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Why foreign investment is no easy fix for Africa's energy needs

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Foreign investment in sub-Saharan Africa's power sector has reached a record-high. Spurred on by the United Nations' goal to ensure modern energy access for all by 2030, international donors have focused on increasing the region's electrification access. It currently stands at only 35%, significantly less than any other part of the world.

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The focus on electrification is illustrated by the type of foreign aid sub-Saharan Africa currently receives. While overall commitments from Western countries to the area have been largely constant over the last decade, aid to the power sector specifically is six times greater.

China has also upped its engagement, and is now responsible for a third of all new power plants in the region. And as private sector investments similarly rise, sub-Saharan governments now contribute less than 25% of power sector spending.

All those providing money have important short term interests. International donors like the US want tangible, fast results from their aid spending – both to meet UN goals and appease taxpayers at home. Private companies require quick profits, especially for investments viewed as high risk. And for African governments, providing electricity to previously unconnected households can potentially lead to more votes in upcoming elections.

As a consequence, while electricity demand in sub-Saharan Africa will grow exponentially, little thought has been put into understanding the long term implications of current investment.

Foreign business versus domestic development

The US and China are among those major donor countries that use aid to directly finance their own energy companies. This has led to electrification efforts being primarily motivated by foreign business interests rather than African development.

Non-African companies almost exclusively focus on high growth and profitable markets in a few relatively stable African countries.

Meanwhile, countries considered less stable, such as the Sahelian countries of Niger, Mali, and Chad, or Central African countries like South Sudan and the Central African Republic, have largely been left out.

Progress on rural electrification has also been limited. Poorer customers, challenging logistics and long cost recovery times all make for a weak business case for investment outside the cities. Yet over 80% of the people without electricity in Africa live in rural areas.

So what is the impact of all this money streaming in from abroad? Arguing for the importance of domestic ownership for long term skill development, the French economist Thomas Piketty has noted that none of the recent Asian development success stories (Japan, Korea, Taiwan, China) has depended on foreign investments.

And for sub-Saharan Africa's power sector, Western assistance comes with strings attached. In exchange for foreign support, African governments are asked to limit state intervention, liberalise energy markets and cut import taxes and local subsidies. So it is Africa's industries which are likely to feel the implicit consequences.

When Kenya removed all import taxes for solar modules to help increase capacity in 2014, Kenyan businesses missed out. As Hajio Kruper, managing director of the first solar PV manufacturer in Kenya, explained:

> “ *The newtax exemption, while being a very noble idea on the surface, will have negative effects on local manufacturers. The vibrant solar energy market that Kenya has developed will be flooded with cheap imports.* ”

An opposite approach – strong national intervention, subsidy schemes and financial assistance for the rural poor – was evident in recent successful rural electrification cases in East Asia, South Africa and Ghana.

Yet despite the long term concerns of current international investments in sub-Saharan Africa's power sector, we are not calling for them to be reduced. Instead, we suggest a revised approach focused on self-sufficiency, inclusiveness and sustainability.

Building a strong domestic power industry in Africa is crucial to avoid long term reliance on aid, and vulnerability to political change abroad. To do so, it is key to implement efficient and stable sector regulations, as well as to foster African entrepreneurism.

However, scaling these efforts to a continental level is the bigger challenge, and cannot be achieved without also dispersing expertise.

It is widely known that sub-Saharan Africa features a fast growing renewable energy market with tremendous potential. Market access should be viewed (and priced) as an African asset. The continent could look to China which requires foreign companies to find Chinese joint venture partners in certain industries before carrying out their business.

We will fall distressingly short of meeting the UN universal energy access goal without prioritising rural electrification in Africa. Households too poor to pay for electricity have to be granted feasibly low tariffs and cheap finance.

There is an unprecedented international focus on African electrification today. It’s time to help build an African power sector which is fully able to address the challenges of the future

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