

Investing in Africa's bright, green energy future

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The renewable energy sector is lighting up Africa's mergers and acquisitions (M&A) market and is expected to be one of the major contributors to the market's recovery in the next few years.



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According to a report by the Boston Consulting Group (BCG), there has been an increase in investors seeking green energy projects in Africa. BCG notes that in 2022, the sector attracted \$118bn in foreign direct investment, 60% of the FDI inflows into the continent. The minerals sector also defied the general downward trend in M&A, with the demand for Africa's critical minerals contributing to a growth in investment in the sector over the last few years.

Closing the gaps

BCG noted that investors have recognised the urgent requirement to close energy infrastructure gaps across the continent. There is growing investment in electric grids, renewable energy power plants, energy facilities and transport infrastructure.

Further, investment in supply chains is expected to increase as the world's major players look to Africa to source the critical minerals needed for their own energy transition programmes. The creation of corridors such as the Lobito corridor in Angola, points to increasing collaboration amongst stakeholders to optimise regional supply chains, share knowledge and facilitate access to electricity across the continent.

Incentives

Legislation encouraging investment in renewable energy, as well as renewable energy incentives and improved country guidance, is expected to further drive renewable energy investment in Africa going forward. Scale is also critical for renewable energy projects, as geographic diversification can mitigate currency fluctuations, political instability and regulatory risks for renewable energy companies.

Ample available dry powder in the private equity ecosystem in Africa is also expected to boost investment in the renewable energy sector in Africa, with the BCG report noting that major industry players are looking to leverage regional platforms to extend their African footprints. PE investors are focusing on Senegal and Morocco, which have currencies pegged to the euro, as well as Egypt, which is close to Europe, to supply renewable power to the region.

In addition, South Africa's energy infrastructure and logistics challenges are seen as an opportunity for investors with an appetite for risk.

Opportunities

To enable energy transition in Africa, capital expenditure valued at \$2.9tn is needed between 2022 and 2050, mostly dedicated to green energy sources and infrastructure investment.

McKinsey noted in a recent report that the development of midstream infrastructure in the energy space alone requires an investment of around \$400bn by 2050, with the biggest opportunities found in Egypt, Morocco, Nigeria and Senegal. By 2030, McKinsey notes that these countries will increase their transition and distribution networks by 120,000km collectively, with some projects already under construction.



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According to McKinsey, renewable energy is expected to account for 65% of installed capacity in Africa by 2035 and 95% by 2050. Solar and wind power will grow faster than hydropower, with 70% of capacity sourced from solar, 20% from wind, and 10% from hydropower by 2050. There is, however, huge potential for hydropower in terms of the creation of natural battery systems for Africa's energy transition, but this requires investment in energy infrastructure.

McKinsey outlines how green hydrogen will play a key role in the global push to net zero, and African countries in the north and southwest of the continent in particular, with plenty of wind and solar resources, will be highly competitive in the supply of green hydrogen for both global and local markets. McKinsey notes that by 2050, the continent could supply its own full domestic demand potential of between 10 and 18 megatons of hydrogen, and hydrogen exports could amount to 40 megatons.

South Africa

In 2022, South Africa, alongside Egypt, Kenya, Morocco, Mauritania and Namibia, launched the Africa Green Hydrogen Alliance with the intention of fostering collaboration and ensuring the continent could lead in the development of green hydrogen for energy transition. South Africa could become a major global player in the green hydrogen market, thanks to its renewable energy sources and existing infrastructure, which is currently being used to transport fossil fuels.

South Africa's new draft Integrated Resource Plan (IRP) was published in January 2024 and sets out numerous scenarios to address the country's electricity generation capacity with two timelines: the period up to 2030, which addresses prevailing capacity constraints and supply requirements, and 2031–2050, addressing long-term planning and pathways to net zero by 2050, including combinations of nuclear, clean coal and gas, and renewable energy, as well as system requirements for a long-term decarbonisation trajectory.

In 2022, South Africa also launched its just energy transition investment plan (JET IP), a five-year investment plan for the \$8.5bn financing package in partnership with France, Germany, the United Kingdom, the United States, and the European Union. The JET IP outlines the investments required to achieve the country's decarbonisation commitments while promoting sustainable development and ensuring a just transition for affected workers and communities. If successful, it could be used as a blueprint for other African countries.

At the same time, private sector financing of renewables has grown in South Africa. The National Energy Regulator of South Africa pointed out that South Africa's private sector registered 4,490MW in renewable energy projects in 2023, three times more than in 2022. The growth of private renewable energy capacity is attributed to a recent regulation reform that removed the requirement for generation facilities to obtain a licence.

Funding the transition

Achieving a low-carbon future has resulted in increased demand for working capital in African countries that traditional lenders are often unable to provide. This has opened the market to new financing options, such as the increased availability and competitiveness of Export Credit Agency (ECA)-supported funding. The role of ECAs in facilitating deals in Africa is evolving, with an expanding number of ECA programmes and products covering projects related to the trade in renewables, raw materials and critical minerals in Africa.



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Further, development finance institutions are increasingly anchoring the infrastructure ecosystem in Africa because they can shoulder political risk, access government protections and facilitate long-term lending. The amount of capital needed is significant, however, and private equity, debt finance and specialist infrastructure funds are also entering the market, with multi-finance and blended solutions growing in popularity.

Transition finance, in the form of green, social and sustainability-linked bonds, has become another method of financing the energy transition, leading to a rise in demand for sustainability-linked loans that incentivise borrowers to achieve pre-determined environmental, social and governance targets.

Powering Africa

At the G7 Summit in 2022, a \$600bn lending initiative, the Partnership for Global Infrastructure and Investment (PGII) was launched to fund infrastructure projects in the developing world, with a particular focus on Africa. The aim was to address the infrastructure gap in developing countries, with a focus on sustainability.

The US announced at the time that it would mobilise \$200bn for developing countries over the next five years as part of the PGII. One of the priority pillars of this funding is "tackling the climate crisis and bolstering global energy security through investments in climate resilient infrastructure, transformational energy technologies, and developing clean energy supply chains across the full integrated lifecycle".

Power Africa, a US government-led programme that focuses on addressing Africa's access to electrical power, has also

provided significant support for the African energy transition. This partnership between the US, Ethiopia, Ghana, Kenya, Liberia, Nigeria, Tanzania, and the private sector has resulted in investment loans, reforms, advisory services and guarantees with a commitment of at least \$3bn in the six priority countries.

With decarbonisation, the dire need to improve access to power for all Africans and the race to net zero firmly on the African agenda, attracting both public and private investment and sourcing alternative financing for energy transition is becoming increasingly urgent, leading to a plethora of opportunities for investors with their eye on the continent's bright future.

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