

Time to Move from Design to Delivery to Close Africa's Infrastructure Gap

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- Infrastructure is critical to Africa's transformation
- The public and private sectors must work together to constructively build Africa's future
- De-risking infrastructure investment is the most daunting challenge
- For more information about the meeting, please visit: <http://wef.ch/africa2012>

Addis Ababa, Ethiopia, 11 May 2012 – Infrastructure is the lifeblood of economic development and is critical to Africa's transformation. The needs are huge, the financing is available, but the risks are high. Panellists at a debate during the World Economic Forum on Africa agreed that it is time for the public and private sectors to move from design to action and work together constructively to build Africa's future. But there is apprehension on both sides due to past failures and mistrust.

"Without the private sector, there is no development. Our policy is to have fast and equitable growth, but you cannot have that without a clear division of labour in partnership with the public and the private sectors," said Meles Zenawi, Prime Minister of Ethiopia. "If we don't use this window of opportunity to transform our economies, [particularly the manufacturing sector], we will be lost." However, he cautioned against the private sector's need to secure high returns and that the public sector should not be expected to shoulder the risk while the private sector makes the profits.

All panellists agreed that it is time to move from design to action. According to Donald Kaberuka, President, African Development Bank (AfDB), Tunis; Co-Chair of the World Economic Forum on Africa: "The most dangerous thing is to confuse an action plan with action." Nevertheless, progress is being made, he commented. "It is not all doom and gloom, but it is slow. But if you compare today to 1980, there is a big area of interconnection between the public and the private sector."

Kaberuka pointed out that in China public authorities recognized that it was impossible to build first-class infrastructure across the vast country. Instead, it focused its investment on industrial parks. "This is a good model. Begin with a cluster, put in an industrial park with electricity, infrastructure and skills – and then you scale it up."

The most daunting challenge is de-risking infrastructure investment if the private sector is to engage and help close Africa's infrastructure gap, which will require an estimated US\$ 90 billion annually. "We are engaged in a dialogue with the public sector. There is a lot of capital available in the world. The challenge is how to organize a pipeline of bankable projects and the risks that go with it," said Tidjane Thiam, Group Chief Executive, Prudential, United Kingdom; Co-Chair of the World Economic Forum on Africa.

Still, there is trepidation among some African leaders due to past failures, but it is time to move forward. "The private sector is a gentle giant. The behaviour in the past is not a reliable prediction of how it will behave in the future. There has been a sea change," said Thiam.

"The financial sector has not always performed in the way that is in the best interest of countries," acknowledged Gordon Brown, Prime Minister of the United Kingdom (2007-2010) and Chair of World

Economic Forum Global Issues Group. “[Today], Africa’s infrastructure is not fit for purpose for domestic trade. If the private and public sector could work together more effectively and lay down guidelines that deal with risk, we could mobilize [private capital] . . . There is a new energy in Africa to move from design to delivery and create an organization with the power to bring all partners together. The huge defects in the African economy could be addressed if we all come together,” he said.

But how to boost Africa’s standing among skittish investors? “It is time to overcome the perceived dichotomy between the public and private sectors,” advised Ahmed Heikal, Chairman and Chief Executive Officer, Citadel Capital, Egypt. “We need to focus on the question, ‘Why Africa now?’” Heikal pointed to three important answers to reassure private investors:

- Governance has changed – most governments are being accountable to their people and are trying to deliver.
- Africa is the last bastion of growth for the next 30 to 40 years.
- Many Africans have been well educated in the West and are returning home to make a positive contribution to the continent.

The capital is there, said Brian Molefe, Group Chief Executive, Transnet, South Africa. Pension funds in Africa have an excess of US\$ 450 billion in reserves. “The only problem is, what do we need to do to trap capital on the continent? Developing manufacturing is critical.” But he warned that in going forward, the bulk of capital should not be debt. “The public and the private sectors [both] have a tendency to fail. We need a compact between the public and private sector on development in Africa that must be underpinned by industrialization.”

Jubril Adewale Tinubu, Group Chief Executive, Oando, Nigeria; Young Global Leader, called for an enabling environment for investment. “The private sector needs to know it has a transparent entry into investments. Capital needs to come in from all over the world in an ethical fashion and it must have an exit.” Tinubu noted that private sector-driven projects are cheaper and have a shorter timeline. He pointed to the electricity sector where existing infrastructure is improved, there is a strong regulator and proper pricing, but the asset is owned and run by the private sector. “With this model we are seeing progress,” he said.

However, President Zenawi warned: “The [premise] that the public sector is inefficient and the private sector is efficient is a [destructive] myth.”

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