Setting the right policies to attract infrastructure investment into Africa

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## Africa’s infrastructure deficit

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Type</th>
<th>Africa</th>
<th>Other regions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telecommunication</strong></td>
<td>Internet access</td>
<td>16% access</td>
<td>±80% in developed countries</td>
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<tr>
<td></td>
<td>Mobile Technology</td>
<td>40% overall, 95% in some parts</td>
<td>53% East Asia and Pacific; 80% Latin America and Caribbean</td>
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<td></td>
<td>Fixed line technology</td>
<td>3% in SSA</td>
<td>19% Latin America, 16% Middle East and North Africa</td>
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<tr>
<td><strong>Transportation</strong></td>
<td>Road access</td>
<td>204 km per 1000km² of land area in SSA</td>
<td>944 km per 1000 km² of land area (World average)</td>
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<tr>
<td></td>
<td>Railway network density</td>
<td>3.6 km of road per 1000 persons for the region</td>
<td>7 km per 1000 persons (world average)</td>
</tr>
<tr>
<td></td>
<td>Ports</td>
<td>&lt; 20 container moves per hour</td>
<td>25 to 30 container moves in modern terminals around the world</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>Electricity</td>
<td>30% of the population having access to electricity</td>
<td>70% - 90% of population have access to electricity</td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td>Water</td>
<td>65% access to clean water</td>
<td>87% in East Asia and pacific; 91% Latin America and Caribbean</td>
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</tbody>
</table>

Typical funding trends

- Africa has largely been unable to attract adequate investment to close its infrastructure gap over the years.

- Infrastructure development over the years has mainly been financed through open tender projects, aid, FDI and direct trade – financed initiatives.

- Almost half of all infrastructure projects have been financed by aid or loans (NEPAD, 2012). A third has been financed through open tender processes especially for oil pipelines, housing, airports and much less in railway construction and social infrastructure like stadia.

- FDI features more strongly in oil sector and railway infrastructure. In a number of instances there are also combinations of more than one type of investment (NEPAD, 2012).

- However it has become obvious over the years that funding from Africa’s traditional western development partners is inadequate to close Africa’s infrastructure gap.
Typical funding trends

- A relatively new concept is the exchange of infrastructure development/investment for commodity exports.

- Pioneered mainly by China mostly focussed on road construction, power plants involving Chinese state owned companies.

- The “Angola Model” as it has come to be known has generated intense debate as to its benefit to Africa as a continent and its ability to address Africa’s triple challenge of inequality, unemployment and poverty.
Emerging funding sources

- New players have emerged on the African scene; Brazil, India, Korea, Malaysia, Russia and Turkey. Enhanced by a number of recent developments.
  - A shift in the global balance of economic power and growth from west to east
  - Africa’s emergence as a strategic partner in global growth and for the expansion of commodity production for which reason infrastructure development is critical
  - The quest to expand the global economic and geographical spheres of influence of these new players e.g. BRICS, NEPS etc.

- Different approach from the Washington consensus; place no demands on accountability, transparency, institutional quality, environmental standards and civil liberties.

- However African countries have been unable to fully leverage the advantages available to them by virtue of the emergence of these new players. This is due to a number of constraints
## Constraints to financing infrastructure investments in Africa

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Description</th>
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<tbody>
<tr>
<td>1. Weak strategic vision</td>
<td>- Historically weak strategic vision towards infrastructure development&lt;br&gt;- Leads to poor policy development</td>
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<tr>
<td>2. Poor knowledge base</td>
<td>- Very little knowledge about new global players and opportunities i.e. other financial markets and suitable models for joint syndications</td>
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<tr>
<td>3. Policy uncertainty</td>
<td>- A weak strategic vision and poor policy development leads to an uncertain policy environment&lt;br&gt;- political risk – specifically renegotiation risk&lt;br&gt;- Poor regulation, lack of transparency and standardisation in procurement processes, permit complications, complicated tax policy regimes</td>
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<td>3. Poor Institutions and red tape</td>
<td>- Corruption, lack of transparency&lt;br&gt;- Poor government capacity</td>
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<td>4. Investment risk versus return</td>
<td>- Political risk, labour market risk, regulatory risk, macroeconomic risk</td>
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Sustainability issues

Multi-dimensional in nature, not only environmental

- Financial sustainability, returns to investor, costs to recipient country, who pays?

- Social sustainability – the unevenness argument. Could actually worsen inequality

- Economic sustainability – if the state is paying, impact on the fiscus, tax policy.

- If HH paying, impact on livelihoods e.g. Sanral/e-tolls in South Africa
Shaping the right policies

- A clear and workable vision for infrastructure development which involves politically smart and prioritised projects based on quantifiable public goals
- A stable political environment and quality institutions
- Macroeconomic stability i.e. acceptable level of sustained economic growth prospects, a relatively stable inflation and exchange rate
- Strong and well laid out legal framework at state level
- Clear and transparent processes especially relation to procurement, permits and tax policies
- Strong partnership with the private sector to ensure that interest are mutually aligned
- A well informed, capacitated and empowered team, especially on the side of the State
- Active engagements with relevant stake holders to ensure that it meets the needs of the community and is of the right standard
Infrastructure development policy outlook in Africa.

- Programme for infrastructure development in Africa (PIDA). The main areas of focus are energy, ICT, transport, and transboundary water.

- Sustainable Development Goals (SDGs), several targets but specifically goal No. 9

- Agenda 2063 of the AU

- The BRICS

- The New Asian Infrastructure Investment Bank (AIIB)

- China’s “One Belt one Road” Initiative
Challenges going forward

- Re-alignment of economic policies
- Short project delivery cycles and the use of foreign labour
- Translation of vision into workable programmes
- Improved governance and institutional quality
Conclusion

- The quality of governance and institutions need to be strengthened

- Regulation needs to be more facilitative of private capital investment and there must be certainty in Africa’s policy outlook.

- Africa’s numerous new strategic visions on infrastructure development must be properly synchronised with each other and linked to other global infrastructure development initiatives like China’s OBOR.

- Government capacity needs to be enhanced

- New and emerging economic challenges both domestic and global present new and emerging difficulties and opportunities that would challenge Africa’s growth agenda and the key role sustainable infrastructure is to play in achieving a sustained level of economic growth