Image: David Brossard

Report

African infrastructure projects: driving momentum, delivering jobs and improving livelihoods

Monday 23 – Wednesday 25 March 2015 | WP1329

In association with:

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Home to some of the world's fastest growing economies, Sub-Saharan Africa has entered a phase of strong trend growth, which has led to heightened foreign direct investment. With an abundance of natural resources, a swelling young working population, GDP growth, improved human indicators and levels of expertise, as well as rapid urbanisation, African countries are poised to increase their share of global GDP.

However, inadequate infrastructure is hindering growth, job creation, productivity and social development across all sectors. The building blocks of local capacity need to be in place in order to deliver incremental and sustainable growth around resource-based industries – creating a coherent set of policies across departments with the ultimate aim of economic diversification. With public finance on infrastructure under pressure and the comprehensive role of infrastructure under-represented in the Millennium Development Goals, the private sector has a critical role to play in delivering sustainable and green projects to the continent.

Businesses are increasingly recognising the continent's potential and are investing in infrastructure projects, committing to long term development and improving local labour skills. However, access to these opportunities and markets is hindered by high production and transaction costs. It is imperative that governments – in North and South alike – work to create a predictable and stable environment that facilitates sustainable infrastructure projects and attracts much-needed investors.

This conference is unique in bringing together a broad spectrum of stakeholders in order to share perspectives and experiences of how best to support infrastructure projects across their lifecycle. Strong dialogue to increase government engagement with the private sector could also establish more sustainable financing models and find a collaborative path to improved infrastructure and ultimately long term economic growth in the region.

The conference will bring together key members of each group to share experiences, insights and progressive ideas to provide participants with greater understanding of what they can do to support – and gain more from – infrastructure projects in the region.

Executive Summary

The international community is faced with gross inadequacies where infrastructure is concerned, particularly in Sub-Saharan Africa. The main issue is that infrastructure provides the bedrock for all forms of economic growth across society and when it falters the economy will suffer. This issue is worth exploring because of the significant potential within the region. Sub-Saharan Africa is on a trend of strong economic growth and those who solve the problems of African infrastructure, improving livelihoods and delivering jobs will be set to benefit the most.

Analysis: This report digests a wealth of information given by participants from across the spectrum of infrastructure planning, finance and development and attempts to portray a balanced insight into the problems and solutions. In doing so, it looks at the financial sector, governance, regulation, particular case studies and partnerships. It concludes on several forward-looking points: that local partnerships and national diasporas must be explored; that policy must become more transparent and expunge corruption and that human well-being must strategically work alongside infrastructure projects.

This event would not have been possible without the generous support and participation of our partners Mott MacDonald and CDC.

Introduction

Infrastructure in Sub-Saharan Africa has often been described as “the soft underbelly” in efforts towards sustainable growth, delivering jobs and improving livelihoods. As a result, Wilton Park conversed with partners Mott MacDonald and CDC in order to bring actors within the infrastructure sector together to address the problem. From the 23rd March until the 25th March 2015, participants from across government, the financial sector and civil society gathered at Wiston House to generate concrete action.

Under Wilton Park protocol, participants were asked to shed the mask of institutional affiliation in an effort to achieve tangible outcomes.

Discussions started in the first session by asking “how can we deliver sustainable and responsible growth from the ground up?” In response, speakers and participants focused on concepts such as: improving standards for local communities, working on the skills of the workforce and raising awareness on a range of economic externalities.

Following this was a session on governance and regulation with an eye towards economic growth. Consensus was very high in this session, with participants stressing problems with corruption, competition, stability and appearances. The report will demonstrate how participants summarised these points towards the regulatory community and began to explore the actions they could take in the future.

In terms of the innovative financial models required for infrastructure projects, the report will underline the fact that many participants felt that the financial sector could provide many solutions. With this in mind, the report reflects upon certain themes such as diaspora financing and clusters that many hope will be brought into the infrastructure thought-process. Succeeding this will be a brief summation of central themes which persisted throughout the case studies and an illustration of the structured response that arose from the discussion groups.

Finally, this report will express the opinions held by participants on partnerships for prosperity and how to build capacity on the ground. It will emphasise the importance of locality, show a need to reflect upon the Millennium Development Goals (MDGs) and present the conceptual problem posed by focusing on human development versus infrastructure development.

Background

Sub-Saharan Africa is home to some of the fastest growing economies in the world. This strong trend of growth in the region has led to amplified foreign direct investment (FDI). In the context of large pools of natural resources, an increasing working population, GDP growth and rapid urbanisation, African countries are in a position to increase their share of global GDP.

Crucial to any growing economy is infrastructure, which fundamentally underpins a country, city or region and upon which so many sectors rely. However, infrastructure is largely described by many as grossly inadequate and hindering growth in the process across the majority of Sub Saharan Africa. As a result, job creation, productivity and social development all suffer. This event was created with an aim to identify the ways in which local capacity needs to be in place to deliver sustainable growth around resource-based industries. Following on from this, the intention was to recommend an interlinked set of public policies which will foster economic diversification. In an environment where public finance is coming under increasing pressure – not to mention the lack of representation of infrastructure development outlined in the MDGs, the private sector has risen in importance in delivering sustainable projects on the continent.

Economic competition is fierce in the region and there is no lack of will to invest in infrastructure projects. Increasingly, businesses are seeing the continent’s potential and are committing to long-term development with local communities. Access to such localities has been stalled by high production and transaction costs. By gathering individuals from governments and business alike, this event aimed to work towards a predictable and stable environment that facilitates sustainable infrastructure projects and attracts much-needed investors.

Delivering sustainable and responsible growth from the ground up

Overall, participants highlighted some common ground to work from and laid out some goals to aim for. It began by acknowledging that the international community needs to shift its priorities from power projects to other sectors like transport and renewables. The World Bank has conducted studies which suggest that electrification across Sub-Saharan Africa is currently resting at 24% compared to around 40% worldwide. Following this, participants emphasised:

1. **Improving standards:** the framework for developing infrastructure has strong forecasts for growth. With growing political stability, rising socio-economic conditions and rising urbanisation, we are witnessing an escalating demand for quality infrastructure throughout the region. Countries like the Democratic Republic of Congo (DRC) have large natural deposits and resources and require stable infrastructure to transport such commodities. Not having crucial infrastructure in place adds a substantial amount of risk to prospective investments.

2. **The role of external forces:** development in infrastructure should not be limited between picking sides. This was a common rallying point among participants. China, Russia and “the West” were repeatedly brought up. In this initial session, this frame foreshadowed much of the later discussions on competition and quality of infrastructure projects.

3. **Economic externalities in African infrastructure:** manufacturing and education were both listed as inelastic areas that are necessary to support infrastructure. Inseparable by nature, the underlying tone here suggested that wider inclusivity and planning needed to be achieved in order to create sustainable jobs around infrastructure projects.

4. **Different opinions on the direction of renewables:** notably, participants had conflicting opinions on the extent of using renewable resources. On the one hand, many wanted to invest in such a growing market thereby leapfrogging into the

renewables market, whilst others thought traditional energy sources were the best direction for societal development.

5. **Politics as a hindrance:** consensus was reached by many participants around the idea that political realities and bargaining were leading to a lack of cooperative efforts. Conflict was presented as an obvious hindrance, but equally, the existence of overly bureaucratic systems and playground politics is preventing equality of contract allocation and regional collaboration.
6. **Capacity-building and a skilled workforce:** with particular regard to Chinese investments in the region, participants highlighted that these did not necessarily bring work (even if they brought tax receipts). Contrary to other countries' investments, it was often said that "we need adequate training of skilled workers". As a result, many believed that the road to long-term sustainable infrastructure projects was in developing thoughtful and strategic projects, which include a locally trained workforce.

"We need fair returns for private investment and for African people if sustainable infrastructure projects are to succeed in the long-term"

Governance and regulation to stimulate growth

In looking at governance and regulatory weaknesses, this session highlighted several areas which require attention in stimulating growth for infrastructure projects:

7. **Appearances within the global economy:** within the global economy, investors want to see certain conditions being met within the national and regional governance of the continent. Firstly, this includes the practical implementation of democracy, with electoral disputes being settled properly in courts. Secondly, the impacts of climate change need to be taken seriously, as this has serious economic consequences. Finally, consensus on women's emancipation – to include education, entrepreneurial backing and parliamentary representation. When these criteria are met, investment in infrastructure should follow easily.
8. **How policy frameworks foster a stable investment environment:** participants identified how a robust policy structure acts as an incentive for all forms of investment. Crucially they said tax breaks are not necessary when we look to more developed countries in Northern Europe, as companies will inevitably stay in a country where any level of profits can be accrued. This is particularly evident in Norway, where tax revenue remains high to the benefit of the population. An effort towards developing national infrastructure plans, preparing projects with enhanced due diligence, improving public procurement and removing public monopolies will be some of the first steps to achieving this.
9. **Weeding out corruption and lack of transparency:** corruption and lack of transparency are chronic problems for the image of all countries. In particular, there is a need to eradicate the allocation of government contracts according to personal contacts and allow civil society organisations to rise on the basis of merit alone. This categorically applies to foreign direct investment, which represents a significant chunk of the corrupting forces in Sub-Saharan Africa. Fighting for transparency is the region's best weapon against this problem and working bilaterally or regionally to tackle tax avoidance should be a high priority for all national law enforcement agencies.
10. **China, competition and levels of expectation:** "China is in Africa to stay" was a point repeatedly emphasised. This was expressed in neither positive nor negative terms, but simply as a fact of reality. On the continent, the international community is caught in a competitive conundrum: China and its investors are able to offer cheap models of investment – sometimes apparently at the expense of quality delivery, compliance and respect for international norms. This has proved difficult to circumvent as investment is such an appealing opportunity for many countries. It has been noted, however, that many countries and organisations are now realising the long-term loss of such agreements.

"If there are lots of interested parties, the government has to step up and sit in the middle, thereby regulating the relationship"

Innovative financing models

Innovative suggestions for the financial side of developing infrastructure projects were discussed in a highly speculative but optimistic fashion in this session. Consensus among participants seemed quite clear cut, especially since many thought that problems came largely from beyond the financial sector. Nevertheless, the following categorisations outline some of the themes which participants agreed upon:

11. **The need for more sophisticated forms of private-public partnerships:** expressed in many forms, this request could entail greater resource-sharing across the region with shared infrastructure and greater accountability for private organisations from the outset. Too often, it has been claimed, companies are causing liability for the public purse. Governments, participants say, should not be paying the price for failed private investments.
12. **Clusters and regional networks:** several examples were held in praise, such as Quebec, where large projects in natural resource extraction have been successful as a result of partnering with other stakeholders. In Sub-Saharan infrastructure projects, there is a need for more of this type of partnership.
13. **Thinking about diaspora financing and economies:** rising in popular discussion, the concept of diaspora financing may be unique to certain countries. Participants identified projects funded exclusively by diaspora groups in Ghana and elsewhere. Crucially, participants questioned whether this could be thought of as a reliable source of funding despite best intentions.
14. **Security of investments and political risk:** building upon similar points made in the previous session, participants highlighted the importance of gauging an investment environment and obtaining security for such investment. On the one hand, participants stressed the need of government to foster a stable environment for investors, whilst on the other, showed high levels of aversion for providing non-consequential insurance. Subsequently, a middle ground was discussed – one in which the very conception of political risk should be reconceived – and ideally, a landscape where infrastructure is accounted before large projects are invested in. Participants insisted that a stable institutional framework is needed to attract the private sector.
15. **The danger of comparative studies and examples:** participants highlighted the fact that comparative studies have been brought forward as sound economic arguments for and against investment in infrastructure projects. The majority feeling was that this did not recognise the complexity of individual cases in the region.

"It is always possible to say that human development trumps infrastructure development, it is a case of being efficient with both"

Case studies

Instead of replicating the geographic themes of the event itself, it seemed more appropriate to identify and cluster areas of common discussion. In the event itself, speakers gave detailed presentations about powering Benin, urbanisation, off-grid power and temporary and permanent power supply.

16. **The stable generation of power:** it has been noted across several of the case studies that reliable access to power is vital for developing infrastructure in a resilient manner. This has been labelled as a "gateway investment" and a way of creating a background for further investment. Crucially, it was noted that access to a stable power-line had devastating effects for other forms of development in the region. On a related note, participants identified the need to diversify energy needs in the region as studies had shown different levels of cost-effectiveness in both renewable and natural energy sources. On a contrarian note, some participants noted that energy was not a priority worth pursuing in light of the damage caused by lacking water infrastructure. Sustainability, they noted, was about more than solving energy problems and climate change.
17. **Human development versus infrastructure:** following from the last point was a

dichotomy on the balance between human welfare and infrastructure development. Some studies, participants emphasised, showed a direct correlation between improving infrastructure and human well-being, especially in infant mortality and pre-natal care. However, where fiscal spending is concerned, it is debatable whether this sort of investment is justifiable over such long periods of time: people need provision on a daily basis, not over strategically long periods of time. A recurring analogy focused on the need for jobs and thereby the pursuit of a good life, over a well-designed road system.

18. **The positives and negatives of urbanisation:** urbanisation has a range of different connotations depending on the audience who perceives it. Economically, it has often symbolised economic progress from agrarianism to an advanced economy, but this image is losing such purely positive credentials. Instead, urbanisation is now focusing on the normative question of: how ought it to be? Moving away from urbanisation or redefining it has led to several innovative solutions, such as off-grid power ideas. These address the grossly inadequate voice of rural communities and often offer cheaper alternatives to mainstream energy supply.

“Prioritising infrastructure projects just because they sound good is a bad idea – we need detailed research”

Discussion groups

During session six, participants broke off into groups in order to fully explore the details pertaining to African infrastructure. Centrally, they focused on: partnerships, financing and governance.

19. Partnerships

    - Partnerships are a useful means to an end. In order to move on from the development mind-set, the international community could utilise partnerships to introduce more progressive ways of working.
    - Foreign investors are not the only form of partners where African infrastructure is concerned. Local partners need greater attention and respect.
    - The diaspora of many countries is often the missing link in securing investment.
    - Accountability and consensus are necessary within partnerships in order to “cement” and gain long-lasting investment. Especially between the public and private sector.
    - The region needs a dedicated task-force which will catalyse these ideas into action – well over half of the participants at the meeting agreed to take part in such a task force and Wilton Park will follow up on its work.

20. Finance

    Four areas of importance were identified by the group working on infrastructure finance: development, long-term financing, the environment and construction. Within these four broad areas, a thread of consensus was reached on many of the following points:

    - An enabling environment is the most important aspect to securing investment.
    - Data systems are needed to inform investors.
    - A framed understanding of the tools used in Public-Private Partnerships (PPPs) is needed.
    - Utilising small public bonds (where finance is made available to domestic government via raising the funds through citizens) is a potential avenue to financing infrastructure projects. An added bonus to this is the connection it establishes between the project and the citizens.
    - We must support resource mobilization for projects which contain immobile

resources – this is widespread throughout the region.

- Eliminating what is widely perceived as unnecessary risk for the private sector should be of paramount concern. In the construction sector, this is particularly worth mentioning. Often, the lack of investment is lamented, but this is not for lack of desire. Instead, the development and environment phases must be considered carefully, allowing the private sector to participate.

- Finally, bringing technical and engineering-based communities in early on infrastructure projects will earn efficiency savings. These experts are often left out of the early strategic planning and the whole process suffers as a result.

21. Governance

The participant group that worked on governance focused on institutions, capacity-building and the enablers within the infrastructure framework. As a result, they identified key areas within each category that required attention:

- Institutions
  a. There is a general lack of accountability.
  b. We are faced with an unsustainable environment.
  c. Poor policy is a consistent problem.
- Capacity-building
  a. We require continuity of purpose.
  b. Further transparency, particularly where finances are concerned.
  c. Corruption is eroding our ability to successfully complete projects.
  d. The empowerment of citizens should be of paramount importance for all parties.
  e. Where possible, we should reduce bureaucracy and overly invasive governance.
- Enablers
  a. Technology is an empowering aspect and tool for delivery; we need it at delivery points.
  b. We require more robust labour laws.

“Partnership is not about telling people what to do. It is about complementing each other and learning from your joint mistakes”

Partnerships for prosperity: building capacity on the ground

This eighth session focused on how stakeholders can foster collaboration with the private sector to empower citizens and develop local capacities for sustainable management of infrastructure projects. Speakers came from a combination of private and public backgrounds.

22. **The importance of locality:** in this session, speakers and participants rallied around the importance of locality to building infrastructure. This materialised in many forms: discussing PPPs, sanitation, natural resources and the role of national Diasporas. Participants acknowledged a lack of information, analysis and partnership-drivers from local communities and infrastructure projects, resulting in a ‘lack of movement’ from the national to the global level. From the points made by participants present, it is possible to claim that an asymmetry exists in the capacity for local partnership across different countries in the region. Countries such as Nigeria were discussed as positive cases of local infrastructure projects being carried out successfully. All participants seemed enthusiastic about regional partnerships as a solution to building capacity on the ground.

23. **Reflecting on the Millennium Development Goals:** crucially, participants emphasised all of the goals as external matters which have great impact upon the infrastructure framework. Furthermore, it was thought that reminding the international community of these commitments would instil a sense of regional citizenship again and foster local partnerships.

24. **Attempting to overlap between infrastructure and human development:** discussed by many, the paradigm of this overlap was portrayed as the humanitarian view versus the corporate one. Tied to the previous points, this issue arose several times: how the international community measures the payoff on infrastructure projects in line with human development. Participants highlighted studies that showed a high degree of correlation in some infrastructure projects to human development. The solution centred very much on the idea that investment to link social and economic sectors should be prioritised.

25. **Information and data:** as with everything in the modern era, we are influenced greatly by an access to information and data – a currency in its own right. Therefore, it was unsurprising that participants reiterated the need for a rigorous information and data network in order to advance capacity on the ground. Concurrently, this would empower localities to a greater extent and forge partnerships from the ground up.

26. **Transferral of knowledge:** where capacity is concerned, participants wanted to identify steps forward that had a directly beneficial impact. As a result, knowledge and skills were singled out repeatedly as something crucial to sustainable infrastructure. The need to properly educate and harness skills for young people is a red line for realistic capacity building.

Conclusion

The following stood out as consensual points among participants:

- **Concerning growth:** despite large obstacles, participants remain optimistic of sustainable growth within the African infrastructure sector. The extent to which renewables will be used caused a divergence of opinion, but overall, participants agreed upon the need to foster skills and capacity for sustainability.

- **Relating to governance and regulation:** four things were at the forefront of discussions on governance and regulation – corruption, competition, stability and appearances. All of these factors affect infrastructure projects in a significant way and there remains no easy solution to this problem. Quotas on parliamentary representation for women, litigious policy planning, transparency on contract allocation and competitor awareness were all heralded as possible steps forward.

- **Consensus on financial models:** although one session focused exclusively on finance, most participants emphasised that the financial sector was not particularly problematic in relation to infrastructure projects. The session highlighted the unmined potential of diaspora funding networks and suggested that the international community ought to be more rigorous in its conception of public-private partnerships. Crucially, participants referred to the point on political stability and the need to have security of investments. In other words, minimalizing political risk is paramount.

- **Key conclusions from the case studies:** the case study sessions were designed with specificity, but emerged with broad threads of consensus. Particularly, the conceptual discussion on human development versus infrastructure development was continually brought up as a jarring issue. Participants asked: how can we justify large, long-term projects in the face of people needing basic provisions and skills? Naturally, there was no immediate answer to this. As a good starting point participants thought that gaining a stable generation of power could enable a range of other problematic externalities. Furthermore, moving away from parochial views of urbanization might allow us to garner more innovative solutions.

- **Focal points of the discussion groups:** detailed solutions were delivered when participants broke off into small groups to work on the issues of partnerships, finance and governance.

    - The group which focused on partnerships came away reiterating what many others were thinking: that local and sub-national partnerships need to be focused on more.

- Those who focused on finance contributed a comprehensive set of suggestions which recommended upgrading data systems and analysis, pursuing ambitious and entrepreneurial financial models and being inclusive of technical communities within infrastructure projects – not just politicians and law-makers.
- In terms of governance, the third group drafted a well-structured order of things that required attention. This focused on three areas: institutions, capacity building and enablers. Within these, participants identified key concerns such as lacking accountability, empowering citizens and reinforcing local labour laws.

- **Building partnerships and capacity:** in the final session conference attendees attempted to funnel ideas on building capacity on the ground. This is where the largest degree of consensus was exhibited. The importance of building local capacity resounded in this session but also throughout the entire event. The impact of access to data, information and knowledge has been shown to represent a form of currency in itself – something which infrastructure project planners will need to consider in the future. Importantly, participants reminded each other of the ambitious Millennium Development Goals and encouraged those present to recommit to those ideals.

James Gardiner and Kathryn Hingston
Wilton Park | June 2015

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Podcast

A podcast on the opportunities and obstacles in Africa concerning water and extractives has also been published in connection with this event. It can be found at: https://www.wiltonpark.org.uk/podcast/africa-opportunities-and-obstacles-wp1329/

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