

# Closing Africa's infrastructure gap

By [Gerald Gondo](#)

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Never before has the need for infrastructure felt so immediate and acute. This became apparent to me as I travelled to Nairobi, Lagos, Lusaka and Gaborone during the first three months of this year.



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A commonality I saw across all these African cities — the yellow metal equipment either excavating, tilling, scooping or pouring inputs — could result in an improved outcome for Africa's infrastructure. According to the World Bank, closing Africa's infrastructure quantity and quality gap has the potential to increase GDP per capita by as much as 2.6% per annum.

Historically, governments have borne the responsibility for infrastructure development as infrastructure is typically considered a "public good". However, in most African states, governments are struggling to keep up with the level of development required.

To combat the continent's infrastructure deficit, alternative sources of funding are needed, and institutional investors are increasingly seen as natural funding partners given their long-dated liabilities that seek inflation-linked assets.

But, not all infrastructure assets offer the virtues of inflation hedging and it is important for investors to understand the different categories of infrastructure assets, as well as the different life-stages of their development, as these result in different cashflow profiles. There are two main types of infrastructure investment – greenfield and brownfield.



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## Greenfield vs brownfield infrastructure investment

Greenfield infrastructure investment refers to investments that create new infrastructure – new development and construction. For an investor, some inherent risks of these projects include construction risk, performance risk and off-taker risk. The creation of the asset primarily involves funding the project, with risk of the project not reaching a stage of being commercialised. At this stage of development, the infrastructure asset would not manifest any inflation-hedging features.

Brownfield infrastructure investment refers to investments in existing and ready-to-operate infrastructure assets. These assets can (potentially) generate revenues. Given that the infrastructure now exists and is in use, the risks of investing into this project are substantially less than in a greenfield project where the future cash generation is uncertain. Because many infrastructure assets feature monopolistic features (e.g. a toll road that all road users must utilise to access a specific town), cash generation for such assets is easy to model. Brownfield infrastructure investments are also often scalable; by enhancing the facilities, greater output can be produced and therefore greater cashflows. These features allow for the cashflows emanating from brownfield infrastructure investments to be modelled to escalate or be linked to inflation and the cashflows can be used to match against long-dated liabilities because of the long-dated nature of the operating capacity of most infrastructure assets.

## Diversified infrastructure assets

With an understanding of the fundamental merits of the asset class, it is important to appreciate how institutional investors in Africa would traditionally approach the asset class. Prudential investment requirements might preclude them from taking up exposure to a single asset (e.g. one toll road) and they could invest in a diversified portfolio of infrastructure assets. This can be achieved by investing in a fund, where the fund is able to give investors diversified exposure to the asset class. However, it is important to appreciate that most infrastructure investments would be classified as unlisted investments.

Most institutional investors are relatively risk averse and may not have investment mandates allowing for investing in unlisted instruments. Thus, for long-term savings to be channelled towards African infrastructure assets, the investment mandates (inclusive of the regulatory thresholds) would need to be revised to accommodate investments in unlisted instruments and more specifically, infrastructure assets.



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## Performance index

In addition to revised mandates, institutional investors would benefit from a performance index for infrastructure investments in Africa. This would improve their ability to evaluate the available investment opportunities, monitor the performance of infrastructure investments and make better informed decisions on asset allocation.

RisCura has partnered with Africa Investor to launch Africa's first infrastructure performance benchmark. The first results are expected in mid-2019 and will provide much needed insight into investment in this sector, which should in turn facilitate increased investment into African infrastructure projects. In time, this should contribute towards closing Africa's infrastructure gap and help boost economies across the continent.

## ABOUT THE AUTHOR

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