

# The GLOCEPS

## Weekly Influential Brief

Research and Analysis in Governance and Ethics Pillar

### Private investment options for de-risking infrastructure projects in Sub-Saharan Africa

Stephen Nduvi



Konza city Project (Photo credit: Construction Kenya)

#### Executive Summary

This brief opines that stimulating private investments in infrastructure projects in Sub-Saharan Africa (SSA) require addressing the associated risks that continue to dissuade private financiers and impede growth of industrialization. It is estimated that approximately 80% of initiated projects fail to take off in the region. Key contributing factors include weak synergies between private and public stakeholders in green financing; biased credit

risk perceptions; dollarization of projects; and nature-induced investment risks. The brief concludes that the perils shrink the financiers' fiscal space to fund the schemes. It recommends revitalizing public-private green financing approaches; forestalling discriminating credit risk perceptions; de-dollarization of infrastructure projects; and adopting project-based carbon contracts-for-difference to deflate nature-induced investment risks and political uncertainties.





Photo Credit: icao.int

## Context

The 59<sup>th</sup> annual meeting of the Board of Governors of the African Development Bank (AfDB) held between 27<sup>th</sup> to 31<sup>st</sup> May 2024 emphasized the need for de-risking investments to unlock the potential of private investors in the region. While infrastructure projects are essential for economic growth, they encounter substantial threats that often dissuade private financiers. Approximately 80% of initiated projects in Africa fail to take off and this impedes the rate of industrialization and the region's ability to enhance the value of raw materials as envisioned in various trade agreements, particularly the Africa Continental Free Trade Area (AfCFTA).

While infrastructure schemes provide the foundation for strengthening economic and society welfare, exploration is significantly hampered by domestic and global economic policy uncertainty. These include weak synergies between private and public stakeholders in green financing; subjective credit risk perceptions; dollarization of projects; and nature-induced investment risks. The situation necessitates devising strategies to forestall associated threats to revitalize harnessing the opportunities that lies therein. The prospects include enhanced economic development, job creation, connectivity, competitiveness, and sustainability. Therefore, this sector

is a crucial enabler of economic expansion.

The following strategies remain pertinent in deflating investment and political uncertainties to embolden private financiers in infrastructure projects in SSA.

## Key Issues

### Revitalizing public-private green financing approaches

Public-private financing partnerships have the potential to lower the cost of capital in green financing, particularly in developing countries in SSA. Between 2011 and 2022 combined public-private financing mechanisms led to a reduction in interest rates by a spread of up to 40%. However, the region only attracts 2% of the global renewable energy investments due to unfavorable business environment associated with discriminative credit risk perceptions.

Leveraging on a financing blend of Foreign Direct Investments (FDI) and Official Development Assistant (ODA) could reduce credit risk exposures thus attracting private investments. The financing model can make the region a globally competitive investment destination for infrastructure projects. However, FDI inflows in SSA have been static since 2020, averaging US \$ 40 to 50 billion per annum. In addition, only five countries achieved or surpassed the United Nations target of allocating 0.7% of their Gross Domestic Product(GDP) to development aid



Photo Credit: Urenco





in 2022. This is against the backdrop of the existence of various initiatives to leverage FDI and ODA partnerships. The trends underscore the need to revitalize efforts on mobilizing synergies between private and public stakeholders in green financing in the region.

on the investment climate in the region thus escalating the profiling. For a long time, efforts to reverse the narrative have failed due the absence of strategic communication initiatives that would allow for adequate broadcasting of evidence to potential global investors. Consequently, the financiers remain unaware of the favorability of the investment environment , thus hindering their buy-in capacity.

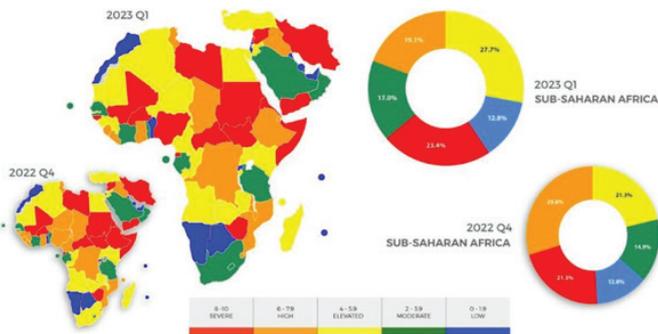


Photo Credit: PANGEA-RISK

## Forestalling discriminating credit risk perceptions

Infrastructure development in sub-Saharan Africa (SSA) lags due to the proliferation of the region as highly vulnerable to financial risks. These lessen the attractiveness of the region to foreign and local investors. The risks include of misinformation which often leads to profiling of risk factors leading to high cost of capital and high-risk insurance premiums. This significantly affects access and affordability of credit facilities. Similarly, discriminative perceptions can result into limited innovation in infrastructure development, project delays, and regional disparities in development due to fabricated prioritization of projects based on credit risk exposure. This happens against the backdrop of the continent being subjected to unfair credit rating mechanisms in the global financial markets thereby exacerbating the credit risk disinformation. Yet the region is endowed with vast natural resources that are not factored in the risk analysis.

The prejudiced threat views persist due to inadequate efforts to forestall misinformation



Photo Credit: aheadoftheherd.com

## De-dollarization of infrastructure projects

Global economic shocks remain a real threat to the profitability of large-scale infrastructure whose projects are dollar-denominated. The dollar pressure has significantly impacted the budget of infrastructure projects in developing countries due to unfavorable external monetary policy. These risks edge out private investors in the light of increased geopolitical tensions and volatility of the volatility of the US dollar.

The inclination to explore substitute currencies to lessen dependency on the dollar is gaining momentum. Global and regional organizations like BRICS (Brazil, Russia, India, China, and South Africa) and ASEAN are actively embracing such measures to erode the dollar's dominance as they push for emergence of parallel currencies. The strategic shift would fortify the region's foreign exchange reserves and enhance control over its economic landscape. Similarly, the decline in the



reliance on the US dollar could lead to a spike in the dumping of dollar reserves by various central banks, leading to hyperinflation. Countries such as China, Brazil, Pakistan, and Argentina have already embraced non-dollar payment systems in major transactions for export payments.

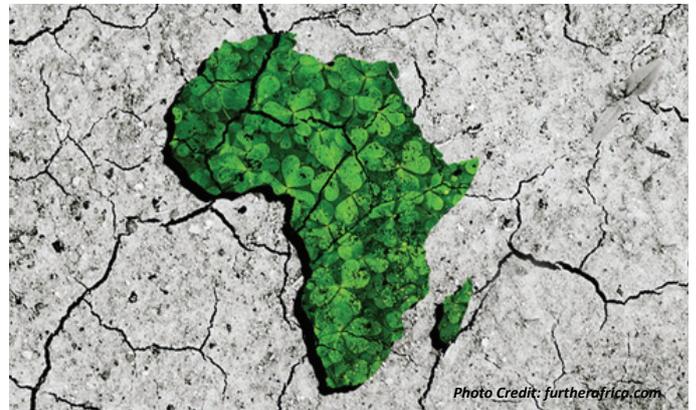


## Project-based carbon contracts-for-difference (CCfDs)

The increasing frequency and severity of extreme weather events aggravated by climate change and natural disasters demand a shift to climate impartiality projects that require new process technologies. This calls for an innovative approach to de-risking investments while incentivizing carbon emission reduction. However, jurisdictions with emission trading systems are characterized by volatile carbon prices. De-carbonization technologies in energy-intensive industries are characterized by both incremental investment and operational costs. The carbon price risks discourage private investments.

The CCfDs is a policy tool that can be used to de-risk investments in innovative low-carbon energy-intensive industrial technologies. It helps to deflate carbon price risk and political uncertainties of unpredictable pricing of carbon taxes. They provide the ability to set carbon prices above the level of market prices, reducing carbon price risks. For instance, CCfDs can lower carbon

mitigation costs for steel by up to 27% compared to no policy. Consequently, the bankability of projects with higher operational expenditures is enhanced. However, carbon leakage protection policies are required to stabilize the investment framework while incentivizing efficient use of energy-intensive materials. In addition, the policy instrument could be utilized as a tool of international climate diplomacy in the area of development aid, to attract the introduction of carbon pricing in recipient countries.



## Conclusion

While public financing remains essential in delivering the region's infrastructure expansion goals, complementing it with private investment could suffice the shrinking funding fiscal space in many developing countries. This will help to catalyze investments that drive sustainable development while maximizing welfare impact on citizens. However, these projects encounter significant threats which often deter financiers. Therefore, addressing the associated vulnerabilities could stimulate private investors. This could be achieved by revitalizing public-private green financing approaches; forestalling discriminating credit risk perceptions; de-dollarization of infrastructure projects; and adopting project-based carbon contracts-for-difference to deflate investment risks and political uncertainties. These approaches will help to create a win-win situation for all stakeholders.





## Recommendations

The brief recommends that governments in Sub-Saharan Africa should;

- a) leverage on a financing blend of Foreign Direct Investments (FDI) and Official Development Assistant (ODA) to reduce financial risk exposures and attract private investments;
- b) strengthen efforts on creating awareness to address misinformation of the region's credit risk profiling to build investment trust;
- c) intensify efforts on de-dollarization of infrastructure projects to substitute the dollar as the primary currency for international financial transactions; and
- d) adopt Project-based carbon contracts-for-difference (CCfDs) to guarantee investors a fixed carbon price over the contract duration, thus de-risking such investments from political and market uncertainty, and allowing governments to set carbon prices above current levels.





**The GLOCEPS, Weekly Influential Brief** brings to policy makers precise incisive analyses of policy issues and events locally, regionally and globally. The priority is on topics that have a bearing on Eastern Africa and beyond and are themed on security and defence; transnational organised crimes; foreign policy; governance and ethics and; development. We invite contributions from experts with policy opinions centred on any of the five pillars. Give us your thoughts and feedback through [info@gloceps.org](mailto:info@gloceps.org)



THE GLOBAL CENTRE FOR POLICY AND STRATEGY  
(GLOCEPS)

Research | Knowledge | Influence

Off Kiambu Road, Nairobi Kenya  
P.O. Box 27023-00100, Nairobi.  
Telephone: 0112401331  
Email: [info@gloceps.org](mailto:info@gloceps.org)  
Web: [www.gloceps.org](http://www.gloceps.org)