INCREASING AFRICAN GOVERNMENT BUDGET FOR FINANCING THE ENERGY SECTOR DEVELOPMENT

NEW DEAL ON ENERGY FOR AFRICA

CONCEPT NOTE

October 2016

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1. BACKGROUND INFORMATION

1.1. Africa is rich in energy resources but poor in its capability to exploit and use them. Many African countries face an energy crisis. Power is inaccessible, unaffordable and unreliable for most people, trapping them in poverty.

1.2. The African Development Bank (AfDB) has announced the New Deal on Energy for Africa that has the aspirational goal of **achieving universal access by 2025**. To achieve this important goal the AfDB is aiming at mobilizing all stakeholders, particularly the African Governments to increase efforts dedicated to the energy sector.

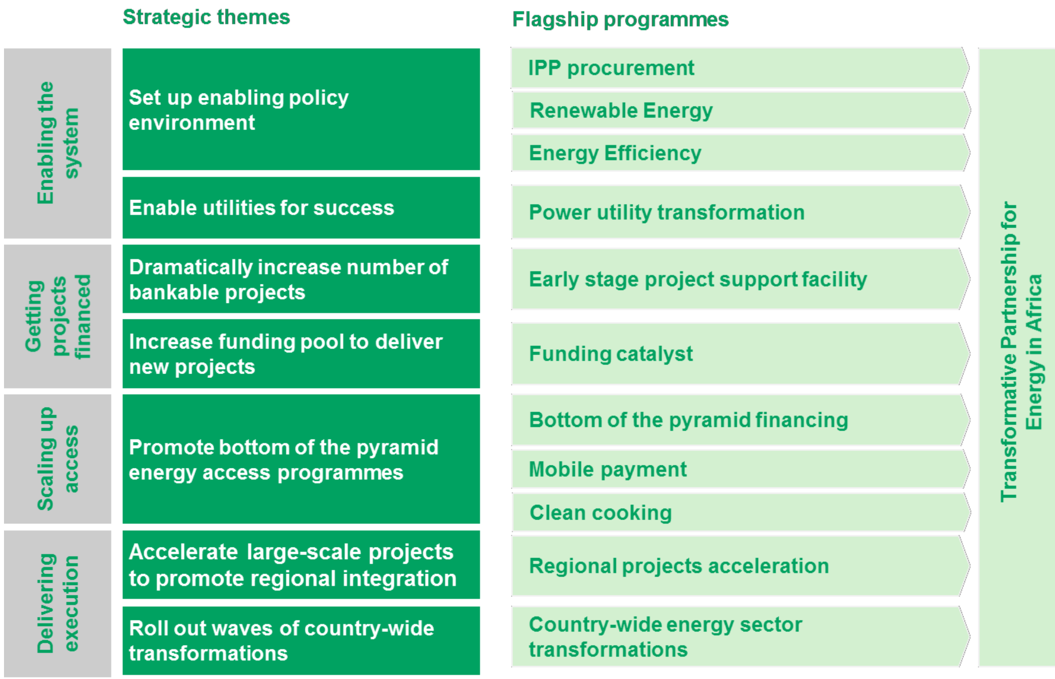
1.3. The New Deal on Energy for Africa (NDEA) is the AfDB strategy built on inter-related and mutually reinforcing guiding principles. Three of them are really focusing on partnerships and increased support to African governments. Those are: (i) to establish a Transformative Partnership on Energy for Africa; (ii) to mobilize domestic and international capital for innovative financing in Africa's energy sector; and (iii) supporting African governments in strengthening energy policy, regulation and sector governance.

1.4. The implementation of the NDEA will be under the framework of the AfDB Energy Policy, which has a dual overarching objective, namely (i) to support African countries in their efforts to provide all of their populations and productive sectors with access to modern, affordable and reliable energy services; and (ii) to help African countries develop their energy sector in a socially, economically and environmentally sustainable manner.

1.5. The NDEA is fostering innovative approaches based on a new AfDB Development and Business and Delivery Model. In order to overcome some of the main impediments to the successful meeting its targets, the NDEA would undertake actions in twelve priority flagship areas (see graph below), These are:

1) PPP and standardized procurement program for Independent Power Producers;
2) Renewable Energy development program;
3) Energy Efficiency promotion program;
4) Power Utility transformation program;
5) Early stage project support facility;

6) Funding catalyst program;
7) Promoting "Bottom-of-the-pyramid" access program;
8) Mobile payment program;
9) Access to clean and efficient cooking solutions;
10) Regional and sub-regional project acceleration program;
11) Country-wide energy sector transformation; and
12) Transformative partnership on energy for Africa.



2. CHALLENGES – the role of Government

2.1. The NDEA has estimated that reaching full achievement of the universal access by 2025 would require to fill an investment gap of approximately USD 42-67 billion every year for the energy sector, in addition to the current spending estimated to USD 22 billion. These estimates propose that African governments should be encouraged to play a more active role by allocating significantly more funding to the energy sector. The NDEA estimates that if Africa uses just 7.5-10% per cent of the total amount of ~USD 600 billion in tax revenues or just 2-3% per cent of annual GDP, the above investment gap could be addressed.

2.2. Currently African government contributions to energy sector investment is only about 0.3 per cent of GDP, or approximately 4 per cent of fiscal revenues (taxes and resource rents). This contribution could be increased, by decreasing fuel and electricity subsidies, which represent 7 per cent of GDP (2013). Another way for governments to channel increased funding into the energy sector is through setting the right enabling environment to increase the levels of private sector participation.

2.3. In addition, enhancing the role of governments, beyond budgeting, will have a strong stimulating impact on the performance of the power sector. As main beneficiaries and originators of projects, their role on the policy, regulatory, institutional and fiscal environments influences significantly the involvement of all other actors in the sector, including development institutions, donors, national and regional energy entities, financiers, investors, developers, and broader private sector actors. Adopting an appropriate energy spending level would serve as a catalyst for further private sector involvement. The inability of the sector to attract the needed investments and skills can largely linked to the perception of high risk in the sector.

3. ISUES TO BE DISCUSSED

a) What needs to be done so that African Governments increase spending and the share of their capital expenditure budget dedicated to the energy sector from the current level of approximately 4 per cent of fiscal revenues to a range between 7.5% and 10% (the exact level will depend on different factors in individual countries and the AfDB is ready to assist the countries in finding the right level)?

b) African Development Bank is in a process to conduct a detailed assessment report that will provide details on how this can be achieved and the opportunity cost of not doing it. But the indicative figures provide sufficient information to make a decision on agreement in principle to undertake this action of increasing the budget in (a) to 7.5% - 10%.

c) The NDEA has estimated that if fuel and electricity subsidies were halved, the investment gap mentioned in section 3 above could be addressed. The total subsidies were 22-times the investment needed in energy, representing approximately 7 per cent of GDP. To what extent African Government can commit to redirect part of subsidies in investment for the energy sector?

4. RECOMMENDATIONS AND WAY FORWARD

4.1. Recommendations

a) It is recommended that the STC discuss the issues of enhancing of the role of Governments and agree on a budgetary target to be adopted in the final declaration by STC ministers in charge of energy.

b) It is recommended that the AUC and AfDB work together for the implementation of the decisions made by the STC, and the follow-up mechanism agreed.

4.2. Way forward

AUC and AfDB to meet after the STC meeting in order to elaborate an implementation plan of the decisions made by STC.