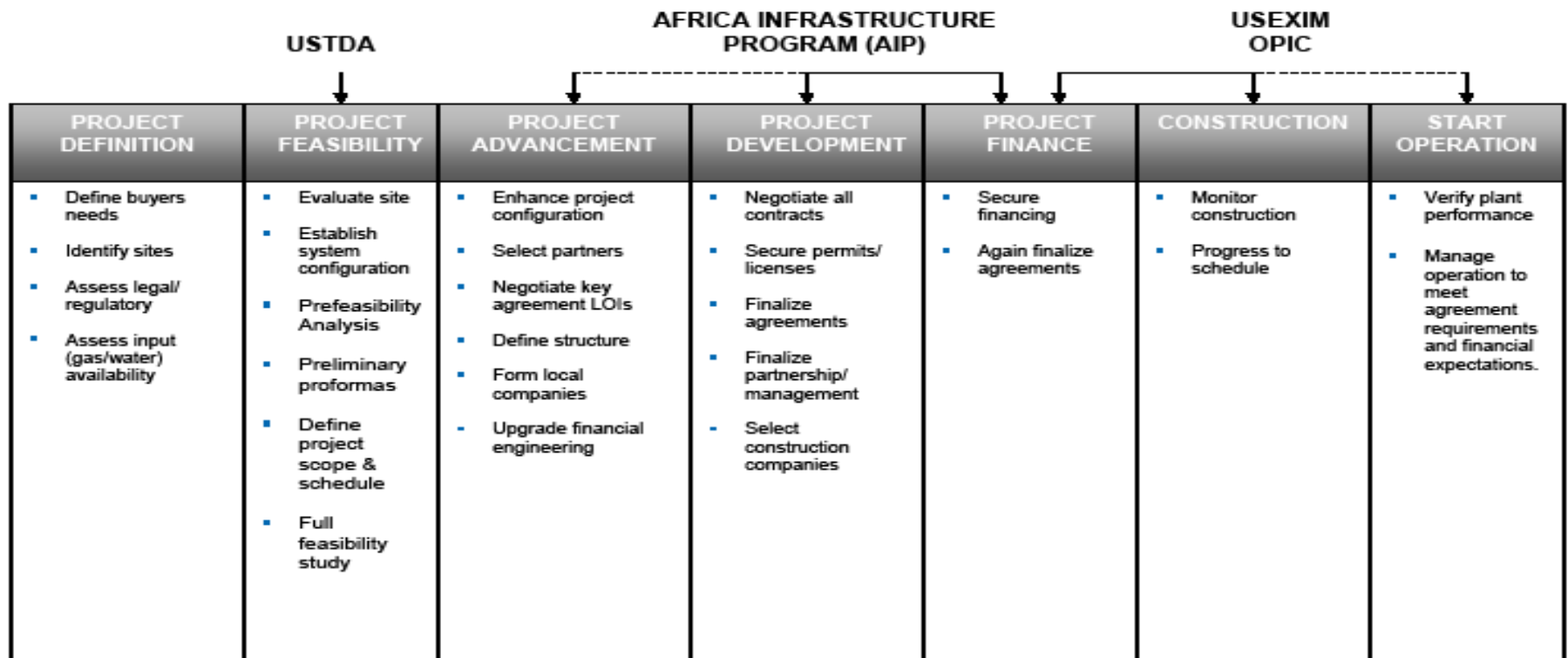
AIP -- Types of Program Support

- **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

What is an AIP Late-stage Transaction?

PROJECT DEVELOPMENT CYCLE



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**

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**

AIP – Project Selection Criteria (2)

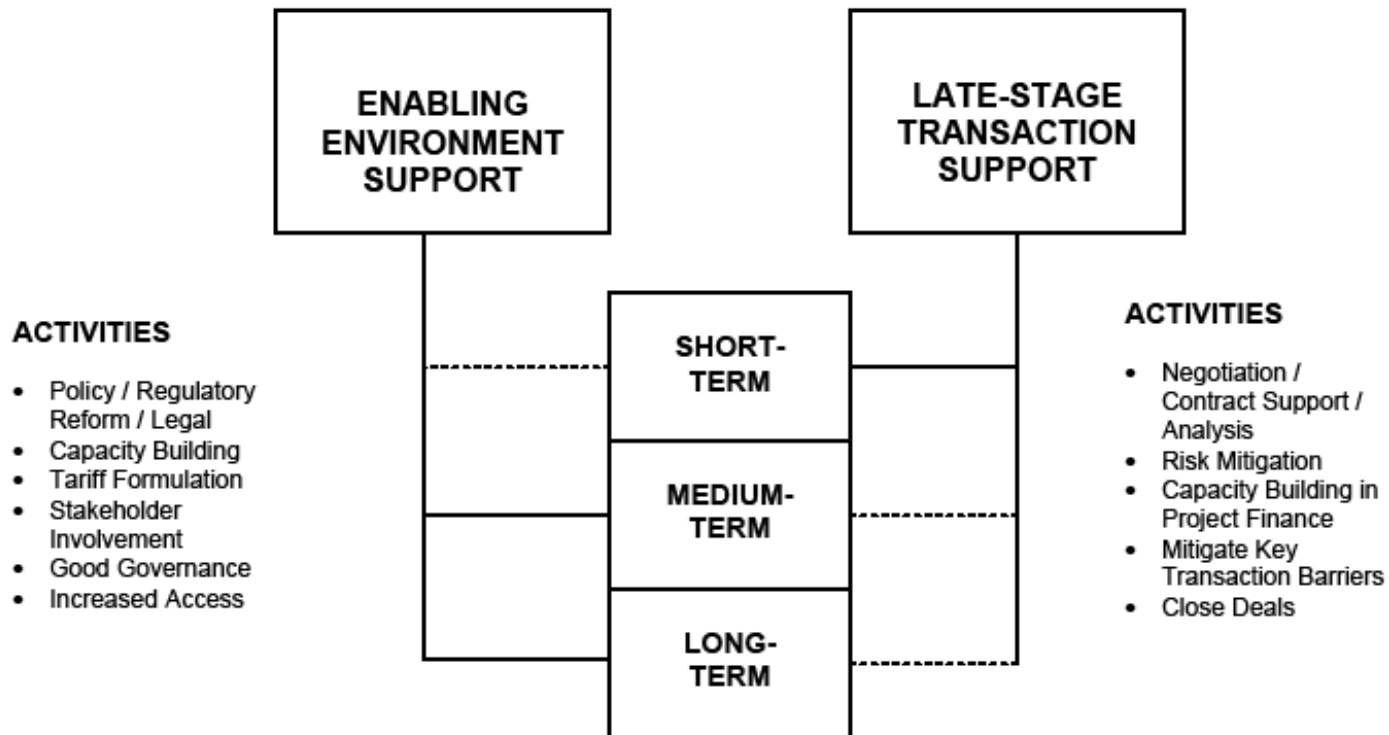
Secondary Criteria:

- 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

Late-stage/ Enabling Environment Electricity Sector Assistance

USAID'S ENERGY / ELECTRICITY SECTOR ASSISTANCE





USAID
FROM THE AMERICAN PEOPLE

Thank You!

For Further Information:

Jeffrey Humber
Director AIP
USAID Africa Bureau
Washington, DC
202 712-1153
Jhumber@USAID.gov

Alain Rosier
Project Manager
Nexant Consulting
Abuja, Nigeria
234 9 314 0392
arrosier@nexant.com

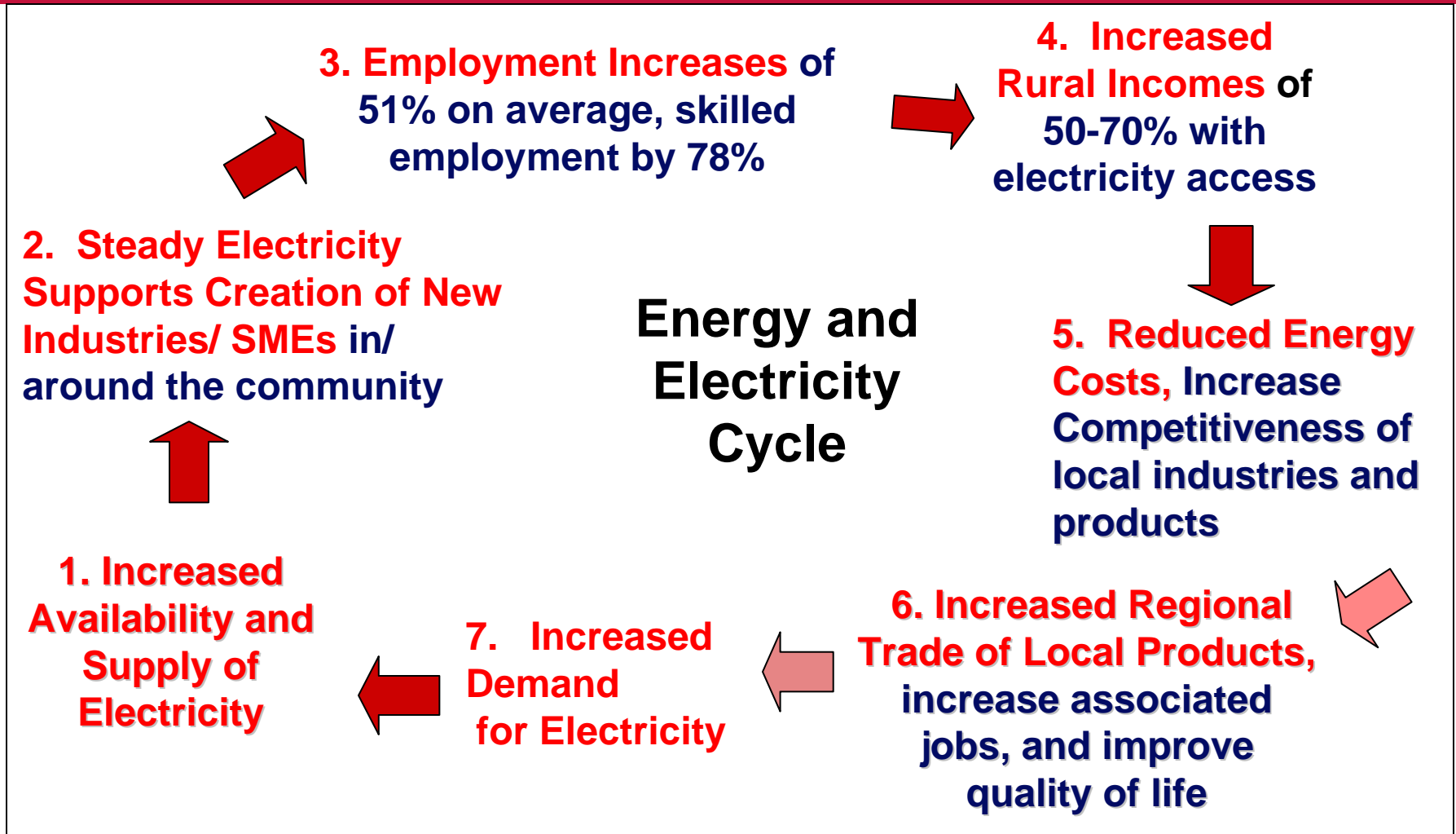


USAID
FROM THE AMERICAN PEOPLE



USAID
FROM THE AMERICAN PEOPLE

- The following Slides are extra



AIP and AFR/SD Energy Sector Assistance

