A mid a turbulent global economy, there’s no doubt that the pipeline of positive news from Africa in recent years has been a much-needed boost to policy-makers and investors alike. Increased political stability, the emergence of a middle class already equal to that of India’s and demographic changes that mean by 2035 the continent will have the world’s largest workforce, have all contributed towards the rapid economic growth that many African countries continue to experience.

And yet this growth has occurred despite the continent suffering from significant infrastructure problems. With greater demand come greater expectations in terms of services and, as economies have expanded, the need for new infrastructure has intensified. In addition, trends such as urbanization, together with surging trade levels, are reshaping the face of the continent. By 2030, for example, 40% of Africans are projected to be living in cities and, since 2006, African trade has increased from about US$48b a year to more than US$100b a year. What has not kept pace is the infrastructure itself.

Deficits and development
Africa’s largest infrastructure deficit is to be found in the power sector, according to research from The World Bank Group (WBG), which has found that Africa’s power systems deliver only a fraction of the service found elsewhere in the developing world. The 48 countries of sub-Saharan Africa (with a combined population of 800 million) generate roughly the same amount of power as Spain (with a population of 45 million). The WBG has also raised concerns regarding Africa’s network of roads — especially when seen in the context of the sheer size of the continent. Only one-third of Africans living in rural areas are within two kilometers of an all-season road, compared with two-thirds of the population in other developing regions.

While estimates vary, the cost of addressing Africa’s infrastructure deficit is seen to be approximately US$90b every year for the next decade, with spending needed not only for new investments, but also for operations and maintenance of what is already there. Given that the reliance on overseas development spending has fallen back since the financial crisis, infrastructure financing must look beyond aid and governments have to look at alternative financing solutions that are economically feasible.

Policy-makers are increasingly looking at different flows of capital, such as Africa’s foreign exchange reserves invested abroad, pension funds and sovereign wealth funds, all of which can kick-start private sector investment in infrastructure. Given the competition for infrastructure investment around the world — for example, Eastern Europe requires more than €2t for its infrastructure over the next decade — there is little time to waste.

It’s important to note, however, that important progress is already occurring. EY’s latest Africa attractiveness survey found that, in 2012, there were over 800 active infrastructure projects across different sectors in Africa, with a combined value in excess of US$700b. South Africa had the most infrastructure projects (with a combined value of close to US$130b). Nigeria was next, with 106 infrastructure projects with a value of close to US$100b. The East African countries of Kenya, Uganda and Tanzania, together with Mozambique, are also all in the top 10 in terms of number of infrastructure projects, while Angola has the fourth-highest capital value overall. The large majority of the total infrastructure projects were related to power (37%) and transport (41%).

Feature | Planning to deliver

When it comes to addressing the infrastructure deficit in Africa, it’s all about the preparation, says EY’s Bill Banks. Here, he explains why proposed projects need both planning and a strong business case to succeed.

Infrastructure financing must look beyond aid and governments have to look at alternative financing solutions that are economically feasible.
Financing and funding

Many of these infrastructure projects contribute toward nation building and so should spur further economic growth. To ensure that these projects continue to advance, governments and the private sector need to be involved to help facilitate that investment. Africa is not alone in facing this challenge – far from it. Around the world, similar issues have been addressed by other policymakers. In countries such as Australia, the UK and the Philippines, governments have partnered with the private sector to deliver capital that can be deployed alongside their own funds. While African governments can look to domestic sources of capital, as well as International Development Partners such as the WBG and the African Development Bank, there are also a significant number of international players looking at the African continent for places to invest into properly structured projects that offer a reasonable rate of economic return, particularly when they involve PPPs. Governments' contribution to PPPs create different types of fiscal commitments, the nature and extent of which depend on the actual projects themselves, as well as the broader market conditions. Clearly, though, such deals also give rise to implicit liabilities, and that is why it is crucial that the accounting for these commitments is properly understood through rigorous project planning and due diligence, so that governments fully understand the full cost of infrastructure delivery.

It is crucial that the accounting for PPP commitments is properly understood through rigorous project planning and due diligence, so that governments fully understand the full cost of infrastructure delivery. Every project can go through this screening process, and it helps a country’s finance ministry by serving as a filter for what can work and what is not likely to work. It also helps bring together people with financial, commercial and technical experience, all of whom are needed for a project to be effectively funded and delivered. Analysis should also include the wider economic benefits of a project. There is a big appetite for this because it allows a government, which is likely to be capital-constrained, to be fully confident in where it is investing and where it can expect to receive the best economic return. The Ministry of Finance has a pivotal role to play by accepting overarching responsibility for the PPP framework’s implementation. It needs to oversee the governance of the project as a whole, with support from specialists from the technical and legal departments – not recreating what they do, but rather making sure that the teams are working together.

If a Ministry of Finance is not properly engaged, there is more likely to be a lack of coordination among government entities, as well as little or no progress in moving projects through to procurement and implementation phases. However, while PPPs clearly offer an important route forward, it is also important for policy-makers to be aware that they should not be applied to each and every proposed project. In essence, a PPP is a contractual arrangement between government and the private sector, and every project is different. It’s not a case of one size fits all and there is no single PPP policy that could or should cover everything. PPP provides a government with a number of different procurement options to address its infrastructure investment. It’s not a case of one size fits all and there is no single PPP policy that could or should cover everything. PPP provides a government with a number of different procurement options to address its infrastructure investment.