



Large Infrastructure

Attracting feasible infrastructure financing

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Attracting feasible infrastructure financing

A 2020 study by McKinsey[1] proposes a number of solutions to make infrastructure projects less risky and thus more attractive to private capital. According to the authors, governments, international financial institutions and private investors can all play a part:

- Governments should minimise risks for investors by reducing regulatory, currency, and political uncertainties. This includes safeguarding investments from arbitrary decision-making, expropriation or delays in obtaining necessary regulatory approvals to ensure profitability. (A tax system that incentivises investment but is also fair to local citizens may be difficult to achieve but is an important objective nevertheless.)
- International financial institutions should offer risk-sharing instruments to private investors, such as guarantees.
- Private investors should invest more in early feasibility studies (with the assistance of international financial institutions as necessary).

Perhaps unsurprisingly, the study recommends that governments take on low-return projects, such as basic water and sanitation and transport projects, and set aside high-return projects for the private sector. This is an important caveat, as the primary goal of governments in their infrastructure strategy is to develop the economy and improve citizen well-being. This goal must be balanced by the need to attract private investment in the sector.[2]

AUDA-NEPAD is attempting to address some of these concerns by: providing greater financing and technical assistance for feasibility studies; implementing the PIDA quality label (for projects that perform well during feasibility assessment) as a measure of bankability for infrastructure projects; and providing risk-sharing arrangements such as the African Infrastructure Guarantee Facility.[3] However, much work remains to be done, and these facilities require development and fine-tuning. A great deal more cooperation between national governments, international financial institutions (and even among the various organs of these institutions) and the private sector will be needed to make the financing of major infrastructure projects more efficient.[4]

Endnotes

1. K Lakmeeharan, Q Manji, R Nyairo and H Poeltner, *Solving Africa's infrastructure paradox*, McKinsey & Company, 6 March 2020; also see: *The Economist*, *Is an infrastructure boom in the works?*, 2 January 2021.
2. S Schindler and J Kanai, *How mega infrastructure projects in Africa, Asia and Latin America are reshaping development*, *The Conversation*, 31 October 2019.
3. I Mayaki, *Why proper structure of major infrastructure projects in Africa is priority*, AUDA-NEPAD, 24 January 2020.
4. I Mayaki and B Markussen, *CBN Virtual Breakfast, a panel discussion as part of the '6th PIDA Week' virtual event*, 2021.

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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