



The State of Eritrea



United Nations
Economic Commission for Africa

**23rd Meeting of the Intergovernmental Committee of
Senior Officials and Experts (ICSOE)**

ECA Office for Eastern Africa

Concept Note for the Plenary Session:

**Crowding-in Investment for Energy and
Infrastructure Development in Eastern Africa**

Asmara, Eritrea

05-07 November 2019

I. Background

Following the signing in March 2018 of the African Continental Free Trade Area (ACFTA), the momentum for regional integration and trade facilitation remains a major development opportunity as Africa, and Eastern Africa, seek to capitalize on greater regional economic integration. Today, many African countries retain small domestic markets; this increases production costs, reduces the competitiveness of their products and makes such countries less attractive for large-scale investment. Thus, there is a need to develop energy, physical infrastructure and connectivity. These are important elements of regional integration that aid the expansion of markets and contribute to attracting domestic and foreign investment.

Energy plays a key role in facilitating socio-economic development; meanwhile insufficient provision of energy impedes development. Energy should therefore be at the forefront of national, regional and global priorities. National energy-sector development strategies in most Africa countries reflect the need to expand access rapidly, in line with SDG #7.

African Member States have pursued the energy-access agenda; they have financed energy infrastructure and capacity expansion from public resources and they have instituted regulatory measures to strengthen the energy sector. The results of some of these early efforts are clear. Between 2000 and 2014, electricity access in sub-Saharan African increased from 26.5% to 37.5%. In Eastern Africa specifically, the increase has been even more impressive: in Rwanda access went from less than 10% to over 40% over an eight-year period; in Kenya, it went from less than 18% to above 60% over a similar period. Off-grid sources, including solar energy, are surging in Africa and about 60 million people (or about 10% of users) derive their power from these sources.

High-quality infrastructure accelerates annual growth convergence rates by as much as 13% and increases per capita annual growth by almost 1%. The energy sector, therefore, has a key role to play in Africa's development.

However, structural challenges persist in the African electricity market. Over 595 million African people lack access to electricity. The latest global SDG #7 tracking report warns that current progress on access will be insufficient to achieve universal access by 2030: almost 90% of the world's population still lacking access in 2030 will be in Africa. This will, in part, be a result of rapid population growth on the continent. The *Regulatory Indicators for Sustainable Energy report (2016)* indicated that the African policy environment is too weak to support the energy sector sufficiently in grid densification and expansion, nor is it adequate to support the sector in creating an enabling environment for solar systems.

Despite the adoption of numerous infrastructure programmes and the creation of partnerships for their implementation, as well as the prominence of the infrastructure sector in Africa's major development frameworks, African countries continue to have infrastructure

development gaps. The national infrastructure networks of many countries remain largely disconnected, undermining physical integration. The contradiction of Africa's poor infrastructure and disconnected national networks amid numerous regional programmes reflects the low rate of implementation of these programmes. The Trans-African Highways (TAH) network is an example, with missing links constituting more than 20% of the 57,300 km network. Similarly, only 16 out of 103 projects (15.3%) of the NEPAD Infrastructure Short Term Action Plan have been completed.

Financing energy and infrastructure projects remains a major challenge in the implementation of Eastern Africa's infrastructure projects. This is true in general, and for regional projects in particular. Africa needs annual incremental financing of up to \$1.2 trillion per annum to meet the Sustainable Development Goals (SDGs) of Agenda 2030. According to the African Development Bank, the continent's infrastructure funding needs have reached USD 170 billion a year, leaving an annual gap of USD 108 billion. USD 90 billion of investment per year is required to meet energy access targets.

The construction and operation of infrastructure facilities in Africa have traditionally been dominated by the public sector, but most African countries face enormous financial challenges in providing vital infrastructure. Public funding, while critically important, will not be sufficient to bridge the infrastructure financing gap, especially given the high level of public debt. In Africa, public debt is currently at 55% of GDP, most of which is external debt (with an average of 42% of overall debt, with a number of Eastern African countries with debt levels above 50% of GDP). If not well-managed, these high and increasing debt levels can increase vulnerability to fiscal unsustainability and narrow the long-term scope for public financing of infrastructure development.

Domestic-resource mobilization through taxation is far from uniformly efficient across the continent. The tax-to-GDP ratio declined from 18% to 15% from 2000 to 2018, while non-tax revenues have been increasing to 6% of GDP. However, these types of revenues are highly volatile.

Consequently, there has been a surge in demand for blended and other alternative financing of infrastructure in recent years, including private sector participation in infrastructure development and Public-Private Partnership (PPP) models. Interest in alternative financing models for infrastructure and other development needs in Africa is demonstrated by the establishment of PPP Units in 29 countries to date. PPP investments reached a peak of \$ 11.4 billion in 2013 (for 29 projects) before declining to less than \$5 billion (for less than 20 projects). A 2018 analysis by the ECA finds that since 1990, a total of about 479 PPPs have been implemented in Africa.

Interest in diversifying infrastructure finance in Eastern Africa is growing. The 2015 *Third International Conference on Financing for Development* noted that "blended finance combines concessional public finance with non-concessional private finance and expertise from the public and private sector." Engaging private sector investment as a way of diversifying and

sustaining financing of infrastructure in the Eastern African region is an important objective. However, the regulatory and business environments limit effective private sector engagement. These impediments to private-sector investment in infrastructure must be addressed, as recommended in the latest global SDG #7 progress report.

II. Objectives of the Session

This plenary session aims to:

1. Examine the nature of infrastructure investment in the region,
2. Review progress and assess remaining challenges,
3. Discuss traditional and emerging financing opportunities to supplement public finance, and
4. Make recommendations on sustainable financing of infrastructure development in the region.

In particular, the session will address:

- a) **Why** is sustainable infrastructure development financing a major challenge in Eastern Africa?
- b) How can current **financing approaches** dominated by public investment be diversified and supplemented for sustainable long-term infrastructure financing?
- c) What **policy options** could Member States pursue for sustainable infrastructure financing to meet the prevailing investment gap?
- d) What **lessons** can be shared among Member States and what **recommendations** can be made to strengthen the environment for sustainable financing of infrastructure in the region?

III. Format of the Meeting

The convener and contact person for this session is Yohannes Hailu (UNECA). Further clarification can be requested from the convener via email: hailu15@un.org. This session will have a presentation by the convener, as part of the main plenary parallel sessions of the 23rd ICSEO. This will be followed by a panel discussion.

Moderator:

- **Frederick Golooba-Mutebi**, independent researcher.

Panelists:

- **Alem Kibreab**, Director General, Mining Department, Ministry of Mining and Energy, Eritrea
- **Yagouba Traore**, Chief of Infrastructure Information Unit, Department of Infrastructure and Energy, AUC
- **Amb. Elkanah Odembo**, Senior Advisor to the AU High Representative on Infrastructure
- **Peter Thobora**, Assistant Director of Renewable Energy, Ministry of Energy, Kenya
- **Beatrice Florah**, Vice Chair of the Bureau of the Working Party of the UNECE for PPPs, Co-President of Africa PPP Network, Uganda
- **Leonhard Braun**, Energy Analyst, RES4Africa Foundation, Italy.

IV. Participants

The panel session will be attended by representatives of Eastern Africa member States, Regional Economic Communities (RECs) and Intergovernmental Organisations (IGOs). In attendance will also be representatives of the private sector, international institutions, civil society organisations, media, and other relevant stakeholders.