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Infrastructure Investment in Africa

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Supporting Infrastructure Investment in Africa

The African Development Bank has long recognized that infrastructure investment has a central role in the development agenda and is critical for supporting economic growth, poverty reduction and the achievement of the millennium development goals (MDGs). Infrastructure affects growth through two channels: directly through physical capital accumulation and indirectly through improvement in productivity. The relationship between investment and infrastructure is also bi-directional. Countries with high growth rates invest more in infrastructure which subsequently feeds back into the growth process.

At the micro-level, the importance of infrastructure investment is that it enhances private sector activities by lowering the cost of production and opening new markets, presenting new production opportunities and trade. Investments in roads reduce transport costs while ports and other logistics infrastructure reduce the cost associated with trade, all of which improve the competitiveness of firms. At the same time, a strong link between infrastructure investment and some of the key indicators of social well-being, such as health care, water, sanitation, housing, human capital accumu-

lation and electrification, is also recognized.

Although the importance of infrastructure investment at the micro- and macro-level is clear, over the last decade, infrastructure investment in developing countries, including African countries, has fallen significantly, driven by declining public and private investment. In Africa - where there are tremendous needs - average public sector investment in infrastructure is currently only ranging between 2 to 3 percent of Gross Domestic Product.

Some of the glaring facts about the situation of continent's infrastructure include:

- 40 percent of the population lacks access to safe water;
- 60 percent of the population lacks basic sanitation;
- Only 30 percent of the rural population in Sub-Saharan Africa has access to all-season roads;
- Transport costs in Africa are among the highest in the world;
- Only 30 percent of African population have access to electricity;

- Africa has the lowest telephone penetration – 14 percent (the world average is 52 percent).
- Africa has the lowest Internet penetration – 3 percent (the world average is 14 percent).



The infrastructure deficit is most evident in low-income countries and fragile states. Among the poor sectors, the power sector is lagging most in terms of generation capacity, electricity consumption and security of supply. The deficit is holding back per-capita growth by 2 percentage points each year.

As a consequence of this under-investment in infrastructure, most countries now face the challenge of bridging huge infrastructure gaps that threaten growth and the achievement of social and other broader development goals. Studies show that sub-Saharan Africa's poor growth performance is related to under-investment in electricity and telecom infrastructure. It is estimated that if Africa enjoyed South Korea's quantity and quality of infrastructure, it would raise its annual per-capita growth by 1 percentage point. In Africa, closing the infrastructure gap to sustain 7 percent growth rate by 2015 will require more than USD 80 billion per year of investment by the public and private sectors over the next decade, split evenly between new investment and operation as well as maintenance. Half of this need, about USD40 billion, is currently being met – but USD 20 billion, about half of the gap, could be found through improved efficiency. This includes putting in place good policy, legal and regulatory frameworks, improving the performance of state-owned enterprises, and the maintenance of existing infrastructure. The remaining financing gap is thus estimated at USD 20 billion per year.

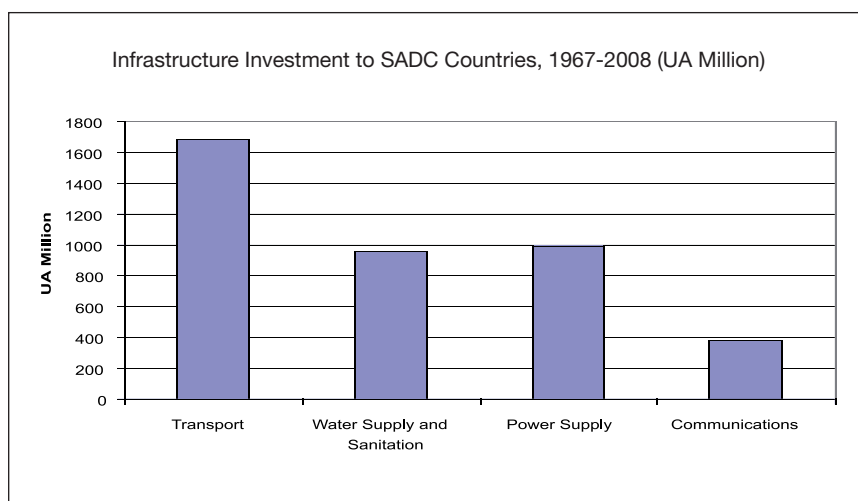
There are several plausible reasons why infrastructure investments in Africa are low. First, infrastructure investments have

the characteristics of public goods (non-exhaustive and non-exclusive in consumption) which give the private sector very little incentive to invest. Further, private sector participation may be limited by the lack of stable long-term finance, high sector-specific risk as well as high macro-risk arising from political instability and poor governance. In addition, fiscal constraints may limit the ability of the public sector to provide infrastructure investment.

The global financial crisis is already affecting Africa and creating new challenges, as investments and new expenditures are cut. The real task ahead is to lay the groundwork for the continent to benefit from the recovery, when this crisis ends. One way is ensuring that Africa's infrastructure programs are kept on track by scaling up financing for new projects and projects under distress to stimulate growth and maintaining a strong pipeline of projects and preser-

ving existing assets during the downturn.

Over the years infrastructure has become an important binding constraint on growth in many African countries. This has reignited the attention by the international community on the importance of infrastructure financing and its impact on development. In 2008, infrastructure investments (grants and loans) accounted for approximately 44.5 percent (UA 1.41 billion) of the African Development Bank's portfolio. Transport accounted for the largest portion (45.4 percent), followed by power supply (37.8 percent) and other infrastructure (16.8 percent). Figure 1 shows Bank investments in the Southern African Development Community (SADC) since 1967. In SADC, investment in transport has dominated, accounting for 42 percent of total investment in infrastructure. Investment in power is also relatively large and is expected to grow due to growing energy needs of the region in recent years.



Support to the Regional Integration Agenda

The African Development Bank has showed strong commitment to infrastructure support for regional integration, realizing that many of Africa's challenges have a regional dimension. About 40 percent of the population is in landlocked countries. The continent faces challenges associated with several missing links in the infrastructure networks (that is., transport and energy), poor state of physical infrastructure as well as weak market integration and intra-African trade

(less than 10 percent of total trade). Transport costs constitute one of the key constraints on intra-African trade. Transport costs for trade within Africa are estimated at more than twice higher than those in South and East Asia. Regional infrastructure, notably power pools, road corridors and communications networks, is critical to supporting growth and competitiveness by achieving economies of scale and reducing the cost of doing business.

Scaling up regional infrastructure projects will help in facilitating trade and transport across national boundaries, creating integrated energy markets, particularly power pools, supporting regional water resources management and developing the private sector. Infrastructure activities will also involve building capacity in Regional Economic Communities for project development and implementing reforms in cross-border and inter-regional trade policies.

The growing demand for infrastructure has led to collective initiatives to support the efforts. The Commission for Africa and the Gleneagles summit underscored the importance of investing in infrastructure in Sub-Saharan Africa and the major agreement of the summit was to set up an Infrastructure Consortium for Africa (ICA). The African Development Bank, the New Partnership for Africa's Development (NEPAD), the World Bank, the

European Commission and bi-lateral donors contribute resources for coordinated African-led infrastructure initiatives at the country level and for cross-border regional projects.

The Consortium focuses on aid effectiveness and improving coordination among donors, creating advocacy and awareness to scale up efforts, develop better data and monitor resources on

the current state of service provision, and improve the capacity of local governments and service providers to increase the overall impact of the efforts. The Infrastructure Consortium for Africa is a strong signal that donors recognize that going forward, maximizing aid effectiveness will require increased donor harmonization and co-financing around country infrastructure programs geared towards clear outcomes.

Infrastructure and the Aid for Trade Initiative

The Aid-for-Trade initiative must also complement and strengthen Africa's regional integration efforts, particularly increasing the level of intra-African trade, among others. This leaves a clear role for Pan-African institutions such as the African Development Bank, the African Union Commission and the United Nations Economic Commission for Africa (UNECA) to ensure their prominence in this process. In this regard, the Bank is supporting trade-related infrastructure (i.e., transport, energy, and logistics) and other areas to reduce transaction costs. Promoting improvements in infrastructure and improving the business environment makes it possible to open up opportunities for the foreign private sector, both in terms of trade and investment. After all, it is the private sector that trades.

In moving the Aid-for-Trade agenda forward, the African Development Bank is

taking a leadership role to make progress on activities that were promised in Tanzania in 2007 during the first Aid-for-Trade Global Review.

This work entails the following key processes:

- identifying "Bankable" projects based on well-designed work programs prepared by regional economic communities;
- identifying projects that are already in the Bank pipeline for funding;
- convening Regional Reviews in East and Southern Africa, West Africa, Central Africa and North Africa;
- supporting the monitoring agenda of Aid for Trade activities;
- setting up the African Aid-for-Trade Working Group, which also comprises UNECA and the WTO. The working group's mandate is for the three institutions to take up leader-

ship roles in the implementation of the Aid-for-Trade roadmap; and;

- increasing participation in the Geneva process through Advisory Group meetings, reports to the Committee on Trade and Development and interaction with representatives from the donor community.

In terms of financial commitments, during the North-South Corridor High-Level meeting on Aid-for-Trade in Zambia from 6-7 April 2009, the African Development Bank made a commitment to support this pilot Aid-for-Trade initiative. The Bank has pledged USD 600 million for 4 years to support transport infrastructure and other related activities on the corridor (i.e., Kazungula Bridge (Botswana), M1-Blantyre (Malawi), Lusaka-Malawi Border (Zambia), Iringa-Dodoma (Tanzania)). The Bank is hoping that this important initiative will be replicated in other regions in West, Central and North Africa.

Comments and suggestions can be sent to:

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