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SPEECH BY MINISTER OF FINANCE NHLANHLA NENE

PLENARY OF THE INFRASTRUCTURE CONSORTIUM FOR AFRICA (ICA) ANNUAL MEETING

CAPE TOWN, SOUTH AFRICA,

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Programme Director,

Members of the Infrastructure Consortium for Africa,

Ladies and Gentlemen from across the continent that are here with us today.

Welcome to South Africa!

Infrastructure and the global scene

Thank you for the opportunity to share a few thoughts on infrastructure development in Africa and some of the critical challenges that we face as we strive to identify and develop effective solutions to infrastructure bottlenecks.

Infrastructure development is not a challenge that is unique to Africa. Nor is the African continent the only member of the global community that is pre-occupied with meeting this challenge. Governments around the world are grappling with how best to finance the development and maintenance of infrastructure.

And there is any number of multilateral fora in which infrastructure forms a key part of the discussions. The most recent being the G20 Summit held in Brisbane, Australia, this month where the G20 leaders announced the establishment of the Global Infrastructure Hub. The Hub will complement existing efforts, such as the Infrastructure Consortium for Africa, to reduce barriers to infrastructure development. Participation in the activities of the hub will be open to all countries.

On the sidelines of the G20 Summit, leaders of Brazil, Russia, India, China and South Africa (BRICS) met and directed their Finance Ministers to expedite the establishment of the New Development Bank which will prioritise the provision of financing for infrastructure in emerging markets and developing countries.

From just these two initiatives, it is clear that the global conversation on infrastructure is giving rise to innovative ideas and institutions, each aimed at reducing the global infrastructure deficit. As these initiatives evolve, Africa must ensure it grabs its fair share of the fruits of each initiative.

The case for infrastructure in Africa

Last year we celebrated the 50th Anniversary of the founding of the Organisation of African Unity (OAU), the predecessor to the African Union. We can say with certainty that Africa is today vastly different to the continent of 50 years ago. Africa today is seen as a continent of opportunity, a destination of choice for many investors in search of high growth markets. Between 2000 and 2010, six of the world's ten fastest economies were in Africa, and growth is projected to remain strong in coming years.

Integration at both the regional and continental levels is essential for Africa to realize its full growth potential, participate in the global economy and share in the benefits of the increasingly connected global market.

Having fifty four relatively small economies acting individually, often without the requisite physical and economic machinery, seriously limits Africa's ability to reap the benefits of an interconnected global economy. Greater integration of African countries and their economies will not only help lower the cost of doing business but it will also ensure that people and goods move freely across borders. This will lead to the expansion of markets, allow for more diversification, bring about economies of scale and encourage optimization of resources.

Regional integration will also lower the cost of infrastructure by giving smaller economies access to more efficient technologies and a larger scale of production and markets. Regional co-operation on infrastructure also helps to harness and share benefits of trans-boundary common goods. For example, Africa's 63 international river basins which are shared by two or more countries require careful co-ordination of water resource management and associated infrastructure investments. Similarly, the ports and connecting sea corridors of the coastal nations are regional public goods that typically service multiple landlocked countries.

The case for prioritizing infrastructure to ensure connectivity, development and intra-Africa trade, is self-evident. Intra-Africa trade is the lowest of all the regions globally. It is estimated at 10-11 per cent, compared to 40 per cent for North America and 60 per cent for the European Union.

African leaders have prioritized the development of infrastructure through the adoption of regional and continental level infrastructure plans. These plans have been created to clearly outline the infrastructure needs of the continent and to assist with prioritizing infrastructure projects and programmes. The Programme for Infrastructure Development in Africa (PIDA) has been developed by the African Union (AU) and the African Development Bank (AfDB). It is estimated that it will cost US$360 billion between 2011 and 2040 to implement the PIDA. The 51 projects deemed a priority because they can be implemented between now and 2020 will require an investment of US$68 billion.

Limited progress and identified challenges

Ladies and gentlemen, the opportunities in the infrastructure sector in Africa as outlined in the PIDA and Regional Economic Communities (REC) Level Master Plans are vast. However, progress in the development of Africa's infrastructure remains slow. Africa continues to face a number of challenges, including the need for policy reform and the implementation of good governance measures. The most dominant of these challenges is the slow progress in moving projects through the pipeline from early stage preparation to financial closure.

Although a number of infrastructure project lists exist at both the regional and continental levels, the majority of the projects captured in these infrastructure plans are at a conceptual stage. A greater focus is therefore required on the early stages of the project preparation process. These early stages also include a clear identification and definition of the project and the creation of an environment that will make the implementation of such project successful. Failure to do this work at the early stages of the project preparation process could prove very costly later. These costs include those associated with cost escalations and delays in the implementation of the project.

Emphasising the need for effective project preparation

As you would be aware, in 2012 the ICA reviewed project preparation facilities (PPFs) operational in Africa. Of the 67 potential sources of funding for project preparation that were analysed, the ICA identified a core group of 17, of which only 12 were operational at the time. As of 2012, these 17 PPFs had US$190 million of funding that had yet to be committed to specific projects. This pales in comparison with the estimated US$25.20 billion that is required for the long term implementation of PIDA up until 2040.

In light of these findings, we welcome the establishment by the ICA of a Project Preparation Facilities Network which will create open channels of communications and better cooperation among project preparation facilities in Africa. We believe that this will go a long way in addressing some of the shortfalls in the financing and preparation of projects. However, more needs to be done in mobilizing capacity and financing for the early phases of the project preparation cycle.

The importance of the private sector

Ladies and gentlemen, the integration and development of the African continent will not succeed if we ignore the contribution of the private sector and the citizenry.

Literature on economic growth and development shows that successful countries and regions shows are those that invest higher percentages of their GDP in infrastructure development. There is also on-going investment in the upgrading of public infrastructure to support economic and trade activities.

Africa on average invests only 4 per cent of its GDP in infrastructure. This compares with 14 per cent in China. The benefits of closing the infrastructure gap are very high, with some estimates showing that closing the gap could boost GDP growth by 2 percentage points a year.

But African governments have limited resources, including borrowed money, and their ability carry such a big financial burden on their books is limited. So there is therefore ample space for cooperation with international partners and for the private sector to participate and contribute towards the implementation of these infrastructure projects.

South Africa's approach to collective infrastructure development

To mobilise the private sector to support infrastructure development, South Africa has established a Task Team on Private Sector Financing of Infrastructure. The Task Team consists of government, business and labour representatives and has been successful in narrowing its focus to areas that will have the greatest impact. Of these high impact areas we are striving to action the following two areas in the short-term:

- Firstly, encouraging private sector financing and participation in infrastructure; and
- Secondly, the steering of development finance institutions to focus more on "crowding in" private sector investment.

As African countries pursue more trade opportunities, they will also require a dynamic private sector to promote a cohesive approach to addressing the challenges to regional economic integration and intra-African trade. Therefore, private sector participation and support through human and financial resources development, investment in infrastructure and technology transfer should be further encouraged and strengthened.

Conclusion

In conclusion, we all agree on the urgency to fast-track the implementation of infrastructure projects under the PIDA and REC Infrastructure Master Plans. It cannot be business as usual. Implementation will rely on all actors at all levels of the African development process taking co-ordinated action. This must include the African Union Commission (AUC) and the New Partnership for Africa's Development (NEPAD) Agency at the continental level, the RECs at the regional level and the individual countries on whose territory the projects will be constructed and/or maintained, whose populations should benefit from them. This massive undertaking can only succeed if we all join hands, pool our collective resources, and re-dedicate ourselves to this priority task for the benefit of all our people.

I am confident that this plenary of the 10th Annual Meeting of the ICA will bring us a step closer to finding implementable solutions and I look forward to receiving the recommendations that will emerge from your deliberations.

Thank you