Enhancing investment in infrastructure: Lessons from Africa

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## Status of infrastructure projects in Africa

### PDA/Project

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-South Corridor</td>
<td>MOUs signed. France, Côte d'Ivoire, Benin, Togo, Ghana, Nigeria and South Africa agree on project funding and implementation.</td>
</tr>
<tr>
<td>Central corridor acceleration programme</td>
<td>Feasibility study completed. Arid project completed. Pipeline from N'Djamena to Drass - Douala-Kribi.</td>
</tr>
<tr>
<td>Zambia-Tanzania-Kenya interconnection</td>
<td>Feasibility study completed. Pipeline from N'Djamena to Drass - Douala-Kribi.</td>
</tr>
<tr>
<td>Dakar-Bamako rail revitalization project</td>
<td>Feasibility study completed. Pipeline from N'Djamena to Drass - Douala-Kribi.</td>
</tr>
<tr>
<td>Kinshasa-Brazzaville bridge road and rail</td>
<td>Inception and legal framework</td>
</tr>
<tr>
<td>Inga-3 Hydro</td>
<td>Initial feasibility study completed</td>
</tr>
</tbody>
</table>

### Project Status

- **Lamu Port South Sudan Ethiopia Transport Corridor (LAPSSET)**: Details not specified.
- **Dilboi-B Market Corridor Northern corridor**: Details not specified.
- **North-South Transmission Line IGAD Regional Infrastructure & Corridors**: Details not specified.
- **ICT - Missing Links (EAC, SADC, COMESA, UMA) & Harmonisation of laws and regulations (UMA)**: Details not specified.
- **Madagascar Transmission Line Aquifer system of Iullemeden and Tazoudent/Tazoult**: Details not specified.
- **Batoka Gorge Lloungwe-Lusaka Optical fiber link Addis-Khartoum Rail TAH 8 Nairobi-Addis Ababa-Khartoum-Wadi Halfa Highway TAH 8: Bujumbura, Kigali to Kampala Roads**: Details not specified.

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**Source:** NEPAD Agency, 2017
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

ECA Response:

- Developed continent wide model law to enhance investment in transboundary infrastructure

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

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

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

**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)
1. Apart from DRC, none of the “risky” countries in Africa is in the DFS 16. Risk=High returns.

2. Inspite 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.)
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.

Source: ECA
## Watch what China is doing

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

### FDI investment

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$36.1 billion</td>
</tr>
<tr>
<td>UAE</td>
<td>11</td>
</tr>
<tr>
<td>Italy</td>
<td>4</td>
</tr>
<tr>
<td>USA</td>
<td>3.6</td>
</tr>
<tr>
<td>Japan</td>
<td>3.1</td>
</tr>
<tr>
<td>UK</td>
<td>2.4</td>
</tr>
<tr>
<td>France</td>
<td>2.1</td>
</tr>
<tr>
<td>India</td>
<td>1.2</td>
</tr>
<tr>
<td>Spain</td>
<td>0.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.5</td>
</tr>
<tr>
<td>Germany</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s Attractiveness Program Africa, 2017
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
A Model Law framework in 8 sections and 23 Articles

General Provisions
- Preamble and objectives of the Law
- Scope of the Law

Environmental and social standards
- Guiding principles on Environmental and social standards
- Operational safeguards

Appointment of the project Regulator
- Transboundary Infrastructure Project Regulator-African Forum for Utility Regulators (AFUR)
- Functions of AFUR
- Powers of AFUR
- Co-ordination of Local Activities
- Anti-Corruption and Transparency Standards

Free Movement of Entities, personnel, Good and Services
- Free movement of entities
- Free movement of Personnel
- Immigration
- Free movement of goods and services

Procurement
- Procurement standards
- Guiding principles of procurement

Dispute Resolution Provisions
- Settlement of Disputes
- State Immunity
- Miscellaneous Provisions
- Interpretation and Definition

Investment Assurances and Protections
- Equity and Non-discrimination
- Investment Assurances and foreign Exchange Measures

Funds, Finance, Accounts and Fiscal Regime
- Financing
- Fiscal Incentives

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.
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

Enhancing infrastructure investment in LLDCs

1. Harness/integrate various frameworks (AAAA, 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!

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