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INSIGHTS

COVID-19, International Private Capital, and Infrastructure-Led Recovery

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Summary

The need for substantial investment to close Africa's huge infrastructure gap has attracted considerable attention in the international finance and development circle in the last two decades. Estimates from the African Development Bank indicate¹ while about \$130-\$170 billion per annum is needed to close this gap, unmet financing needs are in the \$68 -\$108 billion range every year. Closing this gap is important for the continent's ability to achieve the SDGs.

While much progress has been made in the past two decades – due partly to improving economics and policy reforms – in attracting international private capital for the development of the continent's transport, ICT, energy, water, and sanitation sectors, achieving financial close remains an issue. A March 2020 McKinsey article² concludes that in Africa, "80 percent of infrastructure projects fail at the feasibility and business-plan stage." The report calls this "Africa's infrastructure paradox – there is need and availability of funding, together with a large pipeline of potential projects, but not enough money is being spent." Clearly, this underscores the need for increased dialogue and public-private partnerships to mobilize investments into priority projects.

In the immediate aftermath of the COVID-19 pandemic, business leaders, policymakers, and key players from global financial institutions and multilateral development banks emphasized the need to prioritize infrastructure investment in a bid to drive the post-pandemic economic recovery. However, in the last five years, most emerging markets and developing economies (EMDEs) have witnessed low commodity prices, sluggish GDP growth, low levels of domestic savings, and weak private capital inflows.

As a result of the concomitant high debt levels and limited fiscal space, many EMDEs and sovereign entities face credit downgrade risks in the current environment. While the notion of an infrastructure-led recovery remains popular in many developed countries, clearly, traditional sources of infrastructure financing will likely not thrive in many post-pandemic EMDEs, particularly in Africa.

In addition to triggering the most severe recession in nearly a century, COVID-19 has disrupted global value chains, causing unprecedented damage to health care systems, economies, and well-being. With both domestic and external financing drying up in the face of the pandemic, the continent's existing unmet infrastructure financing needs are being further exacerbated.

As international investors rebalance their portfolios, some important questions remain.

¹ <https://www.brookings.edu/blog/africa-in-focus/2019/06/27/figures-of-the-week-africas-infrastructure-needs-are-an-investment-opportunity/#:~:text=To%20close%20this%20gap%2C%20the,and%20%24108%20billion%20per%20year.>

² <https://www.mckinsey.com/business-functions/operations/our-insights/solving-africas-infrastructure-paradox>