FUNDING LEGACY PROJECTS: THE "AFRICAN ENERGY FUND"

BACKGROUND

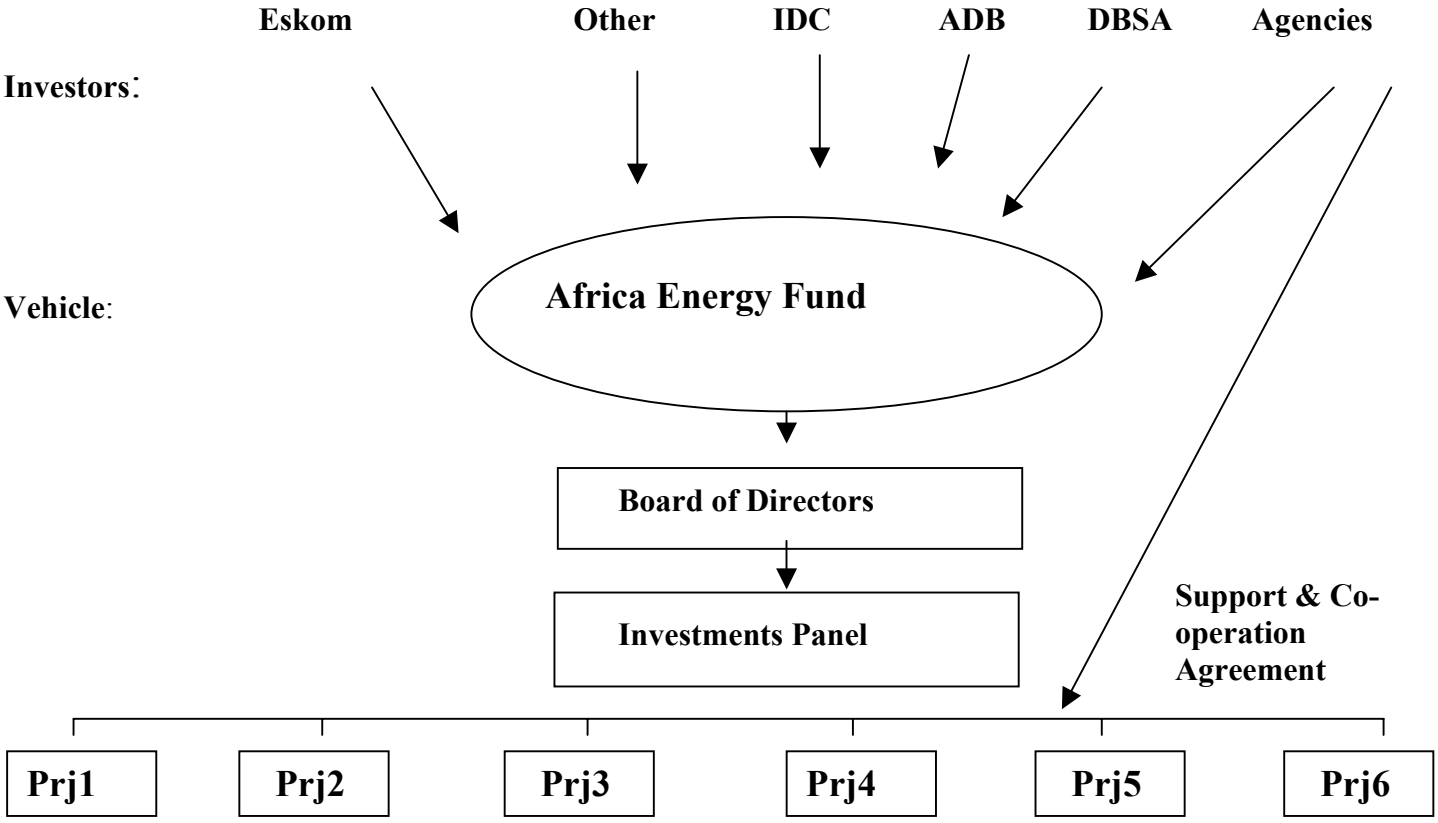
The World Summit on Sustainable Development will be held in Johannesburg ten years after the Earth Summit was held in Rio. Much of the attention in the build up to this new Summit has been an assessment of the global progress made since 1992. People are asking whether there is any value in the Summit process. In response to this, Eskom are promoting the concept of "Legacy" projects – that once the Summit has come and gone, there should be obvious, measurable outcomes that remain. Two major types of Legacy projects are envisaged; small, local projects that have both social and environmental benefits and large, infrastructural projects that attract foreign direct investment (FDI).

THE FUNDING PROPOSAL

With respect to these latter projects, Eskom has proposed the establishment of an "African Energy Fund" to assist in realizing projects aligned with the NEPAD goals in the area of energy and electricity infrastructure projects. This concept is demonstrated graphically below. The aim of the Fund would be to leverage financing from Eskom, together with funds made available by various African and international development and financing agencies. Much of the difficulty in attracting FDI is the perceived African risk. However, the private sector has a huge role to play in financing the infrastructure needs of the continent and the Fund can become a leading example of the public- private partnership vehicles envisaged by the NEPAD framework document, to the extent that the projects to be financed will be structured to provide returns that will be attractive to the private sector. Simultaneously, the fund provides a mechanism for international donor agencies to effectively channel their funds for infrastructure development in Africa.

It is envisaged that given the strong alignment with NEPAD's goals and objectives, this fund could be aligned (together with other committed infrastructural funds) with a NEPAD Funding Commission under the auspices of the UNCTAD/ICC Investment Advisory Council.

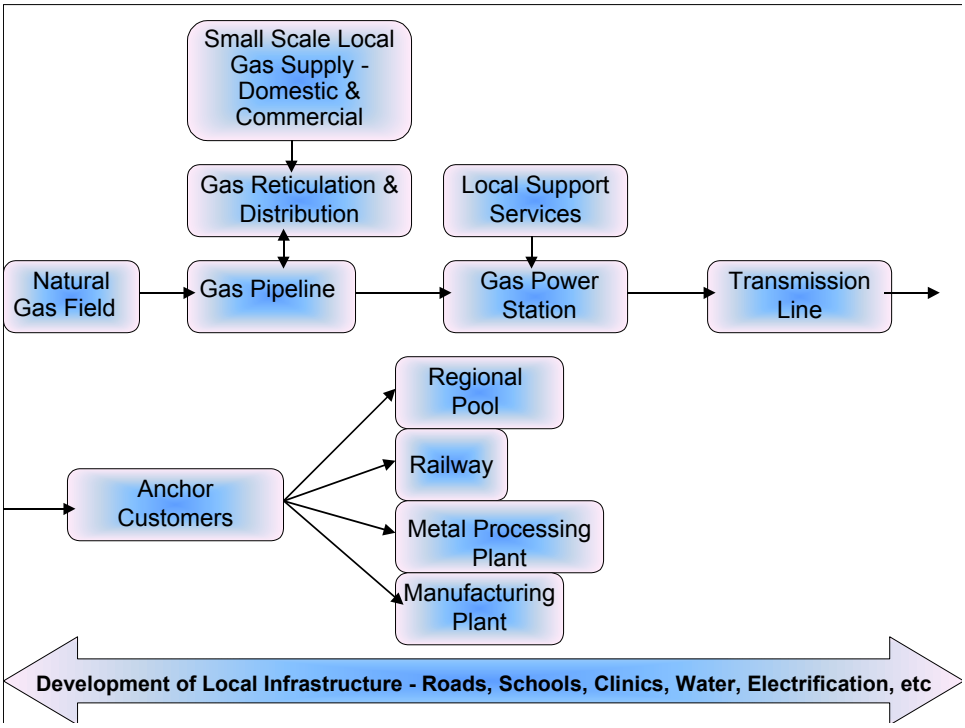
FORMAT OF THE AFRICAN ENERGY FUND



The intention of this initiative is to assist in the creation of economic sustainability, so that, while the focus is on energy, the intention is to seek integrated projects, which cover a longer value chain. A schematic of this is included below. One of the key features of NEPAD is the promotion of value-added processing on the African continent. The development of energy infrastructure projects encourages the development of manufacturing and processing industries. In this way, the initiative will support job creation as one of the most important determinates of economic growth for the African continent. The Fund will not only generate jobs in the energy sector, but will greatly influence sectors such as construction, telecommunications, information technology and financial services. Associated economic opportunities are to be investigated in the areas of transport, mining, manufacturing, agricultural processing and tourism.

The backlog in terms of infrastructure development, as stated in the NEPAD policy framework, seriously hampers economic development to the extent that lack of infrastructure makes Africa less competitive than other continent for investors. The Fund will assist in closing the gap between Africa and other continents in terms of capacity, making the African continent a more attractive investment destination.

SCHEMATIC OF THE LONGER VALUE CHAIN ASSOCIATED WITH PROJECTS



PROJECTS

A primary requirement to assist in the electrification of Africa is to complete the interconnectors between the various countries and their respective utilities, so that Africa has one interconnected transmission grid. This is viewed as an important first step, as it allows undersupplied countries, or countries supplied primarily by hydro-electricity, who are subject to fluctuations in supply during drought cycles, to have immediate access to a pool of electricity when required, and to contribute to such a pool when water levels are high. This facilitates uninterrupted power supply throughout Africa.

Six projects have been proposed to date. These are:

Tanzania-Zambia-Kenya

To connect Tanzania to the Southern African Power Pool (SAPP) and by linking Tanzania and Kenya, to connect the SAPP with the WAPP. This involves the construction of 370km of 330kV transmission line between Nairobi (Kenya) and Arusha (Tanzania) as well as 670km of 330kV transmission line between Mbeya (Tanzania) and Pensulo (Serenje, Zambia) with an expected total investment cost of US$153 million. A financial commitment has been made to the project by the World Bank, however, implementation details have not yet been finalized.

Mozambique-Malawi

To connect Malawi, via Mozambique with the Southern African Power Pool (SAPP). This entails the construction of 200km of 220kV transmission line between Matambo Substation (Tete, Mazambique) and Blantyre West (Malawi) by 2005. This project will reduce Malawi's energy security risks, given that existing electricity generation is vulnerable to drought cycles. The total investment cost has been estimated at US$30-40 million. A financial commitment has been made to the project by the World Bank, however, implementation details have not yet been finalized.

Zongo-Sanga

To restore the capacity of the Zongo and Sanga hydroelectric facilities from 17MWe to 87MWe and in addition to interconnect the two facilities (12km), refurbish the transmission system for power delivery to Kinshasa and repair the access roads. This project will reduce energy supply risks for strategic facilities in Kinshasa and successful completion of this relatively small project may provide a suitable demonstration to encourage investor confidence in central Africa, which will in turn be required to rebuild the country when peace agreements have been concluded. The total investment cost has been estimated at US$25 million.

DRCANSA Interconnector

This is currently the subject of a feasibility study for the interconnection between Inga (DRC), the three separate systems in Angola and the proposed Aus substation near Windhoek (Namibia). The implementation cost for the study has been estimated at around US$ 560 million.

Gabon

700km Transmission line from Libreville-Francville, which will energise associated railway, supply an anchor mining customer and enable domestic distribution.

Hydropower in the Zambesi Valley

Conjunctive Hydropower Operation in the Zambesi Valley. The installation of satellite equipment at three hydrostations on the Zambezi River, which will facillitate their conjunctive operation. This has social and environmental benefits in terms of flow scheduling, but also commercial value in terms of extended hydro generation capacity.

HOW YOU CAN PARTICIPATE

For discussions on any of the following aspects, contact Vanida Govender, Corporate Environmental Affairs Manager at Eskom, South Africa (vanida.govender@escom.co.za).

Identification of projects to extend the value chain

Although the proposed projects stand on their own merits, they provide an opportunity for further social and economic development. The proposed projects could be supported through, amongst other initiatives, developing anchor customers, social infrastructure for schools and clinics and telecommunications.

Equity participation in the fund

The innovation of the proposed fund is the way in which grant, public and private funding would be combined to improve the ability of all parties to deliver on their commitments.

Financial contributions to the fund

The innovation of the proposed fund is the way in which grant, public and private funding would be combined to improve the ability of all parties to deliver on their commitments.

EXPECTED OUTCOMES AT WSSD

- Projects that are included in the Johannesburg Plan of Action
- Establishment of the African Energy Fund, linked to the Global Energy Access Fund
- ODA commitment to the African Energy Fund
- Announcement of project partners at the WSSD

For more detailed information, please see the Funding Proposal Document.