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Hydro-power for Sustainable Development 2011

Statement

by

Abdoulie Janneh
UN Under-Secretary-General and
Executive Secretary of ECA

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Mr. Chairman,
Prime Minister Meles Zenawi,
Honourable Ministers,
Distinguished Guests, Ladies and Gentlemen.

I am pleased to have the opportunity to say a few words at this meeting on 'Hydropower for Sustainable Development'. I believe that the choice of the theme is timely because it focuses attention on a matter of great importance for us in Africa and I therefore thank the organizers accordingly.

It is particularly appropriate that this conference is holding in Ethiopia because of clear and demonstrable commitment on the part of its government to launch as part of its growth and transformation plan, hydropower and other renewable energy resources projects aimed at generating about 10,000 megawatts over the next five years. I salute you, Mr. Prime Minister on this inspiring vision.

It is common knowledge that Africa is very well endowed with a rich variety of energy resources, including oil, coal, and other fossil fuels, hydroelectricity, solar and other sources of renewable energy. Paradoxically, however, Africa has yet to fully exploit this massive energy potential to buttress and sustain its development. 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.

Africa with 14% of the global population produces only about 3% of the world's electricity. From a business viewpoint, power shortages and regular interruptions to services are the norm and this causes Africa's firms to lose about 5% of their sales, while the economic costs of power outages in Africa have been estimated at around one to two percent of GDP.

At the same time, we are compelled to adapt to climate change and promote environmental sustainability which means that we should be innovative in seeking energy solutions. Already, fossil fuels account for a large share of industrial and household energy needs, which taken together with increasing greenhouses gases, dwindling reserves and escalating global energy demand have made it imperative to look for options for meeting present and future energy requirements in a sustainable manner.

These two challenges of inadequate power generation and the need for transition to low carbon means of power generation will impact on the otherwise positive story of recent economic growth in Africa. We know that improvements in infrastructure have contributed a great deal to Africa's growth resurgence. However, this has been mainly due to telecommunications and we have not seen any significant improvement in the quantity and quality of power infrastructure. It is therefore imperative to exploit and maximise Africa's power potential in order to increase the economic and social gains that the continent has worked so hard to achieve in the recent past.

This is where hydropower has a particularly important role to play as we will increasingly need to look to less carbon intensive power plants which are also large enough to enable the economies of scale that will lower the unit costs of power. Africa is currently using only 7% of its hydropower potential energy sources despite its significant potential to bridge this continent's energy deficit. This will also mean taking a regional perspective because some individual African countries might not be large enough to undertake the investment required. Indeed, many of our smaller economies consume less than 500 megawatts of electricity per year, a figure that precludes the development of large hydropower dams.

The fact of shared water resources also means close regional cooperation if they are to be used in an optimal manner. Regional cooperation is also important because there is an intriguing imbalance in the availability of energy resources across Africa's sub-regions. While coal resources are mostly located in Southern Africa, crude oil and natural gas are more prevalent in the western and northern parts of the continent while 51% of hydropower resources are in the central and eastern sub-regions. Indeed, the Democratic Republic of Congo and Ethiopia together account for much of the hydropower potential of the continent.

This suggests to me that energy development in Africa has to be a regional integration issue, focusing on those projects that will deliver the greatest regional benefit. I am not saying that national projects are not important, but merely emphasizing that our energy development needs are intertwined and cannot be delivered without regional energy projects. National projects are of course critical as energy cannot be transmitted across countries if national grids do not exist.

The inevitable need to resort to hydropower, including through a regional approach leads naturally to the issue of financing. Recent estimates from the World Bank placed Africa's infrastructure financing needs at about US\$93 billion annually over the next decade, and 40% of this figure will be required in the power sector. The issue is not just one of the large magnitude of funds required but also a realisation that traditional sources of power project financing and investment have not delivered many power projects in Africa. Of course we understand that due to high up-front investment requirements, power projects are necessarily not easy to finance. There is a plethora of reasons for this, that our projects are not properly structured; that we do not have suitable vehicles for starting regional projects, or that the sovereign risk is rather high and our countries do not carry sufficient credit rating. Further, we are told that we do not have the technical capacity to run these projects as viable businesses and that our tariffs are not sufficiently cost reflective to justify the large power investments.

I am therefore hoping that your meeting will make concrete suggestions on how to attract the required investments in power projects including hydropower plants in Africa. We know of course that the G20 following its Seoul Summit has put in place a High Level Panel on Infrastructure Investment which will among other things explore the possibility of using global savings for investment in infrastructure. The Panel will no doubt appreciate any workable suggestions and proposals that emanate from this conference when you discuss finance and investments.

Before I conclude, let me thank the other organizers and sponsors of this conference, International Hydropower Association, Sinohydro, and our continuous partner, the African Union Commission for the resources, efforts and hard work put in to ensure the success of this meeting. I assure you of ECA's continued support and commitment to improving regional integration and promoting energy development to underpin the growth and economic transformation of this continent.

Thank you all for your kind attention and I wish you a productive and successful meeting.