Privatisation, productivity and the potential of mini grids

To continue on the economic growth trajectory many African countries find themselves on, they need reliable, sustainable sources of energy. However, the continent finds itself trailing behind other emerging markets when it comes to power supply..

A major challenge the African energy sector continues to face is funding for energy projects. Political and credit risk remain critical factors hindering potential investors from investing in the energy space of Africa. Alleviating this investment challenge necessitates the development of new and innovative funding solutions and approaches that befit the African landscape. If successfully employed, these funding initiatives should assist in terms of bankability, ultimately bolstering project development in Africa's energy sector. These initial funding efforts will expedite direct foreign investment by renewing investor confidence in Africa, ultimately contributing to job creation and skills development.

Privatisation

The opportunity for privatisation to support the demand for reliable energy supply is becoming more feasible to address the lack of supply in many African countries and regions. Privatisation tends to improve the productivity and quality of power supply, which remain imperative components in recovering the financial feasibility of power utilities. Moreover, management performance runs at its highest when strong incentives and governance systems of privatised entities are firmly in place.

Earlier this year, South African Energy Minister, Jeff Radebe, signed 27 outstanding power purchase agreements representing a total investment of R56bn, with renewable energy independent power producers (IPPs). These agreements form part of the South African government's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), which has been on hold since 2015.

This clearly indicates the government's commitment to economic development and prosperity. By adopting renewable energy initiatives, the government creates approximately 61,000 jobs over the next few years. The signing of these profound agreements also signifies the government's interest to potentially accept small-scale IPP projects, focusing on broad-based black economic empowerment, local procurement and local operation, resulting in economic development for local economies. This should prove to implement serious legislative reforms to increase private sector confidence, stimulating increased participation in Africa's energy space.

The potential of mini grids

Inaccessibility of power remains another major challenge on the continent. Many outlying rural areas lack access to electricity owing to poor grid infrastructure and vast distances between which power needs to be distributed. This wanting of energy leads to a multitude of socio-economic problems.

For starters, the development of projects and public investments, such as schools and community centres remain unfeasible without electricity. Power inaccessibility also deems basic tasks like charging mobile phones and powering households with water or heat impossible. Fortunately, the development of mini and off-grid power supply solutions is starting to address this challenge and overcomes the lack of grid connectivity. Country governments are focusing on broadening household access to electricity, thereby ensuring modern energy services are more equitable, affordable and accessible to the poor, ensuing the energy sector remains central to economic structural development.

Furthermore, up until recently, energy supply hasn’t featured very high on the priority lists of many African countries but nations have realised that higher ranked issues such as efficient healthcare, water supply, agriculture and farming as well as employment all require energy to render themselves successful. As provided for in the Constitution, the South African government is set to make a marked effort to incorporate energy as a pillar of their national developmental strategies, so they will be able to support investments in other developmental areas.