BUSINESS DAY

Modernizing Infrastructure Vital to Fulfilling Africa's Promise

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Jerry Haar

Africa's demographic growth and economic transformation have created an essential task in the continent's public agenda: accelerating and scaling up infrastructure development.

In the past, infrastructure investments have accounted for more than half the continent's economic growth, increases in productivity, improvement in human development, and reduction of poverty, according to the African Development Bank, proving that infrastructure investments are necessary for Africa to sustain its growth. The World Bank argues that the poor state of African infrastructure constrains economic growth by 2 percent every year and cuts productivity by as much as 40 percent.

Africa has a vast infrastructure deficit, especially in the sub-Saharan region. Therefore the principal question remains: *How can Africa tackle the infrastructure gap?* One of the continent's main challenges to developing infrastructure investments is the fact that many African governments are faced with rising debt-to-GDP ratios, which will limit sovereign spending on infrastructure in the coming years. The countries with the highest debt-to-GDP ratios in the region include Eritrea (175%), Cabo Verde (160%), Mozambique (133%), Angola (103%), Mauritius (101%), Zambia (101%), Republic of Congo (85%), and Ghana (83%). A prominent example is sub-Saharan Africa, which a debt-to-GDP ratio of over 50 percent in 2020. Thus, funding is a key challenge for infrastructure projects, which have typically been financed by African governments and constrained by budgetary restrictions. Local banks and financial institutions are not able fund these projects fully, creating the need to diversify sources of funding and boosting public-private partnerships (PPPs). Five African countries accounted for more than 50 percent of all successful PPP activity from 2008 to 2018: South Africa, Morocco, Nigeria, Egypt, and Ghana. Several other countries have multiple PPPs underway. Burkina Faso has 20, and Botswana, 8.

Luckily, funding opportunities are on the horizon. Investors, including government agencies, private sector pension funds, and investment companies from the United States, China, the United Kingdom, and the United Arab Emirates have shown considerable interest in African infrastructure projects. Estimates are that such investors have as much as $550 billion in assets under management. Close attention must be given to China, whose investments in Africa have grown steadily at an average annual rate of 10 percent from 2013 to 2017, according to the Infrastructure Consortium of Africa (ICA). For example, as part of China's Belt and Road initiative, over 90 percent of Kenya's Mombasa-Nairobi Standard Gauge Railway was financed by China's EXIM

Bank. Additionally, China's Belt and Road Initiative is set to finance ports, roads, and other infrastructure around the globe. China has become and will continue to be a big spender in Africa. According to the Center for Global Development, a think tank in Washington, between 2007 and 2020 Chinese development banks provided $23 billion for African infrastructure, compared with $9.1 billion from all other development banks.

Unfortunately, structural issues create additional obstacles for infrastructure modernization in Africa. While the volume of current African infrastructure projects expected to be completed by 2025 surpasses $2.5 billion, most of these projects do not come to fruition. An investigation of multiple infrastructure projects in Africa by McKinsey revealed that the completion of infrastructure projects in the region remains low due to several causes at the early stages of project development, including limited pipeline of deals or selection of low-impact projects; weak feasibility studies and business plans; delays in obtaining licenses, approvals, and permits; inability to agree on risk allocations; inability to secure offtake agreements and guarantees; and poor program delivery. This investigation found that 10 percent of all infrastructure projects are successfully realized, with over 80 percent of infrastructure projects failing to survive the feasibility and planning stage, and only 50 percent of those achieving financial close.

Given this situation, how can Africa move forward? African governments must take action to increase the viability of projects by focusing on the mitigation of political, currency, and regulatory risks. For example, the governments of Senegal and Zambia, supported by the International Finance Corporation (IFC), have agreed to manage risks and issues related to land, currency, and politics for their solar energy projects. As a result, Zambia's and Senegal's projects for the construction of solar power plants have received over 20 bids from international investors.

Infrastructure development in the African continent has been shown to be and will continue to be a catalyst for progress. Fulfilling the demands of a billion more Africans requires increased access to adequate infrastructure, which is currently lacking, particularly in sub-Saharan Africa. South Africa alone will have an infrastructure investment gap of $293 billion by 2030. The key challenge for the continent is to ensure its growing population has access to reliable services like electricity, water, Internet, and efficient transportation systems. Ensuring adequate funding for infrastructure is another critical step; this will require African governments to demonstrate long-term policy stability and the institutional capacity to guarantee investors that projects will achieve completion. In doing so, Africa will ensure sustainable economic growth through intra-African and international trade and increase the well-being to its burgeoning population through access to primary services.

Jerry Haar is a professor of international business at Florida International University and a global fellow of the Woodrow Wilson International Center for Scholars in Washington, D.C.