“Releasing Africa’s Energy Potential”

Statement by Omar Kabbaj, President of the African Development Bank, at the Fourth International Forum on African Perspectives

“Better Access to Energy for Africans”

Organized by the African Development Bank and the OECD Development Center

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I. Introduction

Your Excellency Ambassador Basilio Horta, Portugal’s Permanent Representative to the OECD and Chairman of the Governing Board of the OECD Development Center,
Your Excellencies,
Distinguished Panelists and Participants
Ladies and Gentlemen,

On behalf of the African Development Bank as well as on my own behalf, it is a great pleasure to welcome you all to the Fourth International Forum on African Perspectives, organized by the African Development Bank and the OECD Development Center. I would like, in particular, to thank our distinguished speakers and panelists who have kindly agreed to take part in this year’s Forum, which is dedicated to the theme of improving Africa’s access to energy.

The Forum represents a symbol of the continued cooperation of the African Development Bank and the OECD Development Center, manifested in the production of our joint annual publication, the *African Development Outlook*. This publication, which we first issued in 2001, has gained much attention and is increasingly used by policy makers and researchers, as well as by the private sector in African countries and elsewhere. It is our hope that it will indeed become a basic reference document on developments in the African economy. I would therefore like to take this opportunity to thank the Development Center and its Director, Professor Louka Katseli, for the close working relations that we have succeeded in establishing over the years.

The choice of the topic for this year’s Forum “Better Access to Energy for Africa” reflects the vital role that the energy sector must necessarily play in Africa’s quest to accelerate its economic development, reduce poverty, and improve the living standards of its population. By way of introducing the subject, permit me, in my statement, to provide you with a brief overview of the energy challenge facing Africa and the policy measures that African countries and their development partners could consider to utilize more fully Africa’s enormous energy potential. I would also like to take this opportunity to provide you with a broad overview of the support that the African Development Bank provides its regional member countries in this vital sector.
II. The Energy Challenge in Africa

Distinguished Participants,
Ladies and Gentlemen,

The imperative of developing modern sources of energy as a basic pre-requisite for Africa’s efforts to accelerate its economic growth and reduce poverty is self-evident. It is now generally agreed that the average growth rate of the African economy would need to be raised to between 6 to 8 percent per year if African countries are to meet the internationally accepted Millennium Development Goal (MDGs) of halving, by 2015, the number of people living in absolute poverty. This contrasts with the average GDP growth rate of 3.5 percent per annum that has been observed since 1996. Similarly, ambitious MDG goals have been set for the education and health sectors – such as, for example, achieving universal primary education, promoting gender equality in education, reducing child mortality, and ensuring environmental sustainability.

It is evident that these goals for Africa’s development will not be realized without considerable investments to develop Africa’s vast energy resources. Raising Africa’s GDP growth rate through the intensification of existing production and the establishment of new enterprises will undoubtedly result in much higher levels of demand for modern energy sources. Similarly, the efficient delivery of expanded social services can only be met if increased supplies of energy are provided at reasonable prices. Indeed, as the current energy shortfalls and unreliable supplies in a number of African countries have made it clear, inadequate energy supplies and unreliable service is a major constraint for the expansion of the production of both goods and services.

Although many African countries currently rely on biomass for much of their energy supply, it is clear that the Continent has an immense potential for modern energy supplies that remains largely undeveloped. The countries of North Africa and the countries around the Gulf of Guinea currently account for over 7 percent of the world’s reserves of oil and gas. The great river basins -- and in particular the Congo river -- have enormous potential for hydroelectric power, accounting for 13 percent of the world’s total, but of which only 7 percent is currently utilized. Southern Africa has enormous deposits of coal that has enabled it to become self-sufficient in energy. And the countries of East Africa have considerable geothermal resources. In addition, the continent has enormous potential for solar and wind energy.
Despite these large and varied energy sources, African countries have yet to fully exploit them. A few striking figures illustrate the current state of affairs. The International Energy Agency (IEA) estimates that close to 90 percent of the population of sub-Saharan Africa continue to rely on biomass as the primary source of energy for lighting, cooking, and heating. And Africa’s per capita consumption of energy, including biomass, remains very low, standing at about 40 percent of the world’s average.

The limited development of modern energy sources in Africa has a number of important economic and social ramifications. As energy supply is a critical input into virtually all sectors of production, unreliable and costly energy supplies necessarily have adverse economy-wide impacts. They contribute to increasing the costs of production, limit the development of sectors that require reliable energy sources, and, in general, make African producers less competitive in the global market. Indeed, in a number of countries, many firms have been forced to develop their own sources of energy at considerable cost due to the unreliable and costly supply of energy. Further, foreign investors often cite the absence of reliable energy as a major reason for their reluctance to invest in African countries.

The lack of access to modern sources of energy also had many adverse social impacts. It contributes to poor health and sanitary conditions at the level of households. It forces women and girls to devote extraordinary amounts of time and energy to the gathering of firewood, with this household chore often contributing to the low enrollment of girls in schools. And as I noted earlier, it also increases the costs of providing essential education and health services, limiting their coverage.

III. Releasing Africa’s Energy Potential

Distinguished Participants,
Ladies and Gentlemen,

In the light of the underdevelopment of Africa’s modern energy capacity, it is evident that African countries will need to redouble their efforts to mobilize the requisite financial resources and create the required institutional and regulatory frameworks to encourage its development. What are some of the major policy measures that African countries could consider in this regard?
Before outlining some of these measures, I would first like to emphasize two aspects of the changing environment that African governments and their partners face. First, I believe it is important to stress that given the scale of the investments required to develop Africa’s energy resources, much of the financing will necessarily have to come from private investors. Greater efforts would thus need to be made to involve the private sector in the continent’s energy development.

Second, unlike a few years back when major international firms were willing to consider large infrastructure investments in developing countries, the situation has changed considerably such that there is now less enthusiasm for such investments. This would therefore call for Public Private Partnerships (PPPs) and, as important, support from multilateral and bilateral development agencies, both to mobilize the requisite resources and to mitigate some of the heightened perception of risks that may deter greater private sector involvement.

With respect to specific policy measures, I believe that much would be gained if African countries were to consider the following:

- **First**, we would encourage African countries to step up their efforts to develop comprehensive and coherent policy frameworks for their energy sectors, with particular attention paid to stipulating clearly the roles of the public and private sectors in the development of modern energy sources. Often, lack of policy clarity has tended to discourage private investments in the energy sector.
- **Second**, African countries would benefit much from intensifying their efforts to further improve their investment climates for both domestic and foreign investors. In this regard, legal and regulatory reforms require urgent attention.
- **Third**, in many of our countries the regulatory environment for the energy sector needs strengthening. In particular the establishment of accountable, transparent, and independent regulatory bodies has been shown to encourage much-needed private investment. It would be advisable to give such bodies the mandate of setting appropriate tariffs to ensure fair returns for private investors while at the same time protecting consumers from monopoly pricing practices.
- **Fourth**, encouraging greater competition in the energy sector could yield high returns. This could include unbundling of generation, transmission, and distribution systems, and encouraging, to the extent possible, the emergence of independent power producers (IPPs).
Fifth, we would advise governments to give much greater priority to ensuring the realization of regional energy projects and programs. Given the uneven distribution of energy resources across the continent, high investment costs, the large economies of scale to be realized, and the improved reliability and quality of services to be gained, multinational projects are often the most economical approach to energy development. For example, fully utilizing the immense hydroelectric potential of the Congo River at Inga has been shown to have the potential of supplying central, western, southern, and even North Africa. In addition, the creation of regional power pools has proved to hold many important benefits as evidenced by the successful example of the Southern Africa Power Pool (SAPP).

In addition to these specific policy measures, I believe that it is also essential that African countries pay particular attention to improving the access of the poor to energy sources, particularly in rural areas. This will require first, improving the supply of biomass, and second, increasing the supply of modern energy sources.

It is evident that for some time to come, the majority of Africans living in Sub-Saharan Africa will continue to rely on biomass as their principal sources of energy. While biomass is abundant in many parts of Africa, rapid deforestation is, however, creating severe shortages of energy supplies in others. There is therefore much urgency in addressing this emerging crisis by encouraging a more efficient use of biomass resources as well as promoting reforestation schemes. Often, as the absence of clear land tenure rights acts as a hindrance to such developments we would advise African countries to pay particular attention to this important issue.

In addition, we would encourage governments to extend modern sources of energy and, in particular, electricity, to rural areas. Such programs would need to include the development of medium and long-term investment programs as well as policies for cost recovery to ensure their sustainability. The enormous benefits of rural electrification, both on production and social welfare, have been demonstrated by the examples of countries such as Tunisia and Morocco that have developed extensive rural networks.

IV. The Bank Group and Energy Development in Africa

Distinguished Participants,
Ladies and Gentlemen,
Permit me, before concluding, to say a few words on the role that the African Development Bank plays in promoting energy development in Africa. Since its establishment, the Bank has provided considerable resources to finance major energy projects in its regional member countries and in helping them develop appropriate policies for the sector. A total of $4.2 billion, or close to 10 percent of total approvals, has to date been committed by the Bank Group in support of such investment and technical assistance projects.

In recent years, the Bank Group has adopted a multi-pronged approach to energy development in Africa within its broad objective of promoting economic growth and reducing poverty in its regional member countries. These have included support for policy reforms; providing financing for middle income countries from its ADB window – both for public and private sector energy projects; and providing technical and financial support on concessional terms for energy projects and programs in its low-income countries, with a particular focus on projects aimed at rural electrification. In addition, as the Bank has been mandated by the NEPAD Heads of State Implementation Committee to be the lead agency for regional infrastructure projects, it has expanded its engagement in regional infrastructure projects, including major energy projects.

In the area of energy sector reform, the Bank Group has provided technical and financial support to assist its regional member countries adopt new policies and institutions. This had become urgent as traditional approaches to energy development that often relied on state-owned enterprises for all aspects of modern energy production and distribution would not enable countries to meet their energy needs in an efficient manner. Such support has been undertaken in the context of economy-wide or sector reform programs. Examples of such support include a technical assistance project to Niger in 2002 to develop a policy for the sustainable supply of energy to households and support to Mozambique in 2003 in the context of a project to provide electricity to 400,000 households, and connections to 300 schools and health facilities.

Financing of energy projects through the ADB window – its non-concessional window – has included major projects mostly in the middle-income countries. The Bank has, for example, provided major financing over the years to develop Morocco’s power distribution system. And in 2003 it helped Tunisia rehabilitate its electricity distribution network. The larger aim of the project has been to ensure that electricity is produced at least cost and under the most reliable and safe conditions to enhance the competitiveness of Tunisian firms.
The ADB window has also been active in providing financing for private sector energy projects. The primary aim of the Bank’s engagement in such ventures is not only to provide direct financing but also to help mobilize funds from investors and also help mitigate some of the perceived risks. An example of such support is the 2002 Nigerian Liquefied Natural Gas Project to help the country increase its production and efficiently use its natural gas resources. Another is the Sasol Natural Gas Project in Mozambique that has the objective of helping Mozambique capitalize on its abundant natural gas resources while at the same time helping Southern Africa countries diversify their energy sources.

Through its concessional ADF window, the Bank Group has sought to assist its low-income countries address the energy challenge they face by helping them both with respect to biomass and modern electricity production. With respect to biomass, the Bank has helped countries address the energy and environmental challenge posed by rapid deforestation by financing agricultural and rural development projects. These have often included projects that have aimed at the sustainable management of natural resources, including aforestation projects. With regards to power generation, much of the Fund’s focus has been on financing projects for the extension of electricity to rural areas. Within the last three years, the Fund has financed such projects in Benin, Ethiopia, Guinea, Mali, and Mozambique.

In addition, with the support of some $5 million from the Government of the Netherlands, the Bank has launched the Financing Energy Services for Small-Scale Energy Users (FINESSE) program. Its aim is to assist African countries develop appropriate policies for renewable energy – including biomass, solar, wind, small hydro power, and geothermal sources – and to generate a pipeline of investment projects. Among its many activities, the Program recently completed a study on the Strategic Deployment of Wind Energy and organized an investor’s conference in Tunis last month.

The final area of engagement for the Bank that I wish to mention is its support to multinational energy projects. The Bank Group has historically provided considerable financial resources, from the special allocation of ADF resources for multinational projects, for the study of regional projects and their implementation, including in particular, projects for the interconnection of power grids. These types of intervention have received added impetus in recent years by the responsibility that the Bank Group has now assumed for regional infrastructure projects under NEPAD.
In response to the mandate entrusted to it by NEPAD, the Bank has produced a Short Term Action Plan (STAP) in consultation with Regional Economic Communities (RECs) and key development partners, such as the World Bank and European Union. The Plan contains 120 projects for a total financing of over US$ 8 billion dollars, including many energy projects. Examples of the energy projects that have been financed by the Bank and its partners under the STAP include: the Nigeria-Benin electricity interconnection; the electric power grid interconnections between Algeria, Morocco, and Spain; studies for power interconnections in the Community of Central African States as well as in the countries in the Nile Basin; and the Mozambique/South Africa Sasol natural gas project that I mentioned earlier.

The Bank is now preparing a Medium to Long Term Strategic Framework (MLTSF) that it hopes will provide a solid framework for regional infrastructure development on the continent, including regional power projects. Towards this end, it has mobilized US $ 3.5 million for the study and expects it to be ready before the end of 2005.

V. Concluding Remarks

Your Excellencies,
Distinguished Participants,
Ladies and Gentlemen,

Permit me to conclude by stressing that while Africa faces major challenges in developing its varied and immense energy resources, the challenge is however not beyond its means. The magnitude of the project will require careful planning and the mobilization of large financial resources and technical know-how from domestic sources, Africa’s development partners, and the private sector. And while the challenges are immense, the rewards are also vast in terms of supporting Africa’s economic development efforts, reducing poverty, and in terms of providing essential social services.

The economic reform programs that African countries have carried out, including major reforms of their energy sectors, give us much confidence that they will indeed succeed in this vital endeavor. I wish to assure them that the African Development Bank stands ready to support their efforts and to work in close partnership with all concerned. I thank you for your attention.