

Testimony of Tony O. Elumelu, Chairman of Heirs Holdings and the Tony Elumelu Foundation

“Powering Africa's Future: Examining the Power Africa Initiative”

U.S. Senate Foreign Relations Committee’s Subcommittee on African Affairs

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Good morning.

I want to begin by thanking Chairman Coons and Ranking Member Flake for inviting me to testify before this committee and provide an African private sector perspective on President Obama’s *Power Africa* Initiative. More importantly, thank you for your leadership in holding this hearing on a very important issue that has a profound daily impact on the lives hundreds of millions of people in Africa.

Heirs Holdings and our foundational philosophy of Africapitalism

I am the Chairman of Heirs Holdings and founder of the Tony Elumelu Foundation. Heirs Holdings is a Pan-African investment company head quartered in Lagos, Nigeria, which operates in strategic sectors of industry including banking, hospitality, agribusiness, healthcare, power and energy. We take a long-term view in order to unlock value for our shareholders and to have a catalytic effect in propelling Africa's economic development.

We have coined the phrase “*Africapitalism*” to describe our approach to business – our belief that long-term investment in key sectors, like power, can create economic prosperity and social wealth, benefitting investors and Africa's development future.

At its core, Africapitalism is an economic philosophy that seeks to encourage practices that create, retain and multiply value locally. This is critical to stimulating and sustaining job creation and economic growth.

The Challenge of Electricity Access – the loss of human potential

We are all familiar with the statistics:

- Nearly 600 million, or seven-out-of-ten, Africans have no access to electricity;
- Only 2% of South Sudanese and Burundians, and 3% of Liberians, have access to electricity. In my country of Nigeria, half of the population lives in total darkness,¹ and those who do have electricity have unreliable access;

¹ World Bank/International Energy Agency, 2010. <http://data.worldbank.org/indicator/EG.ELC.ACCS.ZS>

- In African Business Enterprise surveys, more than 50% of businesses cited lack of electricity as a major constraint to their growth.²

This is happening at a time when half of Africa's 200 million people are between the ages of 15 and 24, a potential boom or bomb, and we need to create 13 million jobs per year to absorb them.³

It is also important to note that many of the greatest, and solvable, health challenges in Africa, which are priorities for U.S. foreign assistance, are linked to energy poverty of the people and government agencies that provide basic health services.

- An estimated 4 million deaths per year, globally, are associated from illnesses derived from cooking with wood and charcoal.⁴
- Millions of child mortalities can be linked to lack of cold chains needed to distribute vaccines.
- Blood supplies cannot be properly tested and preserved to save lives.
- Similarly, millions of mothers and babies are lost every year from lack of power-driven diagnostic and surgical interventions.
- Laboratories cannot function regularly and effectively.

Education is another fundamental sector necessary for achieving development gains, yet 90 million children go to school without electricity. This translates to millions of lost hours of study and homework every day. Over time, this will become a cumulatively unrecoverable loss for a continent with a large youth population, who will lack the necessary understanding and skills to power the continent's industries, and to emerge as a full player in an integrated global economy. This large and expanding pool of unskilled labor would condemn the continent to a continued role as an extractives source – the source of energy, food and raw materials for use by other world regions – while its own citizens lack the ability to access and benefit from their own abundant resources.

In short, if we can fix power, we can transform lives, and we can realize our potential as an emergent continent.

The *Power Africa* Initiative

Many African countries had already begun to prioritize and address their electricity-access needs before President Obama's announcement of the *Power Africa* Initiative, during his July 2013 trip to the continent, so local ownership and local momentum were in place.

² World Bank, Survey of Business Enterprises, 2012. <http://www.enterprisesurveys.org/>

³ United Nations, "Africa Renewal," May 2013

<http://www.un.org/africarenewal/sites/dr7.un.org.africarenewal/files/Africa-Renewal-May-2013-en.pdf>

⁴ Global Alliance for Clean Cookstoves, "New Study Estimates 4 Million Deaths from Household Cooking Smoke Each Year," Dec. 13, 2012.

<http://www.cleancookstoves.org/media-and-events/press/new-study-estimates-4-million-from-household-cooking-smoke-each-year.html>

Nigeria's privatization process was already under way, just as it was in countries like Tanzania and Ghana. In fact, with the exception of Liberia, given its post conflict status, most of the countries selected to participate were partly chosen on the basis of the reforms already enacted by their governments in the power sector.

The above being said, there is no substitute for the power of the American Presidency and the U.S. Congress in setting the global agenda and global priorities. I view the initiative as a precedent setting engagement on the continent, one that offers Africans an opportunity to be partners and not dependents. More specifically:

- First, influence matters. As the global leader, when the U.S. government pays attention to an issue, the world pays attention too. The U.S. government's elevation of this issue, and coordinated approach to tackling it, has galvanized the private sector in the U.S., and other countries, to examine the African power sector as an opportunity for viable investments.
- Second, *Power Africa* created a collective and measurable target of 10,000 MW, within a set time frame, for U.S. agencies, African governments, the African private sector, and outside investors to work towards.
- Third, the establishment of *Power Africa* has also encouraged other Africa nations beyond the 'Power Six' to seek U.S. assistance to undertake reforms of their regulatory structures, so as not to miss opportunities to participate in future power deals and partnerships.
- Most African countries are natural allies for American business. Many of our citizens were educated in the U.S., our professionals gained experience here, hundreds of millions of us speak English as you do, our financial, regulatory and business practices are similar to, or based on, yours, and millions of our citizens were born or live here in the U.S. It is a long overdue effort for the U.S. government to help find a way for these African Diasporans to engage in economic activities within the framework of a mutually beneficial bilateral partnership.

All of the above being said, *Power Africa* must be viewed by this Administration and this distinguished body as only a start. The initiative is valued at \$7 billion and Africa's infrastructural needs are estimated to be \$300 billion. But like all long journeys, the journey to infrastructure sufficiency begins with the first step or, in this case, the first \$1 billion.

***Power Africa* and the Transcorp Ughelli power plant**

The success story of power expansion I'd like to share with you today is one of partnership between the U.S. and the African private sector. It is that of the Ughelli plant in the Delta region of Nigeria. Heirs Holdings pledged to commit to the *Power Africa* Initiative because we felt it was important to support the innovative approach to development being undertaken by the

American government. We also felt it was important for the African private sector to step up to the plate and be part of the development effort on the continent, in a way that is consistent with our mission to create value for our shareholders.

Our *Power Africa* commitment was to invest up to \$2.5 billion to generate 2,000 MW of electricity over five years, towards President Obama's goal of doubling access to electricity in Africa over the same period. Heirs acquired the Ughelli power plant as part of the Nigerian government's privatization of the power sector. When we took over the plant in November, it had never produced more than 160 megawatts (MW) of power. By January 1st, 2014, we had doubled its output to 348MW and project that we will be generating 725MW by the end of the year. We are also beginning a rehabilitation of the turbines in the plant and an expansion, to generate an additional 1,000MW at Ughelli.

I am pleased to report that we are on track to fulfil our commitment to *Power Africa* and we will be producing more than one-third of the total current output in Nigeria which is 5,898 MW. And our power investments will not be limited to Nigeria. In 2015, we will begin to roll out our plans to generate power in other West and East African countries.

We are meeting these objectives, working with America partners. Symbion, a U.S. power company, led by my friend Paul Hinks who is also testifying today, is one of our investors in Ughelli. General Electric (GE), the world's foremost leader in power technology provided us with technical expertise to help increase the output of the plant, and we're in talks to work together on the Ughelli rehabilitation and expansion. Encouraging and supporting these types of partnerships between African and U.S. companies is one of the major contributions of *Power Africa*.

Ughelli currently directly provides employment for nearly 300 full-time workers and 1,000 contractors, and this will grow to 700 employees and 2000 contractors with the expansion. We cannot yet estimate the number of jobs that will indirectly be created because new and existing businesses will have increased access to power.

Concerns around the exploitation of natural gas to expand electricity access in some African countries

There is some debate around how Africa ramps up its energy use and what resources it will utilize. Africa has tremendous energy potential, via both renewable and non-renewable resources, and most countries have fully developed national plans and priorities around their existing energy resources. Many are interested in hydro, geothermal, solar and wind power, with the latter two of particular interest in providing off-grid solutions for rural dwellers.

Additionally, natural gas is abundantly available in several African countries, to the tune of billions of cubic meters. Only 15% of Mozambique's population has access to electricity, yet the country may possess up to 150 trillion cubic meters of natural gas. With 180 trillion cubic

meters of gas, Nigeria actually has more gas than oil. For the last 3 decades, companies have flared this gas, amounting to roughly 1.2 billion cubic feet daily in wasted energy, sending it into the atmosphere, harming the health of local populations and negatively impacting the environment. Today, along with hydropower, Nigeria's national energy plan prioritizes the harnessing of its trillions of cubic meters of natural gas reserves, to help stabilize its current grid and increase energy access for our millions of citizens who still lack regular access to power.⁵

Working within the national energy plan, Transcorp, a subsidiary of Heirs Holdings, made the strategic investment in the Ughelli gas plant, thereby helping to reduce gas flaring and carbon emissions. Transcorp also just concluded another round of Environmental and Social Impact Assessment (ESIA) for the plant, with an aim of ensuring that we manage the environment around our plant in a responsible manner. The earlier mentioned plans to rehabilitate our turbines will also help to reduce carbon emissions, while transforming the lives of our people.

Some stakeholders resist any use of natural gas over concerns about the climate change impact. The Heirs group of companies care strongly about protecting the environment for future generations, but we also recognize the importance of addressing the urgent needs of *this* generation. As I explained earlier, energy poverty is a pressing concern which impacts many social development indicators.

To further put this in context, the average annual carbon emissions in sub-Saharan African countries is .8 metric tons per capita. The average for the European Union is over 7 metric tons per capita, and in the United States, average annual emissions are as high as 17 metric tons per capita.⁶ And every day millions of barrels of oil and gas leave the continent to be used by more developed countries to satisfy their own energy needs. Africans now want to harness these same resources to meet our own urgent development needs.

We must not look at this situation in stark black and white terms, but recognize that we are all stakeholders in developing the continent in a sustainable way. We can do this by encouraging energy efficiencies and clean technologies and by working with each nation to develop a national plan for the harnessing and preservation of its natural resources.

Conclusion and Recommendations

Introduce and pass the Electrify Africa Act: Passage before the end of this Congress is critical because it would be historic, and codify the expansion of access to electricity in Africa as a U.S. government development and foreign policy priority and ensure continuity for the next president and Congress. Like the Africa Growth and Opportunities Act (AGOA), *Power Africa*, augmented by *Electrify Africa Act*, has the ability to help lay the foundations for a new US-Africa

⁵ Nigerian Gas Master Plan, May 2008.

http://gasin.org/downloads/the_nigerian_gas_master_plan_as_presented_by_nnpc_in_2008.pdf

⁶ World Bank, World Development Indicators, 2010. <http://data.worldbank.org/topic/environment>

relationship: one based on partnership for mutual economic benefit, which simultaneously delivers development gains through capacity-building, technology and knowledge transfer, and regulatory reform.

Take long-term approach to development policymaking in Africa, particularly in the power sector: It is all about de-risking the sector and supporting those partnering for a collective benefit. Not only do investors need the predictability and assurance of a continuity of policy and flow of financing, but it takes a long time to put the infrastructure in place to realize their return on investments.

Look at development differently: Multilateral and bilateral development agencies, like the African Development Bank, also need to consider prioritizing the provision of funds to create sovereign guarantees, bond securitization, and other ways of de-risking the sector with the clear objective of facilitating private investment in power. Funds could be pooled and reprogrammed for this purpose. Similarly, development finance institutions need to be unleashed to provide support to sustainable and responsible investment in the power sector.

Incentivize policy reforms and energy efficiencies through programmatic support to governments and institutions: There is no amount of capital investment or entrepreneurial zeal that will provide affordable and sustainable access to electricity for Africa's 1.5 billion people without the full buy-in and energetic support of African governments. With the best of intentions, for more than 30 years, the various Nigerian military and civilian governments could not come close to meeting the energy needs of their citizens. However, when the current government worked in collaboration with the private sector to develop a sensible privatization plan and schedule, the private sector stepped up to the plate. The government also incentivized the long term-investment required for the power sector by instituting the multi-year tariff order to ensure that investors in the power sector earn an attractive rate of return on their investment.

Make strategic investments in catalytic and transformative sectors by taking a supply chain approach to your development policy: Heirs did not start out intending to go into power, our goal was to break into the oil and gas sector as a domestic producer. However, with a lot of gas reserves within our assets and recognizing the needs in our country for electricity, we proceeded to invest in converting that gas to electricity. We are also looking down the supply chain and exploring opportunities for power distribution to tackle power from raw material to end consumption. Basically, we plan to go from our oil & gas block to serving our neighborhood blocks.

Make engagement with the African private sector a Congressional priority in oversight and new policymaking: Public-private partnerships are critical to developing the African continent, particularly in the power sector. It is important to recognize the revolution that has taken place in the African private sector and that we've stepped up to the development plate.

Conclusion

We call our company Heirs Holdings because we are committed to enhancing the lives of Africans today, but driven to create transformative change for future generations.

Despite all of these hardships the continent is home to 7 of the 10 fastest growing economies in the world. According to UNCTAD's 2013 Global Investment Report, at an average of 9.3%, Africa offers the highest rate of return on investment of any region in the world and 26 African countries have committed to support the goal of providing universal energy access by 2030.⁷

Imagine the potential that could be unleashed if we get electricity right. Imagine the GDP growth, the education, and job opportunities for our youth and the families lifted out of poverty. Imagine Africa's future.

Thank you again for your kind invitation to participate in this important hearing, and I look forward to answering your questions.

⁷ http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf