



Enhancing investment in infrastructure: Lessons from Africa

Adeyinka Adeyemi
Senior Advisor and Head,
Regional Integration and
Infrastructure Cluster
Capacity Development Division
NEPAD Focal Point

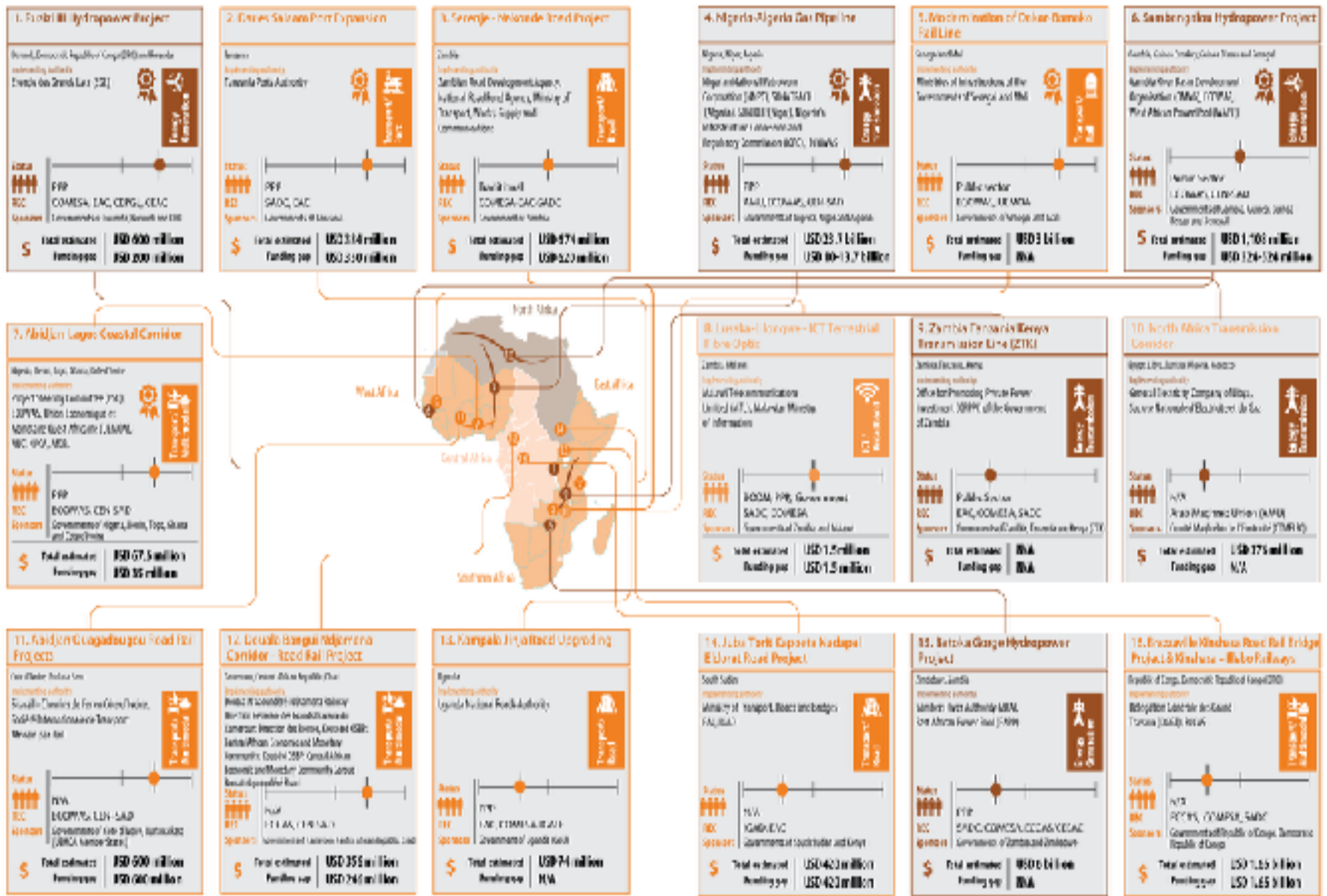
Expert Group Meeting on Financing Infrastructure Development for Enhanced
Integration of LLDCs into Global Trade

UN-OHLLRS,

October 4-5, 2017

New York

DFS 16 PROJECTS



Status of infrastructure projects in Africa

PIDA PROJECT	RESULTS
Abidjan-Lagos Corridor - acceleration programme	<p>Infrastructure legal framework approved</p> <p>Corridor Development Investment Plan</p>
North-South Corridor	<p>MoU signed</p> <p>Financiers Conference held for Dundo-Diary Ferry, Funché Town, Naha, Mata Pandamane ngá, Palanya Martindó City, Senche, Naxende Roads</p> <p>Coordination mechanism & non-physical design of physical facilities for DNDP</p> <p>MoU signed on the DNDP, Naxende Turcuma</p> <p>Preparation of Feasibility Studies, Detailed Engineering Designs and Tender Documents (Harare conference for JICA, E.U. MDAT, in Off-Joaze Road in Malawi); 120 Km Bujumbura to Gwanda and 200 Km Gwanda to Harare Road Links in Zimbabwe; Serrão to Mipite Links (333.3 Km)</p>
Central corridor - acceleration programme	<p>Feasibility Study and Detailed engineering (Design Report) - (Uganda, Cameroon, DRC, Rwanda)</p> <p>Funds for detailed Feasibility study and Detailed Engineering Design secured for Central Corridor & Harare Road Link</p>
Zambia-Tanzania-Kenya Interconnection	Financiers conference
Dakar-Bamako rail revitalization project	Funding received - Yes
Kinshasa-Brazzaville Bridge Road and Rail	<p>Infrastructure and legal framework</p> <p>Implementation - Yes</p>
Inga-3 Hydro	<p>Project Coordination mechanism established</p> <p>ETA ready for finalisation</p>

Lamu Port South Sudan Ethiopia Transport Corridor (LAPSSET) Djibouti Corridor	<p>Regional coordination mechanism in</p> <p>Technical studies for Djibouti - Lamu - Addis Ababa project supported</p> <p>Project packaging</p>
Lobi to-Walvis Bay-Ndola-Lubumbashi Corridor Northern corridor	<p>MoU signed</p> <p>Project packaging</p> <p>Corridor Investment Development Utilization studies</p>
North-South Transmission Line	GIS Maps
IGAD Regional Infrastructure & Corridors ICT - Missing Links (EAC, SADC, COMESA, UMA) & Harmonisation of laws and regulations (UMA)	Studies updated, project titles prepared
Madagascar Transmission Line Aquifer system of Lullemeden and Taoudeni/Tazrouft	<p>Pre-feasibility study</p> <p>Feasibility studies</p>
Batoka Gorge Lilongwe-Lusaka Optical fiber link	<p>Financiers Conference</p> <p>Project Status Updated, Open access agreement</p>
Addis-Chartoum Rail	Acceleration plan
TAH4: Nairobi-Addis Ababa-Khartoum-Wadi Harfa Highway	Legal and Regulatory Framework and Institutional Framework for One Stop Transport Port
TAH 8: Bangui to Bujumbura, Kisangani to Kampala Roads	<p>MoU signed</p> <p>Funds secured for Project Preparation - To build Ouangui Bridge and Bangui to Bimund Boudrane and Kisangani to Uganda Border</p>

Source: NEPAD Agency, 2017

UNECA.ORG

Private Investment

ECA Response

There are many challenges facing investment in transboundary infrastructure in Africa, but the two challenges that have emerged from experts and potential investors are:

Plethora of policies, laws and regulations which inhibit private sector investment and curb its enthusiasm

Specific risks associated with investment in transboundary infrastructure in Africa

Developed continent wide model law to enhance investment in transboundary infrastructure



Comprehensive study of risks that pertain to investment in transboundary infrastructure in Africa.



Source: ECA, 2014, 2016, 2017

UNECA.ORG

Fallacies



Investment in transboundary infrastructure in Africa is beset by three giant fallacies:

1. Africa is too risky
2. There are too many divergent laws, policies and regulations
3. Investment opportunities are scarce

On risks

Safety Rank	Country Name	Average Rank	CPI2013	DB2014	FSI2014
183	Libya	165.7	172	187	138
184	Eritrea	166.7	160	184	156
185	Central African Republic	169.3	144	188	176
186	Haiti	170.0	163	177	170
187	Afghanistan	170.3	175	164	172
188	Democratic Republic of Congo	170.7	154	183	175
189	Guinea-Bissau	171.5	163	180	
190	Chad	175.0	163	189	173
191	Somalia	176.0	175		177
192	South Sudan	179.0	173	186	178



Indicators used: Corruption/rule of Law; Business Environment; Social and Political risk

Rankings used: Corruption perception index (TI); Ease of Doing Business (WB); Fragile State Index (Funds for Peace)

Source: <https://www.investmentfrontier.com>

UNECA.ORG

On Risks...

1. Apart from DRC, non of the “risky” countries in Africa is in the DFS 16. Risk=High returns.
2. In spite of “low risks” in developed countries, their markets and investments collapsed in 2008.
3. Error of aggregation (Can we lump CAR, Somalia and S. Sudan with S. Africa, Nigeria, Mauritius, Botswana?)



Four recent key findings

1. Risk premium is higher for Africa : Due to perceived risk and cost of capital, internal rate of return for securing partners and investors is 16-20%; Other developing countries: 11-15%
2. Greater support required in Africa during project development (political support, risk mitigation, development institutions, incentives, etc)
3. Greater difficulty in securing qualified professionals. Difficulty to secure a qualified project developer is 7.6 versus 5.0 for Asia and 4.6 for Emerging Europe (on a scale of 1-10, where 10 is hardest).
4. Project developers in Africa face more challenging roles (securing off-take agreements, negotiating with Governments, securing risk mitigation, etc.)



Source: Private Sector Project Developers: Scaling Investable Infrastructure in Africa (Africa Investor/Global Clearinghouse of Development Finance, 2017)

UNECA.ORG

Dealing with risks



1. Watch what Africans are doing (Are they investing or divesting?)
2. Watch what China is doing
3. Exploit the “wimp factor” of the competition.
4. Exploit poor state of infrastructure

What Africa is doing...

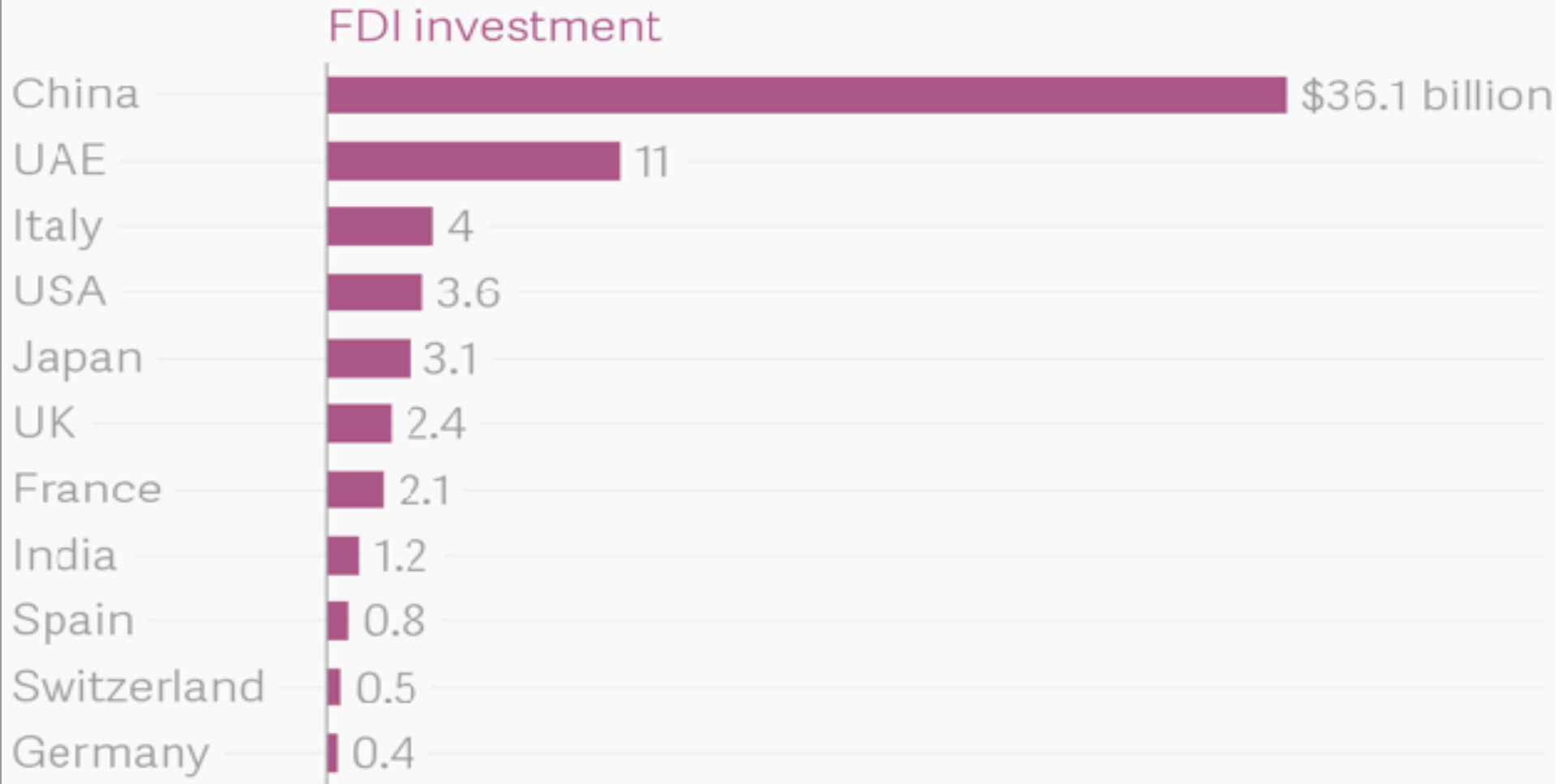


- South Africa, Nigeria, Morocco, Kenya and Egypt, accounted for 58% of Africa's total FDI projects in 2016.
- By 2025, African countries will spend over \$180 billion on infrastructure.
- By 2025, Nigeria will spend \$77 billion on infrastructure, up from \$23 billion in 2013. (World Bank)
- By 2025, South Africa will spend \$60 billion on infrastructure, up from \$22 billion in 2012.
- Investment climate has improved in Africa through business-friendly reforms and democracy.
- High level political will exist: DFS 16, PIDA, Agenda 2063, 2030 Agenda, PICI.

Watch what China is doing



China was Africa's largest foreign investor in monetary terms in 2016



Source: Ernst & Young's Attractiveness Program Africa , 2017

UNECA.ORG

Watch what China is doing



- Foreign Direct Investment (FDI) from China to Africa grew sharply with a 106% rise in projects, according to Ernst & Young's Attractiveness Program Africa 2017.
- In comparison, FDI projects in Africa by the US and UK fell 5.2% and 46.8% respectively.

The Investment Case

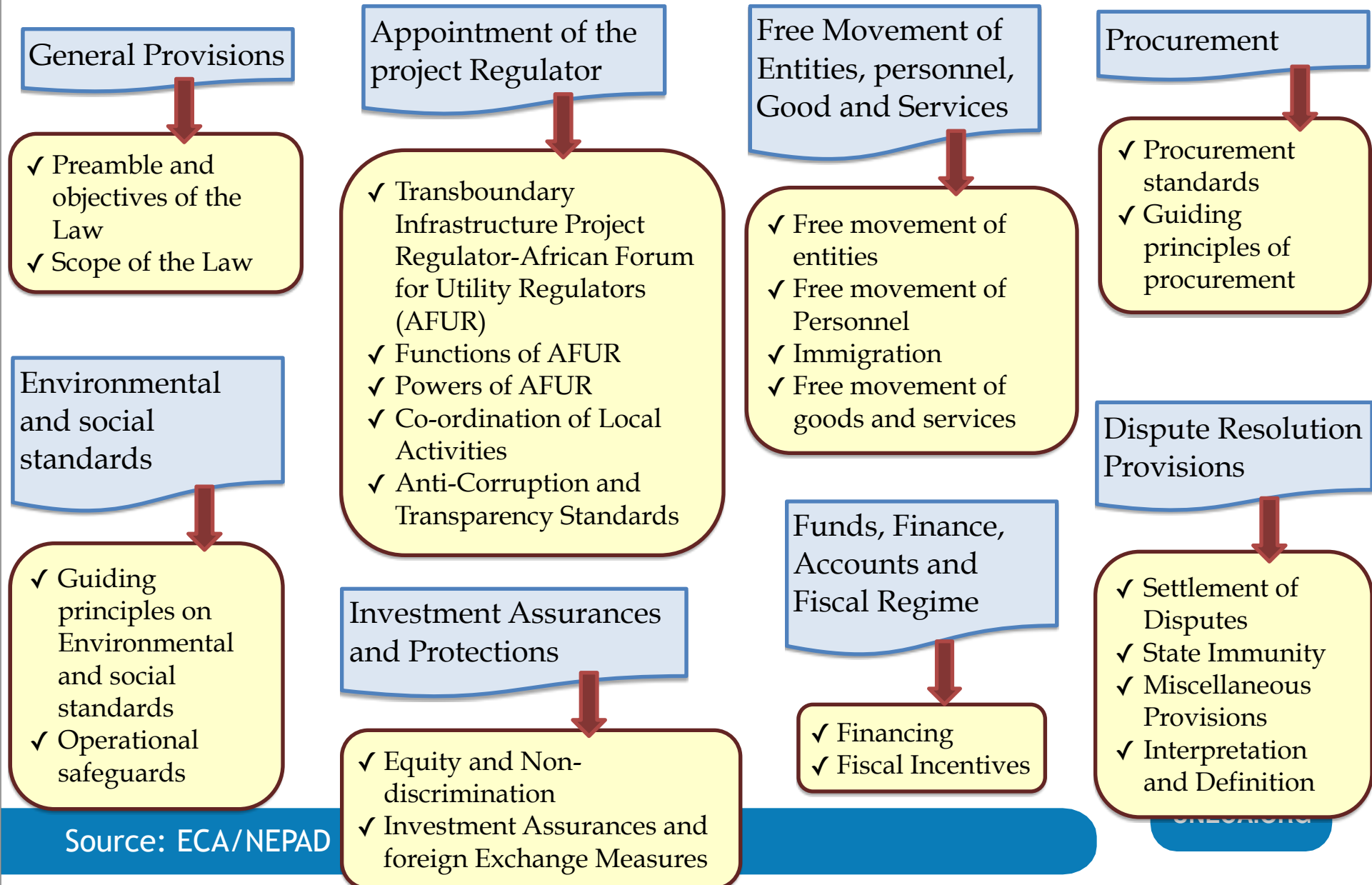


- Pension Funds are eager to increase investment in infrastructure in Africa (Eskom, second largest in South Africa will increase investment to 15%).
- Johannesburg Stock Exchange says *“infrastructure firms exhibit lower revenue volatility and higher payout ratios (dividends to revenue) than any other group of private or public firms”*
- There is now a **continental model law in Africa** which addresses concerns of foreign investors
- Comprehensive risk mapping of DSF 16

Source: ECA 2017; Johannesburg Stock Exchange, 2017

UNECA.ORG

A Model Law framework in 8 sections and 23 Articles



Source: ECA/NEPAD

A Model Law for transboundary infrastructure projects in Africa

The objects of the Model Law are to:

- à Facilitate private sector investment and financing in Transboundary Infrastructure Projects;
- à Ensure transparency, efficiency, accountability and sustainability of Transboundary Infrastructure Projects;
- à Harmonise cross-border regulation of Transboundary Infrastructure Projects; and
- à Promote intra-African trade and open domestic markets to international trade.

Source: ECA/NEPAD Agency 2017



Africa can fund its priorities with domestic resources:



- \$520 billion annually from domestic taxes
- Remittances steadily increasing (\$10 billion annually)
- \$168 billion annually from minerals and mineral fuels
- Banking revenues are estimated at about \$60 billion
- International reserves amounts to \$400 billion
- \$50bn annually in Illicit Financial Flows
- Stock market capitalization was estimated at \$1.2 trillion in 1977. In 2016, Johannesburg Stock Exchange held \$0.9 trillion

Africa's Equity Markets



- South Africa \$970 billion
- Namibia \$137 billion
- Nigeria at \$114 billion
- Morocco at \$55 billion
- Egypt \$54 billion
- Ghana \$28.2 billion
- Kenya \$20.6 billion

Note: \$93 billion needed yearly till 2020 for Africa's infrastructure

Source: <http://www.africatrictlybusiness.com/lists/africas-equity-market-capitalization>.

UNECA.ORG

Enhancing infrastructure investment in LLDCs



1. Harness/integrate various frameworks (AAAAA, VPoA, SDG, Agenda 2063, etc) into a coherent strategy.
2. Forge partnerships (AU, NEPAD, ECA) to implement Model Law on investment in transboundary infrastructure.
3. Forge partnership on the 5% Pension Funds campaign (NEPAD, ECA). Exploit Domestic resources.
4. Use infrastructure champions (eg Dangote)
5. Advocacy: What Africa, China others are doing; exploiting poor state of infrastructure



THANK YOU!

more info: adeyemiy@un.org

UNECA.ORG