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Donors Versus Investors in Southern African Infrastructure Development

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The Southern African Development Community (SADC) suffers from a critical lack of regional infrastructure that, if remedied, could boost both intraregional trade and economic integration, while making the region more investor friendly. Regional integration is particularly important owing to the challenging economic geography with small, uncompetitive and inefficient member states (MS). Regional infrastructure offers economies of scale for all MS when it comes to projects such as power and information and communication technologies (ICT).

The region is rich in ideas and plans on regional infrastructure development. SADC has recently developed the Regional Infrastructure Development Master Plan (RIDMP) Vision 2027 that identifies six priority sectors for development: energy, transport, tourism, ICT, meteorology, and water. This regional plan aligns with various other continental infrastructure development plans, including the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, which developed a series of regional infrastructure development programmes and projects, focusing on both soft and hard infrastructure; the Programme for

Infrastructure Development in Africa, which seeks to consolidate various regional infrastructure development plans into one coherent continental plan with attendant implementation strategies; the Infrastructure Master Plan for the Tripartite Initiative composed of the Common Market for Eastern and Southern Africa, East African Community and SADC; the Presidential Infrastructure Champion Initiative; and the World Bank African Infrastructure Country Diagnostic Study.

One of the biggest challenges for the implementation of these plans is that of funding for the projects. Regional projects are a challenge for financing, as they are complicated by: '(1) coordination failures; (2) front-end risks and costs; (3) regulatory and political risks, influenced by legacy actions of previous governments (even in neighbouring or similar countries); and (4) distortions and political influences in the allocation of grant financing'.[1] However, successes have been achieved in the implementation of 'soft' projects, which involve policy, planning and feasibility studies that are financed by donor grants. The actual 'hard' project implementation suffers from a dearth of funding, largely because the projects are complicated by the vast array of cross-country stakeholders with different interests in the projects and with the associated risk of some stakeholders not living up to their commitments. There is also the issue of some sectors where infrastructure does not earn enough revenue for running expenses, for the maintenance of the infrastructure, or even to sustain expansion of the infrastructure. As a result, regions find themselves with a demand for investment in new infrastructure as well as investment in the maintenance of existing infrastructure.

With specific reference to the SADC RIDMP and its six priority sectors, there are huge demands for investment in all the identified sectors. In energy, the estimated investment costs amount to $62 billion for the short term, $39 billion for the medium term and $72 billion for the long term, bringing the total estimated amount to $173 billion. The estimated total cost of the various projects identified by the RIDMP, including the creation of transfrontier conservation areas, is $1.1 billion. The transport sector requires $100 billion for the various roads, railways, inland waterways, land borders, and air and sea ports. Implementation of ICT-related projects requires $383.4 million. Meteorology infrastructure needs a $125 million injection for full implementation, while the water sector needs an estimated $16 billion investment boost.

Thus there is a significant funding gap and, particularly in the aftermath of the global financial crisis, it is highly unlikely that resources from official development assistance will increase. Public investment in infrastructure by national government is also unlikely to meet the funding gap, especially with other competing interests and public needs. Meeting the funding gap resides with the private sector; and governments and regions need to do more to harness this additional source of investment for infrastructure development. All in all, the RIDMP needs about $500 billion, of which at least $100 billion will have to be sourced from the private sector for the successful implementation of the plan. There are, however, various challenges that come with trying to harness the private sector for infrastructure development projects.

MAIN ACTORS INVOLVED IN PROJECT FUNDING

There is a plethora of actors involved in the financing of infrastructure development projects in SADC and more generally in Africa. Most of the research sources address funding within the African infrastructure development context, and SADC is included within this basket. The primary actors involved are national governments, continental and regional development finance institutions (DFIs), traditional and new development partners (also donors), multilateral institutions, and investors from the private sector. The traditional development partners are mostly governments and development agencies from advanced industrial economies of the West, whereas the new development partners are the major emerging economies of the world, primarily China, India and Brazil.

African governments fund infrastructure development projects through public funds, and such projects are just included in the national balance sheet. Several governments have also created investment promotion agencies for the sole purpose of investment

1 Kharas H & K Sierra, *Time for a Big Push on Infrastructure in Africa: What the G-20 Can Do*, Policy Paper, 2011–08. Washington, DC: Brookings Institution, 2011.

generation and information dissemination. The priority of these agencies is to attract investment into the countries and to sometimes also create and manage investment incentives. All these donors have different areas of focus. Table 1 outlines some of the different initiatives undertaken by the regional institutions and some of the traditional donors.

Table 1: Various actors and some of their activities in infrastructure development in the region

Actor	Activities
African Development Bank (AfDB)	Houses the NEPAD Infrastructure Project Preparation Facility, which is a fund that aims to assist African countries, regional economic communities, specialised agencies, and related institutions by providing grant resources for infrastructure development. Houses the African Water Facility. Hosts the Enhanced Private Sector Assistance Initiative and Accelerated Co-Financing Facility for Africa (supported by Japan) and funds projects on a concessional basis. Hosts the Pan-African Infrastructure Development Fund, which is a close-end private equity fund designed to invest in infrastructure projects in the energy, transport, ICT, water and sanitation sectors. Currently exploring innovative financing for infrastructure, such as diaspora bonds, which is one of the most common alternatives touted and would be used to mobilise the savings of African nationals living abroad.
Development Bank of Southern Africa (DBSA)	Performs different roles, at various stages of projects, as financier, advisor, development partner and implementer.
World Bank Group	Established the Infrastructure Recovery and Assets Platform in 2009, which was designed to support infrastructure development during the global economic crisis.
International Finance Corporation	Established the Infrastructure Crisis Facility, which was designed to provide financing for privately funded or public–private partnership (PPP) infrastructure projects in emerging economies affected by the financial crisis.
Japan Bank for International Cooperation	Houses the Facility for African Investment, which provides financing to Japanese investors for infrastructure projects in African countries.
Japan International Cooperation Agency (JICA)	Supports the development of the Nacala and North–South Corridor.
EU–African Union Infrastructure Partnership	Hosts the Infrastructure Trust Fund, which is a combination of grants from the European Investment Bank and other bilateral European financing institutions.
Infrastructure Consortium for Africa	Seeks to promote and increase investment in infrastructure development in Africa from both public and private sources.
Private Infrastructure Development Group	Comprises a coalition of donor agencies that invest in infrastructure development projects in the developing world.
G-20	Identifies infrastructure development as one of its key pillars in its multiyear action plan.
UK Department for International Development (DFID)	Conducts feasibility studies for the SADC RIDMP, and supports the development of specific projects within the RIDMP and feasibility projects up to a point where projects are bankable.

Among the traditional development partners, the World Bank, EU institutions, Japan, Germany and France are some of the largest funders of infrastructure development in Africa. This is, however, based on aggregated data; and the disaggregated picture is quite different. Other notable development partners, who are also donors, include DFID (UK), the Agence Française de Développement (France), the US Agency for International Development (USAID), the Gesellschaft für Technische Zusammenarbeit (Germany), and JICA (Japan).

The new development partners that are involved in infrastructure financing and development in Africa, particularly sub-Saharan Africa, are China, India and Brazil, with China being the primary development partner. Some estimates have even suggested that China has outpaced the World Bank in terms of its contribution to African infrastructure development. The engagement of these countries with Africa is also notable for the involvement of the private sector and DFIs in the infrastructure projects as well as other economic engagement. The new development partners do not engage at a regional level; rather, their engagement is almost exclusively bilateral, although they have shown an interest in the development of transport corridors. Nonetheless, having premised their own growth on domestic infrastructure development, the development partners have focused on Africa's infrastructure development needs, although some of the infrastructure development has been focused on facilitating the export of natural resources. For a long while, infrastructure development had been neglected by the traditional donors in favour of social development needs. This is a gap that the development partners have sought to fill, even though the traditional donors have refocused their attention on infrastructure development as one of the key requirements for economic growth and development. Indeed, it has been argued by some that the non-traditional development partners have a competitive advantage in infrastructure compared with the traditional donors, especially as they are able to draw on their own development experience, having been development aid recipients themselves, in their engagements with Africa.[2]

2 UN, Office of the Special Advisor on Africa, *Aid to Africa*, Policy Brief, 1, NEPAD–OECD Africa Investment Initiative. New York: UN, 2010.

Lastly, private investors are also role players in the infrastructure development sector. The role of the private sector in infrastructure development has been increasing slowly since the 2000s, largely because of investments in the ICT sector. The private sector can be key in filling the infrastructure funding gap in the region, but is not able to fulfil this role adequately owing to a number of challenges that will be discussed in the following section.

One issue that arises from the multiplicity of donors and other development partners in the infrastructure sector, is that of aid fragmentation and duplication of effort, particularly as bilateral donors engage with individual countries and disburse small amounts for small infrastructure projects that are not linked to regional plans, even if they have regional relevance. Some donors have since sought to channel their financial resources to multilateral institutions that are better placed to select regional infrastructure projects to invest in, and have created specialised programmes for that particular purpose. This also assists with leveraging different types of funding, including from other donors.

PROCESS OF INFRASTRUCTURE INVESTMENT

The challenge for infrastructure investment is two-fold: addressing the infrastructure funding gap and making infrastructure investment efficient. This points to a critical aspect in resolving these challenges, namely bringing in private-sector participation. Although the development partners are still relevant and critical to the infrastructure development process, the funding they provide is insufficient to fully address the funding gap. Traditionally infrastructure development has been aid based. This has created aid dependency when it comes to infrastructure development, and it is only now that governments and other stakeholders have started looking at ways in which to diversify the funding pool. This aid dependency has left a legacy of project proposals that have no commercial underpinning and are thus unattractive to private investors. This is also owing to insufficient resources available for project preparation. The problem is thus not the lack of projects, but rather the lack of 'bankable' projects. Some of the projects for which funding is sought are not 'bankable' because of poor commercial rationale, very high-risk profiles, and with imprecise outputs for outcomes, which makes them both unattractive and increases the cost of credit. There is an urgent need for donors to focus on project preparation as well and factor this into total investment costs; otherwise it will remain difficult for the region to attract private investors.

Most bilateral donors have taken steps to assist recipient counties with their efforts to attract private investment. One of the biggest issues is that some countries do not have the right framework conditions for private investment. This includes macroeconomic instability, poor governance, political instability, weak public administration, corruption and weak legal frameworks. The legal frameworks should properly define the rights and obligations of investors especially considering the high risk involved with investment, particularly within the African context. The policy and regulatory framework therefore has to protect investors and enable them to enforce their rights. Political-economy challenges are another serious obstacle to private investment. Governments are usually hesitant to fully embrace private-sector participation in the infrastructure sector, especially as stakeholders with special interests might be unwilling to have the infrastructure sector in private hands owing to the probable increase of service delivery costs after privatisation, decrease in access to services for the poor, and the perception that the private sector profits disproportionately from their investments. Tanzania and Zambia, for example, have seen the repossession of some service utilities after privatisation and this sends a negative message to private investors. The idea of indigenisation and nationalisation is becoming quite common in the SADC region. Economic empowerment policies, when not properly formulated and implemented, make investors wary. The issue of returns is a thorny one, and countries have to start adopting the 'user pays' principle so that investors are guaranteed returns on their investment.

There is harmonisation of efforts and an embracing of the private sector by donors and multilateral institutions in the sense that they are actively involved, as discussed, in efforts to create the right policy frameworks and enabling environment for private-sector involvement in infrastructure development in Africa. Countries and institutions are involved in various initiatives, with the objective of creating the right framework conditions for private-sector investment in infrastructure development. Examples include the following.

- The NEPAD–OECD (Organisation for Economic Co-operation and Development) Africa Investment Initiative seeks to assist African countries with designing and implementing policy reforms for an enabling business environment.
- The US has created an Africa Infrastructure Programme to assist African countries with infrastructure investment.
- EU members have developed a Joint EU–African Infrastructure Partnership Strategy.
- Japan utilises the Integrated Corridor Based Approach.
- Canada has a Pan-Africa Regional Programme Strategy, which approaches infrastructure development from a trade and regional integration perspective.
- The USAID programme provides technical support and training to African governments to enables them to negotiate huge, complicated deals with the private sector.
- The Millennium Challenge Corporation, from the US, has put together a Private Sector Toolkit for use by partner countries in their negotiations for investment.
- The World Bank Private Infrastructure Advisory Facility provides technical assistance to client governments in the creation of a sound enabling environment for private-sector participation in infrastructure services.
- The World Bank Institute assists developing countries with the creation of PPP agreements through the establishment of enabling environments and proper project preparation.
- In the SADC region, the World Bank Institute is working in partnership with Germany and the DBSA to support a PPP network in the region.

In a nutshell, most development agencies are involved in some form of capacity building or another, aimed at building capacity for private-sector participation in infrastructure.

Most development partners and multilateral institutions realise the need for private-sector participation in infrastructure development. In as much as they differ in terms of approach, donors provide aid and investors look for profitability in the proposed projects and have to be convinced to get involved. There is no competition between the two, but rather complementarities. By being actively involved in harnessing private-sector participation, donors and multilateral agencies are actually facilitating co-ordination between them. This will allow for harmonisation and rationalisation of projects, even among countries for domestic infrastructure development and for regional projects.

Nonetheless, it is important that governments thoroughly understand the private sector and their motivations, and realise that the private sector is sensitive to the market. In the wake of the global financial crisis, private capital was severely diminished. Donors and multilateral agencies, on the other hand, are also sensitive to global development. Because the donors finance the multilateral agencies, when budgets are tightened in donor countries, as has been the case since the global economic crisis, the funding stream for development projects is also affected. The issue is no longer about donors versus investors anymore, but about creativity in sourcing finance for development. There is a need for the region to start looking at innovative financing and new products in the field. Products such as diaspora bonds, infrastructure bonds raised from domestic currency markets, project preparation facilities, equity funds and guarantee products should be seriously considered after weighing up the pros and cons of their usage. The AfDB is already considering alternative finance products, while the Tripartite Initiative is considering the use of regional infrastructure bonds, although underwriting by development partners may still be required to make the products viable. Another suggested option is for countries that are economically stronger, such as South Africa, to explore the possibility of providing greater sovereign backing for their DFIs so they are able to engage in riskier lending to other countries in the SADC region and advance regional integration.

IMPACT OF INFRASTRUCTURE DEVELOPMENT

Infrastructure development projects, if successfully implemented, will facilitate the economies of scale necessary to build a bigger, efficient and more competitive market in the SADC region. The challenge of limited intraregional trade and economic growth will also be alleviated through the successful implementation of infrastructure development projects. There is a degree of connectivity in the region in areas in which infrastructure development has been undertaken, as it has facilitated further movement between countries. For such infrastructure development to succeed, there is a critical need for investment. Multilateral institutions, donors and development partners are already actively involved in infrastructure development but this is not enough, especially as some of them are engaging bilaterally with SADC countries for domestic infrastructure. Governments need to be more pro-active about private-sector investment, provide incentives to the private sector, and create optimum conditions for PPPs. The traditional donors are focused mainly on soft infrastructure, referring recipient governments to PPPs for hard infrastructure funding but, because of the various issues outlined earlier, the private sector is reluctant to invest. There is a need to harness private-sector finance for regional infrastructure development to cover the financing gap. This will strengthen regional integration in the region and facilitate closer economic co-operation, which is currently hampered by inadequate infrastructure that was built to facilitate the export of commodities, tying countries to the position of commodity suppliers and denying them a part in the global value chains.

CONCLUSION

Despite the different approaches to infrastructure financing taken by donors, development partners and the private sector to infrastructure development in the region, this case study finds that the different financing stakeholders actually complement each other. Donors are becoming more co-ordinated in their approach to aid, amid concerns about aid fragmentation and duplication of projects. Recipient countries have actively taken it upon themselves to define the projects that they want and take ownership of the infrastructure development process, which has allowed for a streamlining of donor initiatives at the SADC level. Donor initiatives thus have to reflect the SADC-defined priorities, such as the RIDMP. Development partners, alternatively, tend to focus on domestic infrastructure development, as they draw from their own development experience. This means that even as regional projects are being carried out, countries still have access to investment for domestic infrastructure priorities. The private sector has been less keen to get involved, given the risky terrain and the uncertain policy and regulatory environment. However, donors are working with recipient countries to remedy this and to help create an enabling environment for investment. This facilitates co-ordination among the various actors in the infrastructure sector in the region, with the exception of development partners. Development partners make a very useful contribution to infrastructure development, but SADC needs to develop a strategy for engaging with them to ensure maximum benefits from their contribution.

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