



# Africa

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- **New focus on infrastructure to drive African growth**
- **Infrastructure spending may be more important than any other policy intervention**
- **ODA, international market access, local debt-market growth and China are key**

*Capital markets or China?  
Which way will African  
economies go as the focus on  
infrastructure shifts to centre-  
stage?*

## Infrastructure – in the driving seat of African growth

Recent years have seen a shift in the thinking on African development, with the region's infrastructure deficit and the resulting constraints on growth receiving much more attention. Following the Multilateral Debt Relief Initiative in 2005, the idea of using debt-service savings for infrastructure financing (they were previously limited to 'social' spending on health and education) gained wider acceptance. The focus on infrastructure is in the news again as a growing number of African economies plan to issue maiden eurobonds in the coming year, primarily for infrastructure financing. Concessional debt available from 'traditional' donors is no longer deemed sufficient for their needs. More controversially, China's recent offer of significant financing to Ghana – equivalent to over 80% of Ghana's currently measured GDP – has cast the infrastructure question in a new light. While the benefits of infrastructure development are likely to be immense, traditional concerns about debt sustainability are never far from the surface.

With China set to play a greater role in Africa's infrastructure development, the debate will no doubt continue. For many African countries, the choice may be between gradually improving access to international funding markets, which would allow for incremental improvements in infrastructure, and more aggressive growth, at the risk of sacrificing debt sustainability or perhaps even macroeconomic stability. To date, however, there has been little adverse market reaction to news of increased Chinese financing (which, in Ghana's case, has yet to be finalised), suggesting that not many African economies are being forced to make this choice yet.

*Studies suggest that  
improved infrastructure is a  
more effective growth driver  
than macroeconomic  
stabilisation*

## Much upside to future growth as infrastructure is finally addressed

Whatever the sources of financing, there is little question that the infrastructure deficit is one of the most important constraints on African growth today. Africa trades very little with itself. Intra-regional trade is estimated at little more than 11% of total trade, a figure that lags substantially behind other regions. According to a recent World Bank study considered the seminal work on African infrastructure ('African Infrastructure: A time for transformation'), poor infrastructure reduces business productivity by around 40%. World Bank simulations suggest that if all African countries were to catch up with a regional infrastructure leader such as Mauritius, per-capita growth would be boosted by as much as 2.2ppt. Already, investment in telecoms infrastructure has made a significant contribution to African growth. Greater improvements in physical infrastructure in the years ahead should further boost growth, with Africa's potential output rising accordingly.



# Africa (con'd)

*Infrastructure development – particularly in telecoms – has already played a key role in driving African growth, and the boost to trend growth from overall infrastructure development is set to rise meaningfully*

*Greater regionalisation is still key to the affordability of infrastructure spending, and this might impact Africa's future financing choices*

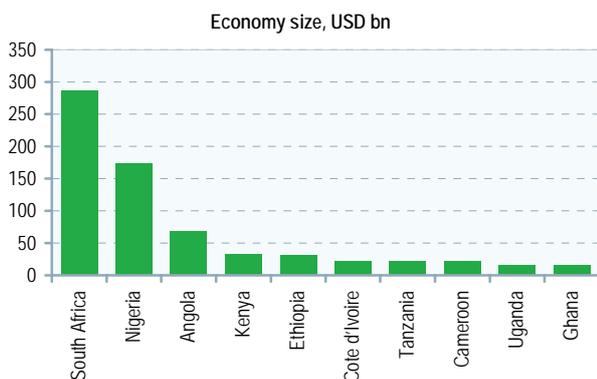
There is much room for improvement, with gains likely to cut across all sectors. Available data suggests that only one in three rural Africans has access to an all-season road. This can often mean the difference between subsistence and commercial agriculture. Given that two-thirds of Africans are engaged in agriculture, which has enjoyed little of the productivity improvement seen in other regions, the impact of improved infrastructure alone might transform rural incomes. Other statistics indicate the scale of the challenge, as well as the upside to growth, if these issues are overcome: only 5% of African farmland is currently irrigated; only one in four Africans has access to electricity, with 30 African countries experiencing chronic power shortages; only 5% of Africa's hydropower has been tapped; and high transport costs are thought to increase the price of goods by as much as 25%.

### Affordability

The World Bank study estimates that Africa needs USD 93bn in annual infrastructure spending, with two-thirds of this amount representing investment and one-third maintenance spending. The encouraging news is that African economies are already spending about half of this amount. But that leaves at least another USD 45bn, for which Africa is likely to require further external financing.

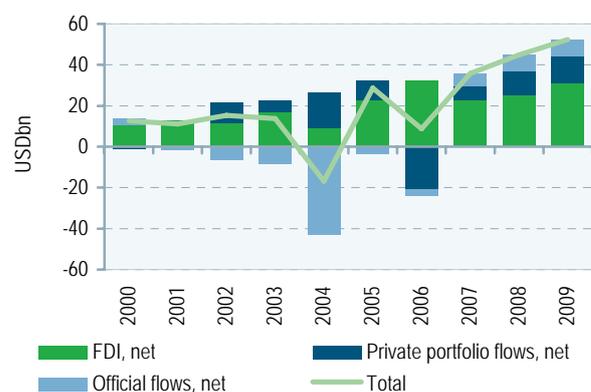
The scale of the challenge raises affordability issues. Only two Sub-Saharan economies – South Africa and Nigeria – currently have GDP of over USD 100bn. For many of Africa's economies, greater regionalisation, with a pooling of the resources available for infrastructure investment, may be the only realistic hope of making such investment affordable. While there is a trend towards greater regionalisation in Africa, political differences may still impede progress, with the cost of infrastructure provision not being lowered enough. Africa's traditionally low population density has also been a factor in the slower progress of infrastructure development, although more positive demographic trends and a faster pace of urbanisation should go some way towards offsetting this.

**Chart 1: Many African economies are too small to afford the scale of infrastructure investment needed**



Sources: Standard Chartered Research, IMF

**Chart 2: Total capital flows to Africa are insufficient to meet current infrastructure borrowing requirements**



Sources: IMF, OECD, Standard Chartered Research