The Programme for Infrastructure Development in Africa:
Transforming Africa through Modern Infrastructure

Financing PIDA Projects

A doubling of current infrastructure spending will transform Africa into a vibrant economy and unlock strong, shared and sustainable growth.

The Programme for Infrastructure Development in Africa (PIDA) is a continental initiative aimed at establishing a common agenda for mobilizing resources for the effective expansion and maintenance of infrastructure in Africa. It provides a ready-made list of priorities that address physical infrastructure needs and the soft infrastructure issues. It is based on extensive regional consultations, takes into account regional and national infrastructure plans, and enjoys political support at the highest level having been approved by African Heads of State and Government at their 18th Summit held in Addis Ababa, Ethiopia in January 2012.

With economic growth expected to average 6% per annum for the next thirty years, with per capita incomes rising to US$10,000 driven by a surging population, increasing levels of education and technology absorption, Africa presents an appealing prospect to investors.

Pursuing ***"Africa's growth and prosperity agenda"*** will swell the demand for infrastructure, placing Africa on an unstoppable growth trajectory as the continent gets more interconnected and integrated:

- Power demand will increase from 590 terawatt hours (TWh) in 2010 to more than 3,100 TWh by 2040

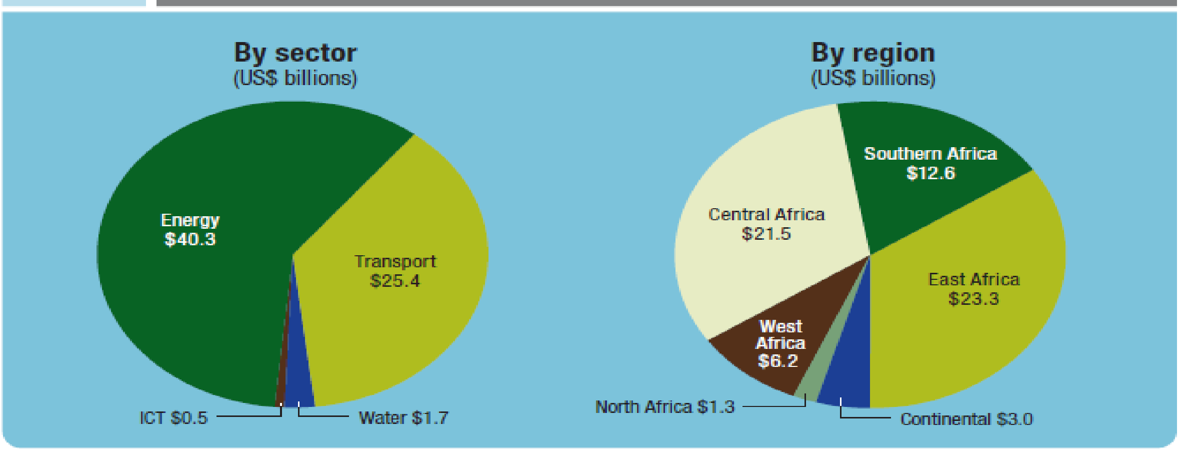
- Transport volumes will increase 6-14 times with port throughput rising from 265 million tonnes (2009) to more than 2 billion tonnes

- ICT demand will swell by a factor of 20 before 2020. Demand of 300 gigabits (2009) will reach 6,000 gigabits by 2018

- The demand for irrigated agriculture will double and shared watercourse systems will be better managed ensuring water security across Africa.

The total estimated cost of implementing all the projects identified in PIDA to address projected infrastructure needs by 2040 is US$360 billion. The PIDA Priority Action Plan (PAP), which comprises 51 priority infrastructure back-bone projects and programmes in energy, water, transport and ICT requires investment of US$68 billion to be realised by 2020. **Of this, the biggest demand for investment is for energy accounting for US$40.3 bill or 60% of the PIDA PAP programme followed by transport at US$25.4 bill or 37% and water at $1.7 bill or 2.5% and ICT accounting for only $0.5bill or less than 1% because the basic ICT infrastructure network in Africa is now largely in place.**

Figure 1 **Total capital cost of PIDA's PAP by sector and region: $67.9 billion through 2020**



PIDA estimates that domestic sources (public or private) will meet 50% of the cost by 2020, with the share growing to 66% by 2030 and as much as 75% by 2040. Official development assistance (ODA) will continue to play an important role, but will not be enough and will need to be used innovatively to leverage investments particularly from the private sector.

Countries will have to mobilize their own public and private domestic resources and attract foreign private investment. To attract private investment countries need to ensure a competitive market based on clear legislation with enforcement of commercial law and transparency in procurement. Investors also seek effective banking systems, the presence of local skills and good PPP management skills on the part of public sector counterparts.

The PIDA PAP presents investment opportunities across different sectors in the construction (expansion or new), maintenance and management of:

- Thousands of kilometres of road;
- Existing and new ports, railways and airports;
- Large new dams, hydropower plants and irrigation schemes;
- Oil pipelines; and
- ICT land-based and mobile infrastructure.

Projects and programmes in the PIDA PAP have been selected on the basis of feasibility and readiness, and many of them are already in the S3/4 – S3: programme/project structuring and promotion to obtain financing and S4: implementation and operation – phases of preparation. Several of these projects present opportunities for private sector investment and participation in the form of public private partnerships.

PIDA will be financed from multiple sources, public, private, a combination of the two through PPPs as well as from domestic and development partner resources. However, PIDA will also require innovative financing approaches to mobilize additional resources:

Infrastructure bonds are used by many countries today. Through them, South Africa finances toll roads, municipal infrastructure and other public utility provided infrastructure in the transport, water and energy while Kenya has raised nearly US$1 billion over the last four years to fund road, energy, water and irrigation projects. The Southern Africa Development Community, Common Market for East and Southern Africa and East African Community (Tripartite) are considering issuing regional infrastructure bonds.

Loan guarantees, which help assure private investors, are crucial to implementing productive PPPs, as shown by the Maputo Development Corridor. When financing one of its toll-road projects, a road between Johannesburg and Maputo, South Africa found equity partners willing to invest in the project, but only if guarantees were made available. Working with the Development Bank of Southern Africa (DBSA), the South African government issued subordinated debt to underwrite the risk, giving equity investors the comfort to invest in the first PPP in South Africa.

Community levies - at the regional level, the RECs can also play an important role in innovative financing. For example, the Economic Commission for West African States (ECOWAS) has been implementing a 0.25% community levy. This is a model which can be replicated in other regions of Africa.

New financing partnerships – The BRIC (Brazil, Russia, India and China) countries are already playing an important role in financing Africa’s infrastructure. This new financing partnership between the BRIC countries and Africa needs to be further leveraged. Apart from finance, these countries are also an important avenue for technology and skills transfer through business partnerships.

Project preparation: The annual expenditures to prepare PIDA PAP projects is expected to amount to about US$200 million a year. African countries and partners need to ensure that project preparation finance is aligned or consolidated to avoid duplication of products and facilities that will continue to act as a brake on project development and ultimately delivery. This also entails scaling up of existing project preparation facilities such as the NEPAD Infrastructure Project Preparation facility (NEPAD-IPPF) hosted by the African Development Bank to respond to the urgent need to prepare PIDA projects.

Africa Infrastructure Finance Facility – The proposed Africa Infrastructure Finance Facility (AIFF) by the African Development Bank anchored on the reserves of African Central Banks as well as Pension, Insurance and Sovereign Wealth Funds (SWFs) provides an exciting opportunity to up-scale infrastructure financing for Africa.

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