

Despite emerging markets long being known as key drivers of economic growth in the global economy, maintenance of this status requires extensive development and infrastructure finance. Investments in infrastructure however are often big ticket, long term commitments with fixed locations and structures, which require substantial financial buy-in.

According to research by the IMF - Corporate Investment in Emerging Markets: Financing vs Real Options, the risks and potential for stranded costs in infrastructure investments in emerging markets are further exacerbated by the effect of volatility on emerging markets (being the first to suffer in times of uncertainty, given their higher public debt, lower foreign reserves and shallow financial markets), lack of political will/support and inadequate legal and regulatory frameworks.

In the midst of this prolonged volatility, coupled with low credit ratings and a lack of exposure to private investors, emerging markets, and Africa in particular, require innovative financing solutions to bridge the gap between public and private investment. This is where the Development Finance Institutions (DFIs) play a pivotal role.

Bankable projects a necessity

Africa is not crippled by a lack of infrastructure investment capital, but by a lack of bankable projects. Apart from general investment barriers, infrastructure projects are coupled with completion risks (regulatory or policy uncertainty), performance risks (both during and post construction) and revenue risks (ensuring that the project not only repays its debts, but also provides an adequate return for investors), which effects the project's overall "bankability".

In this regard, DFIs are vital in ensuring such projects are bankable, by bringing capital, technical expertise and capacity where private sector players were unable, ill equipped or unwilling to do so on their own.

The key role that DFIs have to play in making a project bankable include being able to provide a broad range of financing products, the ability to act as a loss absorber on both greenfield as well as brownfield projects, having developmental mandate which goes beyond pure funding, active engagement in creating enabling environments to address regulatory and institutional challenges, and risk mitigation.

The 2016 McKinsey Bridging Global Infrastructure Gaps Report found that during the period 2012 to 2015, DFIs, multilateral and bilateral banks and their development partners provided 47% of the financing for African infrastructure.

Improved infrastructure on the continent in all sectors is necessary for greater African integration, and AfCFTA is expected to play a vital role in ensuring the harmonising of laws and trade rules across the continent that will streamline this infrastructure development.

ABOUT THE AUTHOR

Kieran Whyte is the head of Energy, Mining and Infrastructure, and Jen Stolp, is a partner in the Banking & Finance Practice at Baker McKenzie in Johannesburg.