



Upscaling Energy Infrastructure in African Countries: the Impact of the African Continental Free Trade Area

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The report on transformational energy access – and indeed this panel conversation – is timely: As shown by the high-quality research within the report, energy access is the bedrock of modern economic growth and prosperity. Energy access is a critical complement to other development strategies and initiatives. Without energy access, the world’s least developed countries – 33 of which are in Africa – will struggle to generate the kind of structural transformation necessary to reduce poverty and improve livelihoods. It is on this basis, and with genuine personal pleasure, that I represent the Economic Commission for Africa in contributing to this important panel discussion.

As the Coordinator of the Africa Trade Policy Centre, it is with the particular perspective of African trade that I would like to add to today’s discourse. Trade in Africa has before it a landmark event. In December last year, after two years of negotiations, African Ministers for Trade concluded the African Continental Free Trade Area. Just last week, African Presidents and Prime Ministers from across the continent agreed to an extra-ordinary African Union Summit to sign the Agreement in Kigali, Rwanda, on March 21st. The African Continental Free Trade Area provides big opportunities for structural transformation and development in

Africa. It will cover an African market of 1.2 billion people and GDP of \$2.5 trillion, across all 55 Member States of the African Union. It will help diversify Africa's exports - from an overreliance on commodities and raw materials to more value-added and industrialized exports - and it will help generate new job opportunities for Africa's rising youth population.

But the African Continental Free Trade Area can deliver its greatest value only if it is buttressed by complementary approaches to strengthen Africa's productive capacities. The transformational energy access envisaged in this report is exactly such an approach.

Some of you in this room will personally know African investors and business owners: if you do, there is a good chance they have been among the 79% of businesses in Sub-Saharan Africa to have experienced power outages between 2006 and 2016. And irrespective of whether you do, you can empathize with the challenge this poses for lost production, damaged equipment and idle workers.

As well as being unreliable, the absolute supply of energy in Africa is shockingly low: Per capita consumption of energy in Sub-Saharan Africa (excluding South Africa) is 180 kWh, against 13,000 kWh per capita in the United States and 6,500 kWh in Europe.

We need to fix this. In doing so, the African Continental Free Trade Area can contribute to the regulatory and institutional landscape for improving energy services in Africa's least developed countries in 3 key ways.

Key way 1: The CFTA provides a framework for African countries to cooperate over the supply of energy services. In fact, energy services are one of the “priority service sectors” earmarked for liberalization in the CFTA. This means that African countries will open up their energy markets to one another and develop regulatory frameworks for cooperation in this sector.

Imagine you are an investor in energy production, whether in generation, distribution or connection. Knowing that energy you produce can be sold both locally – and in neighbouring African countries – creates for you a bigger and more rapidly growing market. Faced with such grander opportunities, investors have greater incentives to develop larger energy investments in Africa.

Cooperation provides opportunities not just for scale, but also energy diversification. African countries will be able to focus on their competitive advantage in different types of energy sources, such as hydro, geo-thermal and solar, while enabling cooperation in other sources such as fuel oil, gas and even nuclear sources of energy.

Such diversification of sources for energy production is also important for building Africa’s resilience to the shocks of climate change. A more diversified portfolio of energy supplies can help mitigate against the increasing prevalence and severity of climate change events that impact on energy supply.

Anyone who spent part of 2014 in Ghana would attest to this. Faced with low water levels in the Akosombo hydro-dam as a result of drought, Ghanaian consumers and businesses were saved from the worst effects of the underperforming hydro-dam with alternative energy from gas supplies through the West African Gas Pipeline from Nigeria.

Thus the continental market created by the CFTA can drive the up-scaling of energy infrastructure, the diversification of energy supplies, and the resilience of energy access to climate change within African countries. With the addition of common investment strategies targeting the energy sector, there is potential for the market to grow with the development of the necessary energy infrastructure.

Key Way 2: The CFTA is to set up institutions at the continental level that will play an important role in monitoring, supporting and improving national-level regulations for energy services.

Apart from the CFTA Secretariat, there will exist an African Business Council - providing the voice of the private sector - and a Trade Observatory – which will collect data on, among other things, energy trade in Africa. The required reporting to the CFTA Secretariat and these other organs established under the CFTA will ensure that the spotlight is placed on filling gaps and strengthening weaknesses in the institutional framework that would impact on national energy infrastructure.

Here other regional initiatives provide a good platform for the CFTA to build on: Among SADC countries, the regulatory agencies in the region have created a

Regional Electricity Regulators Association of Southern Africa. This has provided a forum where regulators draw lessons from one another for the development of the energy sector.

At the continental level, in 2000, the regulatory agencies and other players established the African Forum for Utility Regulators (AFUR). AFUR is a formal collaborative arrangement for regulators that aims at supporting the development of effective utility regulation in Africa. It seeks to facilitate the exchange of information and lessons of experience among African regulators and to support capacity building initiatives.

Key Way 3: The CFTA provides a means to advance Africa’s successful regional power pools towards a continent-wide energy market: Regional Power Pools are cooperative partnerships between the private and public sectors in the regions of South, West, Central and East Africa – as well as COMELEC in North Africa. They help foster cooperation among African countries to further develop energy infrastructure and markets.

Significant developments are taking place among the Power Pools. In the West African Power Pool for instance, there is cross-border supply of energy between Ghana, Togo, Cote d’Ivoire, Benin and Nigeria.

In East Africa, a revised Master Plan has expanded the initiative to 12 countries, with the addition of Libya, the Democratic Republic of the Congo and South Sudan.

Building on these initiatives, a continent-wide energy market is feasible in the medium to long term. The CFTA creates the possibility of a huge market in energy services among African countries, fuelled by the demand to industrialise and improve productive capacity generally as the African countries open their markets and improve their trading practices.

The development of such a large market needs to be carefully nurtured through the establishment of common regulatory frameworks, and common investment strategies, first at the sub-regional level through the Power Pools and other initiatives, and then through the continental framework to be developed under the CFTA.

The right regulatory framework may encourage the emergence of energy service supply companies that offer a mix of energy services to consumers that in turn help them to be energy efficient in their homes and businesses. Similarly, such regulatory frameworks could help sustain connection by smaller-scale generation to distribution networks nationally and sub-regionally. Appropriate investment strategies may encourage provision of incentives for access by smaller-scale, renewable energy generation. Or for provision of incentives such as investment subsidies or tax credits for renewable power technologies or the operation of demand-side management programmes, that would help develop more sustained energy markets in the continent and gradually lead to a full-scale continental energy market.

In this vein, the continental support provided by the African Development Bank in partnership with the AUC is noteworthy: The Programme for Infrastructure Development in Africa (PIDA), a partnership between the African Union Commission (AUC), NEPAD Agency (NPCA) and the African Development Bank. PIDA provides an outlook for the development of African infrastructure (2011-2040). The focus of PIDA is on regional projects and programs. For the energy sector, the PIDA Priority Action Program (PIDA-PAP), if implemented, will boost energy trade within and between the regional Power Pools.

It is expected that the implementation of this Programme will have a positive impact on: firstly, the cost of the kWh due to economies of scale, (in particular the implementation of big projects serving many countries); secondly, the energy mix as countries with dominant hydro potentials can supply those with dominant thermal (gas and coal) potentials; And thirdly, increased access to modern energy services, which in turn will trigger increased access to clean water and improved health care systems.

To conclude: trade in Africa seeks both to be fueled by transformational energy access, but also to contribute to solutions for ensuring such energy access.

The increased industrialization and trade envisaged by the African Continental Free Trade Area can only work if it is powered by a bedrock of energy access. As the signing of the CFTA hangs imminently before us, today's focus on energy access is therefore of considerable timeliness.

To recap, there are three key ways in which the CFTA can also help secure energy access across Africa: firstly, it provides a framework for cooperation over the supply of energy services; secondly, it helps establish institutions at the continental level that will play an important role in monitoring, supporting and improving national-level regulations for energy services; and thirdly, it provides a means to advance Africa's successful regional power pools towards a continent-wide energy market.