STRATEGIC APPROACHES FOR THE G-20 TO SUPPORT AFRICA'S INFRASTRUCTURE DEFICIT

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Framing the Issue

Currently, very few issues command the intense and focused attention of governments or require the scale of financing as infrastructure development in Africa. With rapid growth and sound macroeconomic fundamentals over the last decade, many governments on the continent missed an opportunity to invest in transformational infrastructure projects. As a consequence, poor infrastructure is slowing growth and is also among the greatest threats to peace and stability in the region. Recent estimates suggest that Sub-Saharan Africa needs $93 billion a year to upgrade its ailing systems.

The scale of needed investments is daunting and there is a lack of an overall framework to address the issue. The G-20's involvement, therefore, can help governments, donors and the private sector identify and prioritize their projects. Set against a backdrop of a slowing world economy and the need for multiple poles of growth, infrastructure development offers a long-term solution to many of today's challenges. Countries can create jobs, stimulate their economies and provide lucrative investment opportunities for the private sector, while upgrading their insufficient communications, transportation and utility networks.

Given the magnitude of the challenge, success can only be obtained when there is transformative leadership on the continent driving this agenda; however, there is a substantial gap between the G-20 rhetoric and African leadership. The G-20 has already succeeded in raising awareness for creating an attractive environment for private sector investment; now they can help to create the conditions that enable sustainable infrastructure development. This will require both the ability of the G-20 to assess commitment from African leaders and a commitment from the public and private sector.

Policy Considerations

The G-20 faces three main challenges to African infrastructure development that must be addressed in addition to raising resources for feasibility studies. The G-20 has asked the international financial institutions to draw up a list of potentially viable projects which they could support by providing funding for feasibility studies.

First and most importantly, both innovative leadership and predictable market enhancing policies with credible implementation agencies are needed. Countries must have leaders willing to undertake transformational projects such as Kenya's Geothermal KenGen project or Senegal's highly ambitious wind farm power generation project *Parc Eolien Taiba Ndiaye*. These leaders must also be willing to support and build credible institutions that can broker exchanges between the private and public sector, as the nation's economy opens for investment. Successful projects on the continent in the last decade, such as Morupule in Botswana and the West Africa Power Pool, all benefitted from direct and committed leadership. No important infrastructure projects on the continent have been successful without the direct involvement of its leaders. As the private sector knows, a project list developed and propagated by external bodies that lacks strong African leadership will not succeed.

An example of successful leadership and institution building in Africa is in the information and communication technology sector. Across the continent, the availability and quality of service has increased, while the cost has decreased. In just 10 years, mobile network coverage rose from 16 percent to 90 percent of the urban population; by 2009, rural coverage stood at just under 50 percent of the population. Mobile networks cover 90 percent of Africa's urban population and there are 247 million more mobile network users in Sub-Saharan Africa than there were in 2008. Leadership, effective institutions and private sector participation have been critical to this accomplishment.

Second, while the scale of financial resources needed appears enormous, the issue is not the availability of funds but rather their allocation to viable bankable projects. There is a significant amount of capital available for infrastructure funding from the private sector and the international financial institutions. However, these resources are not enough to satisfy the global demand for infrastructure, estimated at $1.3 trillion. As a result, African countries need to compete for these limited resources by creating a strong enabling environment for investment in infrastructure. This includes adequate regulatory regimes, such as appropriate tariff frameworks, as well as predictable government policies implemented by credible agencies. Countries must demonstrate that there is a suitable and competitive market environment in which firms can operate.

The third issue is the capacity within government to access and negotiate projects. Project preparation, feasibility and negotiation skills are costly. Like many developing countries' central banks, the international community should endorse, within government, the creation and development of market-based infrastructure project development teams who are appropriately incentivized and accountable for seeing projects through to completion. While these skills are costly, we know that their absence can be even more detrimental and onerous. For many countries and firms, the delays and reputational risks incurred from lengthy contract renegotiations, project redesign and/or perceived unbalanced contracts is substantial. As a pre-requisite for subsidizing feasibility studies, the G-20 should mandate the creation of an adequately funded infrastructure project unit or multidisciplinary teams, which have comparable international expertise to design and negotiate complex contracts. By utilizing its own resources to establish such an expensive unit, the government will enhance the credibility of its leadership and build confidence within the private sector.

Action Items for the G-20

Development agencies have an important role to play in supporting governments and designing appropriate instruments for project implementation. Several development financial institutions are now working with governments to help provide funds and experienced professionals dedicated to the early stages of infrastructure project development in Sub-Saharan Africa. These multilateral and bilateral institutions are testing different ways to support project preparation and project development in Africa, including through the creation of stand-alone facilities to promote and develop private infrastructure projects.

The G-20 has successfully rallied the development community and the private sector around the infrastructure agenda in Africa, but they can still do more. To reap the full benefits of its efforts, the G-20 must require proportional levels of effort and commitment of African leaders. To continue encouraging African infrastructure development and to ensure high quality project output, the G-20 should require the following:

- There must be clear government and institutional leadership for projects as reflected in government strategy documents and the budget;
- There must be a conducive policy and regulatory environment for infrastructure project implementation including: adequate regulatory regimes; appropriate tariff frameworks; and predictable government policies implemented by credible agencies; and
- The country must demonstrate its commitment to infrastructure development by creating an international caliber project preparation unit.

These pre-requisites will help the G-20 focus and prioritize infrastructure project development and support. In addition, implementation of these measures should not require substantial additional resources and could accelerate infrastructure development on the African continent. In fact, if these issues are addressed, the public resources needed for feasibility studies may be substantially reduced, meaning the funds could be used to address other roadblocks to development.