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Q&A- African renewable sector needs focus on infrastructure, “bankable investments”: Katie Auth, Energy for Growth Hub



Interest in expanding Africa’s renewable energy sector is still high after Covid-19, but development needs more focus on infrastructure and a better pipeline for investors, **Katie Auth, Director of Policy at the Energy for Growth Hub** told the Reuters Global Markets Forum on Thursday, December 10.

“There’s also broad recognition that our approach needs to change,” Auth, former deputy head of the U.S.’s Power Africa initiative said.

She added that implementing more competitive and transparent tenders for new clean energy projects would create better opportunities for investors while helping African governments procure the right type and amount of supply.

Following are edited excerpts from the conversation:

Q: How has the development of renewables across Africa been impacted by Covid-19?

A: In many ways, the economic constraints caused by COVID-19 are exacerbating trends that were already worsening before the pandemic. Many African power sectors are constrained in bringing on more energy supply by limited transmission and distribution grids, large sector debts, and very few financially solvent utilities.

As electricity demand decreases and government revenues fall as a result of Covid, those issues are exacerbated - - making it difficult to invest and borrow.

Q: Are there particular countries or projects that have been hit hardest?

A: I think the impacts are fairly widespread. Some countries have declared force majeure on some of their existing power supply contracts since the pandemic started, including South Africa. But I don’t know that there are any countries left untouched by these issues.

Q: Given what you’ve mentioned, how has the pandemic impacted interest in the renewable transition either on the part of regional governments or foreign investors in funding projects in this space?

A: I think interest is still very high. Development financiers have been focused on African energy for years. African governments -- for example, Kenya, Ethiopia, Rwanda, Senegal -- are very forward leaning in terms of their climate and energy transition ambitions. The new U.S. administration will likely -- hopefully -- be focused even more on supporting energy transitions in emerging markets.

I think everyone’s hoping that this passes and that we can support the sector’s recovery. But there’s also broad recognition that our approach needs to change. There needs to be more focus on building a pipeline of bankable investments across the continent, more emphasis on supporting the infrastructure that enables renewables -- storage, transmission and distribution -- and that we need to balance climate and development goals.

Q: Given your former role at the Power Africa project, what are your thoughts on how the initiative is proceeding?

A: Power Africa was very successful both in terms of its direct impact: catalysing finance to bring more than 4000 MW of new capacity to financial close, and connecting 17+ million homes and businesses to power, and in rallying other partners to the table and cementing energy development as a core US development priority.

The initiative has matured and grown since it was launched in 2014. I think the exciting opportunity now is to adapt it to face some of the new challenges we’re facing, namely COVID recovery and climate resilience.

Q: How do you see the COVID recovery playing out, then, especially given the large debt load and need for utility reform?

A: I think if you look across sub-Saharan Africa, some of the continent's largest, traditionally most stable markets are the ones facing particular challenges in the power sector with debt. Ghana comes to mind as a country with about \$2.7 billion in sector arrears in 2018 due to issues including oversupply and utility challenges. COVID-19 has exacerbated that. Ghana's in the midst of critical reform efforts to increase transparency and bring solvency to the power sector, and the next few years are crucial.

Development partners should be doing everything they can to support reform efforts that target the root cause of sector insolvency. Not just in Ghana, but across sub-Saharan Africa.

Q: Are there other particular policies that governments should be pursuing to encourage expansion of green energy?

A: There are many policy options for scaling up clean energy. For me, one of the most important would be implementing competitive, transparent tenders for new power supply. Most power procurement in sub-Saharan Africa is done through unsolicited proposals, and power purchase agreements are often negotiated behind closed doors. This causes all kinds of problems. Launching competitive tenders for new clean energy would result in bankable opportunities for financiers -- who are eager to invest, but need a strong pipeline -- and would help African governments ensure that they're procuring the type and amount of supply they need.

Q: How is the uptake for both wind and solar, and the balance between renewables and expanding oil and gas production likely to play out?

A: Regardless of what type of generation they want to bring online, it's critical that countries focus on building out the transmission and distribution (T&D) infrastructure to absorb it, and bring it to the people who need it. This will be a huge enabler of wind and solar, which are attractive and price competitive options in many parts of Africa -- but many countries, even those that want to be aggressive on renewables, can't bring much more online without a larger, modernized T&D system, grid management solutions, and/or storage.

It's critical that we think beyond merely investing in the wind and solar generation itself. On the question of gas, this is an important question. There are many countries in Africa -- especially those without hydropower resources, in which natural gas can play a critical role in both enabling more renewables and building out energy at the scale needed to power much-needed economic growth.

Countries like the US, which are focused on decarbonizing existing energy systems, face different challenges than those building out energy infrastructure for the first time and needed to address energy poverty. I think there is likely a role for gas there in many countries. And I think financiers and development partners can play a role in giving African countries the flexibility and financing to build out whatever technologies they need to address both development and climate resilience goals.

Q: Do you see countries like South Africa transitioning away from coal reliance, or do you expect coal to continue expanding?

A: Coal is increasingly uneconomical in Africa. Even in reliant countries like South Africa, you're seeing that shift. The Energy for Growth Hub assessed planned coal projects and found very few likely to actually come online. As renewables continue to drop in price, I think that will be reinforced further.

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