

# AFRICA50

## Africa's infrastructure needs are a great investment opportunity

Africa's infrastructure needs are great and so are the business opportunities. Nearly 300 million Africans live more than 50 kilometres away from a fibre or cable broadband. Nearly 600 million don't have access to electricity from a grid. According to a 2019 research paper, Africa has just 31 kilometres of paved road per 100 square kilometres of land, compared to 134 kilometres of paved road in low-income countries on other continents.

The breadth and scale of what needs to be done — and quickly, for the continent's young and restless with a median age under 20 — throws up exciting possibilities for infrastructure investors intent on an expanding asset class to capture economic growth.

The continent presents a unique, unmissable opportunity for private investors, one that's almost as big as the infrastructure financing gap. According to the African Development Bank, the gap in financing needed to be spent on infrastructure was anywhere between \$68 billion and \$108 billion a year before the coronavirus pandemic hit. The economic crises created by Covid-19 makes infrastructure development even more urgent, as a stimulus plan for Africa, to build long-term resilience and unlock growth potential. Every project that stimulates economic activity, creates employment, bolsters supply chains, and expands access to education, connectivity, sanitation and healthcare, serves as a critical enabling tool. As Africa becomes more resilient, it will get richer and those who invest in its growth can expect to reap the rewards of Africa's promise.

The private sector has a huge role to play, mostly because governments just can't afford to build big, boldly and quickly, on their own. Between 2015 and 2019, Africa received just \$6.4 billion a year on average in private investment in infrastructure, according to the World Bank. That's roughly one-sixth of the private financing that poured into East Asia and the Pacific for the same purpose in the same period, and one-fourth of what went into Latin America.

But it doesn't have to always be this way and Africa50, an infrastructure investment platform created by African governments and the African Development Bank, is working to plug the gap.

### Dispelling the myth about risk

It all starts, as it always does, with the story that's told. The narrative of investing in African infrastructure has long been doleful, painting a picture of risk, uncertain prospects and patchy returns. This is the moment to put that grim tale to bed and to dispel the myth that investments in Africa are riskier than elsewhere. After all, in 2020, Moody's, the credit ratings agency, found that Africa has one



**Africa50, alongside Scatec Solar and Norfund, invested in a 400MW portfolio of six solar power plants in Egypt, which are part of the 1.5GW Benban Solar Park (one of the largest in the world).**

of the lowest project default rates in the world and a 100 per cent infrastructure debt recovery rate. Clearly, the perception of risk is out of sync with reality, especially when the rate of return on infrastructure investment in Africa is better than that from other emerging regions.

There are so many good news stories that might usefully be told instead. These include the fact that seven of the 10 fastest growing economies in the world, pre-Covid, were in Africa; that it is the youngest continent in demographic terms, with a wealth of natural resources; that the continent is continuing to improve its living environment and that the new continent-wide free-trade area came into force this year. The African Continental Free Trade Area (AfCFTA) — the world's largest in terms of the number of participating countries since the World Trade Organisation was founded — will serve a market of 1.3 billion people and more than double intra-African trade in manufactured products by 2035.

### Leveraging domestic resources for infrastructure

But there is still more to Africa's unfolding story of change. Part of Africa50's mandate from its 28 government shareholders is to offer an African solution to an African challenge. To this end, it is promoting asset recycling, a concept that has worked elsewhere in the world, not least in Australia, but is innovative and potentially transformative in the African context. If governments move to unlock the capital they invested in toll-roads, power plants, airports, fibre optic networks and suchlike, by offering them to private sector investors, the funds unlocked can be harnessed to build new infrastructure. This is an idea whose time has come, one

that would send a powerful message to the world that Africa is prepared to do its part as it invests in resilience and what it needs is a hand up, not a handout.

### Developing bankable projects

In the five years since it became actively operational, Africa50 has focussed on helping mitigate risks and overcoming regulatory and administrative hurdles for investors in energy, transport and information and communications technology (ICT) projects. Meanwhile, its project preparation team has created a pipeline of bankable projects that can be speedily moved from concept, through to development, financial close and completion. McKinsey has estimated that 80 per cent of African infrastructure projects fail at the feasibility and business-plan stage. Careful project preparation has meant that Africa50 already has a portfolio of 11 investments, six of which are up and running, two under construction and the remaining in development.

The projects are remarkable examples of investing with impact. All of them literally have an outside impact — for good — on the people and the places where they are located, while offering decent returns to investors. For instance, the six Benban solar power plants in Egypt have provided clean energy to 420,000 households for the past three years. The plants, which are part of one of the world's largest solar parks, show that the right regulatory regime and cost structure can make solar power an attractive investment opportunity in Africa.

Nigeria's Azura power plant serves the needs of an estimated 14 million people and Senegal's Tobene plant provides power at competitive rates. The Malicounda thermal power plant, under construction in Senegal, will be converted to gas to help shift the country's energy mix to less polluting sources. The same sort of environmentally conscious considerations are at work in the Nachtigal plant being built in Cameroon. Overwhelmingly funded by private capital, it will be Africa's largest hydropower plant funded by private capital and will increase the share of renewables in Cameroon's electricity generation to 75 per cent by 2022.

The modernization and expansion of Guinea's Gbessia Conakry International Airport will double passenger capacity, which will boost economic activity once the pandemic ends and normal business resumes. And finally, Rwanda's Kigali Innovation City will create more than 50,000 jobs, generate hundreds of millions of dollars in ICT exports every year and attract sizeable foreign direct investment.

By identifying and building places in Africa that would foster innovation, the African solution to the African challenge becomes clear: it really is possible to do good while doing well.



The African Development Bank estimated the annual infrastructure financing gap to be between US\$68-108 billion. Increasing infrastructure investment on the continent, both to close its infrastructure gap and to underpin the continent's post-crisis efforts, will be vital. Africa has to build back better and bolder with focus on economic, climate and health resilience. The work that Africa50 does as an early-stage developer of infrastructure, accelerator of infrastructure investment, and mobilizer of public and private infrastructure finance for the continent, is more needed now than before.

Dr. Akinwumi Adesina, President of the African Development Bank and Chairman of Africa50. (Source: 2019 Africa50 Annual Report).



"We at Africa50 have proven that infrastructure deals in Africa can be impactful and profitable for private sector investors. We are committed to accelerating the delivery of infrastructure on the continent, which helps create a virtuous circle where investors get a fair return, citizens get services and access to opportunities, while governments can highlight their success to attract additional investment."

Alain Ebobissé, CEO, Africa50.



"We need to think about the image that we are exporting to the world. All I ever hear about is the risks associated with investing in African infrastructure. But we have the proof to show that these perceptions simply aren't true. That is not a political statement. It's a fact" -

Dr. Amani Abou-Zeid, Commissioner for Infrastructure and Energy, African Union Commission. (Source: Infrastructure Investor's Africa Roundtable discussion, 2021)



**Africa50, alongside French international airport operator Groupe ADP and the Government of Guinea, invested in the upgrade of the Gbessia Conakry International Airport, currently under development.**

 @africa50Infra

 info@africa50.com

[www.africa50.com](http://www.africa50.com)