Speaking Notes: The Need for Infrastructure Development in African Countries and the Role of Development Finance Institutions

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- Protocol observations ….

- It is with great pleasure that I make a few remarks on behalf of the Development Bank of Southern Africa (DBSA).

- However, before I begin, let me say the Japanese Government and people are to be thanked for the efforts over the past twenty years in building a strong bond with Africa. The theme for this Tokyo International Conference on Africa Development (TICAD) V, titled: *"Twenty Years of Partnership between Japan and Africa "Hand in Hand with a More Dynamic Africa"* is indeed a testimony of how the Japan – Africa strategic partnership has evolved. I would also like to extend our gratitude at the DBSA to the Japanese International Cooperation Agency (JICA) our key strategic partner in this respect. On behalf of my team, I would like to thank you all for the warmth reception and hospitality on arrival in your beautiful city and country.

- By way of introduction let me say that the Development Bank of Southern Africa's core focus is on infrastructure financing both in South Africa as well as across the African continent. We see our mission as advancing the development of our region by expanding access to development finance and effectively integrating and implementing sustainable development initiatives.

Fundamentally, our objectives are fourfold, namely: promotion of economic development and growth; human resource development; institutional capacity building; and, support of development projects in our region. We also support international, national and sub-national initiatives which seek to build an integrated finance system for development.

- I have been asked to address my remarks to the subject: *The Need for Infrastructure Development in African Countries and Role of Development Finance Institutions (DFIs)***.**

- In May this year, in Capetown South Africa, the World Economic Forum, held its annual Regional Meeting for Africa with the overarching theme "*Delivering on Africa's Promise*". The Forum was held against a backdrop of troubled and uncertain economic prospects for some parts of the World, but increasing levels of global interest in expanding economic opportunities on the African continent. In this context, the most recent IMF forecast[1] - of April 2013, reflects expectations of continued strong relative economic growth momentum on the African continent. While the World Economy is forecast to grow by 4.2 per cent per annum on average over the 2014 to 2018 period, average GDP real growth for Sub-Saharan Africa of close to 5.5 per cent per annum is projected. Over the period, the economies of some 35 African countries are expected to expand by 5 per cent per annum, or more. Placing this regional growth in global context, this performance is second only to the

[1] IMF *World Economic Outlook April 2013. Hopes, Realities and Risks*. International Monetary Fund. Washington DC. April 2013

forecast 7.5 per cent average per annum growth for the rapidly growing Developing Asia region.

- These performance expectations come after a strong relative performance over the past decade and there are strong fundamentals supporting optimism on Africa's longer term prospects. Among these factors are: natural resource bounty; long-term global demand for commodities; rapidly growing trade links with the faster growing economies of the world; a large population with rising household purchasing power; and, progressive realization of intra-African market potential as the level of economic integration increases. Undoubtedly there are major challenges of uneven spatial development, poverty, inequality and youth unemployment to overcome but the long term prospects for Africa's economy are bright.

- However, as observed in the recent WEF sessions in Capetown, lack of infrastructure is a key factor limiting progress in the Continent's development and without accelerated infrastructure development it will be difficult to sustain Africa's growth and development momentum. Infrastructure is needed to enable economic growth, support social development and promote integration of the Region's economies. The African Union has long realised this and some time back repositioned infrastructure development as a key priority in the African Union's Strategic plan to advance the regional integration and socioeconomic development of the continent.

- In January 2012, African leaders endorsed the *Programme for Infrastructure Development in Africa (PIDA)* in Addis Ababa. The programme which is expected to run through to 2040, is targeted at boosting infrastructure development in particularly the transport, energy, and ICT sectors. PIDA calls for innovative new partnership models between governments, donors and the business sector to implement 51 identified priority projects which, in many cases, involve multiple countries and complex jurisdictions. In this context, it was noted by African Heads of State that development finance institutions (DFIs) have a catalytic role to play in moving the African continent forward on the path of inclusive economic growth and development.

- To return to the 2013 WEF Africa meetings in Capetown where a major sub-theme focused on "*Closing the Infrastructure Gap*", President Goodluck Jonathan of Nigeria was quoted as saying, *"… the infrastructure deficit puts constraints on Africa's ability to compete, to reduce poverty and reach our full economic potential ...."*[2]. To place an opportunity cost on it, it was also mentioned at the Forum that the shortfall in infrastructure, "…. *is estimated to weaken GDP growth by up to 2 percent a year across Africa…"*[3].

- A World Bank estimate which has been in the public domain for some time holds that, *".… Africa as a whole needs to spend US$ 93 billion a year for a decade, to bridge the infrastructure gap…."*[4]. However, as mentioned at WEF Africa, finance per se is not the problem in addressing the infrastructure

[2] World Economic Forum on Africa *"Delivering on Africa's Promise*". Capetown, May 2013, WEF Geneva. P15.
[3] World Economic Forum on Africa *"Delivering on Africa's Promise*". Capetown, May 2013, WEF Geneva. P15.
[4] World Economic Forum on Africa *"Delivering on Africa's Promise*". Capetown, May 2013, WEF Geneva. P16.

shortfall. If a stream of bankable projects were, to be "on-tap", the finance would be forthcoming. Rather, it is the state of bankability and practical executability of infrastructure projects that is the challenge. Slow progress in bringing projects to "bankability" is seen as a major bottleneck in infrastructure development in Africa. In this context, while longer-term debt is required to finance infrastructure, short-term financing and technical and support skills are required for project preparation.

- The World Economic Forum has been working with the African Union Commission, NEPAD, the African Development Bank and a group of leading global infrastructure companies to look at ways of accelerating regional infrastructure development in Africa. There has been good work done on best practice and actionable methodologies in accelerating preparation of Public-Private Partnership projects for infrastructure delivery.

- More specifically, the Forum's *Strategic Infrastructure Initiative* tables a methodology to assist governments in identifying and prioritising infrastructure projects which will have the greatest impact in terms of economic growth and social upliftment. Furthermore, the methodology seeks to promote and facilitate efficient and effective preparation, procurement and delivery of projects.

- In the Forum's methodology document tabled in September 2012[5] seven stages are proposed in assisting with prioritising economic infrastructure projects – ranging through situation analysis, creating a vision and goals for infrastructure development, identifying possible projects, identifying the best solution for addressing infrastructure deficiencies, deciding who should pay, finalising the plan and moving to execution. The methodology also seeks to provide guidance on how to ensure projects are delivered effectively and efficiently. This involves ensuring value for money in publically funded infrastructure, utilising appropriate technology in infrastructure, maximizing efficiency of finance, effective project management and, ensuring challenges in construction and operations are met and well managed.

- Given both our experience in infrastructure development and that of our peers and development partners - both on the African continent and elsewhere, we know that delivering infrastructure is a complex undertaking involving coordination and balancing of interests and activities of many stakeholders and role-players. Simply stated: "*The right infrastructure needs to be delivered at the right time, at the right cost to the right place"* for it to optimally unlock growth and development potential. Easy to say, but difficult to do. However, the "promise" of infrastructure development makes it worthwhile – namely, *higher economic growth and greater economic scale; economic diversification and greater economic resilience; more jobs; higher incomes; better standards of living and improved quality of life.*

[5] World Economic Forum in collaboration with PwC. *Strategic Infrastructure: Steps to Prioritize and Deliver Infrastructure Effectively and Efficiently*. Geneva. September 2012.

- In closing, let me reiterate that the rewards of infrastructure development in Africa are great. However, the challenge is large and complex and partnerships are the key to progress. No one role-player can make much progress in isolation. It is hoped that the good collaborative work underway in building partnerships on multi-lateral and national level will accelerate further. We look forward to deepening our work with our Japanese partners in advancing the development of infrastructure in Africa.

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