



Energy Security: Building Confidence in African Project Development

Ensuring developers can trust governments to stick to the commitments they make and that governments have confidence the proposals submitted by developers are fair and reasonable goes to the heart of the project development industry in Africa and the work of the Africa Infrastructure Development Association (AfIDA). Without such trust and security, projects will often struggle to be delivered and the continent's infrastructure gap will remain.

This second issue of the AfIDA Newsletter includes an examination of a number of issues which touch on these factors, including a debate on the relative advantages and disadvantages of unsolicited bidding compared to competitive tendering. One thing that is clear from the discussion is that the diversity of economic and political environments around the continent means there is no one-size-fits-all approach. "For more established economies which are procuring lots of projects it makes sense to run competitive bidding processes, but smaller

economies don't need to do that," says Brandon Bowen, Director of Fieldstone Africa.

This issue also looks at a problem that can occur once a project has been given the green light, namely the risk of retrospective changes to tariffs. To date, this has not proved to be as serious a problem in Africa as in some other parts of the world, but continuing falls in renewable energy costs combined with the fact that some countries are getting close to a situation where they have an oversupply of electricity means the risk of it happening in the coming years cannot be ignored. "It is something that might play a role in the industry in the future," says Aart Mulder, Manager of Project & Partnership Development at FMO.

Benchmarking Best Practice



An AfIDA workshop in London last November explored a series of issues critical to the project development sector in Africa, including financing, standardisation and how the industry might work collectively to move things forward. While there are few easy answers to these challenges, there was broad agreement on the benefits of pursuing greater standardisation in particular and thus avoiding what one participant described as the industry's habit of "reinventing the wheel, project by project".

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AfIDA Newsletter

Issue 2

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About AfIDA

The Africa Infrastructure Development Association (“AfIDA” or “the Association”) is an association of project developers and development stakeholders in Africa. The objective of AfIDA is to enhance the vibrancy of project development (PD) activities in infrastructure, with a view to ensuring that more projects achieve bankability and become available for financing and investment. AfIDA stands to play an important role in the PD industry by providing members with industry updates (via newsletters and relevant research publications), training programmes, and networking opportunities and serve as an advocacy platform for the industry.

AfIDA’s founding members are: Africa Finance Corporation (AFC), African Infrastructure Investment Managers (AIIM), Climate Investment One, DEG, eleQtra, Financierings-Maatschappij voor Ontwikkelingslanden NV (FMO), International Finance Corporation (IFC), InfraCo Africa, Themis Abraaj and Trinity LLP.

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Welcome Note

Welcome to the second edition of the African Infrastructure Development Association (AfIDA) Newsletter. I want to take this opportunity to congratulate AfIDA's small team and wider membership on their ongoing efforts to pool knowledge and expertise to advance the development of more bankable infrastructure projects on the continent.

During AfIDA's first full year of operations, the organisation has established itself as a positive force in discourse around infrastructure development in Africa. A workshop held by AfIDA at the AIX Power and Renewables Conference 2017 in London stimulated interesting debate around project documentation and value. Using standardised, benchmarked contracts has considerable potential to overcome issues of bribery and corruption whilst offering transparency and advocacy to African governments around developer costs and success fees.

The workshop also covered understanding joint development agreements for power projects and standard practice for independent power projects (IPPs). The AfIDA-sponsored evening reception at the conference was a lively networking

opportunity, generating wider interest in the organisation's mandate.

AfIDA brings developers of all sizes and levels of experience together to research and discuss the shared challenges of delivering bankable projects, ensuring that projects are developed to the highest international standards. I believe that promoting high standards is fundamental to attracting the domestic and international finance required to progress projects to construction and operations, bridging the 'infrastructure gap' that persists on the continent.

With a series of forthcoming workshops addressing themes including the catalytic role that AfIDA can play in trans-regional project development and the debate around unsolicited bidding versus international competitive bidding processes, 2018 looks certain to be another positive year for the organisation.

Simply put, working together will, ultimately, make more projects happen.

I hope you enjoy reading this Newsletter.

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AfIDA's Co-ordinator, Precious Nkandu

Precious oversees the management and operations of AfIDA, supported by the board of directors. In this role, she provides a vital link between the members, the secretariat and the working committees, and other parts of the association.

Precious brings a wealth of experience to the role, having worked in the past with infrastructure project developers and governments and a wide range of investors – including institutional investors, sovereign wealth funds, pension funds and family offices – to facilitate partnerships and investment opportunities.

She has also worked closely with African development finance

institutions and other organisations seeking to gain access to international capital by providing them with investor relations, communication and media support as well as business development services. The knowledge gained from this background puts her in an ideal position to help AfIDA make progress with meeting its objectives and ensuring that Africa's project development space remains vibrant.

“I'm excited to be part of a team of industry leaders who are already playing a catalytic role in driving Africa's projects to achieve bankability, helping with skills transfer and serving as a collective voice of developers on the continent” she says.



AfIDA Workshop – Unsolicited Bidding versus International Competitive Bidding, 26 March, Johannesburg

Hosted by AfIDA in partnership with Terrapinn on the sidelines of the Power and Electricity World Africa 2018, the three-part discourse-led workshop will share practical insights into unsolicited bidding versus international competitive bidding, retrospectively changing tariffs and new initiatives to fast track the project development process

AfIDA Workshop registration fee: ZAR 4,999.
Group Registrations will attract a 20% discount
To register contact precious.nkandu@afida-africa.org

AfIDA has secured a 25% discount on the registration fees for the main conference, to register for the workshop and both conference days, use reference: **AfIDA0018PEWA**.
Register at www.terrapinn.com

AfIDA To Host African Power Utilities and Government Ministries on Investing in Regional Projects, 26 March

Hosted by AfIDA on the sidelines of the Power and Electricity World Africa 2018, this closed door meeting, the first in AfIDA's Country Engagement Series, will offer a unique platform for a dialogue on development and investment opportunities.

Held under the theme Driving Regional Integration Through Trans-Regional Projects – The Catalytic Role of AfIDA, the event represents a unique opportunity to raise awareness of new opportunities for fast-tracking the development of African regional power projects. The discourse will contribute to enhancing Africa's attractiveness for FDI, as well as to foster regional cross-border investments.

To register, please send your RSVP to Precious Nkandu: precious.nkandu@afida-africa.org

FMO Supports Two Ugandan Hydro Projects

Dutch development bank FMO has underwritten \$39m in senior debt for the financing of the 16MW and 6MW Nyamagasani 1 and 2 run-of-river hydropower projects in Uganda. The new plants in western Uganda will generate clean, low-carbon, sustainable electricity for around 160,000 people in the area.

Both projects are majority-owned by funds managed by Frontier Energy, a Danish private equity fund manager. FMO acted as mandated lead arranger and underwriter of the \$39m facility, of which 40% is expected to be risk shared with Proparco, the French development finance institution. The two hydropower schemes mean that FMO is now involved in financing five hydro projects with Frontier Energy in Uganda, with a combined capacity of 47.5MW.

The projects are being developed under the Global Energy Transfer Feed in Tariff (GET FiT), a support scheme for renewable energy projects managed by Germany's KfW Development Bank in partnership with Uganda's Electricity Regulatory Agency (ERA) and funded by the governments of Norway, Germany, the UK and the EU. GET FiT is providing a total subsidy of €11.6m (\$13.9bn) in the form of result-based premium payments per kWh of delivered electricity.

Uganda has one of the lowest rates of electricity consumption per capita in the world, with an average electrification rate of 15%. The country's power sector suffers from a shortage of generating capacity and the lack of reliable and affordable electricity is hindering more sustainable economic growth.

Benin and Zambia Join AFC

Zambia and Benin have become the two newest members of Africa Finance Corporation (AFC), taking the infrastructure development finance institution's total membership to 17.

Zambia, which joined last October, is the first member state from Southern Africa, marking a significant milestone in the AFC's expansion around the continent. "We believe that investment in and sustainable delivery of infrastructure in land-linked Zambia will accelerate intra-regional trade and lead to stronger economic development and growth in Southern Africa in particular and Africa in general," said Andrew Alli, chief executive of AFC.

Benin, a gateway to several other West African economies and one of seven francophone member states, joined the organisation on 7 November.

Benin is economically stable, maintaining an average GDP growth rate of 5% over the past five years. Such fundamentals create a natural support system for viable infrastructure investment.

KfW and ATI Sign Financing Deal for Regional Liquidity Support Facility

Germany's KfW Development Bank and the African Trade Insurance Agency (ATI) unveiled a new instrument to support renewable energy projects in Sub-Saharan Africa, on the sidelines of the annual *Africa Investment Exchange: Power & Renewables* meeting in London on 15 November.

The regional liquidity support facility (RLSF) targets renewable energy projects of up to 50MW. It is designed to address one of the biggest challenges facing independent power producers in Africa, namely the requirement to provide project lenders with a

liquidity guarantee. KfW will provide funding of up to €32.9m (\$28.2m) to the facility.



AFC Finalises Merger of Electricity Portfolio with Harith

Africa Finance Corporation (AFC) and Harith General Partners on behalf of its portfolio company Aldwych Holdings have finalised the merger of their electricity generation assets into a new operating company, Anergi Holdings, following an agreement signed in June 2016. The company's first board meeting was held on 5 December 2017, where Andrew Alli, AFC president and CEO, was appointed chairman. Other board members appointed include Tshepo Mahloele, Oliver Andrews, Alwyn Wessels, Siphon Makhubela and Fola Fagbule.

Anergi, which is domiciled in Mauritius, has equity interests in seven generation assets with a total of 1,786MW (gross) and 554MW (net)

generation capacity across five African countries. It also holds investment rights to invest or acquire interests in new projects under development with a further 500MW capacity.

As of December 2017, its assets include the 350MW Kpone IPP tri-fuel power plant (Ghana), the 310MW Lake Turkana Wind Farm (Kenya), the 26MW Cabeolica Wind Farm (Cape Verde), the 90MW Rabai Heavy Fuel Oil power plant (Kenya), the 200MW Amandi Gas-fired power plant (Ghana), the 450MW Azura Gas-fired power plant (Nigeria) and the 300MW Kelvin IPP (South Africa). The future equity investment rights relate to projects at advanced stages of development in Côte

d'Ivoire, Djibouti, Nigeria and Mozambique.

The company says it will start work on securing a stock market listing on an international exchange "at the earliest feasible date".

Separately, AFC has signed an accreditation master agreement with the Green Climate Fund (GCF) which should enable it to develop further investments in the power, transport, heavy industries and telecoms sectors. Set up in 2010 by 194 countries, the fund has to date gathered pledges of \$10.3bn. Following its accreditation, AFC will have access to direct funding from the GCF, rather than having to work through third parties.

Abraaj Group Names Kito de Boer as Managing Partner

Dubai-based Abraaj Group appointed Kito de Boer as Managing Partner on 18 September. De Boer, who has over 30 years' experience in consulting and diplomacy, will oversee the group's impact investing business and spearhead its efforts to deploy private capital as a means of tackling some of the world's most pressing challenges.

Abraaj's impact investing activities are aligned to the United Nations' Sustainable Development Goals and are currently focused on accessible healthcare and clean energy in growth markets.

AIIM Names Cheikh Diedhiou as ESG Advisor

African Infrastructure Investment Managers (AIIM) has appointed Cheikh Diedhiou as environmental, social and governance (ESG) advisor to assist the firm with transaction due diligence and asset management.

Diedhiou has over 10 years' experience in environmental and social impact and risk assessment and management across mining, infrastructure and agriculture with Earth Systems, particularly in West Africa. Diedhiou, who is based in Côte d'Ivoire, also has strong experience in national regulations and international best practice standards.

Climate Investor One Fund Reaches Second Close

The blended finance facility Climate Investor One (CIO), managed by Climate Fund Managers, has reached second close at \$475m, a \$63m increase on the first close. Among those newly involved are the European Union (EU) as a donor to CIO and MP Pensjon of Norway as a commercial investor.

The fund is targeted at the delivery of renewable energy projects in developing markets throughout Africa, Asia and Latin America and is tailored to provide end-to-end financing for each phase of a projects' lifecycle, from development to construction and operations.



Benchmarking Best Practice

An Africa Infrastructure Development Association (AfIDA) Workshop at the AIX conference in London in mid-November explored a series of issues critical to the project development sector in Africa, including financing, standardisation and how the industry might work collectively to move things forward.

The well-attended workshop took place on the sidelines of the fourth annual Africa Investment Exchange: Power & Renewables meeting in London on 15 November and was moderated by David Donaldson, Head of IFC InfraVentures. A series of topics were tackled during the three-hour meeting, held under the Chatham House rule to encourage free-flowing discussion.

The debate opened with some thought-provoking remarks from one presenter, who argued that if the project development industry is to cope with the longer tenors needed for renewable energy deals it needs to tap into new sources of financing, such as the Green Climate Fund. “If we agree the future for Africa is renewable energy then we must find appropriate financing,” they said.

They went on to question why

developers focus so much of their attention on power and energy – to the exclusion of other important sectors such as transport, logistics and special economic zones – and noted the need for funding approaches such as bridging finance and refinancing so more projects can move ahead. “Despite the billions of dollars that have been spent in Africa, the infrastructure is worse now than 20 years ago,” they told the audience. “The mechanisms that have been used to deliver infrastructure haven’t worked.”

The idea of new financing methods was welcomed by delegates. One pointed out that a critical element to that is getting development finance institutions (DFIs) to agree to refinancing. “The issue is which DFI is going to break first,” they said. “We just need to get one or two DFIs and I

suspect a lot more will come after that.”

Others pointed out it was not merely a matter of financing. Being nimble is also essential. “Your biggest enemy, particularly in smaller projects, is time,” said another delegate.

Of course one aspect that can slow down a project is the lack of standardisation. As one attendee said, “One of the big problems in Africa is people keep reinventing the wheel, project by project.”

As many in the room remarked, one thing that makes it harder to set standards is the diversity of political and economic conditions around the continent. There are no easy answers to this, given that different countries vary in their stages of development. “Even as we strive to standardise the

documents, let's try to do it at the national level and not at the continental level because of the many differences," said one.

Even so, there was a widely accepted view that there should be more effort to create standards for the industry. "Standardisation is a good thing," said one participant. "Over the past 10 years the standardisation process has become far more sophisticated over time. It is something that everyone's been striving for; it's become much more prevalent now."

Unfortunately, this isn't a one-way process and they went on to say there had been a move away from standardisation in some areas. "Joint development agreements on the face of it would seem to be relatively simple documents," they added. "But rather than becoming simpler and more standardised, they've actually become a lot more complex."

A number of people made reference to the Global Energy Transfer Feed-in-Tariff (Get FiT) programme in East Africa as a framework that provides some certainty for developers. One commentator said, "It addresses a lot of the questions. It addresses the capacity of



governments to run clean and transparent procurement processes, there's an upfront investment in bankable documents [and] it also addresses the problem of tariffs. It's not going to work for everything [but] what's important for us is some sort of policy certainty."

"The issue is more around scale," noted another delegate. "If you're looking for developers of scale, is the Get FiT process appropriate? The answer is probably no."

There may not be any simple answers to the issues thrown up by this debate, but it was evident at the workshop there was broad agreement on what some of the main challenges are the industry needs to tackle, and that is where AfIDA can perhaps make a difference. As one panellist said to the audience of project developers during the workshop, "I would like to invite you to contribute to an organised response to African governments to pursue best practice in the energy sector."



The Pros and Cons of Taking the Direct Approach

There are two broad starting points for power projects. One is an unsolicited bid, whereby a developer approaches a government with a plan without having received an explicit request. At the other end of the scale is the more complex and expensive competitive bidding process. In the face of persistent shortages of power-generating capacity across the continent, it would be to everyone's benefit if the most efficient process – in terms of speed and cost – was followed. Working out what might be best is not straightforward though, as both options have strengths and weaknesses.

In the past, unsolicited proposals have been the more common option around the continent for independent power projects (IPPs). However, recently there have been signs that more governments are keen to adopt the competitive bidding approach. Countries including Ethiopia, Ghana, Morocco and South Africa have all run competitive bidding programmes or expressed a determination to do so, with a lot of success made.

“Historically, unsolicited bidding is the way a lot of projects were done, perhaps more so in Africa than in other parts of the world,” says Brandon Bowen, Director of financial advisor Fieldstone Africa. “But the status quo is changing. Countries are now becoming more interested in running proper competitive bidding rounds.”

A key consideration is the belief that such processes lead to lower tariffs and encourage more private investment and perhaps even greater standardisation, in what is often a complex, convoluted process.

Of those various factors, price is probably the most influential. Aart Mulder, Manager of Project & Partnership Development at Dutch development bank FMO, says international competitive bidding processes are often seen as “the Holy Grail and a solution to bringing down prices substantially”.

That does not mean that they are always the best option though and

there are some good arguments for why some governments should stick to unsolicited bidding in some circumstances. Among the key motivations to continue with this less complex approach is a need for speed, but it can also prove useful where a government has limited capacity to identify and develop new projects.

According to Andrew Herscowitz, Coordinator of the US government's Power Africa programme, the majority of deals that his organisation has been involved with have come as a result of direct negotiations between private companies and governments. “Why not choose a negotiated deal approach that can procure grid power quickly? That way factories don't have to run on expensive back-up power until the tender process is completed,” he says.

There are some downsides too though. Directly negotiated deals can raise issues around

transparency and the potential for corruption and can also suppress competition. They can also lead to government resources being diverted away from priority areas. The World Bank Group pointed out in a report published in 2016, *Independent Power Projects in Sub-Saharan Africa*, that “the record shows that while direct negotiations may appear to be simpler and cheaper at the outset, in practice they are often lengthy, and governments may be ill equipped to assess the value of unsolicited offers”.

Preventing Problems

There are plenty of examples of projects that began as unsolicited proposals and have not gone smoothly, and not only in the power sector. The World Bank's Public-Private Infrastructure Advisory Facility (PPIAF) has noted a number of problem projects in the recent past, including a Chinese proposal for a railway between Nairobi and



Guiding Principles for Unsolicited Bidding

Having a clear policy in place is critical if governments are to ensure that any unsolicited proposals (USPs) provide what the country needs at an affordable cost. With that in mind, the World Bank's Public-Private Infrastructure Advisory Facility (PPIAF) has set out six guiding principles which it says should be adapted by governments to fit local needs. These principles are designed to be relevant throughout the project's life, from evaluation through project development to procurement and implementation.

- **Public Interest:** A USP project must align with national infrastructure priorities and meet a real societal and economic need.
- **Value for Money:** Governments should only structure USP projects as public-private partnerships (PPPs) if they are expected to generate greater value for money than under conventional delivery.

- **Affordability:** Governments must understand a USP's impact on public finances, including whether fiscal liabilities are acceptable and risks are sufficiently manageable.

- **Fair Market Pricing:** Governments must ensure that PPP contracts resulting from USPs reflect market prices, avoid excessive private returns, and include a risk allocation appropriate for the government.

- **Transparency and Accountability:** Governments should disclose all relevant project information to allay stakeholder concerns regarding transparency and accountability.

- **Alignment of PPP and USP Procedures:** Governments should align PPP and USP policies to increase stakeholder support, enhance market interest, and ensure consistency in public decision-making.

Mombasa (opened in May 2017) which led to several years of controversy around possible corruption.

Avoiding the problems that these projects have encountered requires governments to develop robust systems to manage unsolicited proposals. The PPIAF began a consultation exercise on draft policy guidelines on this area in March 2017 and issued its recommendations later that year¹, based on the experiences of 15 countries, including five in Africa: Ghana, Kenya, Senegal, South Africa and Tanzania. Known as the *Policy Guidelines for Managing Unsolicited Proposals in Infrastructure Projects*, they include some principles which governments are advised to adhere to (see box, above).

There are problems for developers too, given the success rate for unsolicited proposals is only around 20%. "An unsolicited bid is risky," says Kodjo Afidegnon, Hhead of West Africa business development at InfraCo Africa. "Investing money to conduct feasibility studies is a big jump into uncharted territory. There are no transparent policies in most countries on how to deal with

unsolicited bids and the capital invested in project origination and preparation is highly at risk."

Prestige Process

For many though, there is still a strong attraction to running full competitive bidding rounds. Examples such as South Africa's Renewable Energy Independent Power Producer Procurement Programme represent a powerful lesson for governments considering this option. In four procurement rounds between 2012 and 2015, some \$19bn of private investment was brought in to 92 projects delivering a combined 6,327MW.

Over the course of the four bidding rounds, the price of photovoltaic (PV) solar fell by more than 71% (in nominal local currency terms) to US¢ 6.4 per kWh and wind power prices fell by 46% to US¢ 4.7 per kWh. African countries often look to each other for lessons in this sector and the low pricing of South African renewable energy has led some other governments to think they might achieve similar low pricing, even if in many cases that may prove to be unrealistic.

There are other arguments in favour of competitive bidding beyond price though, including the enhanced transparency that results from an open competition. According to the World Bank there is also some evidence that competitive procurements are less prone to renegotiations and contract disputes than directly negotiated projects, which can save time and money over the lifetime of a project.

On the downside, competitive tenders can lead to an almost complete focus on price, to the exclusion of everything else. The danger is that other important aspects might not be considered properly, including the capacity of the network, the location of power plants and the ability of the government to perform its obligations regarding permits and infrastructure development.

And competitive tenders are likely to work best where there are a sufficient number of bidders competing for the prize – something which does not always happen.

Such competitions can also be time-consuming, as well as expensive to

¹ <https://ppiaf.org/documents/5367>

prepare and run and, as Herscovitz points out, “many Sub-Saharan African governments do not have the luxury of being able to wait for competitive procurement programmes to address their need for cleaner, reliable and more affordable power in the short term”.

It can take a year just to plan a tender round, even with an experienced team in place. Another year can be eaten up with developing bankable project documents to ensure a fair deal for all sides and to attract a sufficient number of bidders. The bidding process itself – including prequalifying bidders and then awarding and signing a contract – might take a third year or more.

Mulder points out that even the South African renewable energy schemes do not necessarily offer complete proof of the benefits of a competitive tender. “If you look at the first round the price was exceptionally high,” he points out. “With a conventional bidding process maybe the difference between the first, second and third rounds would have been less extensive.”

Another consideration is the maturity of local debt markets, which are needed to provide support if governments are aiming to tender a lot of projects, but which is lacking in most countries around the continent. “One thing that is needed for competitive bidding processes is domestic debt markets,” says Bowen. “Access to local debt is very important if you are going to procure multiple projects. Without it you’re bound to development finance institutions and you have added complications such as currency risk.”

Balanced Outcome

While there are clearly pluses and minuses with both approaches, in reality it is probably unwise to prescribe a single answer across the board. Much depends on the nature of the country concerned and how well developed its infrastructure and bureaucracies are.



“If you have a good competitive transparent bidding process and everything has been taken into account, with realistic expectations on the price, with a government that is ready to roll out accompanying infrastructure, with a realistic time-frame, the right product and right partners; if all this is done properly then an international competitive bidding process is definitely the best way,” says Mulder. “But sometimes the government is not ready for that and if it isn’t ready then the alternative of unsolicited bidding might be better than having a bad international competitive bidding process. Some countries are simply not ready.”

Others agree that countries with less well-developed systems should continue with unsolicited bids while putting in place, in a gradual way, the systems and planning needed so that they can run competitive bids in the future.

“It’s not ‘either/or’, but rather an ‘and’ scenario,” says Herscovitz. “Our advice to countries with a power deficit is to reassess power procurements in light of the possible upsides of competitive procurements and continue to negotiate deals directly with private companies until clear, sound, procurement strategies and supporting policies prove relatively effective.”

The debate may prove relatively moot if there is less need for centralised procurement in the

future – if for example, distributed solar power systems are rolled out more extensively and advances continue to be made in battery technology.

However, the lure of competitive tendering is still likely to draw in more governments in the coming years.

“I think countries will continue to move towards competitive bidding in the long term, but I’m thinking in terms of several decades rather than just in the next few years,” says Bowen. “But there is still a space for unsolicited bidding. For more established economies which are procuring lots of projects it makes sense to run competitive bidding processes, but smaller economies don’t need to do that. It takes a lot of work and they don’t necessarily have the capacity to do it.”

In the meantime, governments need specialist knowledge and transparent processes that are in line with international best practices if they are to pursue either unsolicited bidding, competitive tendering or some hybrid of the two. That will help to ensure investor confidence and reduce the risk of corruption. Perhaps the best indicator as to whether a country has opted for the correct route will be if it manages to create a viable environment for rolling out more energy projects as and when they are needed.

Moving the Goal Posts

If there is one thing that can fatally undermine a project it is a demand from a government to change a previously-agreed tariff. In theory, once a commitment has been made by both sides to a particular payment rate, then everyone should honour their obligations, but the reality can be different.

Finding common ground between a developer and a client over the tariff to be paid is perhaps the single most critical issue in deciding whether a proposed new power plant will be built. Discussions can last years as a client tries to move the price down. In Nigeria, for example, the tariff for 14 new solar power projects fell from a rate of US¢23 per kilowatt hour (kWh) proposed in 2015 to US¢11.5c by the time power purchase agreements (PPAs) were signed in 2017 – further reductions have since been requested.

Tough negotiations are one thing; once they are concluded, a developer ought to be able to move ahead with the project. However, things are not always that simple and over recent years there have been a number of cases around the world in which governments have sought to retrospectively change the tariff. In 2013, for example, the Spanish government began an electricity market reform programme which prompted criticisms about retrospective tariff changes. There have been other examples in Italy, India and elsewhere.

Such changes can have a significant impact on the viability of a project, although their effect depends to some extent on when such demands or requests for retrospective tariff changes are made.

In general, there are two distinct points in a project's lifetime at which such changes might happen. The first is when a government agrees a tariff and then, during a delay in the scheme, tries to renegotiate the rate before the project has been completed. The second is when there is an effort to reduce the agreed tariff once a project is up and

running. While the first is more common, the second presents a more serious challenge.

The first scenario occurs relatively often according to Brandon Bowen, Director of investment bank Fieldstone Africa. "There have been a couple of dozen projects affected like this over the past few years," he says.

The problem for a developer when this happens is that, although the government may have a legal obligation to adhere to the agreed tariff, it is rarely worth trying to enforce it through the courts. Instead, project developers will generally either end up doing more work to try to make the development commercially viable at the new, reduced tariff or they will simply walk away from the scheme.

The subtle wording of a request from government can disguise the problem to some extent. For example, some developers say they have been asked to "fine tune" a tariff following a delay.

Meeting such a request is sometimes possible if the project is at an early enough stage and the delay has also meant that engineering,

procurement and construction (EPC) costs can be revisited and reduced as well. Alternatively, if there have been other changes to the environment in which a project is taking place, such as improved grid connections for example, then it might be possible to make adjustments to reduce costs. In such situations, it may be possible to keep the damage to a project fairly limited and the tariff change will not necessarily mean the entire scheme has to be abandoned.

The more difficult situation is when a government tries to lower the tariff on a project that has already been completed and is generating electricity. At this point, the developer's costs are firmly set and making any changes is far more difficult.

"A tariff is usually set based on what the EPC costs were. That is your capital cost and with that comes an associated financing cost," says Jasandra Nyker, Chief Executive Officer of South Africa-based BioTherm Energy. "So it's very hard if someone comes back and says you need to reduce your tariff, because your capital costs are set."



Getting around this can be a major headache and there are no easy answers; finding a solution will depend on the specifics of each project. Probably the best thing for a developer to do is to try to avoid the situation occurring in the first place. “In the project planning you need to ensure that your tariff is likely to be competitive not just in the current market but in the future too,” says Bowen.

In the worst-case scenario, perhaps the only viable option is to get into an active discussion with the government. Such talks can lead to novel solutions being found, as was the case recently with the 250MW Bujagali hydropower project in Uganda. The government was pushing for lower tariffs and in the end a deal was concluded to extend the existing financing term, backed by debt financing from the International Finance Corporation (IFC). “They found an agreeable solution with all parties to extend the financing and thereby were able to lower the tariff. So that is one way to cope with it,” says Ragnar Gerig, Director, Energy (Africa and Asia), at DEG.

The risk of being hit with a retrospective demand for lower tariffs is not uniform across the power sector. For example, it is probably more likely to happen if a project has been awarded based on an unsolicited bid rather than a competitive tendering process, because in the latter case the initial award will generally be made on the basis of the lowest bid so there is less room for subsequent renegotiation. “To even contemplate retroactive tariff pricing is difficult when your criteria was based on lowest tariff secured,” says Nyker. “If a project is won based on a particular tariff, that tariff should be agreed upon and not changed.”

The renewable energy sector has not seen many examples of retrospective tariff changes to date, although that might simply be because it is a fairly young sub-sector of the industry. The experience of other parts of the



power sector suggest it is something which renewable energy developers need to be aware of, not least because of the way that solar and wind prices are falling so rapidly. The latest data from the International Renewable Energy Agency (IRENA) shows that the cost of solar photovoltaic energy fell by 73% between 2010 and 2017, while the cost of onshore wind power fell by 23% over the same period.

This can create problems when governments are under pressure to reduce costs, particularly when a country has an oversupply of electricity. That latter situation is largely absent from Africa at the moment, but as some countries get closer to being in an oversupply situation the market dynamics could change.

“If you look at renewables in Africa, it’s, except from hydro power, quite a new area. Via this late entrance, Africa benefits from the spectacular decrease in prices of equipment in the renewable energy space, like solar panels. Therefore I do not expect demands for retrospective changes to tariffs to happen much. It is also fair that this will not occur, as all investors and financiers were willing to step in based on a deal, reflected in a pre-agreed long-term tariff,” says Aart Mulder, Manager of Project & Partnership Development at Dutch development bank FMO.

However, even without any wide-spread demands for retrospective

changes to tariffs, some industry figures say there has still been an impact on projects and developers. Just the risk of such demands being made in the future means financial backers are now taking a more cautious approach to the market. In the past, development finance institutions (DFIs) tended to be happy with a high tariff because that brought stability to the financial projections for a project, but these days their calculations are changing, according to Gerig.

“Now, DFIs are more cautious about comparably high tariffs because they consider the risk of a retrospective change in tariff to have increased. As a result, developers that might be able to attract high tariffs sometimes face difficulties in attracting financing as banks don’t regard such tariffs to be sustainable in the long term. And if banks finance projects with high tariffs, they want to ensure that projects are also able to serve their debt with significant lower tariff assumptions, so developers can no longer fully leverage on high tariffs.”

While the threat of retrospective tariff changes is one that developers ought to be aware of for the future, there are other issues which will be more pressing for some. “Until now Africa has quite a sound track record of reliability when it comes to contracted tariffs. It’s sometimes more a question of timely payment of those tariffs,” says Gerig.



Ragnar Gerig
Director Energy, Africa and Asia
DEG

Ragnar has been working at DEG for more than a decade, starting in 2006, when he set up DEG's global syndication unit. From 2009 to 2013 he led DEG's business origination and portfolio management in Africa with investments of some \$1.5bn. After that he took on the role of director manufacturing industry and services, where he was responsible for structuring and contracting DEG's business in various industry sectors around the world. He currently heads DEG's energy operations for Africa and Asia with a loan book of more than \$500m.

Ragnar Gerig: Removing Bottlenecks from the Projects Market

What do you see as the main role for AfIDA and why did DEG decide to become a part of it?

DEG decided to support AfIDA as there are still a lot of bottlenecks to make projects viable in Africa, both in the energy sector but also within the non-energy infrastructure. Many times we have seen sponsors going through the same processes trying to educate host governments on internationally accepted project development standards. However, these developers are often seen as having their own particular interests, which might not be the same as those of a host government. Therefore, we are convinced it would be very helpful to have an institution which could act as an official voice of the private sector to speak to governments. This conversation would help governments to establish best practice standards in a timely manner without compromising unreasonably.

We also wanted to be able to have a discussion about the level of risk that a developer should reasonably take on the one hand and to say to governments that there are some risks that they are better placed to look after. Of course governments cannot commit to each and any risk, but there are some risks that they are definitely better placed to control.

What are the main challenges for project developers that AfIDA can help to address?

The lack of standardisation is probably the main challenge, but there are other elements that are also important. One way in which AfIDA can help is to enable developers to share their experiences in certain countries or particular regions, either with the association as a whole or with individual members of the association. Doing that will help the industry to avoid repeating mistakes

that have been made elsewhere. We can also have discussions within the association between developers and financial institutions to find the right balance of risk-sharing, to discuss what developers' costs should be for a certain type of project, how success fees should be structured and when they should be paid. We think these are all important areas that can be handled more efficiently for both sides.

AfIDA is still a young organisation. What progress has it made to date and what are the keys for its future success?

AfIDA is indeed still a young organisation but it has ramped up over the past year. We are already working with some developers on specific cases. It remains to be seen where AfIDA can make the most impact, but one of the preconditions is to increase the number of members. It is one thing to say we are a group of 11 different institutions, but AfIDA can have much more influence and impact, if it can say it is representing the whole industry across Africa. That's what we're focusing on, alongside doing advocacy in particular cases and publishing industry information that is important for developers.

What areas do you think offer the most interesting opportunities in Africa today?

I think it's renewable energy, in particular solar and wind as these technologies are getting more and more cost competitive compared to conventional thermal power. Having said that, the opportunities for IPPs are especially strong in those countries that have not yet made significant progress in the private energy sector. So it's not so much the established IPP markets like Kenya, Uganda, Côte d'Ivoire, Ghana or South Africa, it's more the countries that are on the cusp of getting there, like Ethiopia, Mozambique or

Tanzania, that are still underserved. In Nigeria it has also been quite difficult to ramp up the sector and there is still a lot of advocacy to be done. But newer markets like Benin, Togo or others on the west coast like Sierra Leone or Liberia are also showing more and more interest in renewable energy.

There are also a number of countries where the governments are uncertain about how to access the renewable energy markets, as equipment prices are falling quickly and they wonder if it's the right time to open up IPP markets. And there is also a lot of thinking around the best process they should opt for: is it unsolicited bidding, a feed in tariff or an auction process? So there's a lot to be advised on to ensure that things get done properly.

Is it sensible for countries to still opt for unsolicited bidding processes these days? What do you see as the main advantages and disadvantages?

It depends on the development stage of a country. Unsolicited bidding is more suitable for markets that are not that mature and where developers first need to gain some confidence in the private energy market.

From a developer's perspective, the advantage of unsolicited bidding is that they can look at the entire country, try to find the best spot for a project and then offer a tariff that appears reasonable to them. As a government you can basically just let developers propose different options and then choose the best offer. So it's a very easy process for a government, while developers have to bear some uncertainties.

The disadvantage of unsolicited bidding from a government's perspective is that it will all happen in an unorganised way, so spots might be chosen for projects that are not best placed, for example from an environmental or social point of view.

Is the lack of transparency with unsolicited bids a problem?

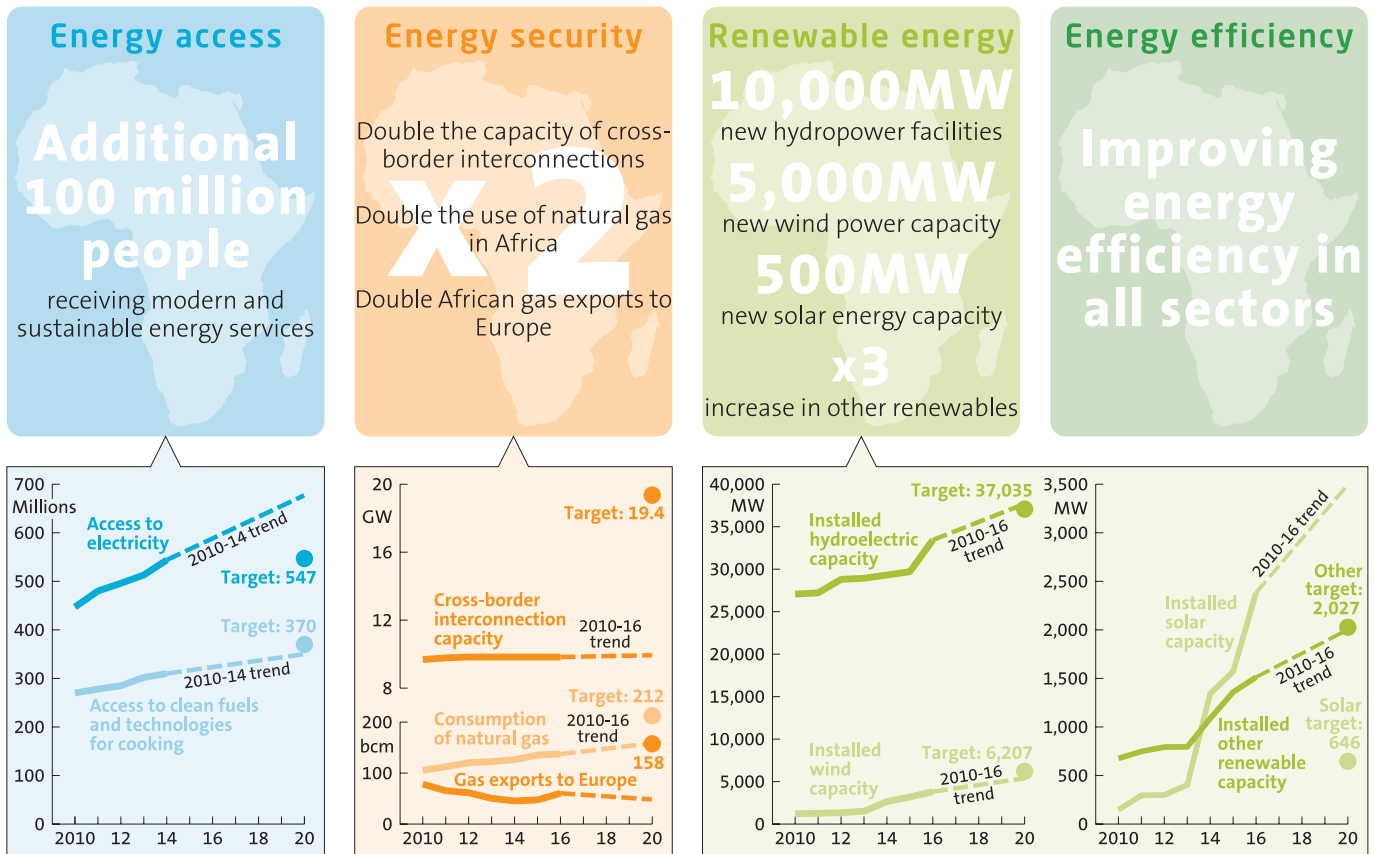
It depends. In countries where there are a lot of unsolicited bids coming to the government, they can gain a comprehensive view on what developers offer. It's more of an issue for developers who have to incur certain pre-development costs but don't really know if their projects will be taken on by the government.

And how about competitive bidding processes?

From a developer's perspective, you have to bid for projects you have not developed on your own and you are generally in a stronger competition with other developers. On the other hand, you have usually spent much less on pre-development costs and you have the assurance that the government really wants a particular site to be the area where energy will be produced.

What are the important wider social and macro-economic trends which are having an impact on project development?

Urbanisation is a very important topic of our times, taking into consideration that there will be more people living in urban areas than rural areas in the future. This is probably less of an issue for the energy or the telecoms sectors, because they are already quite developed in these areas, but it is a challenge for water and wastewater treatment. Urbanisation also calls for efficient transport and logistics. Modern transportation systems like railways and even a good bus network can help to de-bottleneck large cities. But transport infrastructure such as ports and airports are also important to foster trade in urban areas.



How the Africa-EU Energy Partnership is Faring With its 2020 Targets

The Africa-EU Energy Partnership (AEEP) was launched in Lisbon in 2007, as part of the Joint Africa-EU Strategy, with the aim of improving access to secure, affordable and sustainable energy. Progress over the past decade towards the partnership's 2020 Political Targets has been generally positive, as set out in the **AEEP's latest Status Report** for 2017-18, published late last year.

Based on estimates drawn from the AEEP Power Project Database, the amount of renewable energy generation capacity has been steadily increasing and, in some areas such as utility-scale solar capacity, the 2020 targets have already been surpassed. From installed capacity of only 146MW in 2010, solar facilities had reached 2.4GW by end-2016.

The target of adding 5GW of wind

energy by 2020 should also be comfortably met. The 2010 baseline of 1.2GW of installed wind power capacity had risen to 3.8GW by end-2016. The pipeline of projects across the continent suggests more than 9GW of wind capacity should be in place by the end of the period.

Substantial progress has also been made with increasing hydroelectric power generation, the dominant renewable energy technology on the continent, with almost 7GW added to the grid between 2010 and 2016. Given the project pipeline, the target of 10GW of additional hydropower capacity should be comfortably exceeded by 2020.

The aim of tripling the amount of electricity generation from other renewables, including biomass and geothermal resources, should also be comfortably achieved. From the

676MW baseline figure of 2010, 'other renewables' stood at 1.5GW at end-2016, but a substantial pipeline of projects, notably in the Rift Valley in East Africa, means the total should climb to 3GW by 2020.

However, progress in some other areas has been less positive. In particular, the aim of doubling the capacity of cross-border interconnections from 9.7GW in 2010 to 19.4GW by 2020 looks set to be missed. The database shows no new operating lines completed since 2011. An aim of doubling the use of natural gas in Africa by 2020 also looks likely to be missed. And in a few cases, some of the AEEP targets have been overtaken by events. For example, the goal of providing electricity to 100 million more people in 2010-20 may already have been met, but the continent's population has been increasing at a faster rate.



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