Infrastructure: the way forward

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Considering its role as the Development agency of the African Union, the NEPAD welcomes the Compact with Africa put forward by the G20. First because it acknowledges that the aid model is not the solution to meet our continent's development challenges. This is not a question of saying whether aid is good or bad. Aid is simply not enough. Just one figure to substantiate this: we believe that Africa needs between US$130bn and US$170bn to develop its infrastructure each year. But the total aid it receives each year does not amount to much more than US$60bn. In this sense, the Compact is in line with Africa's objective to attract more private investment.

There is one other essential dimension in the Compact with Africa, which is to consider projects on a regional scale. The NEPAD has long been advocating that optimal solutions are found at the regional level and not at the national one. We must think in terms of cross-border corridors, be it in energy or communication corridors. The regional dimension is vital and must get greater attention. Infrastructure covering several countries in the same region is also more attractive to investors (both public and private) because it allows the pooling of costs and promotes integration.

In 2012, the African Union set up an African Infrastructure Development Program (PIDA) managed jointly by the NEPAD Agency and the African Development Bank (AfDB). Its roadmap focuses on structuring cross-border projects, numbering 51, for a total package of US$360 billion. They are the pivot of the continent's real economic takeoff. The approach chosen by PIDA is highly original in that it anchors the projects exclusively to Public Private Partnerships (PPP). All this points to a new business climate for investors in Africa. The G20's help in accelerating this is welcome.

The G20 has also emphasised the need to build more infrastructure, the number one area that is fundamental to lay the groundwork of any economic takeoff - and one that we have been relentlessly pushing forward in our discussions with our partners. We need to rethink the financing and construction model for infrastructure in Africa. The Compact is welcome because it provides a framework for boosting private investment and increasing the provision of infrastructure.

The initiative aims to help African countries seize their potential for sustained and inclusive economic growth by mobilising governments and their international partners to implement concrete measures to significantly increase private and infrastructure investment in Africa. It covers at the same time the macroeconomic, the business and the financing areas. The NEPAD has been campaigning for such holistic thinking in its approach to infrastructure for a long time. It is fundamental if Africa is to meet its development challenge.

Let's first consider the macroeconomic reasoning behind the priority we should be giving to infrastructure. It is the most daunting shortcoming faced by our continent and it is very well documented. It is most obvious in the energy sector - although 145 million people on the African continent have been able to connect to electricity since the beginning of the millennium, 645 million Africans are still deprived of it. How can we expect to start a virtuous circle of industrialisation if the most basic prerequisite – access to affordable energy – is not fulfilled?

As mentioned above, the African Development Bank reckons that between US$130bn and US$170bn would be needed annually to finance the backbone of our development, building roads, power stations, ports and water and sanitation facilities. Instead, in the five years from 2012 to 2016, the total spent on infrastructure on the continent was US$150.7bn.

From a business perspective, and this in turn should be a concern to all, the lack of infrastructure carries big costs. When economies are isolated, they become less attractive, since unified markets on a regional scale are difficult to create. Inadequate infrastructure increases production costs, weighs on business's competitiveness and negatively impacts foreign direct investment. Let's keep in mind that Africa must create 450 million jobs over the next twenty years to absorb its population growth. World Bank studies have shown that infrastructure deficit costs the continent two points of annual growth and generates a 40 per cent shortfall in competitiveness gains for its enterprises.

The third concern is how to mobilise finance. Contrary to what is often heard, African states do invest in infrastructure. But it is money ill spent. They support 80 per cent of infrastructure funding through national budgets, which is both a strain on their public finances and plainly inefficient. Investment in infrastructure is an absolute necessity, but it must not be to the detriment of other equally important programs such as investment in education, health or agriculture. Therefore, association with the private sector on the one hand, and international cooperation on the other hand, are credible alternatives to state funding.

We need a new investment model based on the mobilisation of our own savings, adequate regulation, a strong guarantee scheme and the political will to make projects happen. It is all the more crucial that, given Africa's demographic explosion already in full swing, infrastructure is fast becoming a sensitive political topic all over Africa.

From a financial standpoint, it is striking to realise that only 1.5 per cent of the assets under management of African pension funds and sovereign wealth funds are invested in infrastructure in Africa. These investors cannot be blamed for their need to invest in low-risk investments. But if we look at the long term, investments in Africa will be more profitable than those in developed countries, provided that we succeed in de-risking African projects.

Therefore, the key issue lies in private sector participation in the major PIDA projects (the projects we are supporting through our Programme for Infrastructure Development in Africa). In this regard, the NEPAD Agency launched the "5 per cent Agenda" in 2017. This campaign aims to raise awareness and mobilise the African financial sector and encourage African insurance companies and pension funds to invest at least 5 per cent of their investment portfolio into infrastructure.

The growth margins are considerable because the amount of assets under management held by African pension funds, insurance companies, and institutional investors stands at US$1.1 trillion. In addition to its exemplary nature, we hope the "5 per cent Agenda" will act as a positive signal; not only will it reduce the perception of risk on the continent, it will also leverage the private sector and international partners participation in the financing of major African infrastructure.

A number of issues need to be addressed to facilitate long-term allocations. Chief among these is the need to reform national and regional regulatory frameworks that guide institutional investment. Likewise, new capital market products must be developed that can effectively de-risk credit and, hence, allow African asset owners to allocate finance to African infrastructure as an investable asset class in their portfolios. There is no doubt that this will lead many more international investors to consider Africa's infrastructure as a bankable asset class.

Another concern among the private sector is the lack of payment guarantees and of innovative financial structures to circumvent these issues. For this reason, we need to gather the development finance institutions and the multilateral development banks for a frank and open discussion on the establishment of an aggregated scheme that will pool all the partial guarantee instruments into a "big facility". This would provide 100 per cent financial guarantee for institutional investors.

The G20 Compact with Africa could provide new perspectives and new ways to engage with our partners in sustainably financing our future if it is consistent with Africa's priorities. F

The regional dimension is vital and must get greater attention

The G20 Compact with Africa (CwA) was initiated under the German G20 Presidency to promote private investment in Africa