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SETTING THE RIGHT POLICIES TO ATTRACT INVESTMENT INTO INFRASTRUCTURE DEVELOPMENT IN AFRICA

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ACRONYMS

AfDB	African Development Bank
AU	African Union
BRICS	Brazil, Russia, India, China, South Africa
FDI	Foreign Direct Investment
MDG	Millennium Development Goals
NEPAD	New Partnership for African Development
NEP	New Emerging Partners
PIDA	Programme for Infrastructure Development in Africa
SDG	Sustainable Development Goals
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa

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1. Introduction

Infrastructure is a generic term that could mean different things to different people. However for governments and society it typically refers to roads, bridges, airports, seaports, energy, schools, hospitals and telecommunication and others – that are essential for society to function effectively and the economy to grow. Sustainable and inclusive economic growth is dependent on the existence of meaningful infrastructure that facilitates value adding economic activity, creates and maintains jobs, enables private investment and ensures a quality standard of life for society. However in spite of its relevance, attracting adequate investment for infrastructure development has always been a challenge globally and for Africa as well. The global investment shortfall in infrastructure was estimated to be at least 1 trillion US$ per annum, of which 93 billion US$ per annum is required to close Africa's infrastructure deficit until 2020 (WEF, 2014; AfDB, 2010). In Africa the quality and quantity of infrastructure in its different forms lags woefully behind other regions for a number of reasons. This paper would discuss going forward, the extent of Africa's infrastructure deficit compared to other regions, constraints to attracting adequate infrastructure investment to Africa and the required policy responses to these constraints that Africa needs to address to make the continent more attractive to capital investment in infrastructure development.

2. Africa's infrastructure deficit

Africa's infrastructure deficit is well documented. Compared to other regions Africa lags woefully behind in telecommunication, transport, energy and water infrastructure to mention a few. Table 1 below details a few of such disparities in infrastructure in Africa compared to other regions.

Table 1: Infrastructure development in Africa compared to other regions.

Infrastructure category	Type	Africa	Other regions
Telecommunication	Internet access	16% access	±80% in developed countries
	Mobile Technology	40% overall, 95% in some parts	53% East Asia and Pacific; 80% Latin America and Caribbean
	Fixed line technology	3% in SSA	19% Latin America, 16% Middle East and North Africa
Transportation	Road access	204 km per 1000km^2 of land area in SSA 3.6 km of road per 1000 persons for the region	944 km per 1000 km^2 of land area (World average) 7 km per 1000 persons (world average)
	Railway network density	30 to 50 per million people	200 to 1000 in developed countries (Europe)
	Ports	< 20 container moves per hour	25 to 30 container moves in modern terminals around the world

Energy	Electricity	30% of the population having access to electricity	70% - 90% of population have access to electricity
Water	Water	65% access to clean water	87% in East Asia and pacific; 91% Latin America and Caribbean

Source: African Union (2014) and African Development Bank (2010).

These few indicators clearly show that Africa's infrastructure development significantly lags behind global averages and similar developing countries in East Asia and the Pacific, Latin America and the Caribbean.

Lack of adequate infrastructure affects Africa's global competitiveness, domestic and international trade, and the continent's ability to fully integrate into the global economy. This undermines Africa's economic growth potential and poverty reduction strategies. Energy stands out as the most severe aspect of Africa's infrastructure deficit. In Sub-Saharan Africa approximately 70 percent of the population has limited or no access to electricity however with country specific differences (IEA, 2010). Sub-Saharan Africa remains the only region in the world where access to electricity is decreasing, especially in East Africa. The total road network in Africa is 204 km per 1000 km^2 of land area compared to the world average of 966 km per 1000 km^2 of land area. In a continent that depends a lot on agriculture, it causes an even greater strain on smallholder farmers located in rural areas who need to sell their commodities in cities because the land area or link to major roads are very few. This is then followed by low incomes, which in turn affects rural livelihoods. Ports are the main link for transportation of huge import and export commodities. There are 64 of these well-functioning facilities in Africa however the performance is 20 container moves per hour as compared to 25-30 in other places around the world, as well as 50% higher handling costs (AfDB, 2010). Rail is less developed, and most countries have not built anymore rail since decolonisation. The links between road, rail lines and connection to ports is also a limiting factor that the AfDB acknowledges will need to be paid attention to (AfDB, 2010).

African countries are still lagging behind other regions in Information and Communication Technology. However the World Bank indicates that it is one sector that has improved over the years as network ranges are increasing and more people are acquiring mobile devices, leading to about 40% of Africa's population having access to mobile phones (World Bank, 2013). Internet connectivity is still a challenge with only 16% penetration in Africa compared to 80% in developed countries (AU, 2014).

Although Africa has abundant water supply, the World Bank notes that the problem lies with the absence of storage facilities for water. In Africa, statistics show that about 65% of Africans have access to clean water compared to 87% in East Asia and the Pacific and 91% in Latin America and the Caribbean.

3. What has been the constraints to financing infrastructure investments in Africa

Africa is still yet to emerge from a pre-colonial infrastructure design that mainly focussed on the export of its natural resources to the level of quality required to enhance economic growth as a whole. 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 rail way 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.

A relatively new concept is the exchange of infrastructure development/investment for commodity exports. This model is mainly pioneered by China and is mostly focussed on road construction and 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. In addition to China new players have emerged on the African scene. These new players include Brazil, India, Korea, Malaysia, Russia and Turkey. The emergence of these new players has been 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.

These new players have distanced themselves from the Washington consensus by avoiding the practice of placing demands on accountability, transparency, institutional quality, environmental standards and civil liberties. This seems to give them a competitive advantage over Africa's traditional western donors. However African countries have been unable to fully leverage the advantages available to them by virtue of the emergence of these new players on the continent and other available opportunities from private capital. This is due to a number of constraints:

- **Weak strategic vision**

Africa has been identified as historically having a weak strategic vision towards infrastructure development which in turn results in poor policy development in attracting investment for infrastructure development. Most private investors would like to see a clear strategic direction and policy outlook in African countries to gain the level of investor confidence required to solicit private capital flows.

- **Poor knowledge base**

African countries know very little about the new players on the continent and also lack the capacity to strategically leverage its natural resources to solicit deeper engagement with NEP economies in infrastructure development. This is because Africa has had much longer engagements with its traditional western development partners and therefore has not focussed much on data on these new players. Similar to this is very little knowledge about financial markets in NEP countries and consequently the ability to combine African and NEP financial resources for infrastructure development through joint syndications

- **Policy uncertainty**

A weak strategic vision and poor policy development leads to an uncertain policy environment which inhibits the ability of African countries to attract private investment. Sudden and seemingly adaptive changes in policy positioning sometimes translates into political risk – specifically renegotiation risk which has emerged as a critical concern for investors in developing and emerging markets (WEF, 2014). Poor regulation, lack of transparency and standardisation in procurement processes and transactional capacity on the part of African governments creates additional policy uncertainty for private investors who seek to invest in African countries. Complex processes in acquiring needed permits and complicated tax policy regimes further compounds this problem.

- **Investment risk versus return**

Private investors are more interested in the financial viability of their investments as opposed to the social benefits of the project to the recipient country. Consequently from the investor perspective, the balance of risk and returns in investing into an infrastructure project compared with alternative assets is of paramount importance. The diversity of risks faced in African countries makes it less attractive to private capital as compared to alternative investments in more stable and certain environments. The diversity of risk in Africa involves political instability, red tape and corruption, macroeconomic instability culminating into inconsistent economic growth to mention a few.

4. Shaping the right policy responses

Private investors prefer stable environments with certainty in economic outlook as opposed to the contrary. In specific relation to Africa, the ability to attract adequate private capital for infrastructure development would depend on clear and specific factors, Sabol and Puentes (2014) outline a few of such requirements. These include;

- 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

These policy responses in no order or priority or sequence are relevant to attracting private capital into infrastructure development in African countries.

5. Infrastructure development policy outlook in Africa.

- **Programme for infrastructure development in Africa (PIDA)**

In association with the African Union (AU) and the New Partnership for Africa's Development (NEDAP), the AFDB launched the Programme for Infrastructure Development in Africa (PIDA) in July 2010, an initiative to fill the infrastructure gap in Africa. The main areas of focus are energy, ICT, transport, and transboundary water.

The PIDA stems from past and existing programmes employed by NEPAD, the AU, and the AFDB. These initiatives include the NEPAD Short-Term Action Plan, the NEPAD Medium to Long term strategic framework and the AU Infrastructure Master Plans. The PIDA initiative was meant to be different from previous regional initiatives because in terms of its ability to produce effective investments. The main objective of the PIDA initiative was to drive countries to work together towards the development of regional and continental infrastructure for better access to a common market within the African continent. As with many programmes developed by organisations seeking to achieve set objectives, only the outcomes will tell. There has so far not been a review of the PIDA initiative, since its inception.

- **Sustainable Development Goals (SDGs)**

Sustainable Development Goals (SDGs) continue from the previously known Millennium Development Goals. Goal number 9 seeks to "build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation" and the target by 2030 is to "facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing states"(UNDP, 2015). Africa will benefit from this if its leaders adopt the goals and strive to incorporate them in their agendas to close the infrastructure gap.

- **Agenda 2063 of the AU**

The Agenda 2063, drafted by the Africa Union together with other partners in 2013, is a plan to bring about transformation in Africa in all issues affecting Africans and the continent's progress. The agenda plans to achieve this by increased levels of delivery of the infrastructure shortages mentioned earlier, including, "high-speed railway networks, roads, shipping lines, sea and air transport, as well as well-developed ICT and digital economy" by 2063 (AU, 2014). The AU also mentions that a high speed railway freeway will link all major cities in the continent.

- **The BRICS**

The BRICS, in its Fifth Summit in 2013, committed to the development of Africa through Infrastructure investment. During the Summit, two agreements for Africa were established, the BRICS Multilateral Infrastructure Co-Financing Agreement for Africa and the BRICS Multilateral Cooperation and Co-Financing Agreement for Sustainable Development. The former mentioned seeks to find ways to fund infrastructure projects in Africa and the latter for financing sustainable development (UNECA, 2014). These are to be financed through the establishment of a new BRICS Development Bank, where capital will be injected to provide adequate support to infrastructure development in Africa.

- **The New Asian Infrastructure Investment Bank (AIIB)**

This is an initiative run mainly by China, initiated in 2013 and a few other countries started coming on board in 2014. The bank has stated that its main focus is to develop the infrastructure and other sectors of Asia (AIIB). So far, South Africa and Egypt are the only African countries that are founding members of the bank (Ruwo N & Makarudze J, 2015). However, the bank has not indicated any intention to invest in Africa's development. However the AfDB President, Donald Kaberuka has indicated the willingness of the AfDB to work with the AIIB to develop infrastructure in Africa (Xinhau, 2015).

- **China's "One Belt one Road" Initiative**

China's one-belt-one road seeks to achieve among five main objectives, infrastructure connectivity aimed at enhancing economic growth and regional economic integration. The objectives of the OBOR are closed linked to the aspirations of the PIDA, infrastructure developments in the AU's Agenda 2063 and the SGDs. However the OBOR is mainly focussed on linking East Asia to Europe and is linked to only one African country, Kenya. This has generated intense debate on the continent and strong objection from countries like South Africa, a member of the BRICS and larger economies like Nigeria. Africa is currently proposing an expansion of the OBOR initiative into "One Belt, One Road One Prosperous Africa" (Yafei, 2015).

6. Challenges going forward

- **Re-alignment of economic policies**

A number of challenges emerge especially with Africa's new development partners from South-South corridors. The Angola model and other permutations of resource/commodity linked development assistance needs to be realigned with Africa's new policy outlook on development. Africa seeks to industrialise, away from being producers of raw commodities and mineral resources, towards manufacturing, beneficiation, agro-processing and oil refinery. The value chains of these new industries hold greater promise for employment creation, poverty reduction and a sustained economic growth for African countries. At the same time, China's "new normal" points in the same direction of industrialisation. Again although China's OBOR initiative has many parallels with the infrastructure development objectives of Africa's Agenda 2063 and the AfDB's PIDA, the OBOR basically includes only Kenya which has generated significant uproar by stronger economies in Africa. African-China relations therefore have to find new ways of aligning their respective visions of economic development assistance policies to be mutually beneficial to both parties.

- **Short project delivery cycles and the use of foreign labour**

This is more characteristics of Chinese firms than other countries. The rapid completion of infrastructure projects in Africa and the use of majority Chinese labour in the implementation of such projects translates into very little technology transfer, job creation or capacity building in

African countries along the project cycle. This has been a thorny issue in infrastructure development assistance from China to African countries. It needs to be addressed going forward.

- **Translation of vision into workable programmes**

The new strategic visions for infrastructure development in the AU's Agenda 2063, the SDGs, recently established programmes by AfDB, in collaboration with NEPAD and the AU need to be translated into workable programmes that result in the achievement of quantifiable public goals and objectives. They need to be properly aligned to be complimentary to each other to avoid duplication of effort, optimal allocation of scare resources and enhance a more collaborative effort. The devil is said to be in the implementation.

- **Improved governance and institutional quality**

Political stability, strong regulatory framework, policy certainty, transparent and clear processes and requirements are all areas that leave much to be desired on the African continent, adversely affecting private capital investor confidence. Significant progress has been made on the continent to entrench participatory democratic processes and intervene in military insurrections. However the quality of regulation, standardisation of regulation across sub-regions to avoid a race to the bottom, transparency and consistency in processes and permit requirements need significant improvement in Africa. In addition the African Peer Review Mechanism is yet to be fully adopted and implemented by all countries, which will be a great replacement for the policy of non-interference.

7. Conclusion

In order for Africa to overcome its infrastructure deficit, it needs to recognise its failures in former initiatives, draw lessons from them, and ensure a more conducive investment environment that would attract private capital as elaborated above. 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. 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 infrastructure is to play in achieving a sustained level of economic growth. Emerging from its current infrastructure deficit position to realising its new envisioned level of infrastructure would require a collective effort by the continent as a whole to address the numerous constraints that have impeded Africa's infrastructure development to date. It is however possible.

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