



**UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA**

Meeting of African Ministers responsible for Energy

Meeting of Experts

Statement

By

**Joseph Atta-Mensah
Director, Regional Integration, Infrastructure and Trade Division**

**Maputo, Mozambique
1-5 November 2010**

**Mr. Chairman,
Distinguished Guests;
Ladies and Gentlemen;**

Let me begin by thanking the government and people of Mozambique for hosting this important Conference. We are all very proud of the achievements of this great nation in its pursuit of sound economic policies as well as the promotion of good governance and the maintenance of peace and security.

I also thank our partners, the African Union Commission for organising this important meeting. I also commend my colleagues at the African Development Bank and UN Economic Commission for Africa for their roles in the organization of the conference.

Mr. Chairman;

African countries are vigorously pursuing programmes of regional cooperation and integration so as to achieve robust and self-sustaining economic growth and development of the continent and also for the continent to be a significant partner in the global economy. Through regional cooperation and integration the continent could pool its capacities, endowments and energies together to transform its sagging economies, and thereby reduce the poverty levels of millions of its peoples.

The imperative for regional integration in Africa is particularly strong due to the size, structure and low level of development of the economies of the continent. With the exception of a few, most of the economies in Africa are small

and non-diversified, with very little trading relations between the countries. The fragmentation of the markets is therefore impeding industrial development. That is why the markets in Africa need to be integrated so that the member States can overcome constraints arising from their small domestic markets and reap the benefits of economies of scale, stronger competition and increased domestic and foreign investment.

Regional integration is also crucial for Africa because many of its countries face numerous common challenges that can best be dealt with collectively. These problems include the marginalization of the region in the global economy, weak infrastructure, weak performance in macroeconomic policies as well as regional commons such as the environment and natural resources utilisation. In addition 33 of the 53 African countries are classified among the low-income countries in the world. Water resources from important rivers such as the Chad, Nile, Niger, the Senegal and the Gambia are common resources to many countries and therefore needs to be managed in a collective and concerted manner so to assure their sustainability. Additionally, 15 countries are landlocked and therefore face high transport costs and difficulties that are unique to landlocked countries in the world, which can be resolved through improved regional cooperation or integration.

Mr. Chairman;

Africa needs safe, reliable, efficient, affordable and sustainable physical infrastructure to support economic activities and to provide basic social services, especially for the poor. In addition, Africa needs to develop energy infrastructure such as electricity grids and oil and gas pipelines that will facilitate cross-border energy trade thereby enhancing security and reliability of energy supply. We

could also strengthen trade between countries with shared common water resources if our shared rivers and lakes are developed into waterways for the transport of goods and people.

The Economic Report for Africa 2010, published by the UN Economic Commission and the African Union Commission, indicates that Africa's growth performance improved remarkable in the last decade, with African economies growing at about 5 percent a year. Studies at the World Bank suggest that infrastructure development has been responsible for more than half of Africa's recent improved growth performance and has the potential to contribute even more in the future. Across Africa, infrastructure contributed 99 basis points to per capita economic growth, compared with 68 basis points for other structural policies. That contribution is almost entirely attributable to advances in the penetration of telecommunication services. The deterioration in the quantity and quality of power infrastructure over the same period retarded growth, shaving 11 basis points from per capita growth for Africa as a whole and as much as 20 basis points for southern Africa.

The growth effects of further improving Africa's infrastructure would be even greater. Studies demonstrate that if all African countries were to catch up with Mauritius (the regional leader in infrastructure) per capita growth in the region could increase by 2.2 percentage points. Catching up with the Republic of Korea would increase per capita growth by 2.6 percentage points a year. In most African countries, particularly the lower-income countries, infrastructure emerges as a major constraint on doing business, depressing firm productivity by about 40 percent.

Mr. Chairman;

Power is Africa's largest infrastructure challenge by far. Africa's private sector also finds electric power as a major obstacle to doing business. Whether measured in generation capacity, electricity consumption, or security of supply, Africa's power infrastructure delivers only a fraction of the service found elsewhere in the developing world. The 48 Sub-Saharan Africa countries (with 800 million people) generate roughly the same power as Spain (with 45 million people). Power consumption, at 124 kilowatt-hours per capita annually and falling, is only 10 percent of that found elsewhere in the developing world, barely enough to power one 100-watt light-bulb per person for 3 hours a day.

It is well known that most African countries experience power shortages and regular interruptions to service. The underlying causes vary: failures to bring on new capacity to keep pace with the demands of economic growth, droughts that reduced hydropower, oil price hikes that inhibited affordability of diesel imports, and conflicts that destroyed power infrastructure in fragile states. Africa's firms are losing 5 percent of their sales because of frequent power outages—a figure that rises to 20 percent for informal firms unable to afford backup generation. Overall, the economic costs of power outages can easily rise to 1–2 percent of GDP.

Furthermore, Africa's energy-infrastructure services are twice as expensive as elsewhere. Many smaller countries have national power systems below the 500-megawatt threshold and therefore often rely on small diesel generation that can cost up to \$0.35 per kilowatt-hour to run, about higher than those without. Moreover a common response to an energy crisis is for countries, as a short-term measure, to lease emergency power. At least 750 megawatts of emergency

generation are operating in Sub-Saharan Africa, which for some countries constitute a large proportion of their national installed capacity. However, emergency generation is expensive at costs of \$0.20–\$0.30 per kilowatt-hour, and for some countries, the price tag can be as high as 4 percent of GDP. Paying for emergency leases absorbs significant budgetary resources, reducing the funds for longer-term solutions.

Mr. Chairman,

For regional integration to be a successful strategy for the sustainable development of the continent it is essential that we strengthen the continent's infrastructure, particularly energy generation.

A major challenge confronting the development of infrastructure is the lack of adequate financing. Recent estimates by the World Bank indicates that Africa's infrastructure spending needs is about US\$93 billion a year over the next decade, more than double the previous estimate by the Commission for Africa. The Study also indicates that about \$40.8 billion, representing about 40 percent of the total spending needs, is needed to develop the power sector.

The share of Africa's infrastructure needs is financed through domestic mobilization of resources is growing, with government budget being the main driver of infrastructure investment. Tax payers and infrastructure users finances US\$ 30 billion of the US\$ 45 billion annual current expenditure on Africa's infrastructure. The current annual expenditure on Africa's infrastructure is about \$45 billion of which \$30 billion is financed by Africa's taxpayer and infrastructure users. The remaining \$15 billion is secured from external sources (private sector, ODA and financiers that do not belong to the Organization for Economic

Cooperation and Development (OECD)). It should be noted of the \$45 billion, the expenditure on electric power is only \$11.6 billion, far less than the \$40.8 billion needed.

In light of infrastructure financing gap there is the need for the scaling up of financial support programmes that would target Africa's infrastructure development. The World Bank, European Union, Africa Development Bank and other multilateral agencies would need to increase their funding for the development of Africa's infrastructure as African governments lack the financial capacities. We should also continue to engage our partners to increase their support for the Infrastructure Consortium for Africa (ICA) and the NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF).

Mr. Chairman;

To bridge the infrastructure financing gap, there's need to devise alternative financing mechanism and complement the funding from traditional sources from our development partners. It has been reported that the cumulative pension funds of the continent is between 30-40 billion US dollars. I support the call by some of the leadership of the continent that a fraction of these funds be used to support regional infrastructure development on the continent. We should also explore the possibility of using global capital markets. To encourage and address part of the concerns of the private investor, African governments could consider providing credit facilities with flexible terms so as to mitigate the concerns of the private investor about investment horizon, liquidity, and general commercial risk. Such facilities could include direct, secured loans from a

government to a private investor for infrastructure development, loan guarantees, and lines of credit.

We should also promote **public-private partnerships in infrastructure development and mobilize resources by creating awareness and organizing investment forums and consultative** meetings with all key stakeholders. Furthermore, for the infrastructure to play its significant and potential role of regional integration, African leaders should ensure the implementation of regional and sub-regional initiatives, and fulfil their commitments. In that respect the Programme for Infrastructure Development in Africa (PIDA), launched by the African Development Bank (AfDB), AU Commission, the RECs and the NEPAD Secretariat, which synchronizes the development of the NEPAD medium and long-term strategic framework (MLTSF) and continental infrastructure development master plans is a commendable initiative. Under the PIDA various studies will be conducted with the aim of providing African decision-makers with analytical and decision-making tools for the formulation of policy, priority infrastructure development programmes and related implementation strategies and processes.

Mr. Chairman;

I would like to close this statement by reiterating ECA's continued support to regional integration and to the search of robust policy options and strategies to scale-up the expansion of Africa's infrastructure stock. We will also continue to strengthen our partnership arrangements with the African Union Commission and the African Development Bank so as to advance the developmental agenda of our continent.

On behalf of ECA, I thank you all for your kind attention. I wish you a fruitful and successful meeting.