

September 2016

Hogan Lovells recently held its Africa Forum in London. A panel of experts considered the question of why, in the context of Africa, with both the (overwhelming) need and the (ample) means available, the delivery of infrastructure is not happening as quickly as governments and the ultimate beneficiaries of new infrastructure might like.

In the context of power and energy infrastructure, this question is amplified given that the power deficit on the continent coupled with the absence of an adequate and reliable power supply is holding back economic development.

Of course, the answer isn't always as simple as having a need and the means available, and there are any number of articles and commentators who are more than happy to give their audience the reasons why investing in African infrastructure can be difficult. That is not the focus of this article. Rather, this article shares some of the views of the Forum's panel which, while speaking in the context of infrastructure generally, are equally relevant when considering the power and energy infrastructure sectors.

Project targeting and structuring

It goes without saying that choosing the right project, at the right time, to be delivered using the appropriate structure, is key to ensuring the successful delivery of infrastructure projects. However, the history of the African continent is littered with examples of where governments have fallen at this hurdle. Getting these fundamental aspects of project development and delivery correct is vital to ensuring the long term success of projects. As a result, many countries are now looking to better analyse their markets and identify projects which are capable of being delivered successfully.

In the energy and power sectors, this basic planning for project implementation assumes even greater importance as there are so many moving parts that need to come together in order to make a project successful. For example, not only do the power generation assets need to be considered, but so too do the necessary transmission and distribution networks and revenue collection processes (the latter being vital in ensuring energy generated can be paid for). If any one of these elements are missing or not up to standard, the long-term viability of energy and/or power projects can be compromised.

The added bonus of this early planning and project identification is that it gives a project the best chance of success and, as the expression goes, nothing breeds success like success. Getting some early wins in terms of successfully letting projects in the market will build reputation for delivery, and enhance a government's credibility as it looks to get its pipeline of projects away in the market.

Government capability

It is important to ensure that officials involved in development, procurement and management during the operational phase of a project are up to the task. This means ensuring that officials have the right skill sets and are properly resourced to deliver projects. This does not mean that governments will not need to engage external advisers (these will always be required) but it does mean that the officials involved should have sufficient understanding of the project and what is needed to implement it, and the authority to make the required decisions in a timely manner.

Sources of funding

There are a number of points to consider under this heading. Bank debt (if that is to be the funding source) can be more expensive than debt from other sources. Organisations traditionally funding into African infrastructure (World Bank, AfDB, for example) can tend to be less dynamic and not able to lend if the target project is not structured in a particular way or does not deliver minimum returns. Another concern is the issue of tied funding, where funds are made available but in return for the borrower complying with conditions placed on it by the lending organisation or government. Where investors are from overseas, there is also the issue of currency fluctuation risk which in turn increases the cost of the project.

One way to address these issues is, of course, to obtain funding in-country, rather than from international lenders. In many cases, funding is available from local investors, including government-backed infrastructure funds and pension funds. In relation to the former, a number of African countries have established investment vehicles which could be (or in some cases – such as the Ghana Infrastructure Investment Fund - are designed to be) used for investing in local infrastructure projects. Accessing these sources of funding removes any foreign exchange risks and also means that the lender knows local market risks and requirements. This intimate knowledge of local conditions often removes a number of due diligence roadblocks encountered by international lenders.

Alternative solutions

The type of solutions which may be available to host governments to deliver on power and energy for its consumers needs to be considered. Much has been said recently of the need for African governments to deliver off-grid solutions to help address the power deficit. Following this approach will, among other things, relieve the need for governments to develop extensive power grids which will absorb vast resources for little return. Regardless whether these off grid solutions are city, town, village or even household based, the important factor is that the appropriate solution is chosen to deliver the best outcomes which will, in turn, help to attract appropriate financing.

All this may seem like common sense, and only a taster of the issues that need to be taken into consideration to ensure long term financing for power and energy projects. One thing is certain – if project fundamentals are sound and procuring authorities and/or sponsors can demonstrate that projects will be funded in the long term, half the battle is over in terms of generating long term financing and project viability.

As published in Without Prejudice in September 2016.

> [Read the full article online](#)